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**Globalization and the Internal Segregation of Labor/Welfare
Regimes: The Analysis of Taiwan and China's Experience**

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Abstract

Neo-liberal global enthusiasts claim that the state has to pursue a policy of labor market deregulation and welfare retrenchment to enhance the national competitiveness in a globalizing economy. This paper focuses upon globalization and its impact upon the labor and welfare regimes in the two Chinese economies: China and Taiwan. Following the compensation thesis of Katzenstein, the author argues that neo-liberal globalist orthodoxy is partly right in the functional necessity of labor market deregulation but wrong in their position of social policy reform. Contrary to the observations of global enthusiasts, this article finds that the social welfare systems in the two Chinese economies tend to expand in terms of coverage and financial input, though the state also pursue the deregulation policy of labor market. The author argues that the reform in these two policy domains is not contradictory but complementary. While the deregulation of labor market is regarded as responding strategy confronting the global diversified product market and aims to enhance the flexibility, the social welfare policy functions as a compensation for the transition of economies.

Keywords:, Globalization, Social Inequality, Labor Regime, Welfare Regime,
China, Taiwan,

1. Introduction: Labor and Welfare Regime in an Era of Globalization

It is said that we have entered an era of globalization. As Giddens(1998: 6) has once indicated, ‘globalization’ has been a buzzword in our century. It seems that we have experienced a ‘global shift’ in the past two decades. Measured by the amount of international trade, capital flow, activities of multi-national companies and the immigrant workers, many statistical evidences have witnessed this tendency. Globalization refers to the transcendence of political, cultural and economic activities across the regulation of territory state. To analyze the impact of globalization on labor and welfare regimes, I will focus on the dimension of economic globalization in the following discussion. The economic globalization means the free mobilization of production factors (labor, land, capital and technology) according to its most optimal utilization across the nation state. The allocation of these resources could transcend the natural and artificial limitations of geography. The world market as a whole entity, these production factors could be allocated according to their utmost efficient utilization in a production site. This process has been made possible through the widespread use of information and communication technology (Castells, 1996) on the one hand, and the free flow of global capitals after the decline of Breton Wood systems (Scharpf, 2000). This process has been accelerated by the collapse of East-European and Ex-Soviet communist regimes, which has won the ideological legitimacy to push neo-liberal project forward.

According to this neo-liberal doctrine, the state should pursue the goal of deregulation to lift the restrictions of production factors mobilization, so that these factors could be efficiently allocated in the world market¹. Concretely, it includes the liberalization of financial market, privatization of state-own enterprises, reduction of trade barriers (through the reduction of tariffs), fewer subsidies to less competitive industrial sector, effective legal instruments to secure private property rights, flexibility of exchange rate system, fiscal disciplines (smaller governmental budget deficits), deregulation of labor market and welfare reform to remove the rigidity of labor market (Economists, 2001: 23). It is believed that when this doctrines have been worldwide adopted as the consensus and fulfilled, all countries joining this project will benefit from the globalization ‘in the long run’, given that there might produce some negative external consequences during the ‘creative deconstruction’ process. These consequences will be automatically absorbed through the market itself. It is believed that economic growth pushed by the move of globalization is the best welfare for all people.

¹ This position is best expressed by for example, Ohmame (1990), Reich (1992) and Horsman and Marshall (1994).

This doctrine has been especially designed as propaganda to convince the policy elites in the developing countries and late industrialized countries to adopt the deregulation policy measurements suggested earlier, above all, the deregulation of labor market and reduction of welfare benefits. These policies are particularly welcome and recommended by many global organizations (World Bank and the International Monetary Fund for example) as effective measurements to attract the foreign investors. To compete for the foreign direct investment and enhance the competitiveness in the world market, it is suggested that that labor market should be deregulated to adopt to the global changing product market; the national welfare system should be privatized to reduce the labor cost. Confronting the severe international competition pressures, it is believed that the rationalization of production factors (supply side management) and flexibilization of labor market is the only way to enhance its competitiveness in the global market. The welfare retrenchment programs and deregulation of labor market policy conducted by conservative or social democratic parties in the name of 'the Third Way' in most European advanced industrial countries since early 90's are regarded as the responsive strategies to the external global integration market.

Against this welfare retrenchment analysis, some argue that the openness of global market could result in the welfare expansion. Following the seminal works of Cameron (1978) and Katzenstein (1985), Rodrik (1997, 1999) emphasizes the increasing integration into the world market means these countries could be exposed to the fluctuation of world economic recessions. These external risks could make some disadvantaged groups more vulnerable to these economic shocks. Under such circumstance it is necessary for the state to develop some national welfare programs to cushion against the negative consequences resulted from the openness of national economic system. Contrary to the welfare retrenchment thesis analyzed above, they regard there exist a positive relation between the openness of a economy and the expansion of the public economy, the governmental revenues and particularly the expansion of the social welfare systems.

As Katzenstein(1985) pointed out further, the integration into the world market means the state could profit from its openness on the one hand; it is also exposed to the risks of fluctuated world market on the other hand. Furthermore, to search for comparative advantages through division of labor in the world trade system, the state has to initiate rapid industrial reconstruction plans to fit in the changing demand of world market. The exposure to the world market and the demand of rapid industrial reconstruction are the results of economic openness which is the survive strategy of small states and late industrialized countries. It is necessary to take this openness strategy because it can enhance the micro-efficiency for domestic firms

through the introduction of foreign capital and technology, and because it can enhance the macro-efficiency for the whole economy through the mechanism of searching for the comparative advantages. However, this strategy could also leave some workers in a more vulnerable position and exposed to the risks of unemployment and low pay, particularly those who are un- or less skilled. The state is therefore posited in a policy dilemma: more openness or more protection. According to the experience of many European small states, this dilemma is not unsolvable. They have developed many income maintenance and welfare programs to compensate for the loss of (unskilled) workers due to the openness strategy. The social policy function as the protective programs to cushion against the negative effects of openness to the world market. However, as mentioned earlier, the relation of globalization and these protective policy outcomes can't be explained only from this functional approach. We have to add the institutional factors.

Following the theoretical considerations of Katzenstein and Rodrik, I argue that the external pressures of globalization will compel the state to adopt the flexibility strategy to deregulate the labor market. At the same time, the state would also establish a national welfare system as a compensation strategy to the deregulation of labor market. The deregulation of labor market aims to enhance the responsive capacity of firms to the changing global product market. However, this deregulation will leave the workers in a vulnerable and insecure environment. To cushion against the negative impact of openness and safeguard the minimum living standard of citizens, the state will establish national welfare systems. Contrary to the retrenchment thesis of neo-liberal doctrine, I argue that the compensation thesis could be more convincing to explain the labor and social policy making in the era of globalization. The deregulation of labor market and expansion of national welfare system is not a problem of trade-off for the policy elites. The national welfare policy function as the institutional prerequisite for the deregulation policy in the labor market. The questions, to what extent the populations will be covered and which institutional form will be adopted, depend largely on the institutional context of different countries.

This paper aims to compare labor and social policy making in China (People's Republic of China) and Taiwan in the context of globalization. Measured by many indicators of economic globalization, these two economies have quite high level of global integration. Taiwan is an outward open economies among the four tigers who has been the fastest growing economies between 1972 and 1987, moving up from the 'Third World' ranking to the category of the so called newly industrialized countries (NICs). Through the so called export-oriented industrialization (EOI) strategies this rising economies has been integrated into the world capitalist system successfully, so

that some liberal economists have taken the NICs as successful cases to refute the thesis of the dependence theory (Bhagwati, 1999: 230). The rapid economic growth of China since her economic reform, particularly early 90's, has also deeply impressed the world. China has won the most FDI inflow and surpassed the U.S.A in 2002; its cheap and disciplined labor force has made China 'the factory of the world'.

By 'regime' I understand here as 'a complex of legal and organizational features are systematically interwoven' (Esping-Anderson, 1990: 2). In this article, I would like to show the possible linkages and interdependence between the social policy and labor market policy in an era of globalization,. This article is organized as follows: the second section will briefly discuss the trend of globalization and regionalization through the trilateral trade relation in these three economies. The third and fourth section will discuss how the globalization has changed the labor and welfare regimes in these three economies. The fifth section deals with the relation between the rise of non-standard employment in the context of globalization and the possible policy options to tackle the problems. The last section concludes and summarizes.

2. Globalization and Regionalization of the two Economies

The two Chinese economies have growing level of exposure to foreign trade and inward foreign direct investment (FDI). By the end of 1998, China's export and import values totaled \$ 183.6 billions and \$ 140.3 billions respectively, whereas the counter parts in Taiwan were 121 billions and 114 billions respectively. In 2001, China surpassed Canada as the 6th largest trade country in the world, only second to USA, Germany, Japan, France and UK. Taiwan was ranked the 16th largest trade country in the world, whose international trade volume was about \$230.1 billion in 2001. The combined value of total exports and imports in China, Hong Kong and Taiwan is more than half of that in the U.S. and has exceeded that of Japan since 1995.

The trade between China and Taiwan has also risen rapidly in the past decade. At present, trade across the Taiwan Strait is still legally regulated. The trade has been made possible mostly through the indirect trade via Hong Kong. In fact, China has leaped to be Taiwan's fourth trade partner, only second to the U.S.A. and Japan. While combining the amount of Honk Kong, the total amount surpasses that of Japan (See Table 1). For the years 1979 to 1993 Taiwan's China trade grew at annual rates of 40 percent. For example, in 1993 China exported \$ 1,5 billion and imported 12,9 billion, a figure fueled by the flow of machinery, equipment, and partially finished goods to Taiwan-owned enterprise on the Mainland China. Taiwan has enjoyed great trade surplus to China and estimates about 300 yearly. According to the observation of

Selden: “China’s Taiwan trade has grown rapidly since the 1980s, reaching \$ 5,8 billion in 1991 and \$ 8,6 billion in 1993 (\$ 7,5 billion of the total representing Taiwan exports). And this was simply the legal trade directed through Hongkong. These figures, moreover, conceal the immense and rapidly growing Overseas Chinese trade and investment emanating from other countries. ... Hongkong, Taiwan, and Overseas Chinese capital in the 1990s surpassed Japan as the dominant source of trade, capital, and investment in China, particularly coastal China” (Selden, 1997: 325-326). Indeed, the China factor has been the decisive element affecting the shaping the future of Taiwan’s economy.

Table 1 The main trade partner of Taiwan (01-12. 2001)

Currency : U.S. Dollar

Country	Total Trade Amount			Export			Import		
	Seat	Amount	Percent (%)	Seat	Amount	Percent(%)	Seat	Amount	Percent(%)
Total		243,130,722,019	100.000		130,603,858,675	100.000		112,526,863,344	100.000
U.S.A.	1	44,861,536,245	18.452	2	26,763,447,772	20.492	2	18,098,088,473	16.083
Japan	2	39,260,335,025	16.148	3	11,983,587,626	9.176	1	27,276,747,399	24.240
Hong Kong	3	32,586,056,061	13.403	1	30,847,640,762	23.619	14	1,738,415,299	1.545
China	4	17,898,520,637	7.362	4	9,951,062,002	7.619	3	7,947,458,635	7.063
Korea	5	11,577,428,702	4.762	6	3,866,390,315	2.960	4	7,711,038,387	6.853

Source: Bureau of Customs, R.O.C.(2002)

As regards the inward FDI, China accounted for nearly 10% of total world FDI and surpassed the U.S.A as the largest FDI inward country in 2002. It amounts to \$527.43 billions, which is 12.51% more than the previous year. It is estimated that the net inward FDI has amounted to \$3,347 billions between 1990-2001. It has been 16.3% of the gross fixed capital formation from 1991-1995 (UNCTAD, 1997: Table B5, p334). Most of the FDI comes mainly from the other Chinese communities like Hong Kong, Taiwan and Singapore. Taiwan, with the largest foreign exchange reserves in the region in the 1990s has invested heavily in several ASEAN nations

firstly, then Guangdong, Fujian in the South China and lastly in the districts nearby Shanghai and Peking. According to a survey, instead of ASEAN countries, China has become the most favorite country for the most Taiwanese enterprises to invest. Currently, there are 60,000 Taiwanese business firms having investment in Mainland China with about \$100 billion investment in estimation. The geographic proximity, large domestic market, fertile and cheap labor force, cultural similarity and many capital-friendly policies (competitively priced land and infrastructure) are the main factors inducing the profound investment from Taiwan. The other internal factors pushing the capital outflow from Taiwan is the mounting labor and land costs that restrict further domestic industrial development. Preparing for China's entering the WTO in the end of 2001, 61,5% of Taiwanese enterprises will keep investing in China. It is estimated that the amount of Taiwanese FDI in China has risen from \$1,1 billion in 1991 to \$25,53 billion in 2000. The investment in China has accounted for 70% of Taiwanese outward FDI in 2002. In fact, the real amount should be even three times higher than the registered because most of the investments flow into China via Hong Kong. The Central Bank president in Taiwan, Huei-Nan Pung, recognized that the total amount of outward FDI flow from Taiwan to China could be \$66,8 billions (Economic Daily, Jan. 17, 2003).

In sum, China has begun to open himself in the connection with outside world since 1978. In the past two decades, China has benefited from the economic system transition and its openness to the world market. It has been widely recognized that China will become the world factory due to its profound population and disciplined but cheap labor force. Kuroda and Kawai, the two chief officers of Financial Ministry in Japan, even argue that China should be responsible for its "exporting deflation" in the world economy (Financial Times, Dec. 02. 2001). Nevertheless, the rise of the economic regional bloc in China since 1990s, together with the collapse of the bubble economy in Japan, are two most important events shaping the regional economy in East Asia profoundly. As the Prime Minister of Singapore, Joe-Dung Wu, has indicated, the rise of China will be a great challenge for all of the East-Asia countries, whatever they belong to the developed country (Japan), NICs or even the developing countries (Philippines, Indonesian, Thailand etc.) (China Times, 2001, see also Economist, 2001: 57-58). During the time of economic recession in the U.S.A, stagnation in Europe and collapse of bubble economy in Japan, the economic performance of China is quite impressive. China, together with Hong Kong, has absorbed 65% of the FDI in this region. The economic growth remains robust given the shadow of global economic depression.

As the nearest neighborhood to China, the rise of this economic giant has been an opportunity and also challenge to Hong Kong and Taiwan at the same time.

Actually, the two small open economies are confronted with the globalization through their intensive economic relation with China. To make use of the cheap and profound labor force in the Mainland China, the capital has massively flowed into mainland China during the 1990s. The capital outflow to China has aroused the popular anxiety about the negative impact upon the labor market and the international competitiveness of these two economies. Indeed, this anxiety has become more viable since 1999: the unemployment rate has risen to a historical record, the slowdown in output and productivity has been obvious and the poverty rate has also risen. These two small open economies are experiencing the hardest time for the first time since 1945.

The rising investment in China and trade with China is a great opportunity for Taiwan and Hong Kong, on the other hand. The geographic proximity and cultural similarity with China has been regarded as one of the competitive edges for Taiwan's enterprises in the world market. In fact, Taiwan has been regarded as the 'front door' to China and attracted many multinational enterprises to cooperate with Taiwan's partners and co-investment in China. Facing the rising regional economic giant, Taiwan as a small economy has little choice but to open itself to China, given the political confrontation situation with the communist regime. The information technology and computer industry, the main driving forces of Taiwan's economy in the 1990s², are more interested to the abolishment of government's regulation policy to China. They believe that Taiwan's niche in the information technology and computer industry is to play the mediator role and intermediates the upstream to Silicon Valley and downstream to (southern) China. On the one hand, Taiwan can make the cheap but qualified high-technical labor force; on the other hand, the technical know-how from U.S.A. could be transmitted through Taiwan. The new dynamic for Taiwan's economy, they argue, lies in the new labor division between two great economic blocs: America and China. Under this circumstance, the regulation policy against China is criticized as an impediment for the global and regional operation of Taiwan's enterprises because it erodes the competitiveness of them. The employer organizations threat to withdraw their investment plans in Taiwan. They ascribe this policy to be responsible for the economic recession and drastic rising of unemployment rate since end of 2000. The proponents for this policy argue, however, that there doesn't exist an empirical verifiable relation between the regulation policy and the unsatisfactory performance of Taiwan's economy. The proponents, most of them Taiwanese nationalists, note that the critical point is the industrial reconstruction which targeting the enhancing of productivity. They are anxious that the abolishment of regulation policy could result in the narrowing of the

² Taiwan was ranked in 2001 the No. 3 in semiconductor industry production and the No. 4 in information industry production in the world.

technical bridge between Taiwan and China. As a result, the competitiveness of Taiwan will be eroded through the opening.

Confronting the severe pressure of international competition and the new international division of labor, the state is compelled to put forward some measures. It aims to enhance its competitiveness with its trade partner and attract the foreign investments, particularly that from MNCs. One of these measures is the flexibilization and deregulation of labor market. In section 3 we will discuss the labor market reform in the two economies to be compared.

3. The Labor Regime Reform in China and Taiwan

The move of globalization has changed the production process profoundly. Firstly, more intense international competition and the new liberal trading order after the completion of the WTO regime is placing pressures on wage and non-wage costs. The firms are compelled to find more cost-saving strategy. The firms either find to relocate the production sites and sub-contracting or find flexible labor employment, for example the temporary employment. Secondly, in the transformation from Fordism to Post-Fordism, the work organization are embracing the principles of flexible specialization and lean production. The just-in time production and the diversification of product market has made the flexibilization of production process necessary (Piore and Sabel, 1984).

The process of globalization forces the state to deregulate the labor market to adapt to the changing international economic system. The impact of deregulating the labor market is the increasing type of contract from permanent to temporary contract, from full-time to part-time job, the rising sum of precarious job and unemployment (Esping-Andersen/Regini, 2000). As many scholars have indicated, globalization contributes to the changing pattern of employment type and deepens the segregation of the labor class (Esping-Andersen, 1999; Giesecke/Gross, 2001; Rodgers, 1989). Consequently, this process explains the rising inequality in wage and fringe benefits between workers in the different sectors (Freeman and Shettkat, 2000). Deregulation of labor market targets at enhancing the flexibility of labor force employment. The flexibility “refers to employer’s capacity to adjust the quantity of labor (referred to as numerical flexibility) or its price (wage flexibility) or to deplore labor between activities (functional flexibility) to match changing volumes or methods of production.” (Atkinson, 1985)³. Based on this consideration, we turn to the analysis of the labor policy reform of China and Taiwan. We would see to what extent the labor relations have been deregulated to fulfill the requirements of flexibility.

³ I recited here from Frenkel and Peetz, 1998: 286.

3.1 China

Having a failed attempt of rapid modernization through the command economy of Soviet-Union model, China has shifted its development strategy to the market driven export-oriented industrialization since 1978. This strategy relies mainly on the foreign direct investment and its trade openness to the world market. Encouraged by the huge trade surplus, China undertook a dramatic unilateral reduction in 1998 in anticipating for being admitted to the World Trade Organization (WTO). The entrance in the WTO regime is regarded as opportunity and challenge for China at the same time. It is estimated that the entrance in WTO will enhance 1%-2% of China's GDP. The MNCs are interested to lifting their investment in China because they believe that they can profit through the merger of state-own enterprises (SOEs) and some collective-own enterprises (COEs) if the structural reform of these two public-owned enterprises continues. It will be the short cut to enlarge MNCs' product share in the Chinese market. Among them are the MNCs of heavy and chemistry industry because they can make available of the cheap labor force in China. Besides, China will get 60% of additional export growth in the world due to its entrance in WTO (Chow et al, 2002)⁴. In sum, to attract the FDI and enhance its enterprises competitiveness in the world market, it is necessary to initiate a reform of China's public sector, which accounts for the large amount of national industrial outputs.

In the centrally planned economy there doesn't exist the problem of unemployment. Against the rule of liberal labor market, the state is fully committed to the goal of full-employment, even it could result in the problem of 'five persons sharing the food for three'. Particularly for those who are employed in the SOEs, they enjoyed the life-long guaranteed job security in the enterprises. They would be laid off only when they made fatal political mistakes. In fact, there still exists the problem of hidden unemployment and abundant employment in the rural and urban areas. In addition, compared to the workers in the other sectors, they enjoy generous welfare benefits from enterprises including childcare, health care, housing, education and pension. The enterprises are not really economic units for profitability in the capitalist system but a political unit and social institution for the mobilization of loyalty to the

⁴ On the other hand, the entrance in WTO is also a challenge for the SOEs because the average scale of property still lags far behind that of foreign MNCs. Its R&D capacity and ineffective internal management makes the SOEs less competitive than the MNCs. While through the joint investment of SOEs and MNCs, the SOEs can introduce the new model and idea of management and enhance its operational effectiveness (Wang, 2002: 74).

party (Walder, 1986). This life-long cradle-to-crave welfare system resulted in the affectional attachment of workers to their enterprises as a father. This paternalism made the Chinese communist domination in the urban areas fixed.

Nevertheless, the government had to pay for that. Firstly, such a system would bring misallocation of resources and low efficiency due to the mix of political administration and enterprise management. Secondly, large amounts of subsidize were transferred from central governments to these sectors to finance these generous welfare schemes, though the interests of other sectors have been sacrificed under this dual structure between urban/rural habitants and SOEs/non-SOEs workers. Moreover, it has the consequences of financial over-burden for the government and the enterprises, particularly facing the pressure from the fierce market competition, accelerated by the establishment of MNC-owned, foreign-funded enterprises and joint MNC-local ventures (JVs) since 1980s. Besides, the rapid growth of township and village enterprises (TVEs) and the private undertakings has been quite impressive. They have become much more dynamic competitive sectors through their comparative advantages of low labor cost or high efficiency. These emerging sectors have challenged the traditional monopoly status of SOEs in the command economy and force the CCP to reform.

The reform of SOEs has been launched to release the financial burdens of government and enhance their competitiveness. The report of 15th National Congress of the Communist People's Congress (CPC) had encouraged and ratified the experiments of further SOEs reform aiming to solve the historical problems. It permits the diversified ownership system adopting for different SOEs to make the separation of central administration and enterprises management possible⁵ (Watson, 1999).

The transition of property rights and associated asset restructuring has the consequence of creating a new body of owners and managers. This transformation is changing the nature of SOEs profoundly and therefore the industrial relation between enterprises and the employees one the one hand, and that between unions and its constituents on the other hand.. Due to the change of ownership, the owners have strong incentive to enhance the labor productivity through rationalization of labor management (Gu and Nea, 2003: 49-52). Necessary measurements for this transition include: the lay-off of redundant personnel, the introduction of contract labor system, the limited responsibility of enterprises to employee's welfare benefits. It means the eradication of 'iron rice bowl' model and the coming of an uncertain future for the workers in the SOEs and COEs.

According to the current estimation, between 15%-30% of the SOEs work

⁵ This strategy has been formulated as 'grasping the large and release the small'.

force is estimated as redundant personnel and should be laid off to enhance the labor productivity. In 1987 the managers of the state-owned enterprises have been authorized with the rights to lay off the residual and unskilled workers to optimize the workforce utilization in the enterprise. Though large amounts of workers have been laid off between 1997-1998 to a historical peak, it is estimated that there are still 10% employees who are surplus to requirement. Large amount of aged, female, low-educated and low-skilled workers are classified as redundant personnel and have been laid off due to the reconstruction and rationalization plans. It is estimated that almost 22 million employees had been laid off by the SOEs or COEs until 2000 (Hu, 2000). Table 2 shows the change of laid-off workers numbers in the different enterprise type. The number of the laid-off had increased from 8.91 in 1996 to 22.09 million workers in 2000. Those who were employed in SOEs had been massively affected (62.58% in 2000) and then COEs (25.42% in 2000).

Table 2 : The Change of Laid-Off Worker Numbers in the Different Enterprises (1996-2000)

	1996	1997	1998	1999	2000
Number (Unit: Ten Thousand)					
Total	891.6	1,435.2	1,977.2	2,154.6	2,209.04
SOEs	573.7	929.3	1,234.4	1,338.7	1,382.40
COEs	287.1	447.0	558.3	581.0	561.60
The other economic unit	30.8	58.9	184.5	235.0	265.04
Percentage (%)					
Total	100	100	100	100	100
SOEs	64.34	64.75	62.43	62.13	62.58
COEs	32.20	31.15	28.24	26.97	25.42
The other economic unit	3.45	4.10	9.33	10.91	12.00
Increase Index (1996=100)					
Total	100	160.97	221.76	241.66	247.76
SOEs	100	161.98	215.16	233.34	240.96
COEs	100	155.69	194.46	202.37	195.61
The other economic unit	100	191.23	599.03	762.99	860.52

Resource : Hu's (2002: 217-8) calculation upon China's Labor Statistics (1997-2001).

The female and aged workers are the most affected groups among the laid-off workers. Fearing to bear the cost of parental leaving, child bearing and maternity

benefits, the employers are reluctant to hire the female workers. Most the laid-off female workers don't have choice but to enter the secondary labor market, whose contend of work is mainly associated with home services (child-care, house-cleaning) or traditional female work (nursing and shop assistants). The type of these works is characteristic with the precarious jobs: low-wage, long working-time, without social insurance, no protection of working conditions. The older workers have also difficulties to find new jobs. They are even forced to compete the position with the migrant labor in TVEs or rural areas to survive (Watson, 1999: 34-5).

To compensate for the income loss of the laid off workers, the State Council had passed the three safeguard lines since 1997: "Basic Living Protection for Laid-Off Workers", "Unemployment Insurance Act" and the "Minimum Living Standard Guarantee for the Urban Citizen". These schemes include reemployment center, unemployment insurance funding and living allowance. Usually, the laid-off workers would continue to receive living allowance from the SOEs for three years. During the laid-off phrase, they would be trained by the reemployment center. If they still fail to find a job in three years, then a laid-off worker would be classified as unemployed and is eligible to be unemployment insurance recipient for a maximum of two years. After then, if the workers continued to be unemployed, 'Minimum Living Standard Guarantee for the Urban Citizen' as a poverty relief program would be provided. These programs aim to diminish the financial burden of laid-off workers during the unemployment and help them to find new jobs⁶.

However, the implementation of these legislations can't be fulfilled because its cost is mostly charged by the SOE. Due to the financial problems or mismanagement of managers, most of the welfare and assistance programs can't be effectively implemented. Many early-retired or laid-off workers can't get the pensions or unemployed benefits guaranteed by the central government and live under minimum living standards. Adding the problem of corruption, the workers believe that the corrupted managers have 'emptied' the whole enterprise through assets rearrangement to their private use and should be responsible for the miserable living condition of the laid off workers. It is not surprised that the mass riots widespread in the main cities since 1997 is the protest of these workers to the situation (Chen, 2000). In sum, the transition from a command economy to the 'socialist market economy', under which Chinese employees were guaranteed the life-long cradle-to-grave welfare. During the course of privatization and deregulation of SOEs, this transition has led to uncertainty and explosive dissatisfaction toward the local and central government.

⁶ Between 1998-1999 the reemployment rate had declined from 52% to 47%. The aged (male above 50 and female workers above 45) and unskilled worker are the disadvantaged groups in the labor market. Aside from the disqualified factors of the supply side, the most important factor for the decline of reemployment rate is the decline of aggregate demand since 1999.

The strengthening of managerial power in the workplace

Those employees who survive in the reconstruction plans of SOEs have still challenges ahead awaiting them. According to the newly legislated Labor Law in 1995, almost all workers have become contract labors. Moving away from the traditional 'iron rice bowl' model, the life-long employment guarantee has been lifted. Instead, the SOEs will sign contract with the individual worker about their tenures, wage and working conditions etc. Some are regular contracts with guaranteed terms of employment; some are negotiated contracts with fewer term rights. The enterprise can claim its 'limited' responsibility to the employees and reduce the large labor cost resulting from the retreat of its traditional paternalistic role.

Secondly, the power of managers in the workplace will be strengthened to attain the goal of profitability. Many management methods and reward systems to lift the labor productivity will be introduced. It implies the emphasis upon labor discipline and control of workers. In fact, a differential wage system calculating according to the productivity of individual worker has been widely introduced in some SOEs enterprises. Furthermore, to reduce the unit labor costs, the exploitation of labor and the so called sweatshops problem has risen, particularly in the costal provinces. The employers provide the lowest pay for the unskilled labor (Moran, 2002: 78-79). Since 1997 there implements the legislation of working time. The working time is 40 hours per week. The report about the over-working remains high (Southern China Morning Post, Oct. 03. 2001). Exploiting widespread variation in provincial implementation of national laws, overseas Chinese investors, those from Hong-Kong, Macao and Taiwan, are accused of bypassing labor regulation, with the acquiescence or connivance of local authorities (Chan and Senses, 1997: 107). These foreign investors from other Asian countries are classified as the authoritarian model in the workplace management, which is different from the human resource model (HRM) adopted by the western advanced industrialized countries (Chan, 2001)⁷.

It is not surprise that the industrial disputes and conflicts increase by the strengthening of managerial power. According to the statistic report of the Ministry for Labor and Social Protection, newly established in 1998, the numbers of labor disputes amounts to 207,605 in 2000, which equals to the total sum during 1950s. Most of the disputes occurred in the most industrialized and wealthiest provinces or cities such as Canton, Chan-Su, Shanghai and Peking. The 1994 legislated Labor Act could offer a platform for the workers to defend their rights, though it still can not

⁷ The foreign company pays 20%- 50% wage more than the SOEs in average.

protect worker's rights effectively. According to the legislation, the disputes could be settled either through arbitration panels in the enterprise or the court.

Overall, the insecurity of workers in China is increasing when the move of deregulation and liberalization proceeds. Subsidies have been reduced, and controls over local management have been eased or lifted. Reform of SOEs has led in turn to considerable dislocation of labor (White, 1996: 439). China is confronted with the following problems: the rising inequality between regions and provinces, the increasing unemployment as debt-burdened state-owned enterprises and township and village enterprises are rationalized. These problems have resulted in the broad inequality among people in the different sectors. According to the study, the Gini-Coefficient has risen from 0.281 in 1981 to 0.458 in 2000 (<http://www.stats.gov.cn/gqgl/gqglwz/200104240017.htm>). Measured by the one-fifth income quintile, the inequality could be widened (Young and Shin, 2002). The central government can't combat against this trend successfully due to the diversified system on the one hand, and the decreasing extractive capacity of central government. This impedes further government's capacity to pursue a redistributive policy goal (Wang, 2001).

The Dilemma of Unions between Party and Workers

The unions are regarded as the organization representing the general interests of workers. In China, the All China Federation of Trade Unions (ACFTU) claims this role. ACFTU monopolizes the representative status of the Chinese workers formally, which is recognized by the state and Chinese Communist Party. The state can suppress the development of autonomous unions through this state corporatist institutional arrangement. Historically, unions have been seen as a transmission belt of ideas from the top to the bottom. The constitution of ACFTU describes unions as the 'bridges and bonds' linking the party and the masses of the workers and staff members (Zhu and Campbell, 1985: 12).

All enterprises are legally required to recognize a union, including the MNCs. The minimum member for organizing the workplace union is 25. The union is financed by 2% of the workers monthly wage. **The union membership has reduced from 0.13 billion in the early 90s to 90 million.** Aiming at enhancing the coverage rate to 60% until 2002, the ACFTU has initiated a campaign to unionize the entire foreign-owned enterprises, whose union density is under 20%. Until 1998 there have organized unions in the 53,634 foreign-owned enterprises, which amounts to 5.45 million workers. The ACFTU plans to set up one million unions in the non-state-owned enterprises additionally, which includes 36 million workers (Ngok

and Chan, 2002: 123).

Theoretically, the ACFTU and its affiliate unions are expected to play the role of intermediating the interests of laid-off workers and workers in the workplace. They should protect the worker's interest to negotiate wage, supervise working conditions and resolve the industrial conflicts during the reform process. However, the traditional 'father figure' of managers and party has vanished in the process of SOEs reform by degree, either for unions. As mentioned above, this means the increase of job insecurity on the one hand, and the demand of autonomous rights to organize themselves. Under this circumstance, the ACFTU confronts the conflicts between their constituents and the party. The former demands more welfare and job protection, while the later the pacification of industrial order to attract the foreign investments. While unions appear to be sympathetic to the plight of employees, they have developed support and welfare programs to ease the consequences of mass unemployment. Their lack of autonomy from the party-state apparatus and its institutional inertia prevent any concerted action to influence the government.

Although the autonomous unions are unofficial according to the Union Act, they grow quickly since early 90's due to the ineffective interest articulation function of ACFTU on the one hand, and uncertainty over the future of state-owned enterprises in the course of privatization on the other hand. Originally, these autonomous unions are organized along the line of the same origin, particularly among the immigrant workers moving from rural to urban areas. They organize themselves like 'secret societies' and through 'wildcat' strikes to protect their economic interests, e.g. wages and work conditions. The rise of autonomous unions could have some political implications because these units are beyond the control of ACFTU and therefore the supervision of party apparatus. Due to the organizational failure of ACFTU, many autonomous unions have increased in the form of 'Tung-Shung Community'. It is estimated that there exists about 30 in Peking in 1999 and 800 in Shengchen in 1994 (Bo, 2001). Due to their potentiality of transforming into independent political force, these unofficial unions have caught the attention of the party. On the other hand, some MNCs welcome and recognize their status based on the consideration of industrial peace. Some of the MNCs even sponsor the administrative costs for these illegal autonomous unions.

Collective negotiation: A Direction toward Tripartism?

Starting with a 1995 labor law, the Labor Ministry has been promoting collective contracts. Until present, there are about 100,000 collective contracts. The collective bargaining system has been established to pacify the industrial conflict due to the

increasing FDI amount from MNCs and joint-venture enterprises. To safeguard the interest of workers, the central government had passed the revision of “New Union Act’ in 2002. This new legislation is regarded to signify a new institutional innovation in the Chinese industrial relation (Chen, 2002: 168-175). This act aims to ”establish a tripartism negotiation system”(article 34) “to coordinate the labor relation through the mechanism of equal bargaining and collective contract.”(article 20). In the ‘New Union Act’, contends of collective negotiation include wages, work safety and health, social insurance (article 30). Concretely, it highlights the role of unions to represent the interests of workers in the firm level (ibid: 174-5)⁸. According to the legislation of ‘New Union Act’, the state specifies unions the mission of representing the interests of workers in the firm level (article 38). Furthermore, this act authorizes the ACFTU and its affiliates as the only legal corporate actors to represent the workers (article 2 and 14). This reinforces the monopoly status of ACFTU and its bargaining power in the collective bargaining process. Secondly, it seems that the tripartism collective bargaining system will be a viable alternative of Chinese industrial relation in the transition to the market socialism, which is quite different with the pluralistic structure in Taiwan. The prerequisite for the successful collective agreement system requires independent unions. However, it is still doubtful to what extent the collective agreement will benefit the workers if the ACFTU is not an autonomous organization from the control of party and government.

3.2 Taiwan’s labor regime

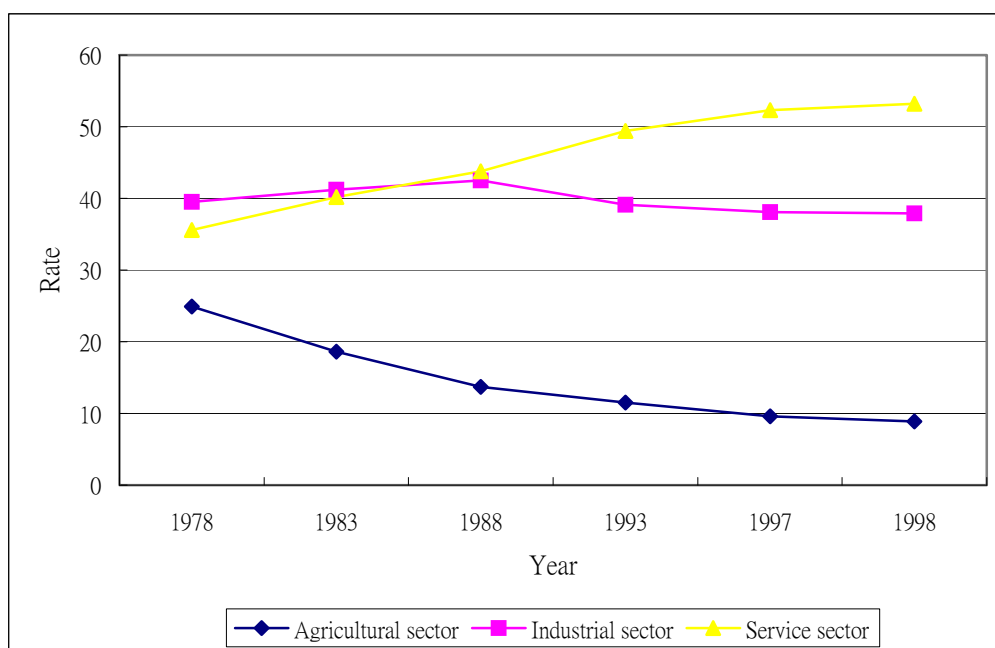
The Transformation of Labor Market in Taiwan

The employment structure has changed drastically in the past fifty years signifying the process of economic change of Taiwan. The employment rate in the first sector (agriculture sector), as figure 1 shows, had reduced from 45.0% in 1960 to 9.65% in 1997. On the other hand, the employment rate in the industrial and

⁸ Interestingly, the collective negotiation system originates from foreign-funded enterprises. In a document issued by the Labor Ministry and Ministry for Export and Economic Cooperation in 1994, it allowed that the unions in foreign-funded enterprises could sign collective labor contract concerning wages, working time and holiday, occupational safety and health, and social insurance benefits with the firms(8). Dalian might be the city to encourage the collective negotiation system between employers and employees organizations. In 1996 the Dalian city union federation of foreign-funded enterprises were founded. Until 2002, there have been 718 foreign-funded enterprises in the collective negotiation and collective contract systems. The most successful experience is that in Dalian Canon Office Equipment Co. According to the evaluation of the managers, it is believed that through the collective negotiation system the industrial peace could be guaranteed and the certainty of investment could be safeguarded ([http:// ghwq. 51.net](http://ghwq.51.net)). This model has been considered to apply to the SOEs. The basic consideration is that the level wage will be coordinated through collective bargaining between the unions and employees. It depends largely on the productivity level and the demand/supply conditions of labor market.

particularly the service sector has leaped from 22,6% and 32,4% to 38,2% and 52,3% respectively during a quite short period of time. It is worthy mentioning that the industrial sector had become a leading employment sector from 1970 to1980. But it had stagnated since 1987 and the service sector has replaced the industrial sector as the main sector absorbing the labor force. Indeed, the composition of the tertiary sector in GDP has increased to 64,3% in 1990s. In this sense, it seems that Taiwan has entered into the so called ‘post-industrial society’ since 1990. This change of the economic and social structure implies that the development of industrial relation system in Taiwan is quite different than that of the European path. The rise of service sector means the increasing large amount of ‘precarious’ jobs in the low-end, say the part-time and temporary workers. These non-standard employees have less interest in attending the activities of trade unions, though they could attend the occupation unions based on the consideration of covered by the social security schemes. The question how to include these increasing amount of non-standard works in the unions has been the challenge for the labor movement organizers in Taiwan.

Fig. 1 The Change of Employment Structure in Taiwan (1978-1998)



Taiwan had achieved the goal of full employment during the process of economic development since 1960s. The unemployment rate could be kept down below 3%, which has been regarded as a reasonable combination between the rapid economic development and the employment structure. Figure1 indicates the developmental tendency of the unemployment rate in Taiwan since 1966. However, Taiwan has experienced a serious economic downturn and the resulting rising

unemployment rate since the end of 1999. Normally, the unemployment rate could be successfully controlled under 3%. Since 1996 it has reached above 4%. In August 2002 it had rapidly to a new highest level of 5.23% because of the challenge of a rising economy – China and the unsuccessful reconstruction of the industry. The big earthquake on September 21, 1999 has also worst affected Taiwan's economy. Accompanied by the impact of economic recession and the workplace closure, the industrial disputes had peaked in 1998. The affected employees were about 100,000 (Council of Labor Affairs, 2000: 61). Data shows that Taiwan is situated in the period of hard times: the rise of the unemployment, the decline of the industrial productivity, the recession of export and the stagnation of economic growth. The continuing rise of suffering index (unemployment and inflation rate) reveals the weakness of social security system in Taiwan. The recession since 1999, Taiwan's annual growth rate of GNP did a minus figure which was about -2.5% in the year of 2001. According to the statistics, there are 536 thousand unemployed until end of 2002. In total, there are about 1134 thousand people who are deeply affected in their livings due to the loss of job (Lue and Lin, forthcoming). In the stage of rapid economic development, the developmental state convinces the people that economic growth is the best welfare. When the economy stagnates, the residual social security system can't be affordable to absorb the risks due to the structural change of the economy. The consequence is the widening social inequality among the rich and the poor and the potential social conflict which could even lower or impede the economic reconstruction. It is believed that the rising suicide and criminal rate since 1997 in Taiwan is related to the economic recession.

From centralization to decentralization? : the changing role of unions and industrial relation in Taiwan

The organizational principle of labor organizations in Taiwan is traditionally characteristic of the so called state corporatist structure. Under this institutional arrangement, there only exists a centralized trade union which monopolizes the representative status of the workers, the National Confederation of Trade Unions (NCTU). This monopoly structure has been recognized and authorized by the state through the formally compulsory membership. Due to the lack of the 'bottom-up' democratic process and deliberative discussion about the organizational affairs inside the union, there is no wondering that the leading elites of the trade union don't have to be accountable to their constituents. The power of these ruling elites originates from the authorization and appointee of the state. There exists an intense relation between the party government and leaders of the trade unions. Contrary to the role of the trade

unions in the western advanced industrialized countries as guarantor to safeguard the worker's rights, the trade unions under the state corporatist system function then as the prolonged arms of the state in the civil society. Their mission is to pacify the discontent of the workers and control the emerging main social forces during the process of rapid industrialization.

Through the intense intervention in the organizational domain of trade unions (the establishment, organizational structure, conference and the personnel staffs of the trade unions etc.), the state could undermine the autonomous development of trade unions. On the other hand, the state had stipulated legislation and urged the enterprises to offer fringe benefits to the workers to pacify the industrial conflicts during the industrialization. The state had not only intervened in the formal regulation of working conditions and benefits such as the pension, compensation of occupational injuries, occupational health and safety, the minimum wage etc. Actually, the substantial benefits standard had been regulated by the state. The 1958 legislated "Labor Insurance Code" is a case in point. Since the legislation of the Labor Basic Standard Act (LBSA) in 1984, the minimum wage has been guaranteed. The introduction of the LBSA is not only for the control of the labor force but also a practical design to pacify the critics of 'social dumping' from the American labor unions, since Taiwan needed the access to the American market to carry out her export-oriented industrialization⁹. Actually, the huge reserves of the insurance fund have been facilitated as cheap loans for the enterprises to stimulate domestic investments. In short, the state had deprived the workers of their "industrial citizenship" but offered the welfare benefits in exchange.

Instead of depending on the autonomous collective bargaining as institutional mechanism to settle the conflict between employers and employees organizations, the authoritarian state in Taiwan had intervened in the industrial relation through its unilateral and intense administrative action. However, to what extent the employers would fulfill the legal obligation of offering the fringe benefits depends largely upon the supervising capacity and will of the state. It seems that the state has intentionally ignored the implementation side of the related acts¹⁰. As a result, the unions could not fulfill its function to negotiate with the employers. Furthermore, instead of collective bargaining but the state apparatus (the Administrative- and Legislative Yuan) has been the action area of industrial conflicts between employers and employees

⁹ Actually Taiwan is the only county to sign the 'minimum wage contract' which has raised her labor cost in compared with her Asian counterparts. The government has already taken its abolition into consideration, particularly when Taiwan's enterprises rely on the immigrant workers from Southeast Asia countries like Thailand, Philippine and Indonesian. It is argued that through the abolition of the contract the competitiveness of the Taiwanese enterprises will be enhanced.

¹⁰ The data of Council of Labor Affairs (Labor Inspection Department, 1996) shows that the labor inspection rate in Taiwan is only 5.2% in 1995, which lies far behind the international average level.

organizations.

The reason of the weak status of unions in Taiwan, aside from the intervention of the authoritarian state, lies also in the fragmented structure inside the unions. The unions are divided into occupation and enterprise trade unions. According to the “Union Act”, there only allows one unitary local trade unions in the local level. The occupation and enterprise unions are forced to be united under one umbrella given their diversified interests. Table 3 shows, compared to other East-Asia countries in 1995, such as South-Korea (12,7%), Singapore (17,1%) and Japan (23,8%), the organizational rate of trade union in Taiwan ranks quite high (Council of Labor Affairs, 1997). However, the high organizational density doesn’t necessary imply the power of labor class in Taiwan. In fact, these unions, particular the occupation unions, don’t represent the interest of labors and exert the influence to negotiate with the employers powerfully.

Table 3: The Organizational Density of Unions in Taiwan

Year	The Number of Unions	The Numbers of trade union workers	Organizational Density
1990	3524	2,756,620	43,34%
1992	3657	3,058,414	48,06%
1994	3706	3,277,833	48,86%
1996	3700	3,048,270	44,60%
1998	3732	2,921,400	41,09%
2000	3785	2,870,929	39,54%

Resource: Council of Labor Affairs, 2000

The occupation unions don’t really represent the interest of their members and function mostly as administrative agents for social insurances (such as labor and national health insurance). The occupation unions had outnumbered that of enterprise unions and had the problem of over-representation. Most of the upper positions of the unions were occupied by the occupation trade unions. This impedes the further development of labor movement in Taiwan because there lacks the mobilization of class struggle and consciousness for the most occupation trade unions. In addition, they allied with the KMT and were financially dependent on the governmental subsidizes¹¹. This power imbalance between the two types of unions had discouraged

¹¹ According to article 22 of the Union Act, the contribution fees of the union member should not be more than 2% of the member’s monthly wage. This stipulation weakens union’s extractive capacity of

the later because they couldn't articulate their preference through this distorted structure. Through the autonomous union movement since 1990, the members of enterprises unions have tried to establish another system of trade union to organize themselves and challenge the monopolized status of NCTU.

The state corporatist structure has experienced a profound change since 2000. Accompanying with the democratization process and the coming of a multi-party systems during the presidential election in 2000, the National Confederation of Enterprises Trade Unions (NCETU) has been organized and soon won the recognition of the new ruling party, the Democratic Progressive Party (DPP). After then, there established the other six different national trade unions systems. Among them the National Worker's Confederation (NWC) and National Worker's Confederation of Trade Unions (NWCTU) are the most organized and powerful. It seems that there emerges a pluralistic structure of trade union systems in Taiwan after 2000. An interesting phenomenon to be observed is that there exists the tendency of memberships overlapping across these newly established trade unions. The organizers of these trade unions have strong incentives to increase the organizational density of the trade unions, given that most part of the members are only assigned as 'heads' and not as activists to be mobilized to struggle for the organizational goals. Based on the 'formal' high memberships, the organizers of the trade unions could profit through the subsidy of the Council of Labor Affairs and enhance their political influence in the political party. The above-mentioned four peak unions are divided alongside the partisan line, with particular political parties they ally, and industrial sector lines. In Taiwan, the government reformed aspects of industrial relations to promote numerical and work-time flexibility in 2000, though it has aroused the dissatisfaction of the employers owing to the partisan competition. The dispute about the reduction of working time in 2000 could be analyzed as the new alliance between different national peak trade unions and their partisan allies (Huang, 2003: 85-91). However, the political influence of trade unions in Taiwan could be exaggerated. They could take advantage of the partisan competition and veto against some proposals about critical issues at labor and social legislations in the Legislative Yuan. But they still lack the agenda-setting power to pursue a certain policy they prefer. The main reason lies in the fragmented interest divergence between different industrial sectors. This division could be strengthened in the process of globalization. Unions, like the Italian case, could be well rooted in the work place and embedded in the networks of some unions activists leaders. But it seems difficult to develop a national peak union system. Trade unions are incapable of organizing a significant portion of the work force,

strike funding and therefore weakens the bargaining power of unions when initiating the general strikes.

particularly in the process of deindustrialization. According to the draft of the newly revised Union Act, the work place unions will be empowered to initiate the collective negotiation with the employers about wages and working conditions. The wage dispersion and different welfare benefits status between union and non-union members could be wider under this circumstances.

The Enterprise Structure and its Impact on Labor Relations

Taiwan is famous for its big population of small- and medium- sized enterprises (SMEs). With a population of just over 23 million populations, Taiwan has nearly one million registered firms which comprised 97,76% of all firms and employed 78,21% of all the labor force. They have been regarded as the driving force of Taiwan's economic miracle. In comparison to the state-led and large private corporations, they are the nod of Taiwan's economy to the world market. The SME in Taiwan are famous for their flexible operation. Taiwan was dominated by a labor process and production form mediated through private-led networks of small- and medium-sized firms that are engaged in reproduction of cheap labor and goods. There exists an intensive networking between the down-, middle and upstream enterprises.

For example, as Sum (2001) indicated, the firms in the East Asia has developed a strategy of the so called 'flexible taylorist' (flexi-timed and flexi-waged) labor process, which we should not confuse with the 'flexible specialization' (Piore/Sabel, 1984). This model means the taylorized fragmentation of tasks does not take the form of an extensive division of labor within one plant but of a fragmented division of labor across many production sites (flexi-spaced), often small or miniscule in size.. On the other hand, the industrial relation in Taiwan is characteristic by industrial peace due to a strong entrepreneurial spirit embedded in the paternalistic culture (Wang, 2001). As Shieh (1997) indicates, most of the enterprises tend to exert paternalist power upon the unorganized workers to deal with issues of labor protection and enterprise welfare. It is believed that the weak mobilization of the labor movement is due to the fragmented structure of the SME and the paternalistic culture in Taiwan.

It is still too early to sketch a clear profile about the future model of Taiwan's industrial relations. The reason lies in that the three revised legislations about the industrial relations are still under discussion in the Legislative Yuan. These three acts, the Union Act, the Collective Negotiation Act and the Industrial Disputes Resolution Act, will shape the industrial citizenship and the future direction of industrial relation in Taiwan profoundly. It seems that Taiwan will follow the U.S. model of a union-free, and deregulated labor market. The employer seeks to uphold management control as a basis for profitability and economic growth. We can be sure is, as Huang (2003: 91-93)

has correctly observed, that the collective bargaining mechanism would be the effective institution protecting the interests of workers in the globalized economy. However, given the different organizational capacity and bargaining power in the different industrial sectors, the vulnerability and self-protection capability will also differ. The inequality of workers in different sectors would widen. It seems that the solidarity between workers in the different sectors would be hard to maintain (Lue, 2001: 287-8). This constellation makes state intervention in the policy domain of social welfare necessary. In short, the state will switch to the role of guaranteeing the socially minimum life standard. The coverage of social protection to the other vulnerable citizens should be widened, while the benefit will be cut. A topic which we will deal with in the next section.

The working conditions of immigrant workers in Taiwan: The Indonesian female workers as example

By the rising of labor wage the government has introduced the immigrant works since 1989. Most of the immigrant workers belong to the low-skilled labor and come from South-East Asia, e.g. Philippine, Indonesia and Thailand. Until now Taiwan has introduced 330,000 immigrant works. The employer organizations welcome this policy and demand to enlarge the quota of employment. They argue that the employment of immigrant works is necessary for enhancing their competitiveness in the world market. On the other hand, labor unions owe the rising unemployment rate to the employment of foreign workforce and demand the government to restrict or even cut the quota. The executive is anxious that the immigrant works could replace the unskilled workers and make the problem of unemployment much worse. Actually, it is still unclear to what extent the employment of immigrant works is related to the rising unemployment rate since 1999. Some researches show, however, the employment of immigrant works has to some degree resulted in the mass unemployment of low-skilled labors, which were used to be occupied by the indigenous people in Taiwan. The political debate about the employment of immigrant works reveals the dilemma for the labor unions between regime competition and labor competition in an era of globalization, as Streeck observes (Streeck, 1998)

Referring to the work conditions immigrant workers in Taiwan, we can take the Indonesian female workers as an example. Most of the workers are introduced from South-East Asia countries, because their wages are relatively low and they are more disciplined. Before Indonesian female workers are sent to work overseas, they would be trained in a specialized training center for workers. They are taught how to communicate in the language to where they are sent, how to do housework and their

skills are also trained. Besides, Indonesian female workers are charged an amount of money for deposit, which is not refundable, to the intermediate company as their agents that send them overseas. The amount charged are approximately NT 30,000 and will be paid back to them after a period of work which is maximum 3 years for female workers in Taiwan. Normally, salaries paid to Indonesian workers are approximately NT 20,000 per month. But, then, there still have insurance fee, NT 3,000, to be paid to Foreign Indonesian Workers agency both in Taiwan and Indonesia, VISA fee, health insurance contribution and governmental tax charged for foreign labors by government of Taiwan. Eventually, the net salaries earned in the first month in their first year of working are only approximately NT 3,000, which is quite unfair. Foreign workers also suffer humiliation and exploitation. These unrespectable manners from their employers have resulted in their 'runaway' actions.

Summary

In summary, to adapt to the rapid change of the product market, the firms have to enhance its flexibility responding to the changing demand of the consumers. This change makes it necessary for the state to deregulate the labor market to respond to the change of product market. Deregulation of labor market means twofold. The first dimension refers to the contend of working conditions to be negotiated. The second refers to the different levels of regulation. Located in the different stage of economic development and different status in the world market, the two economies have pursued different strategy of competition. While China's competitive niche lies in the low wage costs, Taiwan tries to shift its competitiveness based on price to that on quality. Whereas China focuses on the flexibilization of numerical and lay-off, Taiwan has understood the flexibility as liberal wage flexibility and the deregulation of collective negotiation on the plant- or work place level. Though these two countries have pushed different strategies of labor market deregulation, the impact on the widening of social inequality is the same. It is functional necessary for the state to develop national welfare system to compensate for the implementation of labor market deregulation policy.

4. The Welfare Regimes of China and Taiwan

China

The Chinese social security system was first established in 1951 with the enactment of the Labor Insurance Legislations. Its salient characteristic before 1978

could be formulated as ‘low wage but high welfare’¹². It covered mostly the workers in SOEs and partly the collective owned enterprises (COEs). While the wage had been kept at an extremely low level, the generous welfare benefits were offered as a compensation for the wage loss. Amenities in kind can amount to 30% or even to 50% of the cash wage (Solinger, 1995; Wong, 1998: 190) The SOEs functioned not only as an economic unit but also a welfare institution. Covered by the generous welfare programs, the workers in the SOEs had been labor aristocrats compared to the workers in the other sectors and farmers in the rural areas. As a result, the enterprises had to shoulder the sheer part of the financial burden. In the transition from command to market economy, the SOEs have to fulfill the concomitant requirement of profitability. The consequence is, as described earlier, the making of a free mobile labor market. The goal of social security system is designated to lesson the costs of the transition on the one hand, and the reform of the traditional ‘iron rice bowl’ welfare model on the other hand.

The social insurance is generally regarded in the advanced industrial countries as an effective system to protect to workers from the risks resulted from the ‘constructive destroy’ of market economy. In the transition from centrally planned economy to market economy, the government has established social insurance schemes to diminish the negative effects upon workers through this risk-sharing mechanism. The important legislations in the following discussion include the old-age insurance, unemployment insurance and health insurance schemes. Accompanied by the SOEs reform lunched after the promulgation of 7th and 8th Five-Year Plans, a free labor market has been emerging. It implies twofold. Firstly, the redundant workers have to be laid off and reemployed according to the demand side of free labor market. Secondly, a regulated labor market favored the SOEs workers will be transformed into a free labor market emphasizing the free mobility and contractual terms. Accompanied by the legislation of introduction of labor contract system in 1984 and Bankruptcy Laws in 1986, the unemployment insurance funds and the old-age insurance funds were also established in 1986 to lesson the shocks resulting from the reconstruction process and make the employment policy of SOEs more feasible. According to the legislation, the SOEs were obliged to pay contribution for the workers. The contribution rate was set at 1% and 3% of the total wage bill for unemployment insurance fund and the old-age insurance fund respectively. The aim were to give income maintenance for the workers when they had been laid-off, unemployed or retired. Later on, the coverage of the two schemes was also extended to collective-own enterprises workers. On June 26, 1991, the State Council further issued a ‘Resolution on the Reform of the Old Age Insurance and of Enterprise

¹² The average wage level had been controlled under 600 RMB until 1978.

Workers' (abbreviated as the 'Resolution')(State Council Document, No. 33), which could be taken as the guideline for reforming Chinese social security system, though this decision referred firstly to the old-age insurance system.

After the stipulation of the 'Resolution', the track of the old-age insurance system has been shifted from one-tier to three-tier system. According to the 'Resolution', instead of only requiring the employing enterprises to pay for the insurance contributions, the financial responsibilities have been redistributed among the state, the enterprises and the individual workers. Instead of the existing enterprise-based system, the old-age insurance system is reorganized through three tiers: the basic insurance fund, the enterprise supplementary insurance and the worker's individual account (Chow, 2001: 11-13). Inspired and encouraged by the World Bank (WB), this reform could be interpreted as the transfer of the welfare functions from enterprises to the state and the individual worker. Based on the 'Resolution', the State Council further issued "A Circular on Deepening the Reform of the Pension Insurance System"(abbreviated as "Circular") in 1995. According to the "Circular", the coverage of the insured had been extended to all urban employees, including the self-employed and those employed in the other private enterprises. The contribution rate had been lifted from 3% to 8% for workers and 25% for the enterprises respectively. The income replacement rate is expected to be equivalent to 35% of worker's previous wages. Furthermore, the unequal status between the permanent and contract workers, SOEs and non-SOEs employees could be gradually abolished through a unified old-age insurance scheme on the province basis. As Chow (2001: 10) has formulated: "It is obvious that the entire system is moving slowly from one which the responsibility fell squarely on the enterprises and the state to one which requires the workers themselves to make contributions; from one which was completely financed by the enterprises as part of their operating costs to one which is partially funded with polling effected at the county and city levels; from one which was totally represented by the formal sector to one which aims to combine the efforts of both the formal and the informal networks" Having adopted this reform guideline, the medical insurance has also been reorganized alongside the division between social account and individual account. The 1998 newly established Ministry of Labor and Social Protection intend to extend this model to the compensation of work-related injuries and death.

Given the governmental endeavor to mild the employment problems of economic readjustment through the reform of social security systems, there still leaves some problems to be tackled. The first refers to the low coverage of social insurance schemes. In 2000 there are 217,74 million employees work in city and township enterprises. Among them there participate 104,48 million workers in the basic pension

program (49.1%), 104,08 million workers in the unemployment insurance scheme (48.93%), 43,32 million workers in the health insurance scheme (20.36%) 43,50 million workers in the occupational insurance scheme (20.45%) and 30,02 million workers in the maternity insurance scheme (14.11%). The average contribution rate for basic public pension program is 22%, unemployment insurance 2%, health insurance 6%, occupational and maternity insurance 2%-2.5%. The labor cost for the statutory social insurance amounts from 22.1% to 43.3% of the wage. There are two problems hidden in the management of the public insurance programs. The first one is the low coverage of the insured population. According to the 大數法則 of the insurance principle, the more of the insured, the better the financial situation, and hence the better the effect of risk sharing. The financial condition depends therefore on the coverage of the insured population. The SOEs are obliged to attend the social insurance schemes due to the compulsory legislation of legal code, while most of the private enterprises bypass this law due to the consideration of reducing labor costs¹³. This has two consequences. Firstly, the escape of the private enterprises from the duty of paying contribution for their employees results in the unfair competition between SOEs and private enterprises (Cheng, 2002: 373). Secondly, it deprived the social rights of the workers in the private enterprises. Most of them are immigrants from rural areas.

The second problem is the geographic disparity arising from the different industrial structure in different regions (ibid: 374). Taken the basic pension program as an example. According to the survey in 2001, the contribution rate in Shengjun as the fastest developed area is only 6%, in Peking 19%, whereas in Wuhan as the older heavy industry base is 24%. It resulted in the unequal development in the different region because the investor (particularly the foreign investor) will take the additional labor cost arising from the legislated social insurance schemes into consideration. It further widens the regional inequality. It is necessary to establish a structural financial balance mechanism between the funds in the different provinces and regions. We can imagine, however, it will arise the conflicts between the rich and poor regions.

To diminish the double inequality described above, the Labor Ministry had tried to take some measures. But it had failed for some reasons (Yang, 2002: 124-5). Firstly, there exists the provincial competition to the foreign investments. The local governments don't have strong incentive to implement the policy because the foreign investment is the main dynamic of economic growth, job creation and the most important, the tax. The local governments are afraid that the foreign investors will run away and flee to another provinces if they enforce the social insurance regulation

¹³ A survey conducted 1999 in Hunan and Fujian shows that only 40% of the employees in private and joint enterprises are insured in the pension and unemployment insurance schemes. (Young, 2002: 124)

once and for all (Chan and Senses, 1997: 107). This 'exist' option is an actual threat for the local government to impose the coverage policy on the private and joint enterprises.

Secondly, the workers distrust the social insurance agent administered by the state. These workers, particularly the immigrant workers in the private enterprises, fear that their contributions in the social insurance would be 'emptied out' for the mismanagement and corruption of the social insurance bureaus. Furthermore, they misunderstand the meaning of social insurance contributions. The employers explain that it has been included in the paid wage and threaten that they can't get the benefit back. The labor movement in Western Europe accordingly, the unions are expected to be an active actor to establish the solidarity community between skilled- and unskilled, rich and poor workers through this social risk sharing mechanism (Brugiavini et al 2001: 159-186). The union should have played an active role to educate and enlighten the workers. Based on the distrust and misunderstanding of the social insurance programs, some unions even pass the passage and refuse to join social insurance programs collectively (Young, 2002: 125). It is therefore still difficult to expect the full insurance coverage within a short period in China.

Taiwan

Accompanied by the party competition and strong demands of social movements during the process of democratization since 1987, Taiwan's social welfare system has experienced a dramatic expansion phase in the past decade. The budget for social welfare expenditure has increased from 97.1 billion NT dollars in 1994 to 287.6 in 2003, which is about 18.3% of the total central governmental budget¹⁴. The expenditure for social welfare is only second to the budget for science, education, and culture and prior to that for economic development¹⁵. In 2003 the annual growth rate for social welfare budget is 7.9%, which is far larger than the average annual growth rate of the whole budget for governmental expenditure in 3.5%. The National Health Insurance (NHI) and National Pension Program (NPM) are the two main tiers for the social welfare system reform in Taiwan in the past decade. We will discuss in this section.

The Implementation of National Health Insurance: From Occupational to National Welfare ?

The national health insurance (NHI) is a newly implemented social insurance

¹⁴ It estimates about 45.2 billion US dollars.

¹⁵ It estimates about 228.0 billion NT dollars or about 14.5% of total budget in the budget year of 2003.

scheme in Taiwan in 1995. The guiding principle of the NHI is constructed according to the Bismarkian principle. After the legislation of this act, the government is obligated to provide the basic health care for diseases, injuries and childbirths. All of the citizens are obligated to be insured in this system. This system is financed by the earning related contribution as a payroll tax, which is set by 4,25% of the earning income. This 4,25% contribution rate is, however, split between the employee and the employers at different ratio according to the different occupational and social category an employee is ascribed. The service catalog is rather generous and covers the inpatient and outpatient services. In terms of providing the citizen with medical care and health insurance, the NHI consequently provided nearly 97% of the population with equal access to the medical treatment and health care. The total healthcare expenditure accounts for about 5.5% of GDP and has been quite stable since the implementation of the NHI. This ratio is lower to the average amount of the OECD and ranks the lowest level from the perspective of international comparison. The most important achievement of NHI is to consolidate the above mentioned complex and different healthy insurance schemes (among LI, ICS and FI etc.) into an integrative system which resembles the Beveridge model.

This system is run by the national health insurance bureau, which is administratively subordinated under the Ministry for the Public Health. The NHI is therefore, organizationally run by the state. This organizational principle is different from the traditional social insurance system, which is normally run by the para-state organs, e.g. the Krankenkasse in Germany and Japan, the model of social insurance system. The NHI was controversial during the process of legislation because of its stipulation of its establishment as the monopolistic provider of health insurance which is regarded as contrary to the mainstreams of deregulation. The opposition party (DPP) criticized such a system would result in the moral hazards of the insured and strengthen the power of the government.

As the experience of many advanced industrial countries shows, Taiwan's health care system also experiences the explosion of cost. Aside from the factors as the rapid progress of medical technology, the rising of elderly people, some factors are ascribed to the explosion of cost. The payment system takes the traditional form of fee for service (FFS), which has been regarded as an engine for cost escalation because the physicians are motivated to oversupply. After a few years of rampant increasing, the expenditure has been halted after 2000. The successful intervention of cost containment is owed to the hierarchical measures on both the demand and supply sides. However, because of the waste of medical resources and financial deficits, the insurance contribution rate has been raised from 4.25% to 4.55% in 2002. The co-payment for medical treatment has also been lifted to strengthen the individual

responsibility when consuming the medical resources of NHI. In addition, the rising health expenditure has set out some options to contain the cost. Many economists suggest that the individual medical account system of Singapore could be a model for the NHI. The individual account system is principally a compulsory deposits system. Some scholars of public health and sociology are afraid that the introduction of this system would erode the solidarity basis of NHI, which is seen as a basis for the optimal combination of social justice and individual fairness.

The Pension Reform: Solidarity or Individualization?

The pension system accounts for the most part of the expenditure of social security system and is the main institution to protect the economic security of the aged. However, this system is quite underdeveloped in Taiwan and demand great reform. Nowadays there are some 4,000,000 citizens in Taiwan who are still excluded from the public pension system. The only way for protecting their economic security after retirement depends either on their private savings or on the support of their children. Due to the declining role of nuclear family, the social support function of family will be increasingly eroded in the process of modernization. Furthermore, the aging problem has been a serious problem for the future of social security system. The aged people above 65 has reached 8.4% of the total population by now. It is estimated that it will grow to 10% in 2011 and 20% in 2031 respectively.

The Labor Insurance, the Civil Servants' Servants' and Teachers' Insurance now offers retirement benefits. According to the 1984 Basic Labor Standard Act, the private enterprises should provide old age pension for labors when retired. But it is benefited in a lump sum payment rather than an annuity plan. This system has been severely criticized for their lump sum payments which can't protect labor's income security over an extended period of time. Among those who are covered by the public pension system, the public officials, military personnel and teachers are the privileged groups. They are covered by a retirement pension system. This system is similar to German public official's retirement pension scheme which is financed by government's budget. Following a 1993 revision, however, it resembles Japan's public official's retirement fund system which is a social security fund system by nature. In other word, they can enjoy a two-tier insurance. After 25 years employment in the government or aged above fifty years old, they can be retired and entitled to receive an annuity. The income replacement rate of the pension could be even equivalent to 80% of their wage. Compared with the other countries, this system is quite generous and have resulted in financial burden for government.

Apart from the pension for labors and public employees, there have developed

many allowance programs targeting to the disadvantaged groups due to the party competition between KMT and DPP in the process of democratization since 1987. To win the election, the DPP has attacked the underdevelopment of pension system in Taiwan due to the ignorance of then rules government party, KMT. The DPP urged to set out an institutionalized pension system to all citizens and offer allowance programs for certain disadvantaged aged people in the transitional period. It is believed that the DPP had won the local and parliament elections in 1992 partly due to successful elective operation of this issue. The KMT was therefore forced to offer allowance programs and engaged in the establishment of an institutionalized pension system. “Living Allowance for Low-Income Families’ Elderly” (NT\$ 3000-6,000 per Month), “Welfare Subsidies for Elderly Farmers”(3,000 per month), “Subsidies for the Elderly” (3,000-8,000 per month) and “Living Allowance for the Veterans” (14,625 per month). All of the programs are financed by tax. It is quite apparent that the existing pension systems in Taiwan are so fragmented that the eligibility and benefit level among different social groups results in the problem of equality and equity.

To confront the political challenge from the DPP and integrate all the fragmented schemes, the KMT had nominated in 1994 a task force designate to the CEPD to set out a reform program of the pension system. After enduring debate and discussion, a reform program was completed in 1998. According the plan, it should have been scheduled to be legislated and implemented in 2001, but was postponed in the end, because the KMT was defeated in the presidential election in 2000.

KMT’s pension reform program is based on the principle of social insurance, which is by far the most popular model throughout the world. The guideline of this system is targeted at “providing all citizen the basic elderly protection with the supplementary pension benefits worked out by different occupational groups and the market mechanism where each citizen can purchase further protection as needed from the private insurance”(Chen, 2001: 13). The so-called three-tier protection system suggested by the World Bank is set as the blueprint for the planning of the pension system in Taiwan.

Theoretically, to add supplementary levy on personal income tax, payroll tax, and/or business income tax should be a viable way of raising funds for pension. Nevertheless, viewing the fact that there exists rather narrow tax base and business income tax increase may cause inflation, the policy maker has to give this alternative up.

After winning the presidential election of 2000, the DPP tries to redefine the social policy. Compared to the KMT as sticker of social insurance model, it seems that it is still difficult to observe the blueprint of ruling party’s social policy program.

The DPP had set out the so called ‘Three 3’s’ and ‘Five 5’s’ welfare program as the party program during the election. This program plans to grant 1) those who is aged above 65 a N.T \$ 3,000 monthly living allowance; 2) for children under three years old free medical care; and lastly 3) those first-time house buyers an interest rate as low as 3%. In addition, ‘five 5’s’ program are also on the way. They plan to 1) increase 50% of the number of day-care and kindergarten teachers; 2) increase 50% of female labor participation rate; 3) cut down 50% of the number of school dropouts; 4) 50% decrease of woman care burdens at home; 5) 50% decrease of women’s victims of violent crimes.

Toward Social Insurance to Social Welfare State?:

Instead of aiming at the institutionalization of social insurance system, i.e. the public pension system, it seems that the social policy of DPP concentrates on the welfare services. Most of the items of ‘Five 5’s’ are targeting to promote female welfare. Compared to other OECD countries, the female labor participation rate of Taiwan still lags far behind the average standard. This is mainly due to the underdeveloped supply of the public welfare facilities, e.g. the community care for the elderly and child care. This results in the heavy loading for the women in the family and diminishes the work incentive of the women to enter into the labor market.

To lessen the care burden of women in the family, more day-care and long-term care organizations for the elderly are planned to establish. As for the children welfare, the most important is education voucher up to NT \$ 10,000 per year for every child visiting the kindergarten. Further more, the ‘Equal Employment for the Female and Male Act’ has been set out in the agenda for legislation. This act aims to ensure the equal employment and education opportunities. These measures and programs intend to release the care burden of women and enhance their incentive to participate in the labor market, particularly the service sector. For financing these programs, it needs to levy tax or widen the tax base to implement them. According to the agenda of the K.M.T. government before the president election, the public pension system should have been implemented from 2000. It is expected that its implementation would be helpful to solve the problem of elderly economic security. Due to the unintended 921 earthquake in 1999 and the accompanying global economic recession since 2000, the governmental revenues become more limited. The government is forced to forge out the pension system and implement only part of the welfare programs selectively. The government had put the allowance program for the elderly above 65 into practice in 2002. It has been criticized by the opposition party as a political instrument flattering the aged people for winning the Parliament election in the end of 2001. Without an adequate financing resource, it is quite apparent that the implementation of these welfare programs will unavoidably create squeeze effects on

other aspects of governmental expenditures.

4. The Rise of non-standard Employment in the Globalization Era: The Consequence of Labor Market Deregulation

By the ongoing process of international division of labor and production among industrialized and less developed countries and the increasing trend of international trade between the countries, the neo-liberal economists try to convince the people that through these efficient mechanism of allocation, all people will benefit from this spillover effect “in the long run”. Against this optimistic estimation, some empirical studies in the labor market show that economic globalization could change the work conditions and deepen the internal segregation among the workers in the different branches and sectors profoundly.

It is nothing new to indicate the segregation of the labor market into primary and secondary segments. Traditionally this segregation is drawn in line with the technique and skill level. In the context of globalized economy, what is new with the segregation of primary and secondary labor market is this line will be redefined alongside the sector related or not related to the world market. Those who work in the sector open and related to the world market (the exposed sector) are more skill-intensive, so that they can be more competitive to the counterparts in the world market. They are the winners of globalization. On the other hand, those who work in the sector not related to the world market are sheltered from the international competition (sheltered sector).

The exposed sector means the economic sector ‘exposed’ to international competition and the shelter sector the one ‘sheltered’ from international competition. Usually, the expose sector is almost equal to manufacture sector because the goods and services it produces are ‘tradable’ in the world market. On the other hand, the sheltered sector is equal to service sector because it is to some degree ‘non-tradable’. Using the ISIC (International Standard Industrial Classification of all Economic Activities) classification, Scharpf (2000: 76-77) distinguished the exposed and sheltered sector accordingly: Exposed sector includes ISIC 1-5 (such as transport, communications, financial and business services), ISIC 7 and ISIC 8; Sheltered sector includes ISIC 6 (wholesale and retail trade, restaurants, and hotels) and ISIC 9 (community, social and personal services).

With the sharp and structural distinction between manufacture and service sector, Sharpf indicated that the implication of this distinction for the labor and social welfare policy lies in the different work conditions for workers in the two sectors. By the international division of labor and increasing sum of international trade, the international competition becomes more and more fierce. To compete with the late

industrialized countries whose comparative advantage lies in the cheap and profound labor force, the workers (of the advanced industrial countries) in the exposed sector have to invest in the human capital¹⁶ and enhance their skill level. Not only the employees but also the companies are particularly interested in this investment because such investments in education and vocational training can enhance the productivity of workers and profit from the higher productivity. And since wages equal productivity earnings increase as well, the wage level of workers in the exposed sector is potentially higher than that in the sheltered sector due to the possibility of lifting productivity by the improvement of skill level. Secondly, the employment relationship in the exposed sector tends to be more stable than that in the sheltered sector. As we mentioned earlier, to hold the competitive niche of the company, the employers invest in the human capital of workers. It is rational for the employers to have a stable employment relationship with the employees and consensus-oriented industrial relation with the unions because the employers can assure the increasing return of the investment from this institutional arrangement. Therefore the workers in the exposed sector could enjoy the advantage of stable employment, even in the hard time of economic downturn. Gordon (1974) once summarized this relation as “implicit contract” which means employer and employees negotiate job contract in exchange for security against unemployment.

Whereas the workers in the exposed sector could have the permanent employment status to secure against the dynamic market condition, the workers in the shelter sector could suffer from an unstable employment relationship. The reason lies in the ‘cost disease’ and lagged productivity problem inside the shelter sector. There might exist therefore an inherent status inequality between workers employed in these two sectors. The segregation of the work conditions between the two sectors can be theoretically narrowed by the governmental intervention in the policy sphere of trade, tax, and labor protection. However, by the rapid process of globalization, the regulation of the labor market is regarded as a blockade for the companies to adjust to the industrial reconstruction. The deregulation of labor market and decentralization of industrial relation is therefore taken as the necessary domestic policy measure to confront the challenge of globalization. The impact of this neo-liberal policy shift is the increasing trend of flexible employment and atypical work in the labor market (Lind and Moller, 1999).

In a close economy model, the working condition and earning level of workers in these two sectors differ less because the government can subsidize the workers in the shelter sector through redistribute and regulatory mechanism. Furthermore, the

¹⁶ According to Becker(1964), the human capital is defined as the knowledge of a person used on the job.

government could protect the workers from the fierce competition of the foreign countries. While in an open economic system, the state has less capacity to adhere to the protection of the labor force. The state is forced to deregulate the labor market to adapt to the changing international economic system. The impact of deregulating the labor market is the increasing type of contract from permanent to temporary contract, from full-time to part-time job, the rising sum of precarious job and unemployment (Esping-Andersen/Regini, 2000). As many scholars have indicated, globalization contributes to the changing pattern of employment type and deepens the segregation of the labor market (Esping-Andersen, 1999; Giesecke/Gross, 2001; Rodgers, 1989). Consequently, this process explains the rising inequality in wage and fringe benefits between workers in the different sectors (Freeman and Shettkat, 2000).

The stand-by contract and destandardisation of working time increase. It is not surprise that the workers in the shelter sector must experience a lower employment status compared with the workers in the exposed sectors: lower wage, short-term contract, insecure job condition, no social security protection and little control over the contend of their own work. Furthermore, due to their lack of social capital, they have lower degree of participation at their work place and even in society. The less they could exert their bargaining power in the labor market, the more insecure and risk-prone they become. In sum, the response strategy of the companies is precisely to increase flexibility through insecurity-generating types of work to reduce the labor cost and aim to enhance the profitability of firms. This strategy will be facilitated through the governmental deregulation policy of labor market. It has been widely argued, that such kind of liberal policy could have negative social consequences and should be carefully monitored when implemented (Lind and Moller, 1999: 245-246).

Accompanied by the process of economic globalization, China and Taiwan have experienced the problem of structural unemployment since 1996. Many unskilled and aged workers have been laid-off from the manufacture sector and become unemployed. It seems that the low-end service sector would be their second choice for reemployment. They have found the new jobs such as family-care, house-cleaning, community guardian and restaurant serviceman etc. Most of the works are classified as the so-called 3-D work. As mentioned earlier, their work conditions are characteristics with lower wage, short-term contract, insecure job condition, no social security protection and little control over the contend of their own work. It is necessary to extend the coverage the social security schemes to include these non-standard workers to guarantee their minimum living standard. This is the main line of social security reform we have analyzed in the third section. Interestingly, we can also observe the active labor policy offered by the government in China and Taiwan to help these unemployed included by the society through subsidized work.

The Council of Labor Affairs in Taiwan, for example, has initiated some active measures to promote the employment in the shelter sector (Lue and Lin, forthcoming). Thousands of state-subsidized jobs are created, though most of them are paid only to the minimum wage. These programs aim to reintroduce the low-productive unemployed to the labor market and enhance their participation in the labor market. We can also call it a market for social employment because the content of the work is related to family-aid services, preservation of the natural or cultural heritage and environment protection. The similar programs have also been encouraged by the State Council in China to help the laid-off workers to be reemployed in the community. A successful experiment is “The Public Service Community Center” program launched in Dailian since May 2000 (Young and Ga, 2002). It is interpreted as workfare which stems from the view that the unemployed and the groups marginalized in the labor market need the guidance away from ‘state dependence’. The entitlement to the benefits fit for satisfying their basic need is no more based on the social citizenship, but upon whether they receive the work training programs, voluntary or compulsory.

5. Conclusion

Globalization is described as the ongoing process of international division of labor among industrialized and under-developed countries. The effect of globalization manifests in many dimensions. On the one hand, it accelerates the tempo of technical change which enhances the allocative efficiency of economic resources. In the process of global shift, technology is one of the most important driving factors behind the change. On the other hand, the less-skilled labors have become the disadvantageous groups in the process of economic globalization. Globalization has driven the world into competition in many respect in which are mostly shown in business and trading aspects. To be able to compete with the other countries in the global market, capitalists and producers manage to reduce the production costs. They keep finding out ways to dampen the minimum cost. They try to relocate the production sites to the countries with low wages and labor costs via foreign direct investment in the host countries. The capital flows overseas and thus restructures the international labor pattern. To keep profitable, the firms close the labor-intensive components of the product-chains based on the consideration of reducing the labor costs. The firms could profit from the strategy of global relocation but could result in the unfavorable consequence for the unskilled labors.

Under such circumstance, the enhancement of national competitiveness has been put forward to the governmental policy agenda, particularly for the developing

countries. To attract the global investment, the state endeavors to pursue policies, which are measured and even monitored by the global investors and transnational organizations (IMF, WTO and WB eg.). Such firms-friendly measurements include: the investment into the infrastructure; the improvement of manpower quality through work-training programs; the reduction of the corporate tax and labor cost; the flexibilization of the labor market; cut in public spending to reduce the governmental deficit. These measures posit the state in a policy dilemma: economic efficiency on the one hand, and the dissatisfaction from the citizen (particularly the low-skilled labor) on the other hand.

More specifically, the deregulation in the labor market has not only facilitated the process of labor flexibilization but has also extended much beyond the labor market to affect some public provisions like health care, housing, education and other social services etc.. Confronting the external pressures of global competition, the two East-Asian economies analyzed in this article have initiated some labor and social policy reform to balance the policy goals between economic globalization and social equality. The institutional structure in our comparison is quite different. While the political system Taiwan has been democratized, China is still an authoritarian regime. This different political setting leaves different rooms of maneuver for the state to take strategy to face the challenge of globalization. Secondly, the industrial relation also matters to explain the policy outcome. In this article I argue that due to the different institutional settings, political regimes and industrial relations, there results in different labor and social policy in these two economies, though they are confronted with the same external economic challenges.

Following the compensation thesis of Katzenstein (1985) and Rodrik (1997, 1999), I argued that the openness of the economy is related to the vulnerability of the outer risks. Facing these risks, the state has to develop some mechanism to absorb the risks resulting from the openness to the world market. It is therefore not surprising that the two cases compared have developed well-established welfare system to cushion against this shock. The comparison of labor and social policy reform in the two cases compared shows that the state has adopted the deregulation of labor market to adapt to the flexibility requirements of global product market. The consequence is the internal segregation of workers in the different sectors - those related to and not related to the world market. It implies the widening of social inequality among the workers. To tackle the problem, the state has developed national social security schemes. These schemes are salient with its 'national' characteristic because these programs aim to extend its coverage to all populations. It implies the transformation of embracing principle from occupational to national welfare. The social security system is redesigned to prevent implicit or explicit disentanglements, in relations to

'precarious' workers as vulnerable groups in a globalizing economy.

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