Country Study: Taiwan (Province of China)

Poverty Reduction and Policy Regime in Taiwan: 
A Pathway towards Development, Welfare and Democratization

Yeun-wen Ku  
(Professor, Department of Social Work, National Taiwan University)

with

Yu-fang Chang  
(Senior Lecturer, Department of International Business Studies, National Chi Nan University)  
Jung-Rong Chen  
(Senior Lecturer, Department of Social Welfare, National Chung Cheng University)  
Ling-Ping Chen  
(Assistant Professor, Department of Social Policy and Social Work, National Chi Nan University)  
Chung-Hsien Huang  
(Assistant Professor, Department of Sociology, Tunghai University)  
Jen-Der Lue  
(Associate Professor, Department of Social Welfare, National Chung Cheng University)

commissioned for the

UNRISD Flagship Report on Poverty 
Project on Poverty Reduction and Poverty Regimes  
December 2009
The United Nations Research Institute for Social Development (UNRISD) is an autonomous agency engaging in multidisciplinary research on the social dimensions of contemporary development issues. Its work is guided by the conviction that, for effective development policies to be formulated, an understanding of the social and political context is crucial. The Institute attempts to provide governments, development agencies, grassroots organizations and scholars with a better understanding of how development policies, and processes of economic and social change, affect different social groups. Working through an extensive network of national research centres, UNRISD aims to promote original research and strengthen research capacity in developing countries.

Research programmes include: Civil Society and Social Movements; Democracy, Governance and Well-Being; Gender and Development; Identities, Conflict and Cohesion; Markets, Business and Regulation; and Social Policy and Development.

A list of the Institute’s free and priced publications can be obtained by contacting the Reference Centre.

UNRISD, Palais des Nations
1211 Geneva 10, Switzerland

Tel: (41 22) 9173020
Fax: (41 22) 9170650
E-mail: info@unrisd.org Web: http://www.unrisd.org

Copyright 2009 © United Nations Research Institute for Social Development (UNRISD).

This is not a formal UNRISD publication. The responsibility for opinions expressed in signed studies rests solely with their author(s), and availability on the UNRISD Web site (www.unrisd.org) does not constitute an endorsement by UNRISD of the opinions expressed in them. No publication or distribution of these papers is permitted without the prior authorization of the author(s), except for personal use.
Poverty Reduction and Policy Regime in Taiwan: A Pathway towards Development, Welfare and Democratization

Yeun-wen Ku
(Professor, Department of Social Work, National Taiwan University)

with

Yu-fang Chang
(Senior Lecturer, Department of International Business Studies, National Chi Nan University)

Jung-Rong Chen
(Senior Lecturer, Department of Social Welfare, National Chung Cheng University)

Ling-Ping Chen
(Assistant Professor, Department of Social Policy and Social Work, National Chi Nan University)

Chung-Hsien Huang
(Assistant Professor, Department of Sociology, Tunghai University)

Jen-Der Lue
(Associate Professor, Department of Social Welfare, National Chung Cheng University)
## CONTENTS

1 Introduction ................................................................. 1
   Welfare Studies in East Asia: A Two-Dimensional Model ...................... 2
   Have We Reached the Final Conclusion Yet? ........................................ 6
   What We May Go Further? ....................................................... 8
   Possible Explaining Factors ...................................................... 10
   Questions Ahead ........................................................................ 12

2 Taiwan’s Welfare Regime in Comparative Context ......................... 15
   Introduction ............................................................................. 15
   Can East Asian Countries be Classified into the Three Welfare Regimes? .... 15
   Characteristics of the Developmental Welfare States ............................... 18
   Variable Definition and Data Analysis ............................................. 20
   Discussion ................................................................................. 28
   Conclusion ................................................................................ 30

3 Developmentalism and Its Strategies ........................................... 32
   Introduction ............................................................................. 32
   Taiwan’s Development: A Historical Overview ..................................... 33
   The Authoritarian State and Developmentalism ..................................... 43
   Taiwan Miracle: Economic Growth with Equity in the Postwar Era .......... 52
   Conclusion ................................................................................. 60

4 Developmental State Capacity and Social Policy ............................... 62
   Posing the Question: Renegotiating the Developmental State and Re-orienting
   “Varieties of Capitalisms” .................................................................. 62
   State Building and Late Industrialization: The Making of the Leviathan-like
   Taiwanese Developmental State ......................................................... 65
   Bureaucratization of the State: Main Elements and Sources of Developmental
   State Capacity ............................................................................. 72
   The Taiwanese Social Protection System in the Era of Authoritarian Economic
   Developmentalism ........................................................................ 79
   Education as a Core Policy in Taiwan’s Development ............................. 84
   A Long March to National Health Insurance ......................................... 96
   From Selective to Universal Availability: Public and Social Services ........ 114
   The Linkage of the Developmental State and Social Protection ............... 129
   Conclusion ................................................................................ 130

5 Democratization, Globalization and Policy Regime Changing ............ 132
   Introduction ............................................................................. 132
The Impacts of Asian Financial Crisis ...............................................................132
Social Consequences of the Asian Crisis in Taiwan ........................................135
Governmental Policy and Its Implications ....................................................138
The Growing Demands for Social Reforms ...................................................141
The DPP’s Welfare Claims ............................................................................143
Globalization, Social Transformation and Poverty ........................................146
The Changing Policy Regime in Taiwan ........................................................152
Conclusion ......................................................................................................154

6 Organized Interests in the Making of Social Policy .......................................155
Introduction .....................................................................................................155
Taiwanese Farmers ........................................................................................157
The Plight of the Labourers ..........................................................................169
The Plight of the Aborigines .........................................................................179
The Hakka Minority ........................................................................................180
Issues Concerning Migrant Workers ............................................................180
Industrial Transformation ............................................................................181
The Literati System and Its Cultural Connotations ........................................182
Industrialization .............................................................................................190
Conclusion ......................................................................................................201

7 The Re-emergence of Inequality and Poverty .................................................205
Introduction .....................................................................................................205
Class Division and Inequality in Historical Context ......................................205
Farewell to the Taiwan Miracle: Current Trends of Inequality ......................209
Labour Participation and Employment ..........................................................212
Inequalities between Economic Sectors .......................................................215
Inequalities between Areas ..........................................................................217
Inequalities between Genders ......................................................................218
Conclusion .....................................................................................................219

8 Conclusion: Challenges and Prospects for the Taiwanese Developmental State
..................................................................................................................................220
The Embattled Developmental State under Democratization and Globalization
.............................................................................................................................220
Accumulation versus Legitimation: Mapping the Policy Regimes .................222
Complementarities or Decoupling? Rivalry or Synergy among Policy Regimes?
.............................................................................................................................232
Searching for the High Road to Globalization .................................................234

Bibliography .....................................................................................................236
1

Introduction

It has been many decades that the welfare studies based on European experiences occupy a great bulk of literature in comparative social policy. This is not arguing the absence of social policy in the other parts of the world but, rather, it is invisible to English readers because of publication in local languages. However, there was not a rapid and significant development until the 1990s when more and more scholars from East Asia and other regions involved into social policy studies and produced a lot of books and papers in English. As Jones’ precise comments, ‘it has been unusual up until now, since whatever careful authors and/or commentators might affirm even yet, this is no longer a field about which very little is being written, in English’ (2005: 80).

It provokes a very interesting issue on studying the successful stories of East Asian economies that most concerns are usually addressed to the economic aspect, while welfare and related policies are invisible. However, we would argue that without the important contribution of welfare in human the high structural transformation from poor to well-off can not be so fast and successful in East Asia. This book aims to bring welfare back to the East Asian development with s special reference to Taiwan’s case, looking into the interwoven relationships between development, welfare and democratization. Before we step into Taiwan’s story in details, an overview of East Asian welfare studies should be critical for our understanding the issues and debates.

Nowadays studies on East Asian welfare have been regarded by international community of social welfare as an important field of comparative social policy. Nevertheless those studies are quite diversified in their research purposes and approaches. This introduction would provide an overview on the major findings we have reached in the past and therefore to propose what we may do in the future. We identify three groups of studies on East Asian welfare. The first group based on case experiences, talking about social policy issues and debates in single countries and providing detailed understandings of welfare in national contexts. The second group almost follows Gosta Esping-Andersen’s concept of welfare regimes, to see whether East Asia as a particular regime differing from social democracy, conservative and liberal, no matter based on conceptual construction or empirical analysis. Both are limited to have a real comparative insight based on the given developmental experiences in East Asia and, therefore, a third group is expecting to come.
Welfare Studies in East Asia: A Two-Dimensional Model

East Asian welfare has long been in classic works of comparative social policy, but it was not standing up for its own. It was firstly as some of cases to examine existing welfare theories, e.g. Wilensky’s work (1975) to explain welfare state development as the necessary result of industrialization. In this study, East Asia, along with other countries, were merely represented by a lot of numbers such as GDP per capita and social security and military expenditures, regardless of their essential differences at aspects of historical and institutional development. Nearly ten years later, a pioneering book edited by Dixon and Kim (1985) paid much attention on institutional characteristics of welfare systems in Asia and the political and socio-economic environments for their rises, and this then expanded to a series work, including welfare in the Middle East, Africa and the developed market countries, that helped the awareness of the distinctions of social welfare across countries with varied levels of economic development and cultural origins.

Comparing to studies on European welfare in particular, East Asian welfare was very minor before the 1990s, due to the combined effects of welfare state development in the West and underdeveloped welfare in the East. A remarkable growth of studies related to East Asian welfare was witnessed since the beginning of the 1990s. This development seemed begun with some overview articles on East Asian social policy, written by Western scholars (e.g. Midgley, 1986; Jones, 1990, 1993), that encouraged case-study books on social welfare authored by East Asian scholars, such as Mutsuko Takahashi on Japan (1997), Yeun-wen Ku on Taiwan (1997), Kwong-leung Tang on Hong Kong (1998), Huck-Ju Kwon on Korea (1999), and then came more and more publications with the titles related to East Asian social policy and welfare.

How these studies were done with which approaches? And what conclusions have been achieved? The two questions become our main concerns below. To summarize these recent studies in more details, first of all we need a model that helps to classify so many publications on East Asian welfare into limited number of groups, by which we may see their differences and similarities. Two criteria are adopted to construct this model. The first focuses on the studied cases. It is appearing with a single-case study on specific country, with East Asia solely as a region for discussion, or with East Asian countries in comparison to other parts of the world. The second criterion concerns with the studied issues, namely that it is a comparison of policy, welfare system, or regime. Of course the distinction between policy, system and regime is not very clear and so many authors are confused. The term “policy” is widely used in the processes of governmental decision-making, explaining and legitimating the actions
taken by policy-makers and related practitioners (Colebatch, 1998: 13). Sometimes we may expand the concept of “policy” not just a goal statement but also a doing activity, involving with leaders, aides, followers, executives, staffing, interested parties, and knowledge workers (Colebatch, 1998: 90-99), but, rather, here we would rest more on the first concept because the other is moving forwards to system. When we discuss about welfare “system” we mean that some kinds of social policy has been systematically implemented and institutionalized. Welfare as a system consists of coherent organizational framework and regulation, management body, funding, and staffing. Social policy is not necessarily becoming a welfare system if policy-makers and practitioners cannot mobilize enough and consistent efforts to do it. Moreover, the establishment of single welfare system does not imply a real structural shift of regime, referring to ‘a fact that in the relation between state and economy a complex of legal and organizational features are systematically interwoven’, as Esping-Andersen’s suggests (1990: 2). In this sense, a country could have a pension policy, stating what the government intends to do, but such pension policy will not become a system unless pension schemes have been constructed or restructured. The welfare regime could shift if, and only, such a pension system has an overall impact on the changes of existing labour market, social stratification, and even interest and power distribution. The following table shows the result we classify various East Asian welfare studies.

Table 1.1 A Two-dimensional Model on East Asian Welfare Studies

<table>
<thead>
<tr>
<th>Issues</th>
<th>Cases</th>
<th>Single Case</th>
<th>EA as a Region</th>
<th>Trans-regional Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy</td>
<td>e.g.</td>
<td>Goodman, White &amp; Kwon (eds) 1998</td>
<td>e.g. Tang 2000</td>
<td>e.g. Catherine Jones (ed.) 2001</td>
</tr>
<tr>
<td>System</td>
<td>e.g.</td>
<td>Aspalter (ed.) 2002</td>
<td>e.g. Holliday &amp; Wilding (eds) 2003; Ramesh 2004</td>
<td>e.g. Esping-Andersen (ed.) 1996; Alcock &amp; Craig (eds) 2001</td>
</tr>
<tr>
<td>Regime</td>
<td>e.g.</td>
<td>Ku 1997; Kwon 1999</td>
<td>e.g. Jones 1990; Holliday 2000; Aspalter 2001</td>
<td>e.g. Gough &amp; Wood (eds) 2004</td>
</tr>
</tbody>
</table>
For the policy aspect, it is pioneered by the important book on the East Asian welfare model (Goodman et al., 1998), in particular the overview chapter by Huck-ju Kwon explores political dynamics behind social policy development. Interestingly, despite some shared characteristics, East Asian welfare states have had their own distinctive welfare development and we must be wary of talking about a single, homogeneous welfare model in East Asia, the author warns (Kwon, 1998: 67). The following case-study chapters provides detailed discussions on different policy debates in specific countries, such as public housing in Singapore, national pension programme in South Korea, national health insurance in Taiwan and so on. This induces a critical comment of selective case-studies within case-studies and fails to offer a cross-nationally consistent comparison. In contrast, Tang pays much attention on the question why has social welfare development been underdeveloped in East Asia, especially the four little tiger economies, and explains this with policy style in each case like the capital investment state in Hong Kong and Singapore on the one hand and the authoritarian developmental state in Taiwan and Korea on the other (2000). Another example is the collected work by Jones (2001) that, beyond those studies solely in East Asian contexts, compares different policy issues and experiences between Britain, a rather classic Western welfare state, and Taiwan, an Asian country with newly expanding welfare programmes. An arrangement of pair papers in individual policy issue reflects the shifting understanding of West-East welfare researchers, to see how we consider our social policy in itself and what we may be in the future.

There are a lot of confusions between aspects of policy and system and seem hard to have a clear cut. However, we may also find some works much on East Asian welfare systems, especially concerning with the questions how they work and how they come to be now. Asplater’s edited book provides a brief description of welfare systems in Japan, Korea, Hong Kong, Taiwan, and Singapore (2002). It appears to be a case report because of the absence of comparative framework, even though the contributors are mostly selective experts in individual countries. A detailed welfare system comparison is actually done by Holliday and Wilding, in their editing book on welfare capitalism in East Asia (2003). Four major systems of education, health, housing, and social security are analyzed and assessed with their history, regulation, provision, funding, and outcomes. Similar to this, Ramesh’s single authored book, though published one year later, does compare the same welfare systems in the four tiger economies, with a common framework of policy history, provision, financing, and outcomes (2004). Both of them trace out the similarities and differences of welfare systems in East Asia and two sub-groups seem existing between Hong Kong and Singapore on the one hand and Taiwan and Korea on the other, although Holliday
and Wilding do not name them straight out as Liberal and Conservative regimes respectively, like Ramesh’s conclusion (2004: 194). Actually the East Asian welfare regime, or regimes, is a debatable issue, I must say.

Despite the absence of real comparative study, we find a lot of single papers in a collection of works talking about East Asian welfare, along with others around the world. For example, Esping-Andersen does ever try beyond his Eurocentric perspective in his edited book (1996), which contains papers not only on Western advanced welfare states but also on newly emerging welfare states like Latin America, Eastern Europe, and especially Japan. Interestingly enough, this also induces a special trend that refers East Asian welfare to experiences in the case of Japan, in Esping-Andersen’s following works. He argues, ‘it is virtually impossible to answer this question if the intent is to identify it (Japan) in the typology of regimes’ (1997: 187). This statement seems to imply that Esping-Andersen suggests us to look out another welfare regime, which could well present Japanese welfare state. In fact, on the preface of Chinese edition of his famous book *The Three Worlds of Welfare Capitalism*, Esping-Andersen notes that we may interpret East Asian welfare states in two ways: seeing them as a hybrid of liberal and conservative model (as his comment about Japan in 1997), or looking them as an emerging fourth welfare regime. Similarly, though looks strange, a paper on Hong Kong (Wilding and Mok 2001) is included into an edited book by Alcock and Craig (2001), occupying a minor perception of, and even invisible to, papers on Western welfare states.

The regime aspect contains a great bulk of publications, under Esping-Andersen’s giant shadow, that reveals the intention of promoting East Asian welfare studies in comparative social policy originally dominated by the experiences of Western welfare states. However, it cannot be regarded as an effort to reject Esping-Andersen’s theme but to expand his three types of welfare regimes with fourth or more, even though it is also implying a fact of East Asia as late welfare developed countries. Some detailed case-studies open the development, such as Ku (1997), who locates welfare into the context of Taiwanese capitalist development and sees how capitalist world system, the state, ideology, and social forces interweave together to shape the particular regime in Taiwan, and Kwon (1999), who interprets institutional characteristics of Korean welfare state with the politics of legitimation. Both authors have shown some different regime characteristics from Esping-Andersen’s typologies but they are also reluctant to conclude the two cases as a different regime. On the contrary, some other authors, after browsing East Asia as a region, are more affirmative to name it “Oikonomic welfare state” (Jones, 1990), “Productivist welfare capitalism” (Holliiday, 2000), or “Conservative” (Aspalter, 2001). In fact, Holliiday (2000) moves further towards, in concept, the imaged fourth regime and provides a new idea for exploring core
components of East Asian welfare, though we still need to examine his constructing regimes with empirical data analysis. Nevertheless his phrase of ‘productivist’, namely two central components of a growth-oriented state and subordinating all state policies to economic/industrial objectives, does have some echoes. For example, in his discussion of East Asian welfare, Gough also uses this phrase to signal the regime characteristics, which is absent in the other regions (2004).

**Have We Reached the Final Conclusion Yet?**

Despite the significant growth of concerns and studies on East Asian welfare, the findings so far are more diversified than conclusive. Many important phrases and concepts, which can be drawn out from the above studies, are used by different researchers to map its special position on the overall picture of the welfare world:

A) **Policy Orientation**: the East Asian welfare states are often described as family-centred, reluctant state, traditional charity, Oikonomic welfare state, and authoritarianism in their policy orientation, implying the marginal role of the state in welfare provision.

B) **System Characteristics**: despite the policy orientation, some important and institutional welfare systems do develop in East Asia with special references to education priority, occupation-based insurance schemes, and means-tested benefits that somehow reveal the combination of existing social stratification and traditional charity.

C) **Regime Interpretation**: though some regard East Asian welfare as conservative, more studies agree that it is difficult to fit in any types of Esping-Andersen’s three welfare regimes, and therefore rename it as productivist, developmentalist, Confucianism, and even a hybrid regime.

The diversified conclusions come from the absence of consistent, longitudinal, and comparable dataset across the East Asian countries. If we look into the approaches of above welfare studies, they are, either, appearing with a collection of specific country reports without a real comparison to other countries in a more theoretically framework, or, following Esping-Andersen’s theme in search of another possible welfare regime and somehow neglecting the real contexts of East Asian welfare in development. For the first approach we may say that they are fundamentally country-by-country case-studies, even including those works on East Asia as a region for discussion. This approach covers nearly all of studies at the two aspects of policy and system, at least for those under this overview. Only two (Holliday and Wilding, 2003; Ramesh, 2004)
do put every countries in a comparative framework of welfare systems one by one. The book edited by Jones (2001) is another exception with pair papers in individual policies between Britain and Taiwan, though it seems simply as an East-West dialog rather than a real comparative study. We are not arguing the inadequacy of case-study that could become the essential and detailed bases for cross-national comparison. Rather, it would require more efforts if we want to make those studies more meaningful and consistent. This argument is becoming more and more important if we have a real understanding of the methodology issues in Esping-Andersen’s work.

As well known, Esping-Andersen’s regime perspective implies an important intention to understand the “big picture” of welfare worlds rather than individual welfare programmes, especially not to be confined in piecemeal discussions of specified case experiences and paying much attention on the totality of welfare efforts and outcomes consisted of and shared by the state, labour market, and household (Esping-Andersen, 1990, 1999). To construct his big picture, four factors as decommodification, stratification, class coalition and historical institution legacy are brought into the analysis of Western welfare states and therefore classify them into three groups of welfare regime, namely liberal, conservative, and social democracy. Different welfare regimes are shaped by varied class coalitions working within a context of inherited institutions and the existing institutional arrangements heavily determine national trajectories, as Esping-Andersen insists (1990: 32, 1999: 4).

Why Esping-Andersen’s conclusion, albeit some critics follow, is so important and even dominates comparative social policy study for over fifteen years? The reason lies on the empirical data for his analysis. Esping-Andersen is not merely based on the conceptual models he constructs but, mostly, on the empirical data supporting his conceptual models. Attributing to the long-term efforts to collect and set up datasets across Western welfare states, Esping-Andersen is able to examine his ideal models more fundamentally, with many measurable indicators to demonstrate core characteristics of welfare regimes, as well as how these integrate together into institutional logics and orders. Unless welfare policies and systems can present the overall shift and change of previous logics and orders, it is difficult to insist that the existing welfare regime has transformed from one to another. In other words, theoretically the concept of welfare regime implies a stable institutional arrangement of production and distribution that should not be easily changed with single policy and effort, otherwise it is not the regime in nature. As we understand this, then we may assess the findings of the group with the second approach and to see their limits.

The second group follows Esping-Andersen’s theme and tries to identify the East Asian welfare regime in contrast with the three types of welfare regime, but those works are based more upon conceptual construction rather than empirical data.
analysis that are hardly beyond Esping-Andersen’s work. The typical example is the productivist regime constructed by Holliday (2000), he addresses a new dimension, “relationship of social and economic policy” to Esping-Andersen’s core components, and therefore figures out a common feature existing among Japan, South Korea, Hong Kong, and Taiwan. Furthermore, he also concludes that there are three sub-clusters within the productivist regime as “facilitative” (e.g. Hong Kong), “development-universalist” (e.g. Japan in particular, and Taiwan and Korea, though limited), and “developmental-particularist” (e.g. Singapore). These countries share obviously the similarity in the dimension of “social policy subordination to economic policy” but there is divergent in other dimensions like social rights, stratification effects and state-market-family relationship (2000: 710). In the real world, every single country is indeed a unique model because no any two or more countries are completely the same in all dimensions, but, theoretically, we have to show the degrees of similarity if we want to classify two or more countries into the same model. The difficulty comes from the criteria in what kinds and in what degrees so that we may say that the country cases are the same model. The more the models, the more confused the focus. We may agree the possibility of productivist welfare regime ideally, but we need to examine its existence in reality empirically. If we cannot do this, it is hard to debate with, or even to reject Espin-Andersen’s comments, saying, for example, that Japan is only a hybrid (1997). All the works on the particularity of East Asian welfare regime share such a critical limit in competing with Esping-Andersen’s findings.

**What We May Go Further?**

East Asian welfare is indeed now more visible and comparable to Western welfare states. It is a good development to facilitate and create another wave of comparative social policy, especially as when welfare studies in the West seem gradually subordinate to neo-liberalist reforms and losing its original ground of regulating the market operation. For this reason, Rieger and Leibfried regard East Asia as a challenge (2003: 241). However, the existing studies and findings seem not able to give us a full confidence in supporting the importance and necessity of East Asian welfare in comparative social policy because of two reasons. First, those studies are mostly country case reports without consistent comparative and theoretical framework. And, second, it is still difficult to identify East Asian welfare as an, or more, additional model to Esping-Andersen’s three welfare regimes empirically.

The further question is, why we have to classify East Asia as a unique model? What does it mean? With the concept of regime we may map each country’s specific
position in the ideal framework and see their similarities and differences. As we apply Esping-Andersen’s theme to East Asia, it means that East Asian welfare, along with its politico-economic environment, has been matured and stable enough for such measurement and therefore we may classify it as a model comparing to the existing three in Western welfare states. This, however, could be a wrong assumption. The diversified findings of existing East Asian welfare studies are possible from the real nature of East Asia, containing radical differences in their levels of economic development, political democratization, social and demographic changes, and transitions from varied historical legacy like colonialism and communist bloc. In contrast with Esping-Andersen’s study based on OECD countries at a similar level of economic and political development, East Asia is actually proceeding to rapid changes in a lot of dimensions and this, in nature, contradicts to the concept of regime. Individual authors conduct their studies on different cases in varied timings, the findings are hard to be the same. Furthermore, it is difficult to conclude what we get is a real model lasting for a much longer time, even if we do find some similarities among East Asian welfare states. Gough also questions the sustainability of productivist welfare regime in the perspective, he says (2004: 191)

‘…the sustainability of this regime is open to doubt because of its vulnerability. East Asian countries are vulnerable, first, to external factors and actors, due to their economic openness and geo-strategic location. Second, the family component of the welfare mix is threatened by the processes of commodification, urbanization and demographic change, among others. The very preconditions and successes of the regime undermine its longer-term sustainability…’

Gough’s comment is from his expanding studied cases to Southeast Asian countries like Malaysia, Thailand, Philippines, and Indonesia, far more diversified than the traditionally defined as the four tiger economies and Japan. But he is indeed aware of the development context in East Asian welfare and this will, in turn, confines the possibility of modeling classification. The application of regime perspective to East Asian welfare does open an opportunity for the comparison between the West and the East, even though it also somehow suspends our looking forwards the real values of East Asian welfare studies. The real values are probably not on East Asian welfare as a relatively stable regime, but on their changes and continuities. The diversified nature of East Asian countries in their developments provides us affluent materials and issues to examine the existing theories explaining welfare development. For example, it contains highly industrially developed country and aged society like Japan, newly democratized countries like Taiwan and Korea, small but opened market economies
like Hong Kong and Singapore, forthcoming new tiger economies with different cultural contexts like Southeast Asian countries, and a rising superpower with socialist legacy like China. All of these offer us incredible potentials to construct a plausible account of welfare development. In fact, some explaining factors have been addressed, though not in a comprehensive theoretical framework. This is the issue that we will turn to.

**Possible Explaining Factors**

Why East Asian welfare is able to develop, even in the great hostility to state welfare in their policy orientation? This question is beyond rather static and descriptive analysis and towards theoretical explanation of welfare development in East Asia. Some varied reasons have been addressed to explain East Asian welfare development, for which we may summarize as the following:

**A) Values and Cultures:**

The first explaining factor is derived from its cultural context, mostly referring to Confucianism. This explanation is not new at all, and may traces back to the 1980s when East Asian welfare studies just began. For instance, Nelson Chow, a Hong Kong social policy scholar, explains the most significant difference between Western and Chinese ideas of social welfare to the importance of family and kin networks in Chinese society (1987). Similarly, Jones constructs her concept of Oikonomic welfare state with the cultural root of Confucianism, regarding family as the key unit as well as model unit of a society in which filial piety ensures due deference upwards and due care and protection downwards (1990). The cultural explanation inspires the original efforts of East Asian welfare studies and the explanation is still visible and important until the present, like Rieger and Leibfried. After a very long discussion of East Asia as a challenge for comparative welfare state research, they insist ‘when we look at the substance of social policy, the difference is…that in the East Asian societies all the positions reflect a Confucian agenda, in the same way as in the West all the positions reflect an agenda informed by Judaeo-Christian values’ (Rieger and Leibfried, 2003: 334).

**B) Nation-building and Political Democratization:**

Even the great hostility to state welfare, some welfare schemes do have been expanded, somehow remarkably, in East Asia. Midgley explains this to incrementalist style of social policy making (1986) but, more specific, is due to declining legitimacy in the wake of democratization. This is particularly important
as we examine welfare expansion in Taiwan (e.g. Ku 1995) and Korea (e.g. Kwon 1999) over the 1990s. Tang also concludes, ‘The experiences of Korea and Taiwan have shown that democratization could be a crucial factor which influences social welfare development’ (2000: 60). Furthermore, Gough even expands this explanation to newly welfare states in Southeast Asia, saying ‘democracy is belatedly emerging in East Asia, at least in the form of opposition parties and contested elections. Korea and Taiwan both witnessed democratic contestation in 1987; the result was a significant shift towards state responsibility in social welfare in the 1990s. It is not to optimistic to expect similar transformations in Southeast Asia’ (2004: 201).

C) Capitalist Development and Globalization:
Despite the impacts of political democratization, the state capacity for welfare is still confined by capitalist development globally. It is true that the relatively low levels of social security expenditure and provision in the tigers show the way in which economic concerns – productivism – have been given priority over public responsibility for the meeting of social needs (Ku, 2003: 158), but this could be merely an appearance of the late developed country struggling in global capital movement for better opportunity of competition. In his study on the case of the postwar Taiwan, Ku concludes that both capitalist development and democratization have important impacts on the Taiwanese welfare, albeit not straight out. The KMT, former ruling party, was headed towards the expansion of welfare schemes in response to democratic pressures, but the requirements of further capitalist development also made it wary of radical increase in state welfare responsibility (Ku, 1997: 246). This dilemma does not get improved after democratization, so that the new ruling party, the DPP, is making social policy mixing tax cuts, due to intensive global competition on the one hand, with welfare increases, due to the great pressures of rising unemployment accompanied by the new poverty for more state provisions of social welfare, on the other (Ku, 2004). This strange and even contradicted policy orientation precisely demonstrates the dilemma of the state between global competition and social reform.

D) Changing Social and Demographic Structure;
Family and kin network have ever been the most expected welfare providers in East Asian societies, but the possibility has been declining sharply because of the changing demographic structure. This is particularly true for the case of Japan, where owns the highest proportion of elderly population in East Asia. As Uzuhashi comments, ‘…the old idea of a welfare society is becoming bankrupt…families
can no longer afford to give care services to their members; the scale of the family becoming smaller and more women are increasing engaged in paid work…’ (2001: 123).

E) Institutional Arrangement:
Albeit not discussing East Asia, Immergut reminds the importance of institutional arrangement. ‘Political Institutions do not predetermine any specific policy outcome; rather, they construct a strategic context in which political actors make their choices’, Immergut says (1992: 239). Some scholars (e.g. Jones, 1990; Tang, 1998) trace the existing institutional arrangement back to colonialism, implying two different sources of colonial power as Britain (for Hong Kong and Singapore) and Japan (for Taiwan and Korea). But more attentions are on the varied political contexts of policy making and this contains so many actors, such as parties, interest groups, social movements, class coalition and so on, in the legal structure and regulation. Kown’s book on Korea is just, with the approach of historical institutionalism, seeing political activities and policy making as conditioned by the institutional configurations of governments and political party systems (1999). Similar approach is adopted by Wong (2004), in his study of health policy making in Taiwan and Korea demonstrates the importance of political competition, while the logic of policy path dependency also ensures the welfare trajectory throughout the 1980s and the 1990s, especially in the field of health insurance system.

Questions Ahead

Before we reach a conclusion about the uniqueness of welfare model in East Asia, some most newly works have began their exploration on the transformation of East Asian welfare in what direction and in what degree. The Asian financial crisis in 1997 provides us many materials to examine the capacity of existing welfare systems in East Asia against such economic crisis in the era of globalization, as well as to see what kinds of policy have been made in responding to the crisis, and why. Eventually there is no a consistent strategy adopted by East Asian governments and the policy at social aspect includes: a more integrated employment service and public work programmes; expanding social security; and reforming social assistance to provide a basic safety net for vulnerable groups (Croissant, 2004; Kwon, 2005). The countries particularly in Southeast Asia seek to enhance established residual welfare programmes and traditional familialism while the countries like Taiwan and Korea are moving towards expanding social security, as Croissant observes (2004: 519). This induces questions not just about the crisis and challenge the East Asian countries...
could face but also about the policy options the East Asian governments could have. It opens a new direction for exploration and deserves somewhat greater elaboration.

The first is where is the crisis or challenge from? Internal factors like population aging and family structure shifting, on the one hand, and external factors like increasing global competition and slowing down economic growth, on the other hand, are having combined effects on East Asian welfare, but the degrees are varied with different levels of development and economic structure in each country. East Asian welfare usually rested mainly on two pillars: economic growth and full employment, with the latter really depending on the former (Ku, 2003: 158). But this is not likely to last in the future and will, in turn, increase pressures for welfare provisions, no matter from the public or the private.

Consequently, and the second, the crisis and challenge must be recognized by the government and related stakeholders through political process, by which changes in the provision of social welfare are placed on the agenda and can be modified. Political democratization in some East Asian countries have opened new platforms for political and social coalitions that support and oppose different major social policy innovations, whether in the form of expanding commitments or rationalizing existing ones. Under the domination of neo-liberalist ideology, social policy is often thought to interfere with labour markets by raising labour costs or the reservation wage, but this is not necessarily the truth. Many kinds of social policies actually improve the operation of markets and enhance the capacity of firms to pursue distinctive strategies, thereby inspiring active support in the business community, as Hall and Soskice insist (2001). Specific actors would not definitely go for or against social policy, rather, they would seek to advance their interests in a rational way in strategic interaction with others.

And, finally, these all imply a further necessity of detailed studies on the choice of policy areas, to see why they are on the policy agenda, how they are modified by every actors, how and in what degrees they are put in practice and the real outcomes they make, and when the individual welfare reforms will come to mean a real structural shift of welfare model. It demonstrates an expectation that we should not stop at the efforts looking for East Asian welfare model, but ought to pursue further for a theoretical framework to understand its development. So we suggest a third group of East Asian welfare studies, beyond the other two groups based on country case-reports and regime respectively, to come in the future, that concerns more with determining factors behind welfare development in this region, linking to interweaving structural forces of capitalism (and globalization), democratization (and social movement), and social policy making, but it is located in a terrain populated by multiple actors.

If we take social security for example, cultural context seems very difficult to
explain fully the development of varied social security models in particularly the four economies of Taiwan, Korea, Singapore and Hong Kong. They all share similar values in Confucianism but adopt rather different ways, Bismarckian social insurance in Taiwan and Korea against provident fund in Singapore and Hong Kong, to cope with the growing demands against risks of economic insecurity in modern era. Along with their specific institution arrangements, the challenge they are facing is an issue of degrees rather than differences. The ageing process of population has been increasing reform pressures on the existing social security systems and this is commonly concerned by the four economies. Interestingly, however, none of them really get back to the family provision of welfare. Rather, the state involves even deeper into social security by expansion of coverage, on the one hand, and by improving performance, on the other hand, implying that it is developing along lines more similar to Western welfare states.

However, it is too arbitrary, saying that the discussion of an Asian model as an alternative to the Western-style welfare state is losing much of its attractiveness, since some East Asian countries are more reflectively learning from Western experiences, as Croissant argues (2004). East Asian welfare is going to remain its importance, not because of the model it finally is but the process it is developing. A lot of actors are involving into East Asian welfare development, what they think, why they decide and how they act bind together to shape welfare mix in specific case and the pathway for further development.

This is not a paper against the adequacy of Esping-Andersen’s theme, which has been widely discussed, cited and had a great influence of promoting comparative welfare regime studies elsewhere. Rather, the paper would like to provoke a fact that, after the significant growth of welfare studies in East Asia for a decade, it should be the time to summarize the main findings in the past and also think about what we may do further in the future. Why we are so confident of this good timing? For two reasons, first, the increasing of related studies and publications have proved East Asia as one of important region for the discussion of comparative social policy and these also become fundamental materials for issues raising, policy debating, and theory constructing in the region. Second, the growing number of researchers, both from East and West, would commit to East Asian welfare studies that makes this community even more active, prospective, and full of new ideas. We are moving in the correct direction, requiring more learning and idea exchanging each other. If so, we will witness a fruitful understanding of welfare world in East Asia, as well as its important lessons to welfare in the world.
Taiwan’s Welfare Regime in Comparative Context

Introduction
The economic and political development in East Asia has long attracted considerable interest and explanation, and now it is extending to the social aspect along with the establishment of institutional welfare systems in the region that is beyond our existing image of reluctant welfare states. Increasingly the studies on East Asian welfare have become an important field of comparative social policy (e.g. Midgley, 1986; Jones, 1990, 1993; Esping-Andersen, 1997; Holliday, 2000; Gough, 2001; Holliday and Wilding, 2003). This is further stimulated by the concept of welfare regimes proposed by Esping-Andersen's work (1990). Following the efforts to figure out different welfare regimes other than liberal, conservative and social democracy in the western world (e.g. Pierson, 1991; Leibfried, 1992; Castles and Mitchell, 1992, 1996; Siaroff, 1994; Ferrera, 1996; Sainsbury, 1996; Gallie and Paugam, 2000), the same question is also applied to East Asia and the developmental/productivist welfare regime that has been addressed by recent works.

A typical example is Holliday (2000), arguing that there is a productivist regime in East Asia in which all state policies are subordinate to economic/industrial priority. Though in different terms, the notion of developmental welfare state also signifies that policy makers in East Asia always set economic growth as the fundamental goal and social policy as one of the instruments for attaining that goal (Gough, 2001; Kwon, 2005). However, such arguments have yet to be examined empirically to prove that there is such a distinctive regime, even if we may accept it conceptually. This paper would like to fill in this gap.

To do this, this study selects fifteen indicators across twenty countries, including nineteen OECD member states and Taiwan, to run cluster analysis. The cases of Japan, South Korea, and Taiwan are included to represent East Asia, while Hong Kong and Singapore are excluded because of their city economies. Two sets of data separately from the 1980s and the 1990s are employed in this study for double-checking.

Can East Asian Countries be Classified into the Three Welfare Regimes?
Why do we try to answer the question of whether East Asia is a different welfare
regime? The reason does not reside in the right or wrong of Esping-Andersen’s models, or in the applying of his models to other cultures, but for a more crystallized picture of welfare comparison that will contribute incredibly to continuing social policy dialogue between the West and the East. Furthermore, it will encourage new field of studies in comparative social policy, in which more topics will be raised and more thinking will be motivated. Actually, this is also the intention of Esping-Andersen’s welfare regimes. In his own interpretation, ‘regime is to denote the fact that in the relation between state and economy a complex of legal and organizational feature are systematically interwoven’ (1990: 2). The notion of regime implies the ‘big picture’ of politico-economic orders which means totality of welfare output composed of government, market, and household, rather than public welfare only, especially not to be limited in individual welfare policy or programme (Esping-Andersen, 1990: 2; 1999: 73-75). Different welfare regimes have varied degrees of decommodification against the market and are shaped by different class coalitions working within a context of inherited institutions. Moreover, the existing institutional arrangements will heavily determine national trajectories in the future (Esping-Andersen, 1990: 32; 1999: 4). In this sense, regime is not a concept for a short time. This definition does not mean that a regime can not be changed, but longer and collective efforts are required.

Following Esping-Andersen’s framework, other authors try to identify East Asian welfare and compare it to the three types of welfare regime, but these works are based more upon conceptual clarification rather than empirical analysis. Ku (1997) reviews the welfare history and features of Taiwan and suggests that the Taiwanese welfare state may be classified as a conservative welfare regime for three important reasons: ‘for civil servants take most of the welfare expenditure, implying the feature of etatism’, ‘social insurance systems are divided into occupational system, possessing the feature of corporatism’, ‘insisting equality in opportunity rather than income redistribution’ (Ku, 1997). A similar analysis is done by Kwon, focusing on the case of South Korea. Starting with the traditional image that Korea is very similar to Taiwan, the result shows a contrary difference. He illustrates three major differences between the Korean welfare system and the conservative welfare regime. First, despite the similar political strategies in relation to social policy initiatives, the nature of class politics underlying these initiatives is different. Second, the ideology underlying Korean social policy is for social and economic modernization, rather than the paternalistic or Christian ideology that lies behind conservative welfare performance. And, third, the conservative welfare regime usually functions more as a comprehensive welfare state with higher standard welfare provision, but Korea is not such a case (Kwon, 1999: 141-142). Esping-Andersen himself even surveys Japan and
reaches a hybrid conclusion. In his eyes, Japan’s welfare state combines both the liberal-residual and conservative-corporatist model fairly equally (1997).

Each of the contributions by Ku, Kwon and Esping-Andersen is based on the framework of three western welfare regimes originally constructed by Esping-Andersen in 1990. Reviewing these works, issues arise regarding whether it is a good idea to understand East Asian welfare according to the conceptual framework and core components developed within a western context. On the other hand, is it better to search for another set of concepts and indicators from within the East Asian context for a better description but still follow the logic and methods of welfare regime studying.

In his analysis of the Japanese welfare regime, ‘It is virtually impossible….. to identify it (Japan) in the typology of regimes’, Esping-Andersen says (1997: 187). This statement seems to imply that it is possible to look for another welfare regime which could present Japan’s welfare state well. In fact, in the preface of the Chinese version *The Three Worlds of Welfare Capitalism*, Esping-Andersen (1999: 2) notes that we may interpret East Asia in two ways: seeing them as a hybrid of liberal and conservative model (as his comment about Japan in 1997), or as an emerging fourth welfare regime.

Holliday (2000) moves towards the way of the so-called fourth regime. He adds a new criterion, namely ‘relationship of social and economic policy’, to Esping-Andersen’s criterion. According to Holliday’s analysis, a common feature exists among Japan, South Korea, Hong Kong, and Taiwan: ‘productivist welfare capitalism’. He defines the common feature as ‘The two central aspects of the productivist world of welfare capitalism are a growth-oriented state and subordination of all aspects of state policy, including social policy, to economic/industrial objectives’ (Holliday, 2000: 709). In addition, he concludes that there are three different clusters within East Asia and they can be identified as ‘facilitative’ (e.g. Hong Kong), ‘development-universalist’ (e.g. Japan in particular, and Taiwan and Korea, though limited), and ‘developmental-particularist’ (e.g. Singapore). These countries share obvious similarities in the dimension of ‘social policy subordination to economic policy’ but there is also a divergence in other dimensions like social rights, stratification effects and state-market-family relationship (2000: 710).

Actually the argument for the developmental/productivist state has long been considered in the interpretation of East Asian development (e.g. Johnson, 1982). It seems plausible to include this criterion into regime analysis, even though how to find just indicators to measure the characteristics of developmental/productivist state is still a question. We will return to this issue in the next section. Nevertheless it is better to compare welfare regimes with more indicators derived from different concepts.
Theoretically the more indicators we adopt, the more precise we may understand the regime characteristics in many dimensions. In particular, Esping-Andersen’s original regimes are supported by a set of cross-national empirical data. If Holliday’s classification is in the right direction, a further empirical examination will be the next effort necessary for the conclusion of a developmental/productivist regime in East Asia. Otherwise, the developmental/productivist regime is theoretically possible but not in reality.

Two critical challenges in front of us are as follows. The first is whether or not we may develop a series of indicators and data along with the concepts of Esping-Andersen’s three welfare regimes, as well as the developmental/productivist regime as addressed by other scholars. Without the indicators and data, it is not possible to examine the existence of a fourth welfare regime. The second challenge is, even if we had the indicators and data, how similar, or different, are the studied country cases for these indicators. In the real world, no two or more countries are completely the same. Thus, to what degree should we say that they are similar or different? This is important if we want to argue the existence of three or more welfare regimes. The following sections will focus on these two challenges.

**Characteristics of the Developmental Welfare States**

The intention of this chapter is to present a new welfare regime among East Asian countries aside from Esping-Andersen’s three regimes. Thus, there is a need to explain the theoretical and empirical guidelines so as to draw a parallel between this paper and Esping-Andersen’s theoretical and cross-national empirical work. We argue, theoretically, East Asian welfare should be embedded in the contexts of their politico-economic development that have been signified as state developmentalism by many studies.

Japan was first regarded as a developmental state by Johnson in 1982. He explained how the Japanese government intervenes and organizes state resources for the sake of economic development. Following Johnson’s work, approximately during 1985-95, a plausible account of East Asian development was formed and named as developmental state theory to explain the cases of four tiger economies (Amsden, 1985; Castells, 1992; Gold, 1986; Wade, 1990). The theme of the developmental state is based on three critical conditions: the developmental ideology or pressure for development, the capability of government for development, and conquering the reaction in pursuing development (Castells, 1992). The condition of ‘capability of government’ is the core by which public policies for development can be carried out effectively with the strength of state authority. However, such state capacity is
relatively limited by the other two conditions: ‘pressure for development’ and ‘conquering the reaction’. East Asia states, on the one hand, conquer any reaction within the society, rather than meet people’s welfare need, in order to speed up the process of accumulation and development, like Deyo (1989) who interpreted 'labour subordination' of rare class or labour movements to be found within these countries. On the other hand, the pressure for development further enhances the development-first policy style in East Asia, especially under the postwar world order. As Haggard (1986) argued, the significance of the Korea War and the Cold War to East Asian development during the 1950s to 1970s was American aid and trade that obviously offered a developmental direction and opportunity for East Asia, which had been long under the threat of insufficient resources.

What features does East Asian welfare share? Jones (1990) emphasizes that the family takes an important role in welfare provision. Apart from this role, Lin (1991) insists on the density of labour union to explain why social welfare is underdeveloped with special reference to Taiwan’s case. Tang (2000:139-140) demonstrates some common social policy strategies. First, East Asian states are keen to believe in that economic growth will raise incomes through real growth and that benefits will spread throughout the whole population. Second, the following defining characteristics of government are deemed essential to development: the relatively small share of social expenditure in the total public spending, relatively small fiscal deficits, and flexibility in the labour market. Third, social security is primarily targeting politically important interest groups, which could result in unequal redistribution. Fourth, the states have generally been prodded into expanding social welfare by crises. Fifth, statutory social assistance programmes are established in all the tiger economies, but these programmes are smaller in scope and lower in level of benefits, comparing to industrialized countries, and often with the effect of stigma. Sixth, the ideology of rejecting the expansion of social welfare comes from culture. Seventh, for rapid industrialization and to minimize possible rebels in labour movements, labour laws and related benefits have been paid much attention.

Even though they present in different institutions and ways, Holliday and Wilding (2003: 161-170) point out that East Asian welfare is very much side by side in six dimensions: political purposes have always been primary; economic growth and full employment have been the main engines of welfare; productivist welfare has been the goal; welfarism has been shunned; the family has been accorded a key welfare function; and the states have been strong but limited. Summarizing briefly, we have the following features for the characteristics of East Asian welfare.

- Economic development is the core value in state policy and possesses priority beyond social policy or income redistribution.
As social policy is underdeveloped, public expenditure in welfare might not take a role as in western countries, implying that low welfare expenditure should be regarded as a policy output rather than due to a need for low welfare expenditure. However, lower welfare expenditure does not mean weak government since the state intervention is strong in the field of development. Thus East Asian countries should not be realized as large scale private welfare/pension market as the liberal welfare states. Family is required to and ought to take more welfare responsibility for individual members. Regarding the distribution of welfare, universalism is hardly found and the effects of welfare stratification are common in East Asian countries. Welfare has been primarily rendered to governmental employees such as civil servants, teachers, and military servicemen.

Welfare is actually constrained by the East Asian developmental trajectory, but it does not mean a unified welfare model. Some critics remind us that ‘it is misleading to think in terms of one homogenous, overarching “East Asia welfare model”’ (White and Goodman, 1998:14). To answer this question precisely, however, we need to examine it further with empirically hard data that has been addressed by Holliday and Wilding (2003: 10). Two sets of data from the 1980s and 1990s are collected and applied for double-checking to see if there has been an East Asian welfare model lasting for a longer period, for example, over twenty years.

**Variable Definition and Data Analysis**

**Indicators**

Is there a unique model of East Asian welfare, differing from Esping-Andersen’s three worlds of welfare capitalism? This is the question we would like to answer now. Suppose that there is an East Asian welfare regime, regarding ‘developmentalism’ as the core component. What kinds of indicators may we apply to measure and to express its characteristics? From the previous discussion and review, fifteen indicators are revised and amended to fit in with our empirical analysis and interpreted as Table 2.1.
Table 2.1  Definition of 15 indicators for the developmental welfare states

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental social expenditure</td>
<td>The percentage of ‘social security &amp; welfare’ expenditure in total public expenditure</td>
</tr>
<tr>
<td>Social investment</td>
<td>The percentage of ‘Economic affair &amp; service’ and ‘education’ minus ‘social security &amp; welfare’ in total public expenditure</td>
</tr>
<tr>
<td>Social consumption</td>
<td>The percentage of ‘sickness and maternity’, ‘unemployment’, and ‘industrial injuries’ minus ‘pension’ in total ‘social security &amp; welfare’</td>
</tr>
<tr>
<td>Labour density</td>
<td>The percentage of employees who participate in unions</td>
</tr>
<tr>
<td>Structural welfare need</td>
<td>The percentage of Non-farmers in all of the labour force</td>
</tr>
<tr>
<td>Non-coverage in pension</td>
<td>The percentage of aged persons who are not pensioners in all the aged</td>
</tr>
<tr>
<td>Discrimination in gender</td>
<td>Gender wage lag</td>
</tr>
<tr>
<td>Stratification in welfare</td>
<td>The number of pension and health insurance schemes</td>
</tr>
<tr>
<td>Non-replacement rate in pension</td>
<td>Percentage</td>
</tr>
<tr>
<td>Contribution from employees</td>
<td>The percentage of social security contribution from employees</td>
</tr>
<tr>
<td>Family supports</td>
<td>Rate of aged persons living with their child</td>
</tr>
<tr>
<td>Contribution from employers</td>
<td>The percentage of social security contribution from employers</td>
</tr>
<tr>
<td>Scale of private pension</td>
<td>Scale of private pension in percentage of total pension</td>
</tr>
<tr>
<td>Trade dependency</td>
<td>Trade ratio to GDP</td>
</tr>
<tr>
<td>Resource dependency</td>
<td>The percentage of non-farm production in GDP</td>
</tr>
</tbody>
</table>

We may further interpret the fifteen indicators in Table 1.1 according to their nature in welfare studies, as follows:

1. Demanding for welfare: levels of economic development and class power are two classical and important indicators on the demanding side. In this study, **labour density** is used to indicate the balance of class power in pursuit of institutional welfare provision, especially addressed by social democracy. On the other hand, the modernization school will focus on **structural welfare**
need driven by rationalization of economic development, represented by the percentage of non-farmer in all of the labour force.

2. Input of governmental efforts: governmental social expenditure has long been an important indicator in comparative social policy (Ku, 1997; Wilensky and Lebeaux, 1965), implying the general degrees of public effort for welfare. Furthermore, the functions of varied types of social expenditure, namely social investment and social consumption, are also concerned by O’Connor (1973). The former is used to interpret the kind of public expenditure that may promote necessary conditions for production or human capital, such as investment on infrastructure and expenditure on education. The latter represents the public expenditure for keeping state legitimacy, such as social assistance. The higher the social investment, the higher the economic development in priority. On the contrary, social consumption means that the state pays much attention to social stability through distribution of resources for welfare. Regarding the core characteristics of liberal welfare states, we can not ignore private welfare and the scale of private pension is utilized.

3. Output of governmental efforts: universalism is an important criterion for measuring welfare states and the level of pension coverage is employed by Esping-Andersen (1990) as an indicator. In East Asian countries, the universal pension system is still developing and it may be more suitable to focus on those who are not covered by public pension schemes. The non-coverage is therefore adopted by this study as an indicator. The effect of welfare on social stratification is an important line to distinguish welfare states in conservative regime and social democracy. Besides, pension replacement rate is used to examine the level of decommodification that allows pensioners to live independently from the market. In East Asia countries, the pension somehow is paid in a lump sum and diversified; it will be more helpful to focus on non-replacement rate. Given the Confucian values in East Asia, the line is not only between classes but also genders. For this reason, the number of pension and health schemes and gender wage lag are included as indicators in this study.

4. Welfare loading: who pays for welfare has also concerned by researchers in trying to clarify the main group bearing welfare costs. As in reports of the International Labour Organization, contribution from employees and contribution from employers are two indicators frequently used to show distribution of welfare loading. In addition, the percentage of aged persons living with their child is also to measure the capacity of family supports in welfare provisions.
5. Politico-economic context for development: trade dependency and resource dependency are included as indicators of the export-oriented development approach in East Asia.

**Method**

First of all, the data from twenty countries, including the typical European welfare states and East Asian cases such as Japan, Korea and Taiwan, have been collected from statistical books published by international organizations (e.g. ILO, IMF, OECD, and WB) and further reorganized according to our definitions. For the second stage, these data will be analyzed with factor analysis to see if the above fifteen indicators can be refined into a smaller number of core components, as well as cluster analysis to see the varied distribution of core components in these twenty country cases. In the cluster analysis we particularly would like to examine the similarity of country cases. If some cases are showing high similarity in these core components, we may conclude that they should belong to the same welfare regime. If some other cases are diversified from any existing group of welfare states, then they are more likely to form characteristics of new welfare regime. Two sets of data separately from the 1980s and 1990s are employed for our statistical analyses.

**Results of Factor Analysis**

We show from Table 2.2 that four new factors are found with factor analysis and renamed as ‘developmentalism’, ‘corporatist’, ‘self-responsibility in social security’, and ‘pressure in world trade competition’. The outcomes show no significant variance, either in the analysis based on the 1980s data or the 1990s data. The ‘developmentalism’ factor consists of nine indicators: governmental social expenditure, social investment, social consumption, structural welfare need, labour density, gender wage lag, non-coverage in pension, non-replacement rate in pension, and the percentage of aged persons living with their child. The plus or minus signs in loading value imply the positive or negative relation between each factor and indicator. The bigger the number (the maximum is 1), the stronger the relation. The developmentalism factor precisely demonstrates the characteristics of East Asian welfare, such as low levels of governmental social expenditure (-.954), structural welfare need (-.713) and labour density (-.647), and high levels of family supports (.859), gender wage lag (.827) and social investment (.806).

The ‘corporatist’ factor mainly comes from three indicators: contribution from employers, stratification in welfare, and contribution from employees. And ‘self-responsibility in social security’ factor is drawn from two indicators: the scale of
private pension and resource dependency. Finally, factor of ‘pressure in world trade competition’ was signalized only by the indicator of trade dependency.

Table 2.2  Factor loading abstract in the 1990s

<table>
<thead>
<tr>
<th>Factor</th>
<th>Variable</th>
<th>Loading</th>
<th>Name</th>
<th>Eigenvalue</th>
<th>Percent of Variance</th>
<th>Percent of Cumulative Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor 1</td>
<td>Governmental social expenditure</td>
<td>-.954</td>
<td>Developmentalism</td>
<td>5.776</td>
<td>38.505</td>
<td>38.505</td>
</tr>
<tr>
<td></td>
<td>Family supports</td>
<td>.859</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-coverage in pension</td>
<td>.843</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gender wage lag</td>
<td>.827</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social investment</td>
<td>.806</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-replacement rate in pension</td>
<td>.783</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Structural welfare need</td>
<td>-.713</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Labour density</td>
<td>-.647</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social consumption</td>
<td>.492</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factor 2</td>
<td>Contribution from employers</td>
<td>.883</td>
<td>Corporatist</td>
<td>2.602</td>
<td>17.349</td>
<td>55.854</td>
</tr>
<tr>
<td></td>
<td>Stratification in welfare</td>
<td>.710</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contribution from employees</td>
<td>.681</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factor 3</td>
<td>Scale of private pension</td>
<td>.835</td>
<td>Self-responsibility</td>
<td>2.153</td>
<td>14.355</td>
<td>70.209</td>
</tr>
<tr>
<td></td>
<td>Resource dependency</td>
<td>.678</td>
<td>in social security</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factor 4</td>
<td>Trade dependency</td>
<td>.911</td>
<td>Pressure in world trade competition</td>
<td>1.248</td>
<td>8.320</td>
<td>78.529</td>
</tr>
</tbody>
</table>

**Outcome of Hierarchical Cluster Analysis**

After conducting factor analysis separately with the 1980s and 1990s data, we further examine these two groups of four factors by hierarchical cluster analysis. The dendriform plots shown in Figure 2.1 represent the degree of similarity of these twenty country cases in the four factors based on the 1980s data, while Figure 2.2 represents the outcome of the 1990s data.

Figure 2.1 displays the relative distance at which country cases could be grouped together as one welfare regime. Twenty countries have formed five distinct groups (or clusters) which can be described as three major ones and two minor ones. The major
group is distinctively consisted of seven countries: Denmark, Sweden, Finland, Norway, United Kingdom, Australia, and New Zealand, which are mostly social democratic welfare states with their welfare regime characterized by the high degree of universalism. The second group clearly represents corporatist welfare regime, including Austria, France, Italy, Germany, and especially Japan as a group. Here attention should be drawn to one fact: within the group of corporatist welfare regime the relative distance between Japan and the other members is not as close as the relative distance between any two of the other members, implying that Japan could be a distant member of corporatist welfare states. The third group is obviously the liberal welfare regime, including Canada, the United States, and Switzerland. Apart from the above three classical welfare regimes, Belgium and the Netherlands are merging together as the fourth, although small, group. And, in particular, South Korea and Taiwan together are becoming a fifth group, which does not join with any other country cases until the relative distance reaches 25, meaning that this group is quite different from the other four groups mentioned above.

Figure 2.1 Welfare regimes in hierarchical cluster (the 1980s)
Based upon the 1990s data, Figure 2.1 shows a similar result, though slightly different. The dendriform plots indicate five groups in all: three major groups and another two scattered groups away from the main three. Here the three classic welfare regimes -- social democracy, corporatist, and liberal are obviously observed to be the main groups. The social democracy regime in the 1990s combined Belgium and four Scandinavia countries (Denmark, Sweden, Finland, and Norway) together. We should note that within this group the relative distance between Belgium and the four Scandinavia countries are more distant. The second group displays the corporatist regime including Austria, Italy, France, Germany, and Japan. Similar to what we have found in Figure 2.1, the relative distance between Japan and the other four classic corporatist countries remains more distant than the distance between the others. The third group is the liberal welfare regime consisting of Canada, the United State, Switzerland, Australia, the Netherlands, and, especially, the United Kingdom that has been moving away from social democracy after the Thatcherism in the 1980s. The most important finding from Figure 2.2 is that East Asian welfare regime indeed exists apart from the three classical ones, while Ireland and New Zealand seems to be independent cases.

![Figure 2.2 Welfare regimes in hierarchical cluster (the 1990s)]
As expected, South Korea and Taiwan are merged together to form a new, distant group apart from the three worlds of welfare capitalism proposed by Esping-Andersen. These two East Asian country cases are not joining with other welfare groups until the relative distance reaches 20, but the relative distance between the two is quite short and close, strongly displaying their similarity in our four factorial dimensions. Moreover, the three classical welfare regimes are showing steadily in this study with the 1980s and 1990s data, despite some shifting of a few countries like the Netherlands, Australia, the United Kingdom, Belgium, and New Zealand. It is more likely for our argumentation that there is indeed a distinguished welfare regime in East Asia, with special reference to South Korea and Taiwan, which share much similarity in their welfare. The new welfare regime coincides with the theme of developmentalism proposed by scholars (e.g. Holliday, 2000).

The first finding that there exists a new welfare regime for South Korea and Taiwan is both exciting but confounding but it raises a new question: where is Japan in this regime searching study? Why is Japan not in the expected group of developmental welfare regime? What makes Japan different from its neighbours like South Korea and Taiwan with regard to welfare? To what degree does Japan’s welfare development reach in the ‘corporatist’ and ‘developmental’ factorial dimensions? To answer these questions, we might look at Figure 2.1 and Figure 2.2 again and next go through Figure 2.3 to find a possible explanation. In both Figure 2.1 and Figure 2.2, Japan is lined up with corporatist countries, but we also find a larger distance between Japan and the others. This finding helps to identify that Japan is better described as having more ‘pro-corporatist’ characteristics than typical corporatist ones. Based on factor analysis of the 1990s data, Figure 2.3 tries to show country features in both ‘corporatist’ and ‘developmentalism’ dimensions. With ‘corporatist’ as the X axis and ‘developmentalism’ as the Y axis, Japan (country code 11), South Korea (country code 12), and Taiwan (country code 13) are all in the same quadrant, but we also see the Japan is nearer to the X axis and farther from the Y axis than the other two countries. A plausible explanation of this finding is that in Japan, the ‘developmentalism’ is weaker and the ‘corporatist’ is stronger. From another point of view, Japan is in between the corporatist group (Austria, Italy, France, and Germany) and the East Asian group (Taiwan and South Korea). This explains why Japan is found to be in the corporatist countries with thick ‘developmental’ features, or a hybrid case as commented on by Esping-Andersen (1997).
Esping-Andersen (1990) emphasizes the importance of historical forces behind the regime. All welfare regimes are shaped by their various historical forces as a whole and thus characterized with some unique core components. Now that it exists as an East Asian developmental welfare regime, what does its core components look like, especially comparing to the other regimes? Table 2.3 shows the comparison of core components among the four welfare regimes. Take the new found ‘developmental welfare regimes’ for example, ‘social policy submission to economic development’ is its core component, and therefore, it could be described as at a minimum in decommodification, small/medium scale in private welfare market, and significant in stratification at first sight. We will further discuss its implication to other regimes.

Figure 2.3  Countries scattered in developmentalism and corporatist Dimensions

Discussion

Esping-Andersen (1990) emphasizes the importance of historical forces behind the regime. All welfare regimes are shaped by their various historical forces as a whole and thus characterized with some unique core components. Now that it exists as an East Asian developmental welfare regime, what does its core components look like, especially comparing to the other regimes? Table 2.3 shows the comparison of core components among the four welfare regimes. Take the new found ‘developmental welfare regimes’ for example, ‘social policy submission to economic development’ is its core component, and therefore, it could be described as at a minimum in decommodification, small/medium scale in private welfare market, and significant in stratification at first sight. We will further discuss its implication to other regimes.
Table 2.3  Core components and welfare regimes

<table>
<thead>
<tr>
<th></th>
<th>Decommodification</th>
<th>Stratification</th>
<th>Market</th>
<th>Social policy subordination to economic objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Democracy</td>
<td>Maximum</td>
<td>Minimal</td>
<td>Minimal</td>
<td>Minimal</td>
</tr>
<tr>
<td>Corporatist</td>
<td>High (for breadwinner)</td>
<td>Maximum</td>
<td>Mid</td>
<td>Mid</td>
</tr>
<tr>
<td>Liberal</td>
<td>Minimal</td>
<td>Low/dualism</td>
<td>Maximum</td>
<td>high</td>
</tr>
<tr>
<td>Developmentalism</td>
<td>Minimal</td>
<td>Mid</td>
<td>Mid/Minimal</td>
<td>Maximum</td>
</tr>
</tbody>
</table>

**Developmentalism and Social Democracy**

The difference between the developmental regime and the social democracy is very significant. Social democracy sets its base upon the social and political context, in which strong left wing party and class coalition are fundamental to its universal entitlement and decommodification in welfare benefits, which is hardly found in the developmental regime. Second, family is supposed to take more responsibility in social service and social care that eventually reinforces gender lag in the domestic labour division, as well as in the formal job market. The third critical difference lies in the welfare principle of decommodification. Social democratic countries demonstrate their maximum level in decommodification, when a service is rendered as a matter of right and when a person can maintain a livelihood without reliance on the market (Esping-Andersen, 1990: 21-22). However, the developmental regime performs in a different way, in which social insurance takes the role as the principal welfare system, and usually reproduces the stratification in the labour market through the contribution system and restricted entitlement to pension benefits.

**Developmentalism and Corporatist**

Developmental and Corporatist regimes look very much alike at first sight. If the focus is set upon the social insurance system, it is easy to conclude that they are similar. One similarity is that equality is not the core value. By granting and arranging various rights and obligations for different social groups, people obtain their individual welfare schemes that are consistent with their status division (Esping-Andersen, 1990: 58). Even though Japan is found to be more like a ‘corporatist’ country than the other two East Asian neighbours, Japanese social insurance and mutual aid are constructed by state rather than by guilds. This can be traced back to the approach of state-led development in East Asia, and therefore, the
difference is that the Japanese welfare was initiated and controlled by the state, unlike corporatist countries traditionally controlled by guilds. The efforts to keep social integration through maintaining traditional status differentiation and social order are likely to continue in both regimes, but the effect of stratification in East Asia is not so powerful because of its encouragement of individual hard working and economic achievement.

**Developmentalism and Liberalism**

Based on the principle of self-reliance particularly through market mechanisms, the welfare system is constructed in the liberal regime with a focus on means-tested assistance. Thus the coverage of universal entitlement and the level of benefits are kept at a minimum level. For keeping the primacy of market, the residual system tends to prevail at the expense of either social security or civil servant privilege (Esping-Andersen, 1990: 86). In consequence, the liberal regime emphasizes the importance of supporting market development either by minimum state intervention or by tax reduction. These three East Asian countries look similar to the liberal welfare regime for two reasons. First, all these three countries have somewhat significant means-tested assistance, developing from traditional charities. And, second, social insurance coverage and benefit generosity are both limited. Although the developmental regime shares some superficial similarity with the liberal, they are profoundly different. These East Asian countries are rather strong in state intervention that differs from the liberal ideology of minimum state intervention and promoting market mechanisms. For the developmental welfare regime, a small scale in social expenditure is not for the sake of the free market; rather, it is to strive for economic development and pour limited resources into activities and needs with productive purposes. In short, the low level of governmental social expenditure in the developmental regime is the result of state intervention, not laissez-faire.

**Conclusion**

Is there another world of welfare capitalism? This question has been asked for many years after Esping-Andersen published his book and a lot of effort has been devoted to answering this question theoretically. However, this study could be the first to examine the existence of an East Asian welfare model, namely the developmental/productivist regime, with empirically hard data. Our two sets of indicators and statistical analyses prove once again the existence of the three welfare regimes proposed by Esping-Andersen. More importantly, we also find that the country cases of South Korea and Taiwan are hard to categorize into any of the
existing three welfare regimes, while Japan is in between developmentalism and corporatist. Despite the convincing empirical outcome for another welfare regime, a further question confronting us is whether the developmental regime will maintain its core components especially after the 1990s since there are rapid changes globally. We witnessed the shift of the British welfare state, from our analyses, during the 1980s, implying the possibility of changing specific path-dependency of a welfare regime. This research outcome signifies an integrated starting point of welfare comparison between East and West, and hopefully, it would serve as a new platform for further discussion.
Developmentalism and Its Strategies

Introduction

Economic and political development in East Asia has long been attracting considerable interest and attempts at explanation. This now extends to their social characteristics, given the establishment of institutional welfare systems in the region which go beyond the existing images of ‘reluctant’ welfare states. Studies of East Asian welfare are becoming an increasingly important field of comparative social policy (e.g. Midgley, 1986; Jones, 1990, 1993; Esping-Andersen, 1997; Holliday, 2000; Gough, 2001; Holliday and Wilding, 2003). This has been further stimulated by the concept of welfare regimes, as demonstrated in Esping-Andersen’s work (1990). Following efforts to figure out whether there might be different welfare regimes - other than Andersen’s liberal, conservative and social democratic - in the western world (e.g. Pierson, 1991; Leibfried, 1992; Castles and Mitchell, 1992, 1996; Siaroff, 1994; Ferrera, 1996; Sainsbury, 1996; Gallie and Paugam, 2000), the same question is now also being asked of East Asia, with reference to the developmental/productivist welfare regime.

However, since the pursuit of welfare is no longer simply a private activity but a field in which the state is deeply involved in relation to both policy formation and delivery, social policy making has become an important window into understanding welfare in the modern era. The term ‘policy’ is widely used in the analysis of processes of governmental decision-making, explaining and legitimating the actions taken by policy-makers and related practitioners (Colebatch, 1998: 13). Furthermore, ‘policy’ also refers to an activity involving leaders, aides, followers, executives, interested parties, and knowledge workers (Colebatch, 1998: 90-99). Such talk implies a series of policy instruments which can be mobilized by government to systematically implement and institutionalize policy statements. Policy does not necessarily translate directly into social action if policy-makers and practitioners cannot mobilize sufficient and consistent capacity to accomplish the task.

To understand Taiwan’s development and, especially, the issue how Taiwan transformed from a developing economy to a more advanced one, the research will trace back to the beginning of Taiwan’s development in the 1950s. A more systematic exploration is required to look into the whole story that is not just on the role of the state and its policy orientation. Policy is actually not emerging in a vacuum. Poverty
reduction may be a product of economic transformation and development, intentionally and unintentionally, but it is also tied to social and political struggles around the organization and distribution of resources, rights and statues that have shaped the Taiwanese society remarkably in the past fifty years.

**Taiwan’s Development: A Historical Overview**

As with other developing countries, the causes of Taiwan's capitalist development were not part of an inherent process. But, unlike in most of the developing countries, capitalism was not brought to Taiwan by Western powers. Japan, the only Asian imperialist country and themselves a late capitalised country, had Taiwan as their first colony in 1895. From then onwards, Taiwan was not only included in the Japanese political empire but also in the economic system of international labour division. They initiated programmes of capitalist development and transformed Taiwan in order to serve Japanese imperialism. At the end of the Second World War in August 1945 and with Japan's unconditional surrender, Taiwan was returned to the hands of the Nationalist China.

It is worth noting that this situation was quite different from the acquisition of independence of the British colonies, like India, which got underway, more or less, with the permission of the British Government. Because Japan was a loser in the war, the KMT, which was the dominant party of China then, took over all Japanese capital in Taiwan whether it was public or private. This move brought the KMT huge wealth to the value of around 11 billion old Taiwan dollars by Liu's estimation (Liu, 1992: 24). This figure accounted for 132 times the total revenue of the colonial government in 1945. In such a colonial economy, Japanese capital indeed controlled every aspect of economic activity in Taiwan. For example, the limited-liability companies in Taiwan held by the Japanese comprised up to 86.3% of the total and 96.9% of the companies with over 5 million of capital belonged to the Japanese (Liu, 1992: 20). The transfer of capital from the hands of the Japanese to those of the KMT also vested the latter with similar status to the former in colonial Taiwan.

Additionally, the businesses taken over by the KMT had not only an extensive, but also a deep-rooted, influence on Taiwan's economy. Basically, three categories of businesses had changed hands: the first involved all the financial ones, including banks and insurers led by the Bank of Taiwan; the second comprised the major industries such as oil, electricity, fertilizer, chemistry, shipbuilding, metal, machinery, paper, concrete, salt, and sugar; the third included all the small businesses in agriculture, forestry, mining, and manufacturing (Liu, 1992: 26-27). Thus, the KMT's power reached a peak which
made it possible to manage capital flow and material supply, as well as intervening in the most detailed economic activity in Taiwan. Liu argues that the control of economically commanding positions, like major industries and financial operations, was the specific characteristic of Taiwan's capitalism in the postwar era and marked the rise of state capitalism. He says, ‘the economy in the postwar Taiwan was, basically, dominated by state capital....such a dominant regime of KMT-state capitalism constituted the starting-point for economic development in the postwar Taiwan.’ (Liu, 1992: 28).

The arrival of capital from mainland China after the defeat of the KMT in the civil war against the Communists further consolidated the KMT-state capitalism, particularly the coming of the textile industry. In the late 1940s, Taiwan's textile demands mainly depended on supplies from Shanghai -- only 5% to 10% of the demands could be met by domestic production. By the end of 1953, ten of the big textile firms in Shanghai had moved to Taiwan of which three were state-owned. This development caused a rapid growth in textile production so that self-sufficiency was achieved by 1953 and the ability to export by 1954 (Liu, 1992: 207-209). Although the textile capitals were not completely state-owned, the capitalists who were members of the KMT easily moved their firms to Taiwan, especially when vessels crossing the strait were under the control of the KMT troops. In this sense, textile development in Taiwan depended on the protection of the KMT and became one cornerstone of the KMT-state capitalism.

As is well known, one important component of capitalism is the spirit of profit-searching which typically reflects a strong private sector. In colonial Taiwan, private capital did exist but was always held by Japanese capitalists, who allied with the colonial government to exploit Taiwan's economy. Capitalist production and the financial sector was a near monopoly of home-based and expatriate Japanese whose overwhelming economic dominance was buttressed by legal statutes obstructing Taiwanese participation in any but a subordinate way. By the end of the Second World War, the Taiwanese industrial bourgeoisie was almost nonexistent (Gold, 1986: 45). The transfer of Japanese capital to the KMT also left little room for the emergence of private capital held by the Taiwanese. How did a rise of private capital become possible in such a critical situation? To answer this question, we must trace the story back to the impact of the land reform commencing in 1949.

In 1898, the Japanese land survey replaced the three-tier landownership with a two-tier one which consisted of the landlord and the tenant. The land reform of the KMT further refined this system to a single-tier one in which every farmer had his own land. This scheme was carried out in three stages: the compulsory reduction of land rent limited farm rents to a maximum of 37.5% of the annual yield of the main crops; then, the public land previously owned mostly by Japanese colonists and confiscated after the war, was sold to the actual tillers at a price of 2.5 times the annual yield; and finally, the
‘Land-to-the-Tiller Programme’, initiated in 1953, further asked that land owned by landlords in excess of three chia (1 chia = 2.4 acres) of medium-quality paddy field, or its equivalent, was compulsorily purchased by the government with commodity bonds (70%) and shares in four government enterprises (30%), and resold to the tenants (Ho, 1978: 233-234).

The existence of the Japanese legacy was significant for the implementation of land reform in 1949, especially in that purchasing land with bonds and shares meant the government did not need to pay in cash yet had an immediate revenue from tenants. The land reform had three impacts: firstly, the influence of the landlord class in rural areas was diminished with its loss of landownership; secondly, the social structure in rural areas was changed to consist of a mass of small farm households; finally, the surplus was transferred to investment in industry through purchasing land with shares from government enterprises.

However, some ambitious landlords, if not all, had learned the value and importance of shares in a modern business society from the Japanese colonial government and this made them unwilling to sell their shares at prices below market value as had happened under the Japanese rule. Furthermore, they asked the government to purchase land with more shares. Bargaining between the government and landlords focused on two aspects. Firstly, landlords asked the government to purchase land with 50% of government enterprise shares instead of 30%. Secondly, landlords asked that the Taiwan Fertilizer Company, regarded as the most profitable because of huge demand for fertilizer in rural areas, be added to the initial privatisation programme of four government enterprises -- Taiwan Cement, Taiwan Paper and Pulp, Taiwan Agriculture and Forestry, and Taiwan Industry and Mining (Liu, 1992: 80-84). Both claims failed.

Even so, the largest landlords did not give up their ambition to invest in commerce and industry, so when the smaller landlords began to sell off their shares they were bought up by the largest landlords. Consequently, a centralisation of capital, distinct from the same process in the public sector, went ahead in the private sector of which the most significant example was that of the cement industry, firmly controlled by the families of the four largest former landlords. Furthermore, the Taiwan Agriculture and Forestry Company and the Taiwan Industry and Mining Company consisted of numerous medium and small Japanese businesses in the colonial period, and the sale of shares in these two companies paved the way for some landlords to participate in diversified economic activities such as coal, steel, textile, glass, chemistry, printing, ceramics, constructing, food-processing, and so on. Although the private sector was relatively weak compared with the public sector, especially concerning supplies of raw materials, there is no doubt that the land reform led to the rise of private capital in postwar Taiwan. As Liu says, ‘Japanese monopoly capital in the pre-war Taiwan was reorganised and became state
capital in the postwar era, and (Japanese) middling and small capitals were inherited by local capitalists originated from the former landlord class because of the commencing of the land reform as an opportunity.' (Liu, 1992: 85).

One further question is why the relatively weak private capital was not absorbed into the strong state capital later. In the late 1940s, the KMT did get the chance to move towards an absolute control over every economic activity in Taiwan which was not very different from what had been done by the Communists in mainland China. But the KMT, in reality, left much room for the emergence of private capital leading to a completely different development process in Taiwan from the mainland. The answer can be found not only from looking at the domestic situation but also from international politics.

In terms of the domestic situation, the retreat of the KMT in 1949 meant that Taiwan was the last place to resist the Communists. Taiwan's safety was the priority of all national policies and that needed the obedience of the Taiwanese whether willing or unwilling. This critical situation forced the KMT to stabilize the local economy as soon as possible through the land reform because they had learned from the experience of the civil war that a confused landownership was the major source of unrest in an agriculture-orientated society. Chen Cheng, a general trusted by Chiang Kai-shek, was sent to be Taiwan's new Governor-General to commence the land reform. As Ho argues, ‘....there is little doubt that one reason, if not the principal one, that land reform was implemented in Taiwan was the government's concern about, and its desire to minimize the possibility of, rural unrest.' (Ho, 1978: 173)

As far as international politics were concerned, the US played a significant role in shaping the economic structure of postwar Taiwan. When the KMT was run off the mainland, US policy began to shift to one of disengagement so that no one could guarantee the KMT's survival in Taiwan. A peculiar conjunction of historical events saved the KMT. Specifically, the explosion of the first Russian atomic bomb in September 1949, which resulted in the formulation of National Security Council Directive number 68 as a framework for American foreign policy, and the outbreak of the Korean War in June 1950, turned US policy from disengagement to unprecedented support (Crane, 1982: 100). Thus, US Aid was resumed and the Seventh Fleet was sent into the Taiwan Strait to protect the KMT from imminent Communist invasion and to draw the line against communism in East Asia. Since then, Taiwan has been included in the capitalist bloc headed by the US and has formed part of American global strategy, politically.

To strengthen Taiwan in order to effectively play its role in the American global strategy, Taiwan's armed forces had to be modernised and Taiwan's economy had to be developed. From 1949 to 1967, the US provided Taiwan with US$2.4 billion in military aid and US$1.8 billion in economic aid. This aid meant Taiwan did not need to throw too
many resources into warfare but could use them to restructure its economic infrastructure. This was a huge sum of money for Taiwan at that time. For example, from 1949-67 Taiwan received US$425 for every member of its civilian population -- excluding military aid this figure was US$187 -- whereas in 1960 Taiwan's per capita income was estimated at around US$110 (Ho, 1978: 111). And, from 1951 to 1962, when the US supplied the KMT with US$1.3 billion in economic aid, the total current deficit of Taiwan was US$1.1 billion and the US virtually covered the current deficit of Taiwan for 12 years (Crane, 1982:101). As in Japan, the local people formed a government, but America constituted enough of a shadow government through the establishment of US aid agents like the Agency for International Development to influence a wide range of political and economic decisions made by the KMT (Gold, 1986: 58).

The American government knew that without a liberal economic system, especially the emergence of private capital, Taiwan could not be firmly integrated into the capitalist bloc. In 1950, Hubert G. Schenk, the Chief in charge of US aid in Taiwan, said in public that Taiwan must have more liberal enterprises and free competition linked to the rise of private capital (Liu, 1992: 199). Furthermore in 1954, American economic adviser Roger Setffen stressed again the importance of private capital to a liberal economy (Liu, 1992:199). Although aid to the private sector was limited, for example, 67% of US aid was allocated to public enterprises or agencies, 27% to mixed public and private enterprises, and only 6% to purely private enterprises (Ho, 1978: 117), the US effectively halted the nationalisation process in some industries. This move not only confirmed the coexistence of public and private capitals in postwar Taiwan but also paved the way for the arrival of American private investment in Taiwan.

Even though the increasing of private capital, the government and public enterprises always shared around half of Gross Capital Formation in postwar Taiwan, and this figure would be even higher if we count in private enterprises with a connection with the KMT. Furthermore, the share of overseas investment, including that of overseas Chinese, was not so significant in Gross Capital Formation. At its peak in 1970 this figure was only 9.6% of Gross Capital Formation, despite a government scheme to attract foreign capital into Taiwan for ten years. In other words, the mixture of public and private sectors was a specific feature of postwar Taiwan, in which the state has demonstrated it dominance in capital formation necessary for economic investment and development.

Generally, scholars who emphasize the economic miracle of Taiwan usually focus on the rapid growth after 1960, when the export-substitution policy was underway. It is true that an export-orientated development strategy accelerated economic growth during the postwar period. We learn from Table 3.1 that Taiwan enjoyed a very high growth rate after 1960, especially the two decades of the 1960s and the 1970s. The growth rates of exports and imports were never below two digits during the same period, and the growth
of industry was significant compared with that of agriculture, revealing the impressive development of industrialisation in Taiwan. Consequently, the export-orientated development strategy, which made Taiwan into a great processing area by bringing together its cheap labour costs and foreign technology for the export of industrial products, successfully promoted Taiwan's industrialisation and economic development.

Table 3.1 Selected Indicators of Economic Development during the Postwar Period

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth</td>
<td>8.0</td>
<td>10.0</td>
<td>9.4</td>
<td>8.3</td>
</tr>
<tr>
<td>Per capita real GNP</td>
<td>4.5</td>
<td>7.1</td>
<td>7.3</td>
<td>6.9</td>
</tr>
<tr>
<td>Exports</td>
<td>8.4</td>
<td>21.5</td>
<td>14.3</td>
<td>10.5</td>
</tr>
<tr>
<td>Imports</td>
<td>9.0</td>
<td>17.8</td>
<td>13.3</td>
<td>10.8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>--</td>
<td>4.1</td>
<td>1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Industry</td>
<td>--</td>
<td>14.7</td>
<td>11.9</td>
<td>7.1</td>
</tr>
<tr>
<td>Service</td>
<td>--</td>
<td>9.8</td>
<td>9.1</td>
<td>9.4</td>
</tr>
</tbody>
</table>


However, the coming of the export-orientated development strategy was not chance but was linked to the international community, especially American power. As we have mentioned above, the KMT took over Japanese capital to convert it to state capital and dominate every aspect of Taiwan's economic activities in the late 1940s, and the reason for the resumption of US aid was a political move against the expansion of communism in East Asia. Thus integrating Taiwan into the capitalist world economy was not the priority of American policy towards Taiwan, though the US, more or less, pushed Taiwan towards a mixed economy of public and private sectors. Furthermore, foreign private capital was not invested in Taiwan because of the high risk at that time. This combined situation left the KMT an opportunity to reorganise the domestic economy in order to serve the 'national interests', using the KMT's term. To purchase military supplies abroad, foreign reserves were necessary but a shortage that forced the KMT to adopt the import-substitution policy in the 1950s, which developed domestic products to replace those imported from abroad in order to save foreign reserves. During that time, state cartels encompassed a larger share of the island's economy than at any time since due to a law prohibiting competition with state capital (Crane, 1982: 104). Thus, the economic link between Taiwan and the world market was relatively weak in the 1950s -- it was the political aspect which was stronger.

To explain Taiwan's economic miracle, relatively strong state capital and the timing
of its integration into the capitalist world economy are two factors stressed by many scholars (such as Crane, 1982; Koo, 1987; Gold, 1986). Koo, comparing South Korea and Taiwan, concludes: (Koo, 1987: 169)

‘...because of their strategic value in containing communist influence in the Far East, both countries had received enormous amounts of economic and military aid from the United States before their economic penetration by private foreign capital. By the time foreign capital arrived, adequate economic foundations in both infrastructure and human capital had been laid, and the state was in firm control of the economy. The initial political integration of the two countries into the world state system, it can be argued, eased their subsequent economic integration into the world capitalist system.’

Politics and economics are difficult to separate in modern times. Once a country becomes part of Western international politics, it is a part of the world economy as well. In the late 1950s, the US faced increased labour costs and low profits in its economy which led to investment abroad (Armstrong et al., 1984: 222-226). To respond to its domestic economic change, the US reformed its aid policy to a development-orientated one so that the aided countries had to open their markets to foreign private capital and go further towards a liberal economy. For this reason, the scope of US aid was varied according to the extent of economic reform in the aided countries. Under the pressure of the US agents in Taiwan, as well as the possibility of decreasing aid and the shortage of foreign reserves, the KMT had to find an alternative way to balance its current account. The Nineteen Measures for Finance and Economics, which was regarded as the commencement of the export-orientated development strategy, was enforced in 1960 to cope with this situation (Hsiao, 1989; Liu, 1992; Chen, 1981).

From this decision-making process, we can observe the limited autonomy of the KMT state. Moreover, with the expansion of external trade, Taiwan has been firmly integrated into the world economy. Figure 3.1 shows the change in exports and imports as a percentage of GNP. Both curves display a rapid growth in exports and imports which have each been over 30% of GNP since 1970. This situation made Taiwan very vulnerable when the climate of the world market changed though it also brought Taiwan a huge of surplus which can be seen from the difference between exports and imports as a percentage of GNP. Indeed, Taiwan has enjoyed a trade surplus for over ten years. Noteworthily, most of Taiwan's exports were going to America, reaching a peak of 48.8% of total exports in 1984 and never falling below 30% in the following two decades. To maintain the American market and economic growth, Taiwan's government, inevitably, had to follow, if not obey, the steps taken by America and a new form of dependence was constituted (Chen, 1981).
Additionally, the export-orientated development strategy also became the drive behind the development of the private sector. Since the mid-1960s, industrial products as a percentage of Taiwan's exports have been beyond 50% and even reached 95.5% in 1990, of which textile and related products, electrical machinery, machinery, and metal products accounted for the largest proportion, produced mainly by private medium and small businesses. Figure 3.2 shows the change between public and private sectors in the share of manufactures, the private sector has become the main source of manufactured goods for export. Although the state still dominates the supply of raw materials and energy is completely monopolized by the government, the rise of the private sector has been strong enough to compete in the world market alone.
In the 1970s, the energy crisis as well as the world recession were the greatest challenges to Taiwan's economy. Although US aid ended in 1968, the KMT launched ten major development projects to improve the economic infrastructure and to promote economic growth through public investment. The private sector's share of Gross Capital Formation dropped sharply from 59.9% in 1970 to 42.3% in 1975 while public enterprises' share rose from 28.7% to 43.4% during the same period. The total cost of the ten major development projects was around US$8 billion (another estimation US$5.8 billion) of which 63% was invested in the improvement of infrastructure like transportation and electric power and 37% on heavy industry like steel and shipbuilding (Liu, 1988: 50). These public investments did not form a huge proportion of foreign debt, the public debt service ratio was roughly 4% during the 1970s, because of high household savings accounting for 40% of Gross Domestic Capital Formation. This implies that Taiwan's economy has been maturing and can raise domestic capital.

Inheriting the successful experience of dealing with the worldwide energy crisis, Taiwan enjoyed a middle to high growth rate during the 1980s and accumulated over US$80 billion in foreign reserves by the end of the 1980s. This achievement makes some scholars believe that Taiwan has ascended in the world system (Crane, 1982). However, it also suffered a sharp decline in the international political community because of a
change in American foreign policy.

When American President Nixon entered the White House in January 1969, the limits of American military and economic power were clear for all to see. The armies of the United States were being humbled in the jungles of Vietnam, its monopoly of atomic weapons had long disappeared, and its economic prominence was being challenged by Japan and West Germany, pushing America to change its foreign policy. A 'detente policy' was adopted to rebuild the world order according to the balance of power, especially through courting China to reduce tension in the world and to divide the two communist superpowers -- China and the Soviet Union (Garson and Bailey, 1990: 131-142). Once again, Taiwan became the scapegoat of the big powers. To seek Chinese cooperation, America gradually withdrew its support of Taiwan causing Taiwan to lose its seat in the United Nations, where it was replaced by China in 1971. Since then, Taiwan has been excluded by most major international organisations, such as the World Bank, the IMF and so on. Furthermore, Taiwan's diplomatic ties were also in sharp decline. For example, in 1971 68 countries kept up diplomatic relationship with Taiwan compared with China's 53. But from 1971 to 1988, 54 countries ended their relationship with Taiwan and transferred to China, including America in 1979 (Tien, 1991: 273-276). So far, only around 30 countries have kept a diplomatic tie with Taiwan, of which South Africa is the biggest.

The ascent in the world economy and the decline in world politics constituted a specific feature of Taiwan's politico-economic situation after 1971, and further shaped the nature of Taiwan's difficulties in the international community. The desire to escape isolation caused Taiwan to pay much attention to its own image with the external world in order to be consistent with what the KMT term the ‘world trend’ -- the policy of the great powers, in reality. Additionally, an alternative policy, called ‘substance diplomacy’, was adopted to consolidate Taiwan's ties with other countries through the establishment of cultural and, particularly, economic relationships. Thus, the Trade Association, a semi-official agency, has been founded and 48 branches have spread around the world to promote Taiwan's economic activities abroad and maintain trade between Taiwan and over 140 countries (Tien, 1991: 279). In fact, the trade centre has replaced the embassy as the overseas agent of the Taiwan government.

The adoption of substance diplomacy implied that Taiwan has been more dependent on economic growth and trade to consolidate its position in the international community. Unlike China, who can neglect, more or less, foreign pressures because of its political power in, for example, the UN, Taiwan could not afford the cost of economic isolation, especially after it has been isolated politically. For this reason, continued economic development was necessary to Taiwan's survival in the modern world and was no less important than national security. This situation limited the range of policy-making in
Taiwan, as those policies that carried the risk of economic recession had to be excluded from the political agenda leading to the rather conservative characteristic of government policies in Taiwan. Social policy and social welfare, therefore, were unable to stand independent of this situation.

The Authoritarian State and Developmentalism

In East Asia, a lot of concepts, such as ‘governing market’ (Wade, 1990), ‘disciplined market’ (Amsden, 1989), and ‘guided market’ (White and Wade, 1988), have been widely used to refer to the relationship between the state and the market. Although there is an argument that liberalism and globalization are not inextricably linked (e.g. George and Wilding, 2002: 57), it is still true that the state has faced a constraint on its range of policy choices and the capacity to put policy in practice. As Castles states, ‘a state is developmental when it establishes as its principle of legitimacy its ability to promote and sustain development, understanding by development the combination of steady high rates of economic growth and structural change in the productive system, both domestically and in its relationship to the international economy.’ (1992: 56) We have explored how Taiwan became an integral part of capitalist world economy in the last section, here we need to look into further how an authoritarian state became developmentalism.

In the case of Taiwan, the first challenge for the state is how to establish its ruling authority over the island. An interesting observation to make is that after the Second World War the KMT took Taiwan from Japan using a similar model -- killing in order to establish state authority and the introduction of state bureaucracy and bureaucrats from mainland China. This move helped the KMT to achieve the same superior position and high degree of state autonomy. Because of the conflicts between Taiwanese and mainlanders in the early stage of postwar era, widespread rebellion erupted, an event that is now known as the 2-28 Incident symbolising the twenty-eighth day of the second month of 1947 (Copper, 1990: 27). The Taiwanese were merely asking for fairer treatment, but the KMT's Governor in Taiwan regarded the protest as a pro-Communist rebellion. Martial law was enforced and over 20,000 troops were sent to Taiwan to repress the rebellion. Killings happened across the island. The number of the people killed in fights and arrested and missing forever, is generally believed to add up to twenty thousand -- a far bigger number than the three to four hundred, admitted by officials (Central Daily News, 12-13 February 1992). In particular, five thousand or more of those arrested were students, professors, lawyers and local politicians who were the main body of the Taiwanese social elites (Chuang, 1991: 151-154). For this reason, the 2-28 Incident has been interpreted as a planned political operation to eradicate possible
opposition. Through this, the KMT confirmed its unchallengeable authority, but this event also opened the opposition movement and appeal for democracy in the following fifty years.

Even though martial law and military control were so strict in postwar Taiwan, the KMT state was not simply a military regime either. Some mainlander technocrats, many of them holding university degrees and who were even educated in America, began to enter the government and to exert some influence on economic policies. Their recruitment began in 1949 when Chen Cheng was assigned by President Chiang Kai-shek to manage Taiwan as the final base for the survival of the KMT. Chen Cheng realised that economic reform was necessary because of the KMT's defeat in the civil war and that this reform needed the help of technocrats, including Yin Chung-jung, Yen Chia-kan, Sun Yun-suan, Li Kwoh-ting, Yu Kuo-hwa and so on. Later some of them even became president and premier (Hsu, 1989; Pang, 1992; Wade, 1990). These technocrats, as distinct from the original elites of the military and the KMT party, provided another source of political elites in postwar Taiwan. This contributed to the transformation of the nature of the KMT state from a ‘hard-authoritarian’ regime to a ‘soft-authoritarian’ one in which economic rationalisation accompanied military domination.

With a high level of autonomy, the state is able but does not necessarily choose to intervene in most aspects of the private sector, especially in promoting economic growth. Sorensen's study puts forward a very interesting point that authoritarian regimes are more successful in achieving rapid economic growth because they are more capable of conducting radical reforms and curbing consumption to enhance accumulation (So'rensen, 1991). It is possible for an authoritarian state, because of its superior position over the social structure and subsequent strong autonomy, to implement policies in favour of economic growth. Yet it is also possible for the state to prevent such policies using the same power if the development threatens its rule. For this reason, the relationship between authoritarian regimes and economic development is not direct and inevitable, but depends on the approaches chosen by the state in their style of intervention. Here, we will discuss a variety of forms of state intervention in Taiwan in three aspects: how the state promoted social investment, reproduced the labour force, and maintained social harmony.

How the State Promoted Social Investment?

The establishment of an economic infrastructure, tax rebates and financial assistance for private investment are three major measures used by the state in Taiwan to manage the economy and to accelerate capital accumulation.
After the Second World War, the KMT state was unable to spend such high amounts because of its heavy spending burden on defence against Communist China. Although government expenditure on economic items has for a long time ranked second as a percentage of total expenditure, it only accounted for around 10% of total expenditure in the 1950s and gradually increased to between 25% and 30% in the 1980s. Due to US Aid, the KMT was able to lessen the conflict between economic growth and military strength, by spending particularly on the recovery of the communication system and electricity industry established by the Japanese (Yeh, 1967: 59-60). In 1973, the Ten Major Development Projects were launched by the KMT to combat recession, of which six related to communication systems (two ports, two railways, one motorway and one airport) and one was a nuclear-power plant. This expenditure indicated the state's intentions to improve economic infrastructures. Spending on economic development increased sharply from 17.9% of total government expenditure in 1970 to 31.5% in 1980.

State intervention in economic development was more obvious through tax rebates and subsidies to encourage private investment. The most significant example was the Statute for the Encouragement of Investment in 1960 that included the devices of the tax-free period (five years for new projects, and four years for subsequent increases in productive capacity), accelerating depreciation, investment tax credit, duty-free import of capital goods, and reducing the rate of business tax. These opportunities were equally available to both private and public, domestic and foreign firms (Wade, 1990: 183). Furthermore, a tariff rebate system was introduced to promote exports. Exporters could claim rebates when imported materials were processed and exported again (Wade, 1990: 140-141). From 1961 to 1990, tax reductions due to the implementation of the Statute for the Encouragement of Investment accounted for up to 11.4% of total tax revenues; and tax rebates for exportation, from 1955 to 1990, also reached 23.3% of total tax revenues.

Finally, the state could provide financial assistance to a particular industry via the government-owned banks even in cases where the industry carried a high risk in the competitive world market and private investment had therefore not been attracted to it. The Japanese legacy of the state-owned banking system extended into postwar Taiwan. The KMT state owned, wholly or partially, almost every bank in Taiwan (foreign banks were not allowed to establish operations until 1969). The lending activities of all financial institutions were under strict state supervision (Amsden, 1985: 91-92). Thus, the state did control a commanding height which allowed it to finance the industries it preferred. To encourage investment in some industries targeted by the state, various funds were set up, external to the banking system, to provide additional financial assistance. For example, the Strategic Industry Fund, established in 1982, initially involved a sum of US$ 250 million, and was doubled in 1983. It was used for the
following: the purchase of domestically produced machinery; the purchase of new machinery, from any source, by producers in the so-called 'strategic' industries; and special investments to be decided by the planning agency (Wade, 1990: 168). With the above financial instruments, the KMT state was able to channel capital towards its preferred targets.

**How the State Reproduced the Labour Force?**

A smoothly-operating capitalist system needs continuous supplies from an educated and healthy labour force. Laissez-faire capitalism is not sufficient here because it is not in the interests of any single capital to invest in education and health. In this sense, state intervention in some aspects is necessary, especially in education and public health.

In the early stage of Japanese colonisation, two factors impeded the supply of Taiwanese labour force. The first was Taiwan's bad environmental conditions with infectious diseases that affected the supply of a healthy labour force. In addition, few modern schools were set up that limited the supply of educated labourers. To construct an environment which favoured the Japanese ruling, the colonial government stressed two social policies. One was the improvement of public health in order to attract Japanese people and capital; the other was the increase in education provision to teach modern skills and assimilate the Taiwanese people into Japanese culture (Goto, 1921). These social policies were implemented because these measures could effectively produce the necessary healthy and educated labour forces.

Similarly, a major policy of the KMT in postwar Taiwan was to develop human capital. Li Kwoh-ting, one of the key figures in promoting Taiwan's industrialisation since the 1960s, said in Harvard University, ‘....Taiwan's human resources have become an important competitive asset and a key ingredient of its economic success.’ (Li, 1991: 281) This policy embraced population control and health and education policies. In order to recruit enough soldiers for military purposes, there was a continuing dispute about the enforcement of family planning which tried to control the growth rate of population and might undermine the supply of soldiers. Because of the heavy burdens on Taiwan's economy, a policy which balanced reasonable population growth with a high quality but smaller labour force, was implemented (Li, 1991: 41-49). The Health Offices and nurses were sent to all corners of the island to teach people birth control and health ideas. Free birth control and vaccinations effectively improved public health in Taiwan.

The third 4-year development programme initiated in 1961 illustrated the role of education in supplying a trained labour force. The main objectives of the plan were the same as those of the 1957-1960 plan. These were to increase agricultural and industrial production, to expand export trade, to raise national income, to create employment
opportunities, and to balance international receipts and payments. However the 1961-1964 programme paid much more attention to manpower. It gave the education system the responsibility for preparing workers who were suited to meet changing manpower requirements and in particular to train people in skills of entrepreneurship (Lin, 1983: 109). A 9-year compulsory education was enforced in 1968 to improve the quality of manpower. This pushed Taiwan towards a fully literate society.

A further example illustrates that education policy came under the direction of economic policy and was directed to train the necessary labour force. In 1964 the education system was instructed to adjust the ratio of high-school to vocational-school students from 6:4 to 3:7 in order to meet the demands of the economic system. This clearly demonstrates the leader-follower relationship that existed between economic and education policies (Li, 1991: 111). The percentage of money spent on education in total government expenditure always ranked third in both the colonial and postwar era, just below the expenditures attributed directly to the maintenance of the state machinery and economic development. This was definitely not chance. Both education and health policies were initiated by the state, actively, to meet the needs of the changing economy. In this sense, they seem to be the most typical social policies proposed and implemented by the state in favour of economic development.

Noteworthily, although public health was another focus for Taiwan's social policies, no universal health care system was established until 1995. The KMT state improved public health through the Health Office system around the island which aimed to prevent infective diseases. It provided free vaccines with the aid of the WHO in the 1950s and the 1960s. Free medical care only covered selected groups of people -- those who were entitled to social insurance schemes and the very poor under social assistance.

In addition to health and education policies, social insurance was also initiated by the KMT as early as 1950. Although the establishment of this system was partly due to the fact that the KMT had adopted similar measures in the mainland, this was not the only reason for such a development (Fu, 1993). In 1950, the Governor of the Taiwan province, Wu Kuo-chen who initiated labour insurance, said in a seminar, ‘The success of this institution (labour insurance) will definitely increase production, raise the motive to work.....on the one hand, the livelihood of labourers can be protected; and, on the other hand, production can be increased at the same time.’ (The Independence Evening Post, 7 February 1950) Chiu Chuang-huan, once the Governor of Taiwan, also revealed in his book, ‘The purpose of labour insurance is to protect the livelihood of labourers .... in order to increase production and help the economy prosper’ (Chiu, 1986: 374). Thus, the design of the insurance system only focused on those who were able to and actually had a job in the labour market. The absence of unemployment benefit had the ability to push individuals back into the labour market if they wanted to obtain other benefits like
health care. However, the development of social insurance in Taiwan served not only economic reasons but also political legitimacy. This is the issue we now turn to.

**How the State Kept Social Harmony?**

As O'Connor (1973) and Gough (1979) point out, the state can maintain legitimacy or social harmony, either through social control or a welfare state. This was particularly true in Taiwan's case.

In postwar Taiwan, the land reform followed the killings associated with the 2-28 Incident, and meant that resistance from the landlord class was incredibly low. At the same time, the KMT state was able to monitor every detailed activity of society via the intelligence system. In particular, it prohibited two or more social groups with the same purpose existing in the same place. This enabled party members of the KMT to occupy leader positions in every social group, and enabled the KMT to seep into every kind of social group. For example, all leaders of labour unions at county level and beyond were party members of the KMT and were trained by the KMT (Tien, 1991:83). Thus, although labour unions have existed for a long time in Taiwan, it was difficult for them to develop functions similar to unions in Western societies. The same situation prevailed in the business and industrial chambers which were organisations for capitalists. Amsden summarizes state power in Taiwan as follows, ‘....Taiwan was better able to turn to the international market than other poor countries because the balance of power between the state and both labour and capital was weighted far more to the state's advantage.’ (Amsden, 1985:98). Some Taiwanese scholars use the concept of ‘state corporatism’, as Schmitter terms it (1974), to interpret this superiority of state power over various social groups (e.g. Hsu, 1987).

Though the KMT states were able to maintain social order through coercion and surveillance, this did not mean that there were no welfare measure to pursue the same functions. The establishment of the Department of Social Affairs under the Taiwan Provincial Government in 1947, when the 2-28 Incident was drawing to an end, demonstrated the intention of the state to construct an image of good-will. This was to be achieved through providing welfare to those who had no potential economic productivity. But these efforts were very insignificant by comparison with the resources poured into the ‘hard’ aspects of state social control.

Understanding this, it is less difficult to explore the specific development of state welfare in Taiwan: why was a well-developed social insurance system attached to extremely residual social assistance and personal social services? Why did major welfare developments in Taiwan always follow political crises? Why were military servicemen, government employees and teachers the biggest recipients of welfare expenditure? And
why was there no unified and independent government department with enough autonomy to direct welfare development in Taiwan? We shall now answer these questions.

The first example was the development of a social security system in Taiwan. The KMT initiated social insurance for military servicemen and labourers two years after its retreat to Taiwan and when it was under serious military threat from communist China. From that time onwards, social insurance has been expanded to cover more people and more risks and has become the most significant welfare achievement in postwar Taiwan. Why we must ask ourselves would the KMT initiate such a scheme of social insurance? This is a key problem with not only economic but also political implications. Here we will focus on the latter and we shall explore this question by looking at which specific groups of the population were covered by social insurance in Taiwan, and why they were selected to be covered by the state.

From 1958, social insurance in Taiwan consisted of three main schemes, namely insurance for military servicemen, government employees and labourers. Undoubtedly, the insurance for military servicemen and government employees had an important function in attracting capable personnel to the state bureaucracy in order to attain strict social control and implement state policies. Thus, when the first military conflict across the Taiwan Strait happened in 1950, the Military Servicemen's Insurance Scheme was enforced in the same year and later became a statute in 1953. Again, when the second crisis of the Taiwan Strait happened in 1958, the Government Employees' Insurance Law was enacted to further consolidate the stability of the state machinery. This demonstrates the political implications of insurance for both military servicemen and government employees -- it was a means of recompensing state personnel for their contributions to the state (Fu, 1993).

The Labour Insurance Scheme was enforced in the same year as the Military Servicemen's Insurance Scheme and became law in the same year as the Government Employees' Insurance Law. Is this explicable in the same way? We have shown in the last section that state capitalism with its huge public enterprises was the major feature of Taiwan's economy in the early postwar era. This was because Japanese capital was completely taken over by the KMT. The initiation of labour insurance mainly focused on workers employed by public enterprises and private firms with 100 or more workers, soon decreased to 20 or more workers (Liu, 1982b: 40). In those days when private enterprises were still underdeveloped, most of the labourers who benefited from the scheme worked for public enterprises which were indeed part of the state machinery and therefore contributed to state autonomy. Since then, labour insurance has been gradually expanded to cover more and more workers in private enterprises. We argued above that the main reason for this was to create healthy labour forces. In this sense, labour
insurance did play a meaningful role in both political and economic implications.

In contrast to the well-developed social insurance system, social assistance and personal social services for the disadvantaged were underdeveloped. This created a hole in the security net for Taiwanese people, especially for those who had no significant value in the labour market. Things were quite simple in Taiwan. If somebody held a position in the labour market or had contributed to the state like retired government employees, that person was most likely to get comprehensive care from social insurance. Those unable to find a job had access to few benefit from Taiwanese state welfare except for the extreme poor or the disadvantaged. Even so, the benefits to the disadvantaged were strictly limited to avoid the slowing of capital accumulation. They would only be increased when the state wanted to show good-will towards its people due to some crisis in its legitimacy. For example, Presidents Chiang Kai-shek and Chiang Chien-Kuo died in 1971 and 1988 respectively, loosening the KMT's social control over the island and increasing significantly state welfare expenditure. The end of diplomatic ties with America in 1978 further led to social unrest in the following years, including an organized opposition movement in Taiwan's second largest city, called the Kaohsiung Incident. At that same time three welfare laws and one new insurance project came into being and welfare expenditure increased sharply at the beginning of 1980. All of these examples suggest that social welfare in Taiwan is one of the instruments used to fill the gap when social control is loosened.

It could be argued that the correspondence between political crises and welfare developments are chance. Any ‘crisis’ has to be identified by the state and an appropriate policy to deal with it developed. To prove the association between political crises and welfare development in Taiwan, we need more historical evidence. Two examples follow to illustrate the link: one was the creation of the Current Social Policies of the Principle of Livelihood in 1964; the other was the enactment of three welfare acts for the poor, the aged, and the handicapped in 1980. In the first case, the biggest enemy of the KMT -- China -- had just finished its first nuclear-bomb test and had panicked the KMT. In a public speech President Chiang Kai-shek tried to calm the people down, saying that he would counter-attack and restore the KMT's authority in mainland China before China came to own a nuclear bomb. In the same speech, Chiang Kai-shek also claimed that the Current Social Policies of the Principle of Livelihood would be implemented in order to demonstrate that the KMT was a government which really did care about the welfare of its people rather than about warfare (The Independence Evening Post, 24 November 1964). From this example, we can see the political implication behind the KMT's social policies.

As far as the second case is concerned, the same development happened. At the end of 1978, America terminated its diplomatic tie with Taiwan -- the biggest disaster in
foreign relations that the KMT had ever experienced. President Chiang Chien-kuo announced a state of emergency to prevent a war which could possibly have happened between China and Taiwan. To calm social panic and to recover the legitimacy of the KMT, Chiang Chien-kuo ordered the organisation of a team to collect opinions for political, economic, social, and military reforms (The Independence Evening Post, 18 December 1978; United Daily News, 17 December 1978; 19 December 1978; 21 December 1978). The final report was published on 8th February 1979, and proposed that the Aged Welfare Law, the Handicapped Welfare Law and the Social Assistance Law should be enacted as quickly as possible (United Daily News, 8 February 1979). These laws were enacted later in the same year.

However, as has been mentioned before, these welfare developments were not allowed to slow down economic growth which was the top priority of governmental policy. To avoid possible increases in welfare expenditure because of the enactment of these welfare measures, a limit on welfare spending was set by the KMT. For example, the KMT defined the aged as persons over 70 years old, though in those days the life expectancy was 68.82 years for the male and 74.13 for the female, and the retirement age was 65 years for the male and 60 years for the female. Both retirement ages and the average life expectancy of men were below the KMT’s definition of aged (Legislative Yuan, 1981). Through this regulation, the number of old people who were entitled to the Aged Welfare Law was depressed and a large increase in governmental welfare expenditure was avoided.

Through understanding the development of social insurance, it is not surprising that military servicemen, government employees and teachers benefited from the largest share of state welfare expenditure. Essentially, all three groups made up the elementary body of the state apparatus who ran the state. They were the source of state power. In the 1980s, the welfare expenditure of the central government on these three groups accounted for around 75% of the total welfare expenditure. This represented nearly 14% of total expenditure of the Taiwanese state, even though the three groups only made up, roughly, 6% of the total population.

The state bureaucracy was also organised according to the policy priority which paid much more attention to economic development than to social welfare. The most dramatic change in the welfare bureaucracy happened in postwar Taiwan. Although the Ministry of Social Affairs had been set up in 1930 when the KMT still ruled mainland China, it was scaled down and put under the Ministry of Interior Affairs after the KMT retreated to Taiwan (Liu, 1982a: 154; Tsai, 1988: 30). Since then, social policy has suffered a peripheral role in government policies. With less than 50 bureaucrats, the Department of Social Affairs under the ministry of Interior Affairs was not able to effectively plan welfare development in postwar Taiwan. The welfare decision-making
was always taken by the Council for Economic Planning and Development in response to the demands of economic development rather than to human needs (Ku 1988:125). Furthermore, the front-line workers of the welfare services, such as social workers, were not regarded as formal state employees but as temporary workers hired by the government. This further damaged the provision of qualified social work and welfare services (Huang, 1988: 119-121). The contrast with the establishment of an independent Ministry of Education and a Department of Health, indicates the obvious neglect of welfare for the disadvantaged by the KMT. Thus, Tsai and Chang conclude: (1985: 255)

‘...although the government has shown some interest in promoting social welfare in Taiwan with budget increments and legislation, there was no cohesive effort among various government agencies in planning and coordinating welfare programmes....ambiguity in the content of the legislation and a lack of professional staff to handle welfare policy have made these programmes unworkable.’

It is important to draw some conclusions from the above discussions of state intervention in Taiwan, in terms of promoting investment, reproducing the labour force and maintaining social harmony. Basically, we conclude that as a capitalist state, national resources were mostly poured into accelerating capital accumulation and social measures with a rich potential for economic productivity such as health and education. To stabilize capitalist production, social control was employed rather than social welfare for the disadvantaged. Thus, commodification, which refers to everyone's value being linked to his/her productivity in the labour market, was maximized by both states in the postwar Taiwan. Although piecemeal welfare provisions were developed, they were concerned with neither citizenship nor human needs. Their scope was strictly limited by the state. Furthermore, a universal and de-commodified welfare system was rejected and replaced by a high density of social control to carry out the function of social harmony or state legitimacy. This was the distinct feature of state intervention in Taiwan and the true source of the Taiwanese economic ‘miracle’.

**Taiwan Miracle: Economic Growth with Equity in the Postwar Era**

Following the remarkable success of economic development in East Asia, income distribution remains a relatively fair condition. In Taiwan’s case, for instance, the gap of disposal income between top and bottom 20% households was less than five times during the 1970s and 1980s and therefore ‘economic growth with equity’ has been said to characterize the experience of East Asian development as a ‘Miracle’. However, it is now the question whether such a miracle is sustainable in the globalized world. Taiwan
is precisely the example to examine this question.

In Ku’s comprehensive study on welfare capitalism in Taiwan, he traces Taiwan’s development, from 1895 to 1990, in search of its dynamics inside. He argues that the specific politico-economic context in the postwar contributed Taiwan’s policy style of economy first (Ku, 1997a). Due to a change in American global strategy and China’s claim that Taiwan is inseparable from China, Taiwan’s diplomatic ties with other countries have declined to a state of near isolation. Beijing not only actively seeks Taipei’s expulsion from formal diplomacy with the rest of the world but also from all international bodies, politically and economically. It even demanded the exclusion of statistics on Taiwan from UN publications (Copper, 1990: 95-113; Long, 1991: 129-157). Under such circumstance, diplomatic relationships with Taiwan must risk being boycotted by China. The KMT, as the ruling party, has to face the isolation caused by its own policies, especially the inadequacy of its claim to be the only legal ruler of the whole of China, a claim that has been regarded as an unrealistic dream by most Taiwanese people (Long, 1991: 227-228).

The adoption of ‘substance diplomacy’ which tries to break political isolation through economic ties with other countries has led to Taiwan’s economy becoming more dependent on the world market and more vulnerable to recession. In addition, Taiwan’s economic growth, basically, has relied on export-orientated industrialisation with intensive and cheap labour forces. To have continuous economic growth, wages can not increase too fast in order to maintain the competitiveness of Taiwanese products in the advanced capitalist countries. This conflicts with the interests of the working class. In this sense, the faster the economic growth, the more the labourers are exploited (Berberoglu, 1987). The pursuit of economic growth for Taiwan’s security in the international community could, therefore, damage its legitimacy among the Taiwanese people and further worsen internal instability. This is the fundamental dilemma faced by the KMT since 1980.

There were many social contradictions following with the Taiwan Miracle. First, the internal threat of class division and the contradiction between the mainlanders and the Taiwanese accompanied the external threat of the United States withdrawing support after the end of the 1960s (Cheng, 1988), to further worsen the legitimacy of the KMT and that of its policies. It also limited the autonomy of the KMT because of its isolation from the international community. Second, the rapid growth of the private sector in the economic domain constituted an environment in which social movements have found it easier to emerge, pushing the frequency and extent of collective actions against state authority to a peak. As Hsiao points out, ‘Taiwan’s civil society is no longer passive in the face of state domination ....(civil society) has learned how to make wider claims on the state’ (Hsiao, 1992: 170). Due to its political isolation, the KMT can no longer gain
strong support from abroad and is forced to reach a compromise with the opposition and, therefore, release its power monopoly. Third, the use of military force for the purpose of social control was less effective on account of fear of an American boycott, invasion from the Chinese communists, and the problem of loyalty from troops then that 78.7% of soldiers are Taiwanese rather than mainlanders (Tien, 1992: 42). Thus, we can understand the limited policy options for the KMT in responding to the new social movements in the 1980s, when social welfare and its impact on income equality has been more and more important for state legitimacy.

Table 3.2 demonstrates income distribution, tax burden and crime rate from 1985 to 1996. Although disposable income per household is increasing significantly, from NT$ 320,495 in 1985 to NT$ 826,378 in 1996, showing economic performance of the Taiwanese state, social inequality is expanding faster than before. The ratio of wealthiest to poorest quintile in Taiwan is increasing from 4.5 in 1985 to 5.38 in 1996, so is the same development in terms of Gini coefficient. As social inequality expands, people are difficult to satisfy with existing conditions, especially with the growing feeling of relative deprivation. This could in turn cause economic ventures and illegal actions in search of quick money (Lin, 1995), two possible social problems follow.

The first is the rise of crime rate from 317.3 cases in 100,000 population in 1985 to 933.4 in 1996, nearly three times higher than ten years ago, as we can learn from Table 3.2. The most significant example of crime problem is the so called ‘three heaviest criminal cases’ in the turn of 1996 and 1997, signalizing that eight officials and councilors of Taoyuan county, including the mayor himself, were murdered at the same day; a feminist leader of the DPP was raped and killed; and the only daughter of a famous actress was kidnapped and killed. In the three heaviest criminal cases only the kidnapping case was finally cracked in November 1997 after a dramatic event in which the final survived kidnapper held a diplomat and his families from South Africa as hostages bargaining with the police for a better trial. The domestic criminal case was not only becoming to a diplomatic event and got attentions internationally, but also that such a situation was never happening before, clearly demonstrating the incapacity of the government and the police maintaining social order. Many protests from the people were provoked and forced reshuffle of the cabinet. In particular, the other two cases are still deadlocked.

The second is the rise of social movements struggling for a better social condition. This induces uncertainty of production relations and slows down the speed of capital accumulation, and therefore causes complaints among capitalists. They ask the government to restore social order in favor of economic production. For example, a survey in 1990 found that 72% of enterprises in Taiwan were dissatisfied with economic conditions, especially with social disorder and the labor movement. Also,
49.5% of surveyed enterprises thought that the KMT, as always a ruling party, should take responsibility for improving this problem. Another survey of capitalists at the same year showed, the most critical problem on economic growth in Taiwan was social disorder that will force enterprises moving out of Taiwan (Wang, 1992: 12-13). At the side of general citizens, they are not satisfied with existing social conditions either, though the reasons are not all the same with capitalists’. A survey of public opinion in 1992 showed, the public thought that the government did not pay enough attention on improving income distribution, especially because of corruption between politicians and businessmen, which damaged existing conditions in favor of economic growth. Additionally, the public asked the government to do more on the improvement of income distribution, through measures of education and social welfare particularly (The 21st Century Foundation, 1992; 1993).

Table 3.2 Income Distribution, Tax Burden and Crime Rate, 1985-1996

<table>
<thead>
<tr>
<th>Year</th>
<th>Disposable Income Per Household (NT$)</th>
<th>Ratio of Wealthiest to Poorest Quintile</th>
<th>Gini</th>
<th>Per Capita Tax Burden as % of Income</th>
<th>Crime Rate in 100,000 Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>320,495</td>
<td>4.50</td>
<td>0.290</td>
<td>17.7</td>
<td>317.3</td>
</tr>
<tr>
<td>1986</td>
<td>341,728</td>
<td>4.60</td>
<td>0.296</td>
<td>16.5</td>
<td>481.4</td>
</tr>
<tr>
<td>1987</td>
<td>366,487</td>
<td>4.69</td>
<td>0.299</td>
<td>16.1</td>
<td>457.3</td>
</tr>
<tr>
<td>1988</td>
<td>410,483</td>
<td>4.85</td>
<td>0.303</td>
<td>17.8</td>
<td>445.8</td>
</tr>
<tr>
<td>1989</td>
<td>464,994</td>
<td>4.94</td>
<td>0.303</td>
<td>19.5</td>
<td>451.6</td>
</tr>
<tr>
<td>1990</td>
<td>520,147</td>
<td>5.18</td>
<td>0.312</td>
<td>21.9</td>
<td>453.6</td>
</tr>
<tr>
<td>1991</td>
<td>587,242</td>
<td>4.97</td>
<td>0.308</td>
<td>19.1</td>
<td>600.1</td>
</tr>
<tr>
<td>1992</td>
<td>639,696</td>
<td>5.24</td>
<td>0.312</td>
<td>20.4</td>
<td>674.5</td>
</tr>
<tr>
<td>1993</td>
<td>707,879</td>
<td>5.42</td>
<td>0.316</td>
<td>20.1</td>
<td>674.6</td>
</tr>
<tr>
<td>1994</td>
<td>769,755</td>
<td>5.38</td>
<td>0.318</td>
<td>20.0</td>
<td>577.7</td>
</tr>
<tr>
<td>1995</td>
<td>811,338</td>
<td>5.34</td>
<td>0.317</td>
<td>20.2</td>
<td>802.6</td>
</tr>
<tr>
<td>1996</td>
<td>826,378</td>
<td>5.38</td>
<td>0.317</td>
<td>18.2</td>
<td>933.4</td>
</tr>
</tbody>
</table>

Source: DGBAS, Social Indicators in Taiwan, various years.

Whatever the people and capitalists claim for, the state is always in the core of requirements. Under democratization, the Taiwanese state is no longer able to satisfy people with economic growth only. Social development is therefore an urgent and important policy for the legitimacy of the state in order to win the supports from the society. For this reason, we find that the KMT is forced more and more to expand its
welfare efforts under the competition from the opposition, Democratic Progressive Party (DPP). Then, whether or not the improvement of state welfare can release pressures on the Taiwanese state? Even if the KMT would like to do it certainly and immediately, thing is not so simple, however.

Table 3.2 also shows an important feature of Taiwanese political economy, that is the relatively low tax burden comparing with the Western welfare states. In the past decade, per capita tax burden as percentage of income is remaining around 20%. This is deliberately created by the state to encourage investment with three measures: establishing an economic infrastructure, tax rebates and financial assistance (Ku, 1997b: 149-151). The expansion of state welfare could cause the increase of taxes, this is not preferred by the general public if the increase is taxed from income and consumption, on the one hand; this could make capitalists even more unhappy if the increase is taxed from profits, on the other hand. Moreover, the improvements of state welfare accompanying with the increase of taxes mean the growth of state interventionism in the market, that is fundamentally in conflict with the development of deregulation at the global level, and especially in conflict with economic policy of the government since the 1980s.

As early as 1982, the eighth four-year plan for economic development adopted economic liberalization and internationalization as new guiding principles, and gave greater emphasis to the functioning of market forces and price mechanism. This policy integrated Taiwan’s economy even further into capitalist development at the global level. In particular, the bargaining with international organizations such as GATT and WTO also pressed Taiwan ahead to open its domestic market and deregulate its economic control. Under intensive economic competition, as well as the unacceptability of rigid repressive measures on production relations and wage levels because of democratization, the government turned to the task of strengthening and upgrading its basic infrastructure and developing technology-oriented industries, in order to encourage more private investments and to expand high value-added products for more profits. The Six-year National Development Plan 1991-1996 was therefore proposed and implemented by the government in pursuit of four goals: raising national income, more resources for continued industrial growth, promoting balanced regional development, and a living condition with quality. This implies an important effect on state finances, meaning that the government has to increase its expenditure on economic development, so we can see the expansion of total government expenditure to GNP and the increasing burden of public debts in the early 1990s. However, the development of state welfare also needs more public resources and this causes a radical competition between governmental expenditures on economic growth and social welfare.
Along with the mounting pressures for democratization in 1990s, the state has been introducing quite a lot of welfare provisions but this was not a smooth process without conflicts. The Constitution in 1949 had imposed wide range of welfare responsibility upon the state. In Articles 152 to 157, the Constitution read that the state should maintain full employment, guarantee working conditions, harmonize industrial relations, establish social security system, protect maternal welfare, and realize a national health system. Furthermore, the revision of the Constitution in 1997 declared for more specific welfare measures such as the National Health Insurance (NHI), and protections for women, the handicapped, and the minorities. These all lay down basic legal contexts for social policy and legislation in Taiwan.

Behind this change, it is the long policy debates on the priority of economic growth and social development. Some scholars have observed a dark underside of the East Asian ‘miracle’. That is the extreme of political subordination and exclusion of laborers, with an incomplete social security system (e.g. Deyo, 1989; Ku, 1995). The so-called ‘reluctant welfarism’ is used by Midgley to describe the fact that the East Asian states are reluctant to increase their roles in social welfare. He says: (Midgley, 1986: 234)

‘...the four Asian NICs had been congruent with a marked reluctance on the part of political elite to expand social programs. They have consistently affirmed their faith in the virtues of free enterprise, self-reliance and hard work and frequently declared an aversion to welfarism.’

For this reason, a plausible interpretation is exaggerated as that the rapid economic growth in East Asia is because of their lagged state welfare, so the state is capable to spend relatively more on matters directly linking to economic growth. MacPherson argues, four extreme methods of economic adjustment have been widely applied by the Asian NICs in response to changes in the world market: reduction in government expenditure, shifting resources from consumption to investment, adopting macro-economic policies which favor international trade, and raising productivity levels through reliance on market mechanism (MacPherson, 1992: 56). In pursuit of economic growth and restructuring there is no way of completely avoiding social costs to pay. The poor are the hardest hit, by governmental policies and practices for speeding economic growth, because there is little national wealth left to improve their living conditions.

In contrast to MacPherson’s point, Deyo provides a very different insight. He argues that social and economic development goals are often compatible and closely linked under the development strategy of export-oriented industrialization (EOI) – the
basic model of development in the Asian NICs. The EOI calls for more effective utilization of human resources, such as low wages and compensation levels, high productivity, and low level of labor conflict. For the success of the EOI there must be some social policy to maintain or reproduce human resources, particularly in the field of education, health, and housing. Furthermore, a low level of labor conflict relies on state intervention in wage negotiation and control over trade unions. Even if there are some different components of social policy in the Asian NICs, they all perform well in terms of enhancing labor productivity, encouraging enterprise training, and subsidizing wages in favor of economic growth (Deyo, 1992: 304-305).

We must say, either perspective has interpreted one side of the coin, though not all. It is true that state welfare in the Asian NICs is still lagging far from the level in the European welfare states, no matter in terms of governmental expenditure or social programs. But we also note a significant improvement of living conditions with the increasing incomes resulting from economic growth. Although there should be a dilemma of making choices between economic growth and social progress, some social programs have been developed even earlier than the economic take-off in the Asian NICs, such as the Central Provident Fund in Singapore in 1953, labor insurance scheme in Taiwan in 1950, and compensation on work injury in Hong Kong and Korea in 1953. In particular, we find the gradual but important expansion of state welfare in the Asian NICs in the more recent decades (Social Security Administration, 1997).

Interestingly, a similar debate has also taken place in Sweden, a social democratic welfare state far away from East Asia. Some leading Swedish economists promote the ‘Welfare State Jeopardy Hypothesis’, as it is called by Korpi, and claim that the Swedish welfare state has had serious negative effects on its economic growth (Korpi, 1993). Although Korpi has discovered many problems with the methodology and data reliability of those economists, this century-old debate between economy and welfare, market and state has not yet reached its conclusion.

Nevertheless, some Taiwanese economic bureaucrats still insist a negative view on social welfare, particularly the welfare role of the state. Generally, they argue: (Ku, 2000)

1. State welfare is consumptive, rather than productive, which will decrease wealth creation.
2. State welfare will damage flexibility of labor market and therefore constrain the growth of jobs.
3. State welfare will increase expenditure and decrease saving, and this in turn exhausts resources for investment.
4. State welfare could raise tax levels for financing its development.
5. State welfare could make people dependent, retard work motives, and live in poverty.

Some others provide a very different view. They take notes of positive impacts made by state welfare, such as: (Ku, 2000)

1. Contributing the formation of human capital as education and health, which is the fundamental of the EOI development strategy.
2. Enhancing social integration and therefore stabilizing productive relationship in favor of economic growth.
3. Maintaining domestic consumption power as a policy tool to manage supply-demand at macro-economic level.
4. Public purchases favoring domestic production and therefore contributing to economic growth.
5. Increasing employment opportunities, especially in public sector and related service providers, profitably and non-profitably.

Still, the ideology of economy first occupies a very significant part of the KMT policy orientation. We may learn this from the policy initiates as Taiwan faced the Asian financial turbulence in 1997. As growth is slowing down, the state of the economy is no longer only an economic issue. So we saw the collapse of Suharto’s power in Indonesia and the spread of violence. ‘Mobs attack people and property for any reason – political, religious, ethnic or merely criminal.’ according to the Economist (30 January 1999). Also in Korea, a worker demonstrated his protest against the International Monetary Fund (IMF) as I’M Fired, that the picture has hit the headline of so many newspapers and magazines in Asia. Under such a situation, the Asia-Pacific Economic Co-operation forum (APEC) for the first time goes beyond its nature as an economic organization and considers seriously about the importance of development in social aspect. So it came up the joint declaration in November 1998, read out by Malaysian Prime Minister Mahathir Mohamad, said ‘For the APEC economies most affected by the crisis, it is important to continue and accelerate structural reforms within a framework of prudent, growth-oriented macro-economic policies’ (South China Morning Post, 19 November 1998). He resolved to take measures to restore capital flows into the region, contain financial contagion and strengthen the social safety net.

The APEC members have learned the importance of social development as a concrete foundation to real economic miracle, but the necessity of social safety net
seems not to have much attention and positive response from Taiwanese politicians, probably because of a relatively strong economy against the crisis. In a public speech just one month after the APEC’s declaration, the KMT former Vice President Lien Chan clearly argued that Taiwan would not go towards European style welfare states, in order to avoid low investment and heavy burdens upon governmental finance. He proposed a welfare model in which private enterprises and voluntary services, apart from the state, should be two major providers of welfare services. Even so high rank politicians, as the Vise President in Taiwan, still have a hostile attitude to the welfare state, we must argue. They always blame state welfare for its slowing down economic growth and eroding financial health of the government. Another significant example is Hsueh Chi, the former Deputy Minister for the Council of Economic Planning and Development (CEPD). He exaggerated Sachs and Warner’s study (1996), and said that a large scale of state welfare will cause inflexible labor market and high governmental expenditure, and these in turn induce high unemployment and low economic growth. Such a point is very typical in Taiwanese economic policymakers.

Conclusion

We have reviewed some important features of welfare regime in Taiwan, paying much emphasis on the development of economic restructuring since the Second World War. Economic growth in Taiwan has been accompanying with the improvement of general social conditions, which puts Taiwan on lines of the developed countries. However, it is difficult to say that the state has paid enough attention on state welfare, in terms of governmental social security expenditure which is far lagging behind the Western welfare states, as well as in terms of benefited groups, those who veterans, civil servants and military servicemen are still the biggest winner of welfare money. Education remains as the most preferred policy in social domain. Apart from education, social insurance programs are gradually expanding to cover more and more population, and the most remarkable development of social insurance was the establishment of the NHI in 1995, nearly universally available to all the residents.

Taiwan as an economic miracle in the postwar era was consisted of two elements. The first was its rapid economic growth that has transformed Taiwan’s economy from agriculture to industry, from poor to well-off, and from less developed to developed. The second element was its fairly equal income distribution against the predictions of the Kuznets curve that inequality is expecting to rise with economic growth before subsequently falling. In 1979, three scholars co-authored a book advocating Taiwan’s development as a model of growth with equity (Fei et al., 1979). However, this model is now under critical threats.
In the early stage of Taiwan’s development, the Land Reform in 1949 and then the export-oriented growth did contribute the rising of ambitious private enterprises. Since then, thousands of small and medium-sized businesses have been significant for Taiwan’s core strength of cost-effective manufacturing, which occupy 97% of firms employing 78% of total labour forces. This difference is stark when its industry is set next to Korea’s, where a score of mammoth chaebols dominate. This makes Taiwan’s economy able to adjust quickly to market changes, in particular, to let market forces sweep away uncompetitive businesses without worrying about a large number of unemployment to be induced. Another impact is its impacts on more equal income distribution because any individual can make their own fortunes.

Full employment and a large number of small and medium-sized businesses have contributed to wealth and income equality in Taiwan. Both conditions are no longer sustainable after the 1990s. The former is threatened by globalization of capital mobility and international labour division, while the latter is likely to decrease because of the governmental policy towards liberalization that encourages mergers and acquisitions for the sake of competitiveness. Eventually the increasing income gap seems not possible to stop, especially after the 1990s. The government has tried to improve income gap with more public welfare provision, but its effects need to be examined.

In the case of Taiwan’s welfare regime, we see its commencement with a conservative nature, demonstrating in three traits: focusing on economic growth, education as investment of human capital, and maintaining existing stratification according to occupation statuses. The rapid economic growth as well as full employment bring a huge of national wealth and equalize income distribution in the short term, but the relatively underdeveloped social policy is not enough to construct a stable production relation supporting such a rapid economic growth in the long term. The existing social structure has been damaged and social problems arise inside, which entails opportunities to the rise of the opposition with claims of social reforms. As democratization confirms, state welfare can not be distributed according occupation statuses as usual because this could make social inequality even worse, a comprehensive and institutional welfare system with consistent benefits nationwide is becoming realization. This should transform the conservative nature of the Taiwanese state in the future.
Developmental State Capacity and Social Policy

Posing the Question: Renegotiating the Developmental State and Re-orienting “Varieties of Capitalisms”

At the core of central importance in the globalization debate today concerns that the capacity of states to govern is constrained and diminished by increased liberalization and competitive markets. Over the past three decades, there has been an accelerating change in the circumstances in which the states have to act. A set of transnational forces in general and a globalized market economy in particular have combined to restrict the free hands of states in both domestic and foreign policies. And it is undeniable that we have also found plenty of evidence of a profound attenuation of the powers and strategic competence of the nation-state. Proponents of the hyper-globalist thesis advance strong claims that globalization is dissolving the essential structure of modern statehood, and thus the end of the nation-state (Ohmane, 1995). Moreover, this hyper-globalist view is often accompanied by another claim about the “erosion of national capitalisms” that the capitalist diversity is doomed in a global economy and the coming future will see ever more countries adapting their institutions to resemble more closely the Anglo-American model. The contention is what is often termed a “convergence thesis” that we are witnessing the end of an era of “coordinated market economies” (CMEs) and moving towards a world more consistently “liberal market economies” (LMEs) in orientation.

Still, many others take the hyper-globalist thesis and the convergence thesis with a grain of salt. To counter-argue the strong version of the end of nation-state thesis, Michael Mann claims that nation-states are “diversifying, developing, not dying”, and the weakening of the states in Western Europe is “slight, ad hoc, uneven, and unique” (Mann, 1993: 115-16). Echoing Mann’s view and with a more specific focus on the East Asian developmental states, Linda Weiss argues that the East Asian experience offers little comfort to hyper-globalist view and she claims that the developmental states is “adapting, dismantling, innovating, not ‘normalizing’” (Weiss, 2000). To counter-argue the convergence thesis, a substantial number of scholars (Amable, 2003; Coates, 2005; Hall and Soskice, 2001) employ the “varieties of capitalism” perspective to claim that instead of converging into one best practice, nations may derive comparative advantages from their national institutional infrastructure, offering an account of how institutions structuring the political economy confer comparative
advantages on a nation.

Building on the literatures of neo-corporatism and the “regulation school”, this “varieties of capitalism” approach applies the new economics of organization to the macroeconomy. It focuses on firms, as actors central to the process of economic adjustment with core competencies that depend on the quality of the relations they develop with other actors, including producer groups, employees and other firms. Those relationships depend, in turn, on the institutional support provide for them in the political economy as a whole. The starting point of David Soskice and Peter Hall’s (2001) analyses is the relational firm, defined as an agent seeking to develop dynamic capabilities and the institutional framework within which it operates. They use five spheres in which firms develop relationships to resolve coordination problems central to their core competencies: industrial relations, vocational training and education, corporate governance, inter-firm relations, and the coordination problems firms have with their own employees, i.e. “internal” coordination. Although this perspective acknowledges that these relationships can take on a wide range of forms, it emphasizes the distinction between two different production regimes: the liberal market economies (LMEs) and the coordinated market economies (CMEs). This dichotomy is the basis for the consideration of one fundamental dimension separating the different national production systems, namely coordination. In an LME coordination is based on market mechanisms, favoring investment in transferable assets. In a CME it is mainly achieved through non-market means—the so-called strategic coordination—favoring investment in specific assets. LMEs are thus characterized by short-term finance, deregulated labor markets, an emphasis on general education, and strong product-market competition. CMEs are characterized by long-term finance, cooperative industrial relations, high levels of vocational training, weakened product-market competition, and strong information exchanges through more or less formal professional associations favoring the establishment of common industrial standards. These different modes of coordination are said to confer comparative institutional advantages that mediate national response to globalization. They rest on institutional complemetarities that allow arrangements in one sphere of the political economy to enhance the results secured in others. National institutional arrangements really matters because common external pressures are filtered through domestic institutions and power distributions and thus evoke different responses.

This chapter attempts to engage these competing claims through a historical/structural analysis of the changing role of the state in Taiwan during the past few decades. Since the late 1980s, under the “double squeeze” of democratization and globalization, it is undeniable that the developmental state in Taiwan has undergone significant transformation along the course of economic development. Yet a nagging
question remains unanswered is how to comprehend this transformation. It is to illuminate and conceptualize this transformation of the developmental state to which this paper is devoted. At the core of the contested issues are as follows:

1. To what extent has the Taiwanese developmental state been eroded and in what measure is change being driven by an external-economic logic of globalization? Or are the tenacity and adaptivity of national institutional arrangements more impressive than their purported erosion?
2. If not headed for erosion, can the Taiwanese developmental state nonetheless remain viable in an era of increased economic openness and capital mobility?
3. Should the ongoing liberalization, deregulation, and privatization be seen as efforts to strengthen the state? Or simply the retreat of the state?
4. How is the nature and character of the developmental state being changed? Is its state capacity exhausted and becoming an “atrophied” developmental state in system-maintenance reform which tinkered with the existent institutions without making fundamental changes in the political and economic governing regime? Or is it becoming an “overloaded” developmental state because it adds the welfare provision to its previous single-minded “developmentalism” in system-transformation reform which makes more radical structural adjustment built on new “development coalition” and “distribution coalition”?

More substantively, based on the policy regime approach, the main research objective is to investigate the changing role of the state in fulfilling the dual and often contradictory function of accumulation and legitimation (especially since the 1990s). Three strategic research sites can be chosen: accumulation regime, welfare regime and fiscal regime. Whereas by examining the accumulation regime helps us understand how the state involves in promoting capital accumulation, the welfare regime characterizes the state’s pursuit of legitimation. And in order to decipher the tension of accumulation/legitimation nexus, the fiscal regime is accordingly examined. The main concern of fiscal politics are to discover the principles governing the volume and allocation of state finances and expenditures and the distribution of tax burden among various economic classes. Fiscal regime is therefore the linchpin among all the three policy regimes to help us identify the action of the state.

In short, the research problematic of this study boils down to: can a developmental state co-exist with a welfare state and remain “developmentalist”? Is a developmental cum welfare state ("the developmental welfare state") an oxymoron? How can Taiwanese state surmount the contradiction between accumulation and legitimation to make the accumulation imperative accord with the new emerging
legitimation function. These are the crux of the matters that concern this paper. And I argue that the developmental state since the 1990s is incapable of working its way out of the contradictions that both the conditions of production (accumulation function) and the expectations of political life (legitimation function) have imposed on it. The developmental state is facing the tug-of-war between two opposing forces and became a crippled Leviathan in steering between fulfilling accumulation and legitimation function.

The organization of this paper is as follows. Section II will address the issue of how the state building and late industrialization emerged historically after World War II. Section III will deal with the main elements and sources of Taiwanese developmental state capacity, including the KMT party-state Weberian bureaucracy and its occupying the commanding heights of financial regime. Section IV will move on to discuss how the Taiwanese developmental state was facing democratization and globalization after mid-1980s which resulted in the waning of state autonomy and state capacity. Section V will then investigate how the developmental state was caught in between to fulfill the accumulation and legitimation function simultaneously by using a policy regime analysis, which will be followed by a concluding remark of this paper.

State Building and Late Industrialization: The Making of the Leviathan-like Taiwanese Developmental State

To account for the cause of Taiwan’s “economic miracle”, one of the most influential argument has been to be “the developmental state” thesis, whose intellectual roots can be traced back to the early works of Karl Polanyi (1944), Albert Hirschman (1958), Alexander Gerschenkron (1962), and Barrington Moore (1967), but later was extended and eloquently articulated in the works of Chalmers Johnson (1982) (“the developmental state”), Alice Amsden (1989) (“getting the price wrong”), Robert Wade (1990) (“governing the market”), Peter Evans (1995) (“embedded autonomy”), and Linda Weiss & John Hobson (1995) (“governed interdependence”). A developmental state is most commonly defined by two characteristics: (1) its autonomy from social forces—its economic bureaucracy can devise long-term economic policies without the interference from private interests, and (2) its capacity to implement economic policies effectively—the state can exercise a large measure of control over the behaviors of domestic and foreign capital. The state in Taiwan is ubiquitous in economy and society: penetrating, comprehensive, highly articulated, and relatively autonomous of particular groups and classes. Moreover, that the KMT state-building preceded industrialization has given the Taiwanese developmental state unprecedented
dominance over, and access to, its economy.

**State Autonomy**

The question of autonomy strikes at the center of most theories of the state. Although there is by no means a consensus on what the autonomy exactly means, there is however an emerging wide agreement that the state enjoys relative autonomy from class and other social relations. In the case of Taiwan, a number of studies evidenced that the state in Taiwan has enjoyed an exceptional, if not close to absolute, degree of autonomy from all sectors of society, including the local elites, lingering “feudal elements”, and other classes, particularly the emerging working class (Amsden, 1979; Deyo, 1989; Gold, 1986; Wade, 1990). The Kuomintang (KMT) regime was, until recently, an “alien” regime controlled by minority mainlanders and surrounded by Taiwanese society. Like many other Third World countries, Taiwan was “endowed” with an “overdeveloped” state machinery, built by the Japanese colonial regime to extract, coerce, and penetrate society. On moving from the mainland China to Taiwan in 1949, the KMT quickly established its dominance over a war-stricken society with which party elites had few organic social connections. Mainlanders soon filtered into the commanding heights of the strong state apparatus consigned by Japan and post-colonial Taiwan thus fell to a full-blown party, developed on a continental size but soon compressed into an island1(Gold, 1986).

In order to establish their own rule in Taiwan, the KMT party state had to break the power of the Taiwanese ruling class. The most promising way to accomplish this was by destroying their economic foundation via land reform. Between 1949 to 1953 the KMT instituted on Taiwan compulsory rent deduction, the sale of public lands to farmers, and compulsory sale of private land to actual tillers. This was both economically propitious for the local farmers and politically expedient for the KMT. By stripping the landlords of their land, the KMT effectively wiped out the only potential source of indigenous political opposition. And the overall effect of land reform was to destroy the great landlord class and to create a basic rural structure of small, own-operated farms—also eliminating a significant source of political instability in the countryside.2 Although farmers did benefit from the land reform through a more secure and equitable distribution of income (Ho, 1978: 165), the

---

1 As Joel Migdal (1988) pointed out that social dislocation and massive migration are two major factors leading to the emergence of strong Third World states. This is precisely the case in Taiwan.

2 It is worth pointing out here that the central peculiarity of the state-society relations in Taiwan was that the state preceded the existence of civil society, whereas in European political history it is the state which emerged out of a civil society increasingly divided by social class. This historical uniqueness largely explains why the KMT regime was so “structurally” autonomous to the extent that it can act even opposed to the dominant class in land reform to expropriate their land.
destruction of landlord power also increased the KMT’s control of the agricultural sector. As a result, by the completion of land reform, the great landlord class had sunk into social oblivion. Along with the tragic 2-28 Incident (1947) which thousands of people had been executed and the political and intellectual elites had also been systematically wiped out by the KMT authority, without any potential challenge from society a full-fledged strong and highly autonomous state was firmly established.

In addition, the geo-political factor also contributed decisively to the emergence of the autonomous state in Taiwan. From the outset, posed on the geopolitical fault line, the KMT state-building was set up in the mode of "garrison state" with a wartime economy and a highly militarized society prepare for war or, to put in Charles Tilly’s words, the formation of the KMT party state was out of “war-making”. Indeed, competition in war-making capacity is itself an important element in the creation of the modern state, a point summarized in Tilly’s pithy aphorism, “War made the state, and the state made the war” (Tilly, 1985). War-making can induce political centralization, encourage the development of a modern taxation system, and produce other such features of a modern state. Moreover, once the state emerges (through war or preparation for war), many key aspects of the state’s form and functions are determined primarily by concerns with external defense and internal pacification. The perceived threat of war with mainland China precipitated the KMT with a crisis and siege mentality. This mentality in turn motivated political leaders to promote economic development that would help consolidate capitalism. If war making or war preparation is in the foreground of the history of KMT’s confrontation with mainland China during the Cold War period, finding the means to pay for it is the obsession of much of the background. Security concerns have always justified the logic of industrialization and can thus be utilized to mobilize the resources for development.3

Moreover, the United State’s desire to preserve Taiwan from another domino as well as its helping build Taiwan as a bulwark to contain the spread of communism opened a realm for KMT regime action and showered benefits on the guaranteed state in the form of bilateral US aid which accordingly enhanced the state’s autonomy and capability for maneuver. This leads the KMT regime to administer reforms, increasing centralization, the extraction of revenue that in turn build up state capacity. And the historical significance at that conjuncture lay in KMT’s being the only “ruler” that portrayed itself as the beacon of capitalism that had to succeed if communist or socialist forces were to be kept at bay. This “hegemonic project”, in Bob Jessop’s

---

3 A hallmark of import-substitution industrialization (ISI) during the 1950s has generally been the specific attention to the founding of a military-industry complex, part and parcel of building a credible military establishment. ISI and national defense became interwoven. For an exile regime retreated from mainland as KMT, the linkage was obvious and compelling. Public expenditure in the name of national security and sovereignty removed the defense sector from cost accounting and civilian scrutiny. As a whole, the state takes the form of a warfare regime.
term, was most obvious and straightforward pursued to justify the authoritarian KMT regime’s concentrations of power and non-democratic practices as well as to legitimate the state’s intervention in a wide array of activities, particularly the overt suppression of labor and civil society.

All in all, historically, the sources of the Taiwanese state autonomy can be attributed to a colonially bequeathed strong state apparatus, the elimination of a local bourgeoisie through land reform (thus avoiding many of the domestic conflicts of the Latin American states), and its unique strategic geopolitical positions that armed itself as a “security state” in the global system in the Cold War era.

**State Capacity**

Since the KMT authoritarian regime was implanted from outside and did not represent the political expression of domestic economic interests, the autonomy that KMT possessed was Janus-faced: on the one hand, it occupied a “transcendental” position free from falling into what Mancur Olson (1982) would call “distribution coalition”; on the other hand, due to its “alien” status to society, to rule effectively was obviously a formidable challenge. Autonomy is merely a condition for state capacity, not a guarantee that it will be used effectively. “Insulated autonomy” must be turned into “organic autonomy” (Evans, 1995). To clarify, I therefore add to Michael Mann’s (1988) notion of despotic power and infrastructural power in order further to differentiate state capacity.

Mann (1988) suggests that we break down state power into two components: *despotic power*, referring to the capacity of state elites to implement policy without routined, institutionalized negotiation with civil society groups, and *infrastructural power*, referring to the capacity of the state to actually penetrate civil society, and to implement logistically political decisions throughout the realm. During the early 1950s, the KMT state came to the island full-blown with its half-million standing army, bureaucracy, and technocrats but no social base in Taiwanese society. The “white terror” after 2-28 Incident and the activation of martial law turned the indigenous society into a militarized one and silenced the popular majority. Thus, the KMT party state remained despotically strong in relation to civil society; however, this “strength” was offset by an infrastructural weakness due to the lack of organic ties with indigenous society. As a whole, the authoritarian regime then was “despotic ally strong” but “infrastructurally weak”.

The KMT regime, so detached from its surrounding social base where it owed no allegiance to any vested social or economic interests, and so lacking in penetrative capacity, was more prone to the arbitrary use of power in order to extract the
resources it required. This was the situation during the Taiwan’s retrocession to China from 1945 to 1949. During this time, Taiwan served as a source of surplus siphoned off to the tottering regime on the mainland by the private carpetbaggers and government agencies charged with confiscating what the Japanese colonial state left behind (Gold, 1986). It was simply a “vampire state” (Block, 1996). Eventually, it ended up with the bloody suppression of the 1947 2-28 Incident. Only in 1949 when the Communists rose to victory on the mainland was the KMT’s relationship with Taiwan transformed into a “ruminant state”. The exploiters now lived among the exploited and propinquity made compromise a necessity. Whereas the vampire extracts so much as to debilitate, the ruminant grazes the resource base while fertilizing it at the other end. With the help of US aid, the KMT regime was ushered in a new developmental path toward Taiwanese society.

However, despotic achievements have usually been precarious because they have lacked effective logistical infrastructures for penetrating and coordinating social life (Mann, 1988). By contrast, state which gradually sought more institutionalized, cooperative relations with civil society enhance their penetrative and extractive capacities, and thus infrastructural power. In other words, state’s “strength” increases with the effective embedding of autonomy (Evans, 1995). So how did the KMT regime enhance its infrastructural power? Building strong political institutions is a prolonged and difficult process. To be brief, through political reform in 1951 the KMT party apparatus acquired organizational capacity and a semblance of corporatist structure with which to ensure the power base of the regime. In such a way, the KMT extended its organizational branches into every social organization, such as the 340 KMT-penetrated farmers associations (control over the rural area), the China National Association of Industry and Commerce (for channeling government policies to business), and the China Federation of Labor (to preempt labor organizations and labor movement). The Youth Corps was used to guide students’ recreation activities. As a result, together with business and farmers, students and labor—two breeding grounds for political instability during the KMT mainland years—were subsumed under the KMT corporatist structure (Cheng, 1993).

At a very broad and general level of analysis, the KMT’s corporatist political arrangements are central to our understanding of its “governance structure” (and hence its social sources of infrastructural power). Taiwan appears to conform rather closely to the pattern of “authoritarian corporatism”, which involves an extensive network of corporatist organizations designed to facilitate state control by ensuring that societal demand-making was contained properly within largely compliant representative organizations. The authoritarian corporatist state, comparable to the “exclusionary” style of corporatism that Alfred Stepan (1978) identified in Peru, is
characterized by strong and relatively autonomous governmental structures that seek to impose on the society a system of interest representation based on enforced limited pluralism.

Its hegemonic presence in the society then led KMT authoritarian regime to devise schemes to allow some form of democratic participation but severely limited its political impact. In Taiwan, KMT allowed semi-open local elections but banned organized opposition. The ruling KMT party was insured victory thanks to the government’s control of vital media and organizational resources, and severe restrictions on political campaign. Moreover, to ensure the electoral victory, the KMT adopted a strategy of “effective embedding” by creating a patron-client system with local power. (Wu, 1987) The KMT forged alliance with the leaders of local factions and clientele networks. The leaders of these networks affiliated themselves with the KMT in return for advantages in localized markets such as construction, credit, and transportation. As builders of clienteles, the managers of the state can develop political bases and control the regional and sectorial allocation of resources. Such control confers on them the capacity to penetrate at least indirectly the peripheral areas of society. The KMT’s favorable standing in the countryside was thus a function of the land reforms of the early 1950s and the party’s organizational efforts to penetrate the countryside.

In functional terms, these local-level elections were a signaling device providing the ruling elite valuable information about the public sentiment and allowing them to make policy adjustment when necessary. They also permitted fractionalized local elites to compete within KMT-controlled political space without letting factionalism spill over to the central level. Patron-client relationships form bonds of coercive dependence rather than genuine reciprocity. Additionally, local elections were a handy device for political cooptation (Cheng, 1993). To rule effectively, the émigré state regarded local factions as the primary target to co-opted through elections and accordingly the local factions became part of the regime’s “ruling coalitions”. Nevertheless, with the benefit of hindsight, these semi-open elections created a valuable political legacy upon which more genuine democratic institutions of political participation can later be built. This opens the doors and provides the window of opportunities, or in Sidney Tarrow’s (1998) apt term, “political opportunity structure”, for political opposition. And in this sense, it is also a path-dependent development, though with unintended consequences for the KMT authoritarian regime. In Taiwan, oppositions exploited elections that authoritarian regime staged in order to legitimate its rule; electoral campaigns became a focal point for anti-regime activity. The remarkably successful transition to democratic rule in Taiwan owed much to these past elections.
Furthermore, as Cheng (1989; 1993) pointed out, until the mid-1980s, as a regime, KMT rule approximated authoritarianism in state-society relations; however as a party, the KMT is “perhaps best identified as quasi-Leninist: an authoritarian regime managed by a Leninist party.” (Cheng, 1993: 195). In addition, the internal organization of the KMT party state comes closer to approximating a Weberian bureaucracy. Highly selective meritocratic recruitment and long-term career rewards create commitment and a sense of corporate coherence. This made the state apparatus an effective power machine.

Armed with despotic power and infrastructural power, KMT was in full swing to muscle its way into the single-minded adherence to growth and competitiveness without any serious commitment to social welfare. Riding on the wave of the 1960s and 1970s favorable international economic conditions, postwar Taiwan achieved a compressed industrialization that took other developing countries a century or more to accomplish. Central to our understanding of the strong developmental state in Taiwan is the distinction between despotic power and infrastructural power. Through KMT’s developing of infrastructural power during its authoritarian rule, it converts its incipient “isolated autonomy” into “organic autonomy”. The exercise of power over society is thereby converted into the exercise of power through society. The modern state actually resorts less often to violence to control the populace: surveillance and disciplinary normalization do much of the work of regularizing activities in time and space (Giddens, 1985: 183-192). And this is the story of the “embedded autonomy” of the state in Taiwan—in short, the authoritarian corporatism at the central level and the patron-client relations at the grass-root level commanded by a “strong” and autonomous state.

**State Intervention**

The developmental pattern in Taiwan is characterized by a transition from primary commodity export under Japanese colonial control (1895-1945) to import-substituting industrialization (1950s), second to a strategy of export-led growth (from 1960 onward). The developmental state in Taiwan played a strategic role in harnessing national and international forces to orchestrate a “late development” process of accelerated industrialization aimed at catching up with Europe, the USA, and Japan. Like Japan and South Korea, Taiwan used “pilot agencies” (MITI in Japan, the Economic Planning Board in South Korea, and the Industrial Development Bureau in

---

4 Peter Evans (1995) has described “developmental states” as exhibiting the characteristic of “embedded autonomy”: “autonomy” of bureaucratized states from social entanglements gives them a capacity to direct social change, and social “embeddedness” in turn, especially the links with industrial capital, enable state bureaucrats to incorporate them into the state’s economic project.
Taiwan) to exercise foresight and strategic planning in ways that private business people cannot cultivate. With “governed market” (Wade, 1990), the state in Taiwan managed to steer the economic development course and were able to ride the wave of internationalization while at the same time imposing a politically determined direction thrust on domestic resources allocation, integrating and transforming the production structure faster than would have occurred had the controllers of capital been allowed to operate in an unconstrained logic of global profit maximization. The kinds of interventions that the state initiated include manipulating interest rates, offering protection to industry, subsidizing new ventures, directly channeling flows of new investment. In doing so, the steering state intends to transform the firms to reach its developmental goal with the institutional arrangement of various sources of policy instruments. The most important of these institutional arrangements is the financial system and the repressed labor regime.

Generally speaking, in Taiwan, the state tended not to use sector-specific industry policies to promote the booming exports of light manufacturing sectors in the buyer-driven categories such as garment, footwear, and toys. As witnessed, a key factor that facilitated in garment exports was the establishment of upstream (petrochemicals, synthetic fibers) and mid-stream (spinning, weaving, dyeing, finishing, and knitting) industries that strengthened the whole textile/garment complex. State credit, trade, and labor policies were supportive but not determining. By contrast, in the more capital and technology intensive producer-driven industries like computers, semiconductors, automobiles, the state in Taiwan has played a more active role in industrial upgrading through the creation of research centers and science-based industrial parks, as well as by designating these sectors as “strategic industries” that are entitled to a variety of special benefits.

**Bureaucratization of the State: Main Elements and Sources of Developmental State Capacity**

*Main Elements of Developmental State Capacity: Weberian Bureaucracy*

Chalerms Johnson in his influential and controversial *MITI and the Japanese Miracle* concluded that there are four elements constituting the Japanese developmental state: 1) the existence of a small, inexpensive, but elite state bureaucracy staffed by the best managerial talent; 2) the bureaucracy is given sufficient scope to take initiatives and operate effectively; 3) the perfection of market-conforming methods of state intervention in the economy; 4) a pilot organization (Johnson, 1982: 314-320).
As emphasized in the Weberian tradition, rational management of the economy requires a meritocratic bureaucracy that is sufficiently competent and autonomous to obey its own logic, which is necessarily not one of individual utility maximization. The Weberian professional bureaucracy consists of career civil servants who are committed to their tasks and prestigious enough not to be easily corrupted by outside interests. Such a meritocratic civil service is also able to reproduce itself, for its prestige makes it possible to recruit from the nation’s most talented.

By contrast, positions of power in an “appointive bureaucracy” were distributed by direct personal, political appointment. Tens of thousands of government officials are affected by regime change, in the Latin American desarrollista state such as Brazil and Mexico where about 50,000 positions are filled by political appointment during regime change. Thousands of these appointments maybe pure patronage pay-off with little impact on policy. And they have no job security and are thus constantly looking toward their next jobs and their next boss (Schneider, 1999).

Recruited through highly competitive and meritocratic, though “generalist” exams as well as the adherence to clearly specified norms of career mobility for bureaucratic promotion, Taiwan’s civil service comes close to a Weberian bureaucracy. In addition, there is also a nodal agency, which has real, institutionalized authority within the state to coordinate the ministries and policy agencies connected with economic policy. Thus, Taiwan’s postwar economic development has been orchestrated by a bureaucratic apparatus characterized by developmentally oriented technocrats enjoying relatively high degrees of state autonomy and economic policy-making and policy implementing capacity.

**Main Sources of Developmental State Capacity: The Commanding Heights of Financial Regime**

“At the core of state power,” Jung-En Woo (1991: 2) argues, “is the channeling of the flow of money.” In a similar vein, Skocpol also argues that a “state’s means of raising and deploying financial resources” is the most important single factor explaining a state’s capacities “to create or strengthen state organizations, to employ personnel, to co-opt political support, to subsidize economic enterprises, and to fund social programs” (Skocpol, 1985: 17). The basic issue lies at the heart of the monetary/financial regime is how resources are distributed or allocated to different real investment projects. This can be framed as John Zysman (1983) expresses it: *the translation of savings into investment*. Or more broadly it can be framed as: *transformation of surplus into new production*. What happens to the surplus is very consequential for any accumulation regime.
There are two salient issues we need to understand to explain the outcomes and consequences of the variation of the financial/monetary regime. 1) The nature of variability in the economic institutions of investment allocation—credit markets and capital markets. 2) The problem of state intervention to affect investments. Zysman (1983) argues that historically evolved banking and financial institutions and their relationship with industry and state administration are central to possible strategies of industrial promotion. The Zysman’s core thesis is that state’s capacity to intervene effectively depends upon the economically embedded investment allocation system. The key point of state intervention in financial system is the capacity of the state to intervene and the kind of intervention which will take place depend upon the nature of the financial system in which it functions. In other words, the state capacity to formulate and implement industrial policies is shaped and constrained by the institutional links connecting the state apparatus to the private sector. From this perspective, government credit allocation is the pivotal means by which governments can influence industrial strategy. The implication then is that different financial systems either set the stage or undermine the capacity for government intervention.

Zysman (1983) makes a distinction between a capital market-based financial system and credit-based financial system. In a capital-market financial system, such as the United States and United Kingdom, securities (stocks and bonds) are the main sources of long-term industrial bonds while bank lending functions primarily to provide short-term funds. Borrowers can choose from a broad spectrum of capital-and money-market instruments offered competitively through a large number of specialized financial institutions.

In a credit-based system, such as France, Germany, and Japan, the stock and bond markets are not easily accessible to private borrowers. Banks serve as the primary provider of long-term funds, often owning or voting much of the stock of major companies. In the credit-based system, the capital market is weak and firms rely heavily on credit to finance investments. This makes them heavily dependent on banks—to the extent that banks are the main suppliers of credit. However, if banks are themselves dependent on the state, then firms become heavily dependent on the state. One thus has a case of a state-controlled credit-based financial system. In such an institutional environment, financial repression (in the form of control of credit allocation by the state) becomes the norm, and firms exhibited high debt-equity ratios.

---

5 The core argument of Zysman summarized in his own words is: “Discretion in the provision of industrial finance—in the selective allocation of credit—is necessary for the state to enter continuously into the industrial life of private companies and to influence of their strategies in the way that a rival or a partner would… Selective credit allocation is the single discretion necessary to all state-led industrial strategy.” (Zysman 1983: 76; emphasis mine)

6 In a paralleled way, Gerschenkron (1962) also argued that credit-based systems are solutions to late development while the capital market-based systems are tied to an earlier industrial transformation.
Structure of the Financial System

The financial system in Taiwan consists of the Central Bank of China, domestic commercial banks, local branches of foreign banks, medium and small business banks, credit cooperatives, investment and trust companies, the post savings system, and insurance companies. The first five types of financial institution are monetary institutions because they can create money, and the last three types are non-monetary institutions. The financial institutions are supervised by both the Ministry of Finance and the Central Bank of China. The Central Bank is responsible for implementing monetary policies and handling a considerable amount of financial supervision, while the Ministry of Finance is responsible for financial administration and the supervision and regulation of financial business. The financial market includes money market, foreign exchange market, bond market, and equity market. The money market is the best organized among them because there are four sets of institutions (monetary institutions, non-monetary institutions, big enterprises, and the illegal curb market) competing to provide short-term working capital. It should be pointed out here that there are two main sources of debt finance in Taiwan. One is through banks and the other is through “curb” market. Large and state-owned business depended heavily on banks for finance, while small businesses depend more on the curb market. Though there is no generally agreed exact statistics regarding the size of curb market, it is however widely held that its size is enormous, reflecting Taiwan’s underdeveloped financial market.

In Taiwan, the Central Bank of China (CBC), the standard bearer of the Kuomintang fiscal and monetary conservatism, is effectively independent of the cabinet and before 1979 came under presidential authority and reports directly to the president. Historically, the KMT regime learnt a hard lesson from the disastrous hyperinflation and currency crisis of 1947-48, which had contributed to the defeat of the KMT leadership by the Communist regime in 1949 (Cheng, 1993; Chu, 1989). Therefore, the Central Bank of China on the island of Taiwan was entrusted with the authority to protect the island’s economic stability in the name of national security and for the political security of the KMT regime. And it appears to be the embodiment of financial caution, keeping a vigilant eye on the disruptive potential flows, insisting on “emergency powers” of intervention as a quid pro quo for opening up the currency and stock markets, and indeed intervening before and after the Asian crisis to prevent currency speculation and stock market manipulation.

In short, the CBC became the institutional embodiment of the incumbent elite’s overriding concern for a stability-oriented monetary and financial system. It asserts
absolute control power over the entire domestic banking and has tremendous influence over the formulation and implementation of macroeconomic policy via Ministry of Finance (Cheng, 1993; Chu, 1989; Shea and Young, 1994). It serves as banker and fiscal agent to the government, manager of foreign exchange holdings, lender of last resort to the commercial banks, and institution responsible for determining the bank’s interest rates and reserve requirements. Furthermore, virtually the entire banking system has been state-owned before 1990 and the state controlled the financial system tightly including monetary instruments such as the determination of the interest rate, foreign exchange rate, etc., and it controlled the establishment of financial institutions such as banks and stock markets. In addition, the state took certain administrative measures to intervene in the operations of financial institutions to achieve stability. As a result, the CBC can pull a number of disciplinary strings over the lending policies of state-owned banks through the rediscount window, financial inspections, and appointment powers (Chu, 1999). All in all, the financial system is a textbook application of what Zysman would comfortably classified as credit-based financial system. A state-dominated financial system provides the government with the necessary political clout to implement its industrial strategy.

**Financing Industry: The Nerves of the Taiwanese Developmental State**

Under such a financial system, firm financing in Taiwan differs from both Japan and South Korea. Japanese business groups rely heavily on equity markets and bank loans to raise funds, hence Japan’s extraordinary large financial markets. South Korean business groups instead rely heavily on debt financing, most of which is controlled by the state; South Korea is Asia’s largest debtor nation. In contrast, Taiwanese business, especially the small-to-medium enterprises rely largely on curb market financing. The state-owned financial institutions invest very little in these enterprises, partly for this reason Taiwan has one of the largest foreign reserves of any country in the world.

Historically, Taiwan banking system is ultraconservative that has turned collateral into an utter fetish. State-owned banks in Taiwan function more like “pawnshops” than like the modern financial institutions. The overriding concern for them is to protect the security of their lending, especially by means of the immovable but readily salable collateral such as real estate. Under such reasoning, bank credits are rationed according to the degree of presumed risk inferred from the ownership and size of enterprises or according to the extent to which enterprises can provide collateral to secure a loan. As a result, the banking system values the default-proof state-owned enterprises and collateral-rich big enterprises in the private sector to serve their needs. The risk-averse state bankers, however, has been unresponsive to the
credit needs of small and medium enterprises (Cheng, 1993). The highly state-regulated and risk-averse banking system thus unintended encouraged the rise of informal financial sector—the curb market.

In Taiwan, maybe more than many other developing countries, the curb market helps to compensate for the limitations of the formal financial system, especially in regard to satisfying the credit needs of small enterprises. However, instead of competing head on with each other, the formal and informal sectors have largely complemented each other in solving crucial financial intermediation problems in Taiwan’s development process. Thus, the financial dualism (Chou, 1995): state-owned enterprises and large private firms receive the lion’s share of credit from the formal sector, and small and medium firms obtain most of their credit from the informal sector. As in South Korea, informal sources of financing have been very important to Taiwan’s private corporate sector and remained popular even till today because of the inability of the formal system to meet the financial needs of private firms.

In addition, Gerschenkron once argued that the late developers engaged in a strategy of “forced saving” where the lower classes are fiscally squeezed, so that the state could reallocate these sums into economic projects (“state’s steering capacity”). To a certain extent, this policy of “forced savings” was implemented in Taiwan, as the state effectively squeeze the surplus from the agricultural sector (“state’s extraction capacity”) to industrial investment (“state’s steering capacity”) when the state shifted its strategy from import-substitution to export-oriented industrialization. One important mechanism for transferring agricultural surplus was the state-controlled compulsory system of bartering fertilizer for rice at terms highly favorable to the state; hence in 1964-1965, Taiwanese rural producers paid prices for fertilizer that were 40% higher than the price paid by American, Dutch, Belgian, Japanese, and Indian farmers. This “hidden” rice tax mobilized more revenue for the government than income taxes for every year through 1963, and rural households paid much higher tax burdens than urban households.

Similarly, the terms of trade between agricultural and industrial goods remained sharply against agriculture, and imports of foodstuffs at concessionary prices further pushed down food prices (Ka and Selden, 1986). This squeezing of agricultural sector surplus and transferring to the industrial sector is crucial for Taiwan’s incipient exportism. As Wade notes, by depressing food prices, it also depressed wages, “allowing industry to have more internationally competitive costs than otherwise.” (Wade, 1990: 77).

In addition, in Taiwan, aid and foreign exchange were channeled directly through the state apparatus. This gave the fledgling Taiwanese state an invaluable source of leverage over the capital-starved private sector, together with a means of constituency
building. As Wade (1990) put it: “firms are dissuaded from opposing the government by knowledge that opponents may find credit difficult to obtain.” The business community as a whole is at the mercy of state’s favor for capital supply and therefore its subordinate status is just a natural conclusion.

Overall, one can thus argue that among the KMT’s range of policy instruments to guide business development, control of the banking system and financial system is perhaps the most important. The credit-base financial structure in Taiwan was effective conduits of industrial policy. The KMT gained leverage over credit, allowing it to direct entrepreneurial activity toward desired or targeted sectors and to control entry into sectors characterized by potentially large-scale economies. This meant medium and large enterprises had to depend upon government’s discretion to finance their activities. State control over the financial system is a distinguishing characteristic of the developmental state in Taiwan, for it allows planners to manipulate entrepreneurs’ calculations of profitability and risk and thereby to guide economic activity into targeted sectors. By rationing credit, however, the KMT indirectly encouraged the development of curb market where small entrepreneurs could borrow funds without being subjected to legal restrictions. Therefore, Taiwan’s financial structure can be characterized as “financial dualism”, that is, it is composed of two subsystems. The first is formal and regulated; it includes financial institutions and markets. The second is informal (unorganized and unregulated) in which lending and borrowing are channeled through the fragmented curb markets (Shea and Young, 1994).

Generally speaking, the primary function of Taiwan’s financial system has been to channel household savings to finance in private enterprise. Savings mobilization has been successful in Taiwan. Unlike South Korea which relied extensively on foreign borrowing and an inflationary expansion of the money supply to finance its high-speed growth, Taiwan financed its industrial investment almost entirely out of domestic savings. In the period 1965-1980, Taiwan’s domestic savings as a percentage of GNP averaged 28.7% and its gross domestic capital formation (DCF) was 28.4% of GNP. Although Taiwan has suffered sharp declines in DCF in recent years, for this period it was perhaps the highest in the world (Fields, 1995).

However, although the financial institutions in Taiwan have a good record in mobilizing domestic savings, their performance in allocating funds has often been criticized. Criticisms include, for example, emphasizing collateral over the profitability of the business (and thus the rate of returns) in granting loans; and in

---

7 Shea Chia-Tung (1986) mentioned that the curb market exists because of the inefficiency of the monetary system. Unlike most developed Western countries where the stock market and bond market usually contribute more than half of the total capital formation, Taiwan has a comparatively unimportant stock market and bond market.
terms of credit rationing, the financial system favored public enterprises and large firms and discriminated against private and small-to medium sized business and gave privileges to exporting industries in lending compared to import-substituting industries and non-tradable sector. In short, the allocation of investment funds may not have been completely satisfactory in terms of efficiency. The efficiency loss can be attributed to four main factors: state ownership of the major banks, strict entry regulations, interest rate control, and selective credit rationing policies (Shea and Young, 1994).

Taken all round, monetary/financial regime is a very important source for the Taiwanese developmental state capacity. Money as both the universal equivalent enabling the uninterrupted flow of the circulation of capital and a container of value is necessarily related to other forms of organization of socio-economic life. In *Capital*, Marx keeps emphasizing the ways in which money objectifies social relations. A key aspect of the discussion is Marx’s distinction between a good’s use value (its satisfaction of its intrinsic wants) and exchange value (the value of the product in exchange for other products). Money becomes capital when an exchange of commodities (including labor power) leads to an increase in the original amount of the money. This is the well-known M-C-M’ cycle. The difference between M and M’ is what Marx called “surplus value”. Seen from this angle, a monetary/financial regime simultaneously links, structures, and molds the relationship between the various centers of accumulation, the labor force, and other commodities. All in all, the regime of accumulation is fundamentally a matter of capital (surplus value) accumulation which pivots upon the regulation of the monetary/financial regime.

**The Taiwanese Social Protection System in the Era of Authoritarian Economic Developmentalism**

Defeated by the communist party in mainland China in 1949, the K.M.T. under the leadership of Chan Kei-Shei flew to Taiwan and established a military bureaucratic regime to dominate the society. In 1950, under the shadow of the communist China, the first social insurance scheme – the Labor Insurance (LI), was implemented in Taiwan. The Military Service Personnel Insurance was also implemented in September in the same year. Considering the difficult political situations of the KMT after the failure of civil war with the communists, it is not surprising that these programs had been set up effectively and quickly. These welfare programs were taken in the beginning as political instrument to exchange the loyalty of these pivotal groups. From the perspective of authoritarian state, the social policy is taken as a political instrument to control the labor force and the civil society. On the one hand, it could
also contribute to the supply of healthy and productive labor forces; on the other hand, with this “carrot and stick” principle, the social welfare was taken as an effective instrument to pacify the labor conflicts. Simply formulated, the welfare is not seen as an integral component of the citizen rights, but a benevolent will of the patrichoical state, particularly from the perspective of Confucianism (Zeigler, 1988: 117-146).

Since the 1960s, rapid economic growth has changed the nature of the KMT regime from a military bureaucracy into a development-oriented state apparatus (Amsden, 1985). Located in the periphery of the world system in the initial phase of industrialization, the developmental strategy of Taiwan has been directed toward export-oriented and low-labor cost orientation in the initial phase of her economic development. To accomplish this goal, the developmental state had strived to dampen the labor cost to attract the foreign direct investments. Based on this consideration, the generous welfare system was considered as disadvantageous factor for the competitiveness in the world market. The state should have paid little attention on the development of welfare system. Compared to the advanced industrial states, the social welfare system NICs is underdeveloped. Actually, the NICs have developed a certain form of social policy (Holliday, 2000).

The economic development as national project had manifold implications for the authoritarian state. Firstly, the economic development symbolized first of all the widening of developmental gaps with the Western advanced countries in economic terms. Secondly, the economic development functioned as the core element of nation-building. Altogether this project functioned as the instrument of legitimizing the depressive military measurements and mobilizing popular supports for authoritarian domination. The study of Mares and Carnes (2007) on the political origin of social insurance schemes showed, of all the origin of social programs adoption, 70 percent were autocracies. They went a step further to illustrate the meaning of the authoritarian, in order to explain why the social policy outcomes will different from countries to countries, narrow coverage or universalism, although they both are authoritarian regime by nature. She indicated that social insurance schemes are adopted by the authoritarian rulers to pacify the political discontent while facing severe economic or political crisis.

After fifty years development, the coverage of the social protection systems in Taiwan has been gradually extended to cover most of the population, particularly since the implementation of the National Health Insurance Act in 1995. The government has conducted the labor insurance (LI) (1950), the military personnel

---

8 For example, the KMT government passed three Laws- Aged Welfare Law, Handicapped Welfare Law, and new Social Assistance Law, in 1979 to react to legitimation crisis due to the retreat from United Nations.
insurance, the Insurance for Civil Servants (ICS)\(^9\), insurance for teacher and staff in private school, farmer insurance (FI) and the national health insurance scheme (NHI) since 1950 successively. As table one shows, the Labor Insurance, the Insurance for Civil Servants and the Farmer Insurance are depicted as three main social protection schemes before the implementation of NHI. The ‘bundle benefits’ of these three main social insurance schemes have covered a variety of risks including maternity, work injury, medical insurance, disability, old age (though in lump-sum benefits until the newly legal revision of Labor Insurance Act in July 2008) and funeral allowance. After the implementation of labor insurance, the development of social protection system in Taiwan follows the path of social insurance principles, which is financed by earning-related contribution, though the employers normally share sheer part of the contribution (80%:20% between employer and employee). Insurance premiums rate also differed among these separate insurance programs. Generally speaking, the social protection system in Taiwan shares the chief characteristics of Bismarkian model.

All of the social insurance schemes are administratively run by the state (Bureau of Labor Insurance in Taiwan). Before the implementation of the national health insurance in March 1995, the social insurance schemes are occupation-based. The implementation of the National Health Insurance in 1995 is a milestone for the social welfare development in Taiwan because the vocation-based different schemes have been replaced by a single-payer system, at least in the branch of health insurance. The entitlement of the NHI is based on the status of citizen and no more on vocational base, thus seemingly demonstrating the institutional fitness with the Beveridge model. The implications of this new form social protection system for the building of social solidarity will be illustrated in session four.

\(^9\) In Taiwan, government employees include bureaucrats and security personnel(57%), education and health care personnel(20%) and material/infrastructure work-force(23%). They enjoy the first tier of the social security system via different programs: Officers’ Retirement Law (ORL) specific for officiers; Social Insurance Law for Public-Sector’s Employees (SILPSE).
Table 4.1  The Main Social Insurance Schemes in Taiwan

<table>
<thead>
<tr>
<th>Insurance types</th>
<th>Labor Insurance (LI)</th>
<th>Insurance for Civil Servants and Teacher (ICST)</th>
<th>Insurance for Retired Civil Servants (IRCS)</th>
<th>Farmer Insurance (FI)</th>
<th>National Health Insurance (NHI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coverage</td>
<td>91.45%</td>
<td>100%</td>
<td>n.a.</td>
<td>96%</td>
<td></td>
</tr>
<tr>
<td>Legally stipulate rate (%). Curren</td>
<td>6.5 ~ 11</td>
<td>4.5 ~ 9</td>
<td>8</td>
<td>6 ~ 8</td>
<td>Below 6</td>
</tr>
<tr>
<td>Employee</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial Workers</td>
<td>35</td>
<td>100</td>
<td>30</td>
<td>0 ~ 100</td>
<td></td>
</tr>
<tr>
<td>Atypical Workers</td>
<td>60</td>
<td>80</td>
<td>20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Occupational</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fisherman</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee</td>
<td>70</td>
<td>10</td>
<td>40</td>
<td>0 ~ 60</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>10</td>
<td>40</td>
<td>20</td>
<td>0 ~ 100</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Revised from Cheng et al. (2001: 3-3, Table 3.1.2)

The Insurance for Civil Servicemen and Teachers (ICST) were targeted at governmental officials and teachers. These two groups were traditional deemed as the supporting groups for the authoritarianism political regime. This scheme is then normally interpreted as the instrument for securing the political loyalty of these.
groups. After the KMT had flee to Taiwan due to the failure of Civil War with the Chinese Communist Party (CCP), the most immigrants from mainland China occupied the most official positions in the government. Thus, the benefits of ICST is also regarded as beneficial to the newly immigrating groups and explains the upper social mobilization of these group’s second generation compared to the indigenous groups (Wu, 1997). As a result, the reform of the ICST has the implications of resources redistribution between different ethnic groups and become hot issue during the electoral competition in the past decade.

In the initial phrase of the labor insurance, the insurance schemes only targeted at workers in the state-owned enterprises (SOE) and private large firms. This development is compatible to the economic structure of Taiwan’s economy after the World War II. Having adopted the heritages of Japanese colonial structures, the KMT could maintain its commanding heights of economic policy through monopolizing the upper-hand of key industry sectors such as petroleum, gas, railway and electricity. The other productive sectors were competitive agricultural sectors such as sugar cane and pineapple. The SOE firms could be affordable of the welfare benefit items specified by the LI because these sectors were profitable either through its competitive advantages or monopolizing status in the industrial branches. Different from the 50/50 parity rule of contribution rate between employers and employees in the social insurance schemes, the employer were stipulated to pay up to 80% of the contribution, which was unaffordable for the small- and medium private enterprises.

Generally speaking, Taiwan developed social insurance program, but the coverage was still limited and unequal in the stage before democratization in 1987 (Ku, 1997). The emphasis on the productive components of the social protection systems in Taiwan and Korea is reflected by the observation of Peng and Wong: Social Insurance served the imperatives of economic growth, not social protection for the poor. Public assistance for the very poor was in fact minimal. Social insurance was a human capital investment intended to maximize economic output. Individual workers’ interests were paramount. Wealth and resource redistribution, a key feature of the welfare state, was actively discouraged. The decentralized administration of medical insurance in Korea and Taiwan prohibited financial and risk pooling. In fact, the decentralized organization of social insurance exacerbated socioeconomic disparities. …Status differences were maintained (Peng and Wong, 2008: 72-73).

Table 4.2 shows that social insurance system has been propounded by the state policy elites as the basic guideline of social protection system in Taiwan. The expenditure for
social insurance has increased the most compared to other schemes. The social insurance system is basically a mechanism of income transfer and provocative to the productive group to maintain the productivity of the labor force and to some degree, their political loyalty to the authoritarian regime. Whereas the welfare system is directed to the disadvantaged, mostly delivered in kind. Because of the strict eligibility, those who are eligible to receive the social assistance benefits account for only 0.8% of the population. The underdeveloped social assistance system has therefore been long severely criticized for its strictness for application and can’t offer a basic economic safety net for the poor, particularly in the hard times when the unemployment rate has increased drastically since 2000.

Table 4.2  Central Government’s Social Welfare Expenditure’s Structure in Taiwan

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth rate</th>
<th>Total</th>
<th>Social Insurance</th>
<th>Social Assistance</th>
<th>Welfare Services</th>
<th>Employment</th>
<th>Health Care</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>(100.0)</td>
<td>(33.8)</td>
<td>(3.7)</td>
<td>(2.5)</td>
<td>(10.9)</td>
</tr>
<tr>
<td>1995</td>
<td>47.7</td>
<td>134,464</td>
<td>66,194</td>
<td>9,533</td>
<td>48,354</td>
<td>2,053</td>
<td>8,330</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(100.0)</td>
<td>(49.2)</td>
<td>(7.1)</td>
<td>(1.5)</td>
<td>(6.2)</td>
</tr>
<tr>
<td>1996</td>
<td>6.9</td>
<td>143,737</td>
<td>61,992</td>
<td>17,316</td>
<td>54,808</td>
<td>3,207</td>
<td>6,414</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(100.0)</td>
<td>(43.1)</td>
<td>(12.1)</td>
<td>(2.2)</td>
<td>(4.5)</td>
</tr>
<tr>
<td>1997</td>
<td>4.4</td>
<td>150,020</td>
<td>62,484</td>
<td>15,532</td>
<td>62,773</td>
<td>3,636</td>
<td>5,594</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(100.0)</td>
<td>(41.7)</td>
<td>(10.4)</td>
<td>(2.4)</td>
<td>(3.7)</td>
</tr>
<tr>
<td>1998</td>
<td>5.1</td>
<td>157,703</td>
<td>70,994</td>
<td>19,793</td>
<td>60,192</td>
<td>1,743</td>
<td>4,981</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(100.0)</td>
<td>(45.0)</td>
<td>(12.5)</td>
<td>(1.1)</td>
<td>(3.2)</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, 1999

**Education as a Core Policy in Taiwan’s Development**

In fact, both before and after the Second World War, education policy played a notable role in Taiwanese social policy. This is not only because education can produce the necessary skilled labour force to favour economic growth, but also because of its function in creating the ruling ideas, which in turn consolidates capitalist economic order.

Basically, the ideal of Japanese colonial education derived from Meiji Japan which regarded education as fundamental to the modernisation of their country and people. The education goal set by Meiji Japan was to make the Japanese empire like the countries of
Europe, and the Japanese people like those of Europe. To do so, education needed to provide the skills and attitudes required by those living under a great power and to produce an elite group possessing the technological and managerial abilities needed to direct policy making and the economy. Of course, not everyone could become one of the elite of the country. For most people schooling served as a vehicle to remind them of their proper status in life and to ensure they behaved as desired by the ruler. The policy-makers of Meiji Japan thought that orders could be transmitted more efficiently to the educated. Education, therefore, was to teach people skills as well as disciplining their thought and behaviour (Tsurumi, 1977: 1-2; 1984: 275-279).

As Tsurumi points out, “Japanese education in Taiwan was to be mainly elementary education; it was to train the Taiwanese for life and work in a new world; and it was above all to make them unquestioningly loyal to Japan. In short, it was to transform a segment of traditional China into an integral part of modern Japan.” (Tsurumi, 1977: 11). A comprehensive schooling system, dominated by the Japanese state, was established instead of a laissez-faire education policy as in Ching’s Taiwan, when local and private schools were at the heart of education. Education change went in two directions under the impact of Japanese colonial education policy: firstly, the modern, state schooling system replaced the local gentry’s schools and schoolmasters; secondly, teaching in the Japanese language was enforced in place of traditional teaching in Chinese.

In the first direction, the local gentry’s schools (called shu-fang in Chinese and shobo in Japanese, hereafter termed shu-fang to refer to both) were established and funded by the local gentry to teach pupils Chinese, classics and ethics. For this reason, the Japanese regarded shu-fang as the major obstacle to Japanising the Taiwanese people (Lin et al., 1990: 605). In the early stage of Japanese colonisation, the Japanese were unable to abolish shu-fang for fear of exacerbating radical resistance, especially when Taiwanese military rebellions were still strong in those days. They did, however, make every effort to stop the continual expansion of the influences of shu-fang. In 1900, for instance, the Government-General hosted a gala affair in Taipei to which all ranking gentry were invited and given sermons in praise of the administration’s schools. The Civil Chief, Goto Shimpei, asked his audience to stop patronizing the Chinese private schools and to support the common schools and to send their brightest youths to the medical school (Tsurumi, 1984: 284). The Japanese even set up scholarships for pupils from poor families in order to attract more Taiwanese children to the common schools to learn Japanese (Lin et al., 1990: 605). Furthermore, shu-fang were gradually repressed by state power. In 1898, the local authorities were ordered to closely supervise shu-fang affairs: hours of instruction were to be fixed, only government-approved textbooks were to be used, shu-fang instructors were to attend summer schools set up for them by the administration, Japanese language and arithmetic were gradually to be made compulsory.
(Tsurumi, 1984: 284-285). After the planned repression by the Japanese colonial government, the number of shu-fang declined sharply during the colonial period in contrast with the increase in the number of common schools. As early as 1904 the shu-fang had lost their advantage in pupil numbers though they still had a greater number of schools. But this situation did not last long; the common schools overtook the shu-fang in both pupil and school numbers by 1926.

In the second direction, Japanese language was seen as an important means for the colonial government to assimilate the Taiwanese people. As Yanaihara pointed out, there were three purposes in providing education in Japanese: a vehicle for communication, a measure for developing culture, and a weapon for assimilation. The third purpose was the major one (Yanaihara, 1985: 150-151). Therefore, when Izawa came to Taiwan he tried to found the Japanese Language School, where, he hoped, the Taiwanese would master Japanese, while the Japanese would study the language and culture of Taiwan, in two separate, parallel courses equal in academic standard and status. Also at the post-elementary level he established three normal schools to train the Taiwanese to teach in his Japanese-language elementary schools (Tsurumi, 1984: 280; Lin et al., 1990: 590). However, this was only an experimental measure until 1918 when the colonial government became determined to integrate the Taiwanese people into the Japanese-language and ethical education (Yanaihara, 1985: 150). From then on, the Japanese language was enforced more and more in teaching until Chinese education was completely abolished in 1937.

Obviously, the development of education in colonial Taiwan was a process by which state power intervened and affected education. In 1929 Yanaihara provides a brief but powerful conclusion on this situation: (Yanaihara, 1985: 142)

“During the thirty years of Japanese rule in Taiwan, the Taiwanese economy was a capitalist development which depended on Japanese capital; Taiwanese education was a modernisation which depended on Japanese language. Just as the capital, the Japanese colonial education was also introduced to Taiwan by state power.”

One further problem remains: with what kind of values or ideology did the Japanese colonial government wish to influence the Taiwanese mind? Through a content analysis of textbooks in colonial Taiwan, we are able to discover the intentions of the Japanese colonial government. Tsurumi’s study has a detailed account of this issue that is worth summarizing.

Basically, two things were at the heart of the curricula in common schools for Taiwanese children: Japanese-language and ethics lessons. The aims of these courses
were summarised in a 1941 Japanese teachers' manual: “It is not enough to give them the ability to speak Japanese. The goal is much more: it is to inculcate the Japanese way of thinking and of experiencing emotion and to cultivate the Japanese spirit.” (Tsurumi, 1977: 133). Although the education officers of the Government-General of Taiwan had been writing and compiling textbooks since the beginning of the colony’s history, the first and complete set of Japanese-language and ethics textbooks, each having twelve volumes for grades one through six of pupils in common schools, did not exist until 1913. In 1922 and 1941 respectively, these two sets of textbooks were renewed to cope with the policy changes of the colonial government (Tsurumi, 1977: 137).

In a general survey, the major values that the Japanese colonial government wanted to instill in Taiwanese children included: (Tsurumi, 1977: 137-144)

1. Loyalty to the Japanese emperor and his agents, such as the Governor-General and his officials, the government, the police, and even the Japanese people in general.
2. The importance of learning and improving the Japanese language, and therefore the necessity of attending school; whether the weather is hot and windy, the roads are bad, you are not feeling well, still you must come to school.
3. Unconditional obedience to parents and teachers.
4. Hard work to earn a living as well as using one's knowledge and skills for the sake of society.
5. To be a good Japanese, meaning to think and to act like an obedient, hard-working Japanese subject.
6. General social norms in everyday life, such as tidiness, cleanliness, support for social order, respect, honesty, avoiding annoying others, and so on.

State control of education had not been surrendered by the KMT after its take-over of Taiwan. Since the KMT took Taiwan from the hands of Japan, one of its prime tasks was to clear Japanese influences from the Taiwanese mind and to rebuild the national identity of the Taiwanese people (Lin et al., 1990: 969). In the process of ideological reshaping, education, undoubtedly, still played a significant role.

The educational goals of the Republic of China in Taiwan were clearly defined by Article 158 of the Constitution. It reads: (Ministry of Education, 1984: 9)

“Education and culture shall aim at the development among the citizens of the national spirit, the spirit of self-government, national morality, a healthy physique, scientific knowledge, and the ability to earn a living.”

The intervention of state power in education has been very significant in postwar Taiwan.
Firstly, a comprehensive, top-down administrative system in education was set up in charge of educational affairs throughout the central government and the local authorities. The Ministry of Education is the highest administration dealing with academic work, culture, and education in the country. It has seven major departments separately in charge of higher education, technological and vocational education, secondary education, elementary education, social education, physical education and general affairs, and various bureaus, offices and committees which are also attached to this Ministry to perform particular functions, such as military training for students, offering guidance on school discipline and moral education, promoting Mandarin as the national language, compiling and screening textbooks, and so on (Ministry of Education, 1984: 12-15). Similarly, the departments of education at local authority level are organised to correspond with the structure of the Ministry of Education so as to implement the policies of the central government and to deal with educational and cultural affairs locally.

Secondly, the state-owned schools occupied a major part in the Taiwanese schooling system, both in respect of school and student numbers. A comprehensive state-owned schooling system has been set up from kindergarten to higher education. However, the numbers of schools and students in the private sector has been increasing during the past three decades because of the government’s open policy. By 1989, for instance, the number of the state-owned schools reached 65.4% of the total number of schools and 78.9% of students were learning in the state-owned schools (Social Indicators in Taiwan Area of the Republic of China, 1989: 122-139). Even in private schools their establishment, courses, textbooks, student numbers, teaching hours, and other standards were all monitored by the Government so strictly that the private schools themselves had very little independence.

Thirdly, the role of the normal education system in training teachers for elementary and secondary schools has been confirmed by the KMT. A qualified teacher was not only required to be proficient in his professional subject but also to be a model for students in terms of morality and political beliefs. For example, the Training Standards for Students in Normal Schools, enforced by the education authority in 1958, set up the conditions that these semi-teachers must be able to teach military knowledge, to love and contribute to the country, to behave in the way expected by society, and to be loyal to the official ideology and policy against the communists (Lin et al., 1990: 1015-1016). Those who were not graduates of the normal schools had to attend a similar training course if they wanted to be teachers (Lin et al., 1990: 1016-1018), so that they were qualified professionally as well as in terms of their values and political attitudes. On the other hand, normal schools also provided necessary quantity of teachers that in turn enforced the development of education especially at the levels of primary and secondary
schooling.

Finally, a modern and comprehensive schooling system has been established, as shown in Figure 4.1, that offers education opportunities to all citizens from kindergarten to doctoral level. School age has increased to 25 years to cover any necessary requirement of labour market. It was particularly important as Taiwan’s economy transformed to hi-tech industries in the 1990s.

![The Current School System](image)

**Figure 4.1 Schooling System in Taiwan**

In short, the rise of Taiwanese economy was attributed to quality of labour force, not just in skills but also in disciplines. Education policy has been coordinated in economic development to provide manpower for the production. Since 1968 compulsory education has been extended to junior high school and the enrolment arrived at near 80% initially, then increased to 99% in the mid 1980s. The next decade saw the expansion in senior high schools especially in vocational education, which provided the opportunity for structural mobility. The universal education provision facilitated the national development as well as personal achievement. The trickle down effect has been at times referred to this period when the majority were benefited from the economic development in general. For some what different reason but similar trend could be found at university level. Table 4.3 shows that enrolment in higher education has been up to 85%. In term of quantity, the development of
education in Taiwan is likely to be attributed with universalism, dominated by public institutions.
<table>
<thead>
<tr>
<th>School Year</th>
<th>% of School-aged Children Enrolled in Elementary Schools</th>
<th>% of Elementary School Graduates Enrolled in Junior High Schools (1)</th>
<th>% of Junior High School Graduates Enrolled in Senior High Schools (1)</th>
<th>% of Senior High School Graduates Enrolled in Schools of Higher Education (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952-53</td>
<td>84.00</td>
<td>34.85</td>
<td>56.96</td>
<td>26.27</td>
</tr>
<tr>
<td>1955-56</td>
<td>92.33</td>
<td>43.94</td>
<td>63.13</td>
<td>44.27</td>
</tr>
<tr>
<td>1960-61</td>
<td>95.59</td>
<td>52.24</td>
<td>75.88</td>
<td>43.41</td>
</tr>
<tr>
<td>1965-66</td>
<td>97.15</td>
<td>58.23</td>
<td>78.52</td>
<td>38.30</td>
</tr>
<tr>
<td>1970-71</td>
<td>98.01</td>
<td>78.59</td>
<td>82.66</td>
<td>41.92</td>
</tr>
<tr>
<td>1975-76</td>
<td>99.29</td>
<td>89.47</td>
<td>65.82</td>
<td>39.80</td>
</tr>
<tr>
<td>1979-80</td>
<td>99.68</td>
<td>95.58</td>
<td>62.75</td>
<td>43.96</td>
</tr>
<tr>
<td>1980-81</td>
<td>99.72</td>
<td>96.14</td>
<td>65.16</td>
<td>44.64</td>
</tr>
<tr>
<td>1981-82</td>
<td>99.76</td>
<td>96.77</td>
<td>68.11</td>
<td>45.39</td>
</tr>
<tr>
<td>1982-83</td>
<td>99.79</td>
<td>97.96</td>
<td>71.52</td>
<td>46.03</td>
</tr>
<tr>
<td>1983-84</td>
<td>99.81</td>
<td>97.95</td>
<td>69.55</td>
<td>46.40</td>
</tr>
<tr>
<td>1984-85</td>
<td>99.82</td>
<td>98.70</td>
<td>70.54</td>
<td>44.36</td>
</tr>
<tr>
<td>1985-86</td>
<td>99.85</td>
<td>98.73</td>
<td>71.31</td>
<td>40.19</td>
</tr>
<tr>
<td>1986-87</td>
<td>99.87</td>
<td>99.04</td>
<td>77.13</td>
<td>40.98</td>
</tr>
<tr>
<td>1987-88</td>
<td>99.89</td>
<td>99.51</td>
<td>79.32</td>
<td>46.26</td>
</tr>
<tr>
<td>1988-89</td>
<td>99.90</td>
<td>99.09</td>
<td>79.51</td>
<td>45.53</td>
</tr>
<tr>
<td>1989-90</td>
<td>99.90</td>
<td>99.62</td>
<td>79.60</td>
<td>44.40</td>
</tr>
<tr>
<td>1990-91</td>
<td>99.89</td>
<td>99.77</td>
<td>84.70</td>
<td>48.58</td>
</tr>
<tr>
<td>1991-92</td>
<td>99.90</td>
<td>99.28</td>
<td>86.09</td>
<td>51.94</td>
</tr>
<tr>
<td>1992-93</td>
<td>99.79</td>
<td>99.54</td>
<td>88.32</td>
<td>59.15</td>
</tr>
<tr>
<td>1993-94</td>
<td>99.89</td>
<td>99.53</td>
<td>87.78</td>
<td>61.32</td>
</tr>
<tr>
<td>1994-95</td>
<td>99.93</td>
<td>99.83</td>
<td>88.49</td>
<td>57.38</td>
</tr>
<tr>
<td>1995-96</td>
<td>99.91</td>
<td>99.75</td>
<td>89.17</td>
<td>56.58</td>
</tr>
<tr>
<td>1996-97</td>
<td>99.94</td>
<td>98.89</td>
<td>90.70</td>
<td>58.88</td>
</tr>
<tr>
<td>1997-98</td>
<td>99.92</td>
<td>99.18</td>
<td>92.02</td>
<td>61.95</td>
</tr>
<tr>
<td>1998-99</td>
<td>99.94</td>
<td>99.60</td>
<td>93.94</td>
<td>67.43</td>
</tr>
<tr>
<td>1999-2000</td>
<td>99.92</td>
<td>99.89</td>
<td>94.73</td>
<td>66.64</td>
</tr>
<tr>
<td>2000-01</td>
<td>99.94</td>
<td>99.79</td>
<td>95.31</td>
<td>68.74</td>
</tr>
<tr>
<td>2001-02</td>
<td>99.95</td>
<td>99.15</td>
<td>95.97</td>
<td>70.73</td>
</tr>
<tr>
<td>2002-03</td>
<td>…</td>
<td>99.70</td>
<td>95.48</td>
<td>69.01</td>
</tr>
<tr>
<td>2003-04</td>
<td>…</td>
<td>99.83</td>
<td>95.74</td>
<td>74.85</td>
</tr>
<tr>
<td>2004-05</td>
<td>…</td>
<td>99.42</td>
<td>96.03</td>
<td>80.05</td>
</tr>
<tr>
<td>2005-06</td>
<td>…</td>
<td>99.31</td>
<td>94.90</td>
<td>85.15</td>
</tr>
<tr>
<td>2006-07</td>
<td>…</td>
<td>…</td>
<td>95.52</td>
<td>83.91</td>
</tr>
</tbody>
</table>
Table 4.4 and Table 4.5 show the growth of numbers in school and in student. Continuing with the development since postwar era, primary and secondary education have reached a mature state that can accommodate almost all children and youth. The expansion of higher education is particularly significant since the 1990s, increasing from around 100 institutes in the 1980s to 163 institutes in 2006. Student numbers in higher education are remarkably growing as well, from around 2% of total population in the 1980s to 5.53% in 2006. However, the increase in quantity does not necessarily mean the improvement of quality, inequality of educational opportunities and resources, especially between public and private sectors, have been attracted attentions and demand policy intervention for those students in private schools. The expansion of higher education has also induced the changes in student numbers between high school and vocational school. As we can see in Figure 4.2, vocational schools have been long in provision of skilled workforce for Taiwan’s economic development, but students in high schools have increased and overtaken the former since 2001. As a result, we see the overall improvement of education for the population aged 15 years old and over. In Figure 4.3, education over secondary school has been the majority in Taiwan.

Nowadays, Taiwan can be regarded as a well-educated society, by which education offers necessary workforce for labour market, on the one hand; and empowers people with citizenship, on the other hand. This development can trace back to colonial period when modern schooling system was established, as well as the continuing efforts in postwar era to invest more resources into education, whatever for economic purpose or for political legitimacy.
<table>
<thead>
<tr>
<th>School Year</th>
<th>Total</th>
<th>Higher Education</th>
<th>Secondary Education</th>
<th>Primary Education</th>
<th>Pre-School Education</th>
<th>Others (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-56</td>
<td>2,117</td>
<td>15</td>
<td>249</td>
<td>1,399</td>
<td>413</td>
<td>41</td>
</tr>
<tr>
<td>1960-61</td>
<td>2,911</td>
<td>27</td>
<td>361</td>
<td>1,795</td>
<td>675</td>
<td>53</td>
</tr>
<tr>
<td>1965-66</td>
<td>3,335</td>
<td>56</td>
<td>546</td>
<td>2,114</td>
<td>553</td>
<td>66</td>
</tr>
<tr>
<td>1970-71</td>
<td>3,979</td>
<td>92</td>
<td>874</td>
<td>2,277</td>
<td>566</td>
<td>170</td>
</tr>
<tr>
<td>1975-76</td>
<td>4,484</td>
<td>101</td>
<td>966</td>
<td>2,334</td>
<td>759</td>
<td>324</td>
</tr>
<tr>
<td>1979-80</td>
<td>4,890</td>
<td>101</td>
<td>995</td>
<td>2,394</td>
<td>1,055</td>
<td>345</td>
</tr>
<tr>
<td>1980-81</td>
<td>5,036</td>
<td>104</td>
<td>1,011</td>
<td>2,401</td>
<td>1,164</td>
<td>356</td>
</tr>
<tr>
<td>1981-82</td>
<td>5,184</td>
<td>104</td>
<td>1,021</td>
<td>2,417</td>
<td>1,268</td>
<td>374</td>
</tr>
<tr>
<td>1982-83</td>
<td>5,594</td>
<td>105</td>
<td>1,025</td>
<td>2,430</td>
<td>1,452</td>
<td>382</td>
</tr>
<tr>
<td>1983-84</td>
<td>5,680</td>
<td>105</td>
<td>1,034</td>
<td>2,437</td>
<td>1,701</td>
<td>403</td>
</tr>
<tr>
<td>1984-85</td>
<td>6,005</td>
<td>105</td>
<td>1,033</td>
<td>2,447</td>
<td>1,996</td>
<td>424</td>
</tr>
<tr>
<td>1985-86</td>
<td>6,227</td>
<td>105</td>
<td>1,039</td>
<td>2,459</td>
<td>2,192</td>
<td>432</td>
</tr>
<tr>
<td>1986-87</td>
<td>6,432</td>
<td>105</td>
<td>1,042</td>
<td>2,461</td>
<td>2,375</td>
<td>449</td>
</tr>
<tr>
<td>1987-88</td>
<td>6,569</td>
<td>107</td>
<td>1,046</td>
<td>2,447</td>
<td>2,497</td>
<td>472</td>
</tr>
<tr>
<td>1988-89</td>
<td>6,639</td>
<td>109</td>
<td>1,050</td>
<td>2,453</td>
<td>2,527</td>
<td>500</td>
</tr>
<tr>
<td>1989-90</td>
<td>6,681</td>
<td>116</td>
<td>1,060</td>
<td>2,459</td>
<td>2,535</td>
<td>511</td>
</tr>
<tr>
<td>1990-91</td>
<td>6,684</td>
<td>121</td>
<td>1,073</td>
<td>2,462</td>
<td>2,484</td>
<td>544</td>
</tr>
<tr>
<td>1991-92</td>
<td>6,727</td>
<td>123</td>
<td>1,082</td>
<td>2,470</td>
<td>2,473</td>
<td>579</td>
</tr>
<tr>
<td>1992-93</td>
<td>6,738</td>
<td>124</td>
<td>1,088</td>
<td>2,468</td>
<td>2,398</td>
<td>660</td>
</tr>
<tr>
<td>1993-94</td>
<td>6,850</td>
<td>125</td>
<td>1,094</td>
<td>2,481</td>
<td>2,413</td>
<td>737</td>
</tr>
<tr>
<td>1994-95</td>
<td>7,000</td>
<td>130</td>
<td>1,100</td>
<td>2,493</td>
<td>2,462</td>
<td>815</td>
</tr>
<tr>
<td>1995-96</td>
<td>7,161</td>
<td>134</td>
<td>1,110</td>
<td>2,499</td>
<td>2,559</td>
<td>859</td>
</tr>
<tr>
<td>1996-97</td>
<td>7,291</td>
<td>137</td>
<td>1,125</td>
<td>2,495</td>
<td>2,637</td>
<td>897</td>
</tr>
<tr>
<td>1997-98</td>
<td>7,496</td>
<td>139</td>
<td>1,138</td>
<td>2,516</td>
<td>2,755</td>
<td>948</td>
</tr>
<tr>
<td>1998-99</td>
<td>7,657</td>
<td>137</td>
<td>1,145</td>
<td>2,530</td>
<td>2,849</td>
<td>996</td>
</tr>
<tr>
<td>1999-2000</td>
<td>7,839</td>
<td>141</td>
<td>1,158</td>
<td>2,556</td>
<td>2,980</td>
<td>1,004</td>
</tr>
<tr>
<td>2000-01</td>
<td>7,998</td>
<td>150</td>
<td>1,161</td>
<td>2,573</td>
<td>3,125</td>
<td>989</td>
</tr>
<tr>
<td>2001-02</td>
<td>8,140</td>
<td>154</td>
<td>1,181</td>
<td>2,611</td>
<td>3,234</td>
<td>960</td>
</tr>
<tr>
<td>2002-03</td>
<td>8,222</td>
<td>154</td>
<td>1,188</td>
<td>2,627</td>
<td>3,275</td>
<td>978</td>
</tr>
<tr>
<td>2003-04</td>
<td>8,252</td>
<td>158</td>
<td>1,192</td>
<td>2,638</td>
<td>3,306</td>
<td>958</td>
</tr>
<tr>
<td>2004-05</td>
<td>8,184</td>
<td>159</td>
<td>1,196</td>
<td>2,646</td>
<td>3,252</td>
<td>931</td>
</tr>
<tr>
<td>2005-06</td>
<td>8,391</td>
<td>162</td>
<td>1,203</td>
<td>2,655</td>
<td>3,455</td>
<td>916</td>
</tr>
<tr>
<td>2006-07</td>
<td>8,254</td>
<td>163</td>
<td>1,210</td>
<td>2,651</td>
<td>3,329</td>
<td>901</td>
</tr>
</tbody>
</table>

(1) Figures here include supplementary schools, schools for the deaf and blind etc., while various kinds of short-term training classes are excluded.

Source: The data are provided by the Ministry of Education, R.O.C.
### Table 4.5  Number of Students by Level of Education (% of Total Population)

<table>
<thead>
<tr>
<th>School Year</th>
<th>Total</th>
<th>Higher Education</th>
<th>Secondary Education</th>
<th>Primary Education</th>
<th>Pre-School Education</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Graduate School</td>
<td>Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1952-53</td>
<td>14.60</td>
<td>0.12</td>
<td>0.00</td>
<td>1.71</td>
<td>12.34</td>
<td>0.35</td>
</tr>
<tr>
<td>1955-56</td>
<td>16.84</td>
<td>0.20</td>
<td>0.00</td>
<td>2.35</td>
<td>13.63</td>
<td>0.51</td>
</tr>
<tr>
<td>1960-61</td>
<td>21.92</td>
<td>0.32</td>
<td>0.00</td>
<td>3.29</td>
<td>17.42</td>
<td>0.74</td>
</tr>
<tr>
<td>1965-66</td>
<td>24.56</td>
<td>0.68</td>
<td>0.01</td>
<td>5.24</td>
<td>17.77</td>
<td>0.62</td>
</tr>
<tr>
<td>1970-71</td>
<td>27.05</td>
<td>1.39</td>
<td>0.02</td>
<td>7.83</td>
<td>16.55</td>
<td>0.62</td>
</tr>
<tr>
<td>1975-76</td>
<td>27.40</td>
<td>1.79</td>
<td>0.02</td>
<td>9.27</td>
<td>14.55</td>
<td>0.73</td>
</tr>
<tr>
<td>1979-80</td>
<td>26.02</td>
<td>1.88</td>
<td>0.03</td>
<td>9.07</td>
<td>12.84</td>
<td>0.93</td>
</tr>
<tr>
<td>1980-81</td>
<td>25.71</td>
<td>1.92</td>
<td>0.04</td>
<td>8.98</td>
<td>12.48</td>
<td>0.99</td>
</tr>
<tr>
<td>1981-82</td>
<td>25.49</td>
<td>1.98</td>
<td>0.04</td>
<td>8.93</td>
<td>12.15</td>
<td>1.05</td>
</tr>
<tr>
<td>1982-83</td>
<td>25.49</td>
<td>2.04</td>
<td>0.05</td>
<td>8.97</td>
<td>12.01</td>
<td>1.04</td>
</tr>
<tr>
<td>1983-84</td>
<td>25.52</td>
<td>1.64</td>
<td>0.05</td>
<td>9.41</td>
<td>11.92</td>
<td>1.13</td>
</tr>
<tr>
<td>1984-85</td>
<td>25.51</td>
<td>1.69</td>
<td>0.06</td>
<td>9.25</td>
<td>11.91</td>
<td>1.22</td>
</tr>
<tr>
<td>1985-86</td>
<td>25.56</td>
<td>1.75</td>
<td>0.06</td>
<td>9.16</td>
<td>12.01</td>
<td>1.21</td>
</tr>
<tr>
<td>1986-87</td>
<td>25.85</td>
<td>1.78</td>
<td>0.07</td>
<td>9.15</td>
<td>12.11</td>
<td>1.21</td>
</tr>
<tr>
<td>1987-88</td>
<td>25.95</td>
<td>1.84</td>
<td>0.08</td>
<td>9.16</td>
<td>12.16</td>
<td>1.26</td>
</tr>
<tr>
<td>1988-89</td>
<td>26.03</td>
<td>1.96</td>
<td>0.09</td>
<td>9.26</td>
<td>12.06</td>
<td>1.24</td>
</tr>
<tr>
<td>1989-90</td>
<td>25.84</td>
<td>2.11</td>
<td>0.10</td>
<td>9.31</td>
<td>11.82</td>
<td>1.20</td>
</tr>
<tr>
<td>1990-91</td>
<td>25.86</td>
<td>2.27</td>
<td>0.11</td>
<td>9.46</td>
<td>11.53</td>
<td>1.16</td>
</tr>
<tr>
<td>1991-92</td>
<td>25.82</td>
<td>2.42</td>
<td>0.13</td>
<td>9.62</td>
<td>11.12</td>
<td>1.13</td>
</tr>
<tr>
<td>1992-93</td>
<td>25.60</td>
<td>2.60</td>
<td>0.15</td>
<td>9.71</td>
<td>10.57</td>
<td>1.11</td>
</tr>
<tr>
<td>1993-94</td>
<td>25.32</td>
<td>2.75</td>
<td>0.17</td>
<td>9.78</td>
<td>10.05</td>
<td>1.13</td>
</tr>
<tr>
<td>1994-95</td>
<td>24.90</td>
<td>2.87</td>
<td>0.19</td>
<td>9.73</td>
<td>9.59</td>
<td>1.10</td>
</tr>
<tr>
<td>1995-96</td>
<td>24.47</td>
<td>2.98</td>
<td>0.20</td>
<td>9.60</td>
<td>9.23</td>
<td>1.13</td>
</tr>
<tr>
<td>1996-97</td>
<td>24.11</td>
<td>3.16</td>
<td>0.21</td>
<td>9.41</td>
<td>8.99</td>
<td>1.09</td>
</tr>
<tr>
<td>1997-98</td>
<td>23.90</td>
<td>3.41</td>
<td>0.22</td>
<td>9.16</td>
<td>8.77</td>
<td>1.06</td>
</tr>
<tr>
<td>1998-99</td>
<td>23.79</td>
<td>3.65</td>
<td>0.25</td>
<td>8.80</td>
<td>8.71</td>
<td>1.09</td>
</tr>
<tr>
<td>1999-2000</td>
<td>23.72</td>
<td>4.01</td>
<td>0.31</td>
<td>8.45</td>
<td>8.72</td>
<td>1.05</td>
</tr>
<tr>
<td>2000-01</td>
<td>23.82</td>
<td>4.44</td>
<td>0.38</td>
<td>8.16</td>
<td>8.64</td>
<td>1.09</td>
</tr>
<tr>
<td>2001-02</td>
<td>23.90</td>
<td>4.88</td>
<td>0.46</td>
<td>7.94</td>
<td>8.59</td>
<td>1.10</td>
</tr>
<tr>
<td>2002-03</td>
<td>23.88</td>
<td>5.14</td>
<td>0.54</td>
<td>7.83</td>
<td>8.52</td>
<td>1.07</td>
</tr>
<tr>
<td>2003-04</td>
<td>23.82</td>
<td>5.32</td>
<td>0.64</td>
<td>7.72</td>
<td>8.46</td>
<td>1.07</td>
</tr>
<tr>
<td>2004-05</td>
<td>23.68</td>
<td>5.42</td>
<td>0.71</td>
<td>7.71</td>
<td>8.30</td>
<td>1.05</td>
</tr>
<tr>
<td>2005-06</td>
<td>23.36</td>
<td>5.47</td>
<td>0.78</td>
<td>7.71</td>
<td>8.05</td>
<td>0.98</td>
</tr>
<tr>
<td>2006-07</td>
<td>23.11</td>
<td>5.53</td>
<td>0.85</td>
<td>7.68</td>
<td>7.86</td>
<td>0.88</td>
</tr>
</tbody>
</table>

94
Figure 4.2  Changes of Student Numbers in High School and Vocational School

Figure 4.3  Population Aged 15 and Over by Level of Education
A Long March to National Health Insurance

Although medical care had ever been covered by varied insurance schemes, it was not universally available to all citizens until 1995. In the 1980s Taiwan experienced a series of changes towards democratization, in which the state power was no longer monopolized by the KMT and an opposition party, namely the Democratic Progressive Party (hereafter DPP), was founded in 1986 to compete with the KMT on a more equal footing. Although The Economist magazine describes this process as ‘from dictatorship to democracy in just five years -- and without revolution’ (Economist, 10 October 1992), this is not so smooth because quite a lot of social movements arose and made their claims on the state through street demonstrations and, even, riots. As one comments, ‘there is hardly any peaceful social group except the military, the police and civil servants’ (Chang, 1989: 12).

In responding to this situation, we saw the development of NHI which was announced in 1987, one year after the founding of the DPP and so was the time of social upheavals heating. This policy was finally realized in 1995 and marked as the most significant welfare effort of the Taiwanese state in the postwar era. However, the disputes on the NHI do not reach a conclusion with its realization. First of all, we will explore the making of the NHI within Taiwanese politico-economic context; and then on the operation, impacts and problems of the NHI; finally, a recent policy debate linking to the future development of the NHI will be outlined.

The Making of the NHI in Politico-economic Context

It has been a discovered fact that the Taiwanese state is reluctantly becoming a welfare state characterized by limited social expenditure and an incomplete social security net. Also, there is a radical imbalance in welfare allocations between the various groups covered, favouring those who are deemed important to the stability of the government, such as military servicemen and civil servants. The reason to explain this development is Taiwan's political isolation, set by China, in the international community, that forces the KMT to consolidate Taiwan’s security via economic growth. The Trade Association, a semi-official agency instead of the embassy, is therefore founded and spread around the world to promote Taiwan's economic activities abroad and to safeguard the trade between Taiwan and over 140 countries. National resources are mostly prioritized to accelerating capital accumulation and some social measures with rich potentials for economic productivity, such as education, and for the state capacity, such as military servicemen and civil servants (detailed discussion please refer to Ku, 1995).
Although an institutional welfare system has been gradually forming in postwar Taiwan, notably a social insurance system, it is characterized as a selective rather than a universal system because it mainly focuses on protecting particular social groups according to their occupations. Many disadvantaged groups, such as children, the unemployed and the retired, are indeed excluded from this social insurance system, while social assistance exists only for very poor families with relatively low benefits. Then why the former premier, Yu Kuo-hua, would like to list the NHI on the political agenda and this became a governmental policy immediately? In particular, the NHI is the first case that the KMT has tried to establish an institutional and universal welfare system for all citizens regardless of their sex, age and status. This is an interesting question to be examined within the politico-economic context of that time.

Firstly, the radical increase in the number of social movements in 1986 further damaged the legitimacy of the KMT whose reputation had sharply fallen because of a series of defeats in foreign affairs, leaving Taiwan in political isolation. These social movements not only called for the reversal of martial law and a more open political atmosphere, but also focused on particular social problems which the state should improve. These included five social movements directly relating to the welfare needs of women, labourers, farmers, the handicapped and the homeless (Lin and Yeh, 1992). Through various street demonstrations and protests in front of the Legislative Yuan, the public have been made aware of the hardship facing disadvantaged groups and of the fact that the government pays too little attention to improving welfare for the disadvantaged. This can be studied by looking at the changes in political issues. In the 1970s, the focus of welfare issues in the Legislative Yuan was mainly on the improvement of welfare for military servicemen, civil servants and teachers (Chiu, 1985). But this situation has changed to emphasize welfare for the disadvantaged. By the end of the 1980s such issues always ranked higher than welfare for military servicemen and related groups (Kao, 1990).

Secondly, the rise of social movements, particularly the labour movement and anti-pollution protests, forced capitalists to improve working conditions and to spend huge amounts of money on pollution prevention. This slowed down the speed of capital accumulation and, therefore, caused complaints among capitalists. They asked the KMT to restore social order in favour of economic production. For example, a survey found that 72% of enterprises in Taiwan were dissatisfied with economic conditions, especially with social disorder and the labour movement. Also, 49.5% of surveyed enterprises thought that the KMT should take responsibility for improving this problem. The anger of capitalists reached a peak in 1989 when eight of the biggest capitalists together claimed in newspapers, ‘Whoever can create a fair and reasonable development environment for us, we will do our best to support them in
the election of this year’ (Wang, 1992: 12-13). Under increasing pressures from capitalists, the KMT had to find a way to restore social order as quickly as possible.

Finally, repressing social movements with force was not acceptable to the KMT because it could risk a more powerful backlash from subordinate groups and the DPP and could damage potential support among Taiwanese voters inside. On the other hand, because of political isolation the KMT was impossible to have helps from the outside. Furthermore, repression action could make the political isolation even worse. Although the KMT has always been hostile to social welfare due to its priority on economic growth, increasing welfare provisions seemed to be a better solution to this problem. Thus we see the development of the NHI.

The former premier Yu Kuo-hua, as an economic technocrat stressing the importance of economic growth, was not likely to favour the NHI due to worries about the increase in government welfare spending. Indeed in 1987 when the NHI was announced, he did not say that the government ‘would’ implement this scheme; instead, he said, ‘we “expect” to achieve the ideal of national health insurance by 2000’, according to official records (Bulletin of Legislative Yuan ,1987, No. 16: 25). This implied an uncertainty about the realization of the NHI. However, widespread social movements and the inability of the KMT to restore social order for capitalist production had put the KMT in dilemma. They were faced with pressure both from capitalists and disadvantaged groups. Consequently, Yu Kuo-hua was forced not only to clearly demonstrate government good will in this scheme but also to realize it by 1995, five years earlier than the original schedule. He said in 1989, ‘The realization of the NHI is ...an important social policy....to meet the eager expectation from all in society, the government is determined to realize it five years earlier, by 1995’ (Bulletin of Legislative Yuan, 1989, No. 17: 40). The NHI was indeed regarded by the KMT as a means of retaining support both from capitalists and the public in a more democratic political environment. As China Times‘ comments, ’ Due to changes in the political and economic situation....Premier Yu must search for a breakthrough in the successful reforms and for people’s support in order to continually and effectively control power’ (China Times, 1 March 1989).

However, here is not the end of the story. The policy of the NHI was confirmed, but how to realize it remained as questions. The task of planning the NHI system was firstly assigned to the Council for Economic Planning and Development (CEPD hereafter), resulting in a formal planning report submitted to the government in 1990, in which three principal goals and nine strategies were presented. The goals included providing a proper health service for all people; controlling medical expenditure within a reasonable range; and making efficient use of medical resources. To achieve these goals, nine strategies must be embraced: (Hwang, 1995: 206)
1. The new NHI system must cover the entire population through the model of compulsory social insurance.

2. The new NHI system should be separated from other social insurance schemes.

3. The premium of the new NHI set with each insured person as a unit regardless of number of their insured dependants.

4. The total medical expenses should be settled below a definite maximum ratio of total national resources.

5. Under the principle of ‘neither waste nor loss’, cost-sharing and financial accountability should be introduced in the new NHI scheme.

6. A single pipe payment system for medical treatment should be designed and a global budget should be introduced.

7. A referral system should be implemented, and distribution of medical resources in remote and rural areas should be promoted.

8. A sound NHI administrative system should be set up in order to make efficient use of medical resources.

9. Public knowledge about the NHI should be rectified through education and propaganda.

The CEDP report set a basic framework for the development of the NHI, though the planning task was handed over to the Department of Health (DoH hereafter) in 1990. In the light of the CEDP schedule, the DoH was further to develop a detailed draft about the administrative networks and the NHI Act. After the approval of the government, the NHI Act was finally sent to the Legislative Yuan for enacting in 1993. Apart from this official version of the NHI Act, at least five other versions, proposed by different legislators and backed by varied interests groups such as doctors, employers and workers, were also on the agenda for enacting. This clearly shows that many disputes arose during the planning and legislation period until the NHI Act was finally passed in 1994.

General speaking, money matter is always the core of the disputes. In the view of the governmental officials, they were worrying very much about the costs of the NHI, that could put more pressures on governmental finance, and did their best to keep medical expenses in control. This is a reason why the government adopted a contribution-based model, which shares welfare responsibility with employers and employees, rather than a taxation-based model, which is indeed proclaimed in the Constitution. Also, this attempt is quite obviously expressed in the nine strategies proposed by the CEPD report, especially concerning with the introduction of cost-sharing, global budget and a referral system. However, there were no accurate
figures for the global medical expenses in Taiwan and it would be very difficult to set a reasonable global budget (Hwang, 1995: 228). The effort to control costs in turn induced to the dispute on contribution sharing between employers and employees and to conflicting the interests of doctor’s groups.

Who should pay the premium and how much is indeed the most concerned issue to both the employers and employees. To the employers, it would have a deep impact on production costs if they must bear the premium for their employees and the dependants. To the employees, an increase in the employees’ contribution would militate against the living standards, particularly they still paid the premium to the Labour Insurance covering risks other than health care. This led to a confrontation between the government, employers and employees. In general, employees fought for the contribution sharing to remain at the current ratio -- 20% of which paid by the employees and the remaining 80% by the employers. However, employers insisted that the ratio should be equally shared (50:50). In order to comfort both the parties, the contribution sharing was changing many times, from 30:70 to 40:60, in which both the parties put much pressure on the government through demonstrations and even a threat to a nationwide labour protest. Finally the government agreed that the ratio would be 30:60:10 for the employees, the employers and the government respectively (Hwang, 1995: 240-244). The government itself takes more financial responsibility to the NHI than the original plan, though the system remains mostly contributed by employers and employees. A complicated contribution table according different categories of the insured is therefore introduced for specifying contribution sharing. This will be shown in detailed in the next section.

Medical care is regarded as a profitable market and is usually dominated by doctors because of their professional authority in medicine. The NHI is planning to cover all the population and to control the increase of medical expenses, meaning that the doctors have to rely on contracting with the NHI to attract patients as well as to accept a prescribed price for their treatments. This is conflicting doctors’ interests and inducing disputes between the government and the doctor’s groups (Fu, 1995). As a major and probably the only provider of medical care, the doctor’s groups devoted themselves to actions influencing the policymaking of the NHI, including proposing an amended act, appealing and lobbying, attending public hearing, demonstration, protest, and even more radical actions such as refusing treatments to the NHI patients (Lin, 1995). Many friendly responses were made by the government, though not all. In particular, the principle of ‘equal treatment equal pay’ was confirmed, and the referral system and cost-sharing were reformed to encourage patients in local clinics rather than going to big hospitals directly. In other words, if patients go to big hospitals without the referral of local clinics, they must pay higher fees themselves.
except in emergency. Through these measures, doctors’ interests were basically maintained. However, the level of prescribed prices for treatments remains as a disputed issue between the NHI and the doctor’s groups even until the present days. This is indeed a contradiction between the government’s controlling medical expenses and doctors’ searching for the maximum of profits.

Then, what is the real profile of the NHI after its implementation? This is our concerns in the next section.

**NHI System That Works**

The National Health Insurance Act 1994 is the key statute to understand the NHI system. First of all, it defines the DoH as the direct responsible department of the central government to the policymaking and supervision of the NHI, and the Bureau of National Health Insurance (BNHI hereafter), which is also an official agency under the DoH, as an insurer to run the system. This obviously expresses that the NHI is a state-run and centralized system. Figure 4.4 shows the system in detail, in which we can observe the top-down structure of the NHI. The BNHI founds six local branches all over the Taiwan island to collect premiums and to review and pay benefits to contracted medical agencies. There are also six local clinic centres attached to the BNHI to provide medical care parallely with the contracted clinics and hospitals. In order to keep medical expenses in control, a calculation team and three committees are set up under the DoH in charge of monitoring balance between premiums and medical expenses and dealing with possible disagreements and frauds. Under the structure, discretion power is limited and not so much room leaves to local officials and medical professionals in deciding such as items, medicines, examinations, treatments and operations of medical care. Doctors are not allowed to suggest patients medicines and treatments other than provided by the NHI. This is indeed a system under strict control of the government.
In regards of premium, an earning-related contribution scheme is adopted by the NHI. The insured are divided six levels according to their incomes and pay varied amounts of premium to the NHI, though the benefits they receive are all the same (BNHI, 1996: 13-15; DoH, 1996: 32-33). The current contribution rate is 4.25% of per month income of each insurant, which is further shared by the government, employers and the insured according to different categories of the insured, as shown in Table 4.6. We see the contribution made by the government particularly for the low income, farmers, fishermen and employees without fixed employers and seamen, as a compensation to these disadvantaged groups, and for civil servants, dependants of military servicemen and veterans, as a responsibility to be their employer or former employer. Other than above groups, employers remain as the most important contributor to the NHI. From this, we may say that the Taiwanese state does not change radically to a Western style welfare state, in which the entitlement to welfare benefits is likely a citizenship. This fact is so given if we concern with that the insured under the NHI are divided according to their occupational statuses, implying an inequality in the system.
Table 4.6  Contribution Shared by the Government, Employer and the Insured

<table>
<thead>
<tr>
<th>Categories of the Insured</th>
<th>Government</th>
<th>Employer</th>
<th>Insured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil Servants</td>
<td>0</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>Insured</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependants</td>
<td>0</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>Teachers in Private Schools</td>
<td>30</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>Category</td>
<td>I</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees of Public and Private Enterprises</td>
<td>10</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>or Agencies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employers or the Self-Employed</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Insured</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependants</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Category</td>
<td>II</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees without Seamen</td>
<td>40</td>
<td>0</td>
<td>60</td>
</tr>
<tr>
<td>Insured</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependants</td>
<td>40</td>
<td>0</td>
<td>60</td>
</tr>
<tr>
<td>Category</td>
<td>III</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmers and Fishermen</td>
<td>70</td>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td>Insured</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependants</td>
<td>70</td>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td>Category</td>
<td>IV</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependents of Low Income</td>
<td>0</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>Insured</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependants</td>
<td>0</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>Category</td>
<td>V</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Insured</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependants</td>
<td>100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Category</td>
<td>VI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>40</td>
<td>0</td>
<td>60</td>
</tr>
<tr>
<td>Insured</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dependants</td>
<td>40</td>
<td>0</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: BNHI 1996, Table 10.

In 1996, the total premium of the NHI was NT$ 246.5 billion, around 3.6% of GDP equivalently, against the total expense of NT$ 241.2 billion (BNHI, 1996: 14). A surplus of NT$ 5.3 billion was collected as a fund to fill the possible deficit or to invest businesses for a more profitable operation. Although financial balance was achieved for the NHI in the first year, the surplus was only 2.2% of the total premium, implying that it could easily turn to deficit if demands of health care grow significantly, for example, in the case of influenza or similar diseases. The control of medical expenses is still occupying the top task of the NHI.

Figure 4.5 demonstrates the population covered by NHI. By the end of 1996, the number of the insured in the NHI was 19.7 million, around 93.1% of the total
population that time. This figure is far bigger than that before the NHI is realized, when the population covered by at least one kind of social insurance schemes were only 57.48% in 1994, one year before NHI. As a universal scheme, the NHI has been making a great step forwards to include more people into this system, so that the coverage has been steadily increasing to about 98% in 2006.

![Figure 4.5 Percentage of Total Population covered by NHI, 1993-2006](image)

To meet the increasing needs of medical care along with the expanding NHI, the provider side has also been reorganized in responding to this development. A project entitled *the Establishment of a Medical Care Network in the Taiwan Area* is formulated, which divides the Taiwan area into 17 medical care regions for the development of both medical manpower and facilities. At the same time, hospitals are, after accreditation, classified according to their functions, into medical centres, regional hospitals, district hospitals and clinics in order to adequately allocate the available medical resources and to assure the quality of medical services (DoH, 1992: 20-33). In general, there have been 90.75% of the total medical agencies (including clinics and hospitals) contracting to the NHI for provision of health care to patients. The medical beds under NHI have been over 80% since 2004, to which we can observe the formation of a comprehensive medical network under the NHI.
Access to medical care is basically in a free market situation. With a health insurance card, the insured can go to any clinic and hospital they prefer. Moreover, they do not need to be bound to a specific doctor in a distinct area like the GPs system in Britain and can change to visit different doctors and hospitals every time. In the case of traveling around the Taiwan island, the insured do not worry about the absence of their health care if they bring the card with them. Also, there is no limit on how many cards the insured can use in a fixed period. The system is designed to promote maximum market mechanism, in which every doctor and hospital must rely on a better service to attract customers. The introduction of a IC card with a micro-electronic instrument to store medical records of patients further enhanced accessibility, so that the NHI can easily trace back the history of health and find the most proper treatment to the insured (DoH, 1996: 25-27). However, even if the system can promote the most effective access to medical care, whether or not it is the most efficient use of medical resources remains in question. We will be back to this issue later.

In short, the NHI in Taiwan is a unified system under strict supervision and management of the government, through which to achieve a fairer contribution sharing, a more equal access to medical care, and pushing down necessary costs, as Ko concludes (1997: 387). Doubtlessly, the NHI system does have some important impacts on the well-being of the people living in Taiwan. This is not only because it is
the first universal and compulsory welfare provision of the Taiwanese state, but also its success or not will become a guiding principle to the development of state welfare in Taiwan. Now is the time to examine its impacts.

**Impacts of the NHI**

If the impacts of the NHI need to be examined, we have to go back to the situation before the NHI is enforced and to see whether the present is improving and better. This evaluation is going to be done in five aspects: principles of the system working, who are benefited most, risks covered by the NHI, equality in access to health care, and the degrees of people's satisfaction.

Before the NHI is enforced, social insurance systems in Taiwan were established separately for three major occupational groups, namely military servicemen, civil servants and labourers, to cover the risks of maternity, injury and sickness, medical care, disability, old age, death, and funeral allowances, out of all of which only medical care constituted a benefit in kind. A gradual expansion, based on these existing social insurance systems, continued over the postwar era to include more groups related to the three major occupational groups, such as the retired and dependants (Ku, 1995). The principle of the social insurance systems is quite simple and obvious. If somebody held a position in the labour market or had contributed to the state, that person was most likely to get a comprehensive care from social insurance. Those unable to find a job had access to few benefit from Taiwanese state welfare, unless they could get back to work as soon as possible. The benefits people received were therefore closely related to their values in the labour market, while the unemployed and the disadvantaged suffered most.

The NHI terminates the relationship between benefit and market value, though not all. Theoretically every citizen should be entitled to the NHI, if only the insured can afford the premium, no matter where is the premium from and its nature as wage or something else. This means that the insured do not need to have a full time job in the labour market. Furthermore, some disadvantaged groups can have a ratio of premium contributed by the government for them, particularly the share of the low income households totally beared by the government (see Table 4.6). De-commodification, which refers to needs satisfaction through welfare provisions rather than markets, is therefore more likely a principle of the NHI than social insurance systems before.

The fact is even more given if we concern with the aspect about who are benefited most. As we show in the last section, there was about 57% of the population covered at least one kind of social insurance schemes before the NHI is enforced.
group of the population are indeed with rich potentials in economic productivity. Along with the introduction of the NHI, this figure was increasing to around 93% by 1996. Nearly 7.54 million people are newly including into the NHI, of which children under 14 years old and the aged over 65 years old account for the largest groups (BNHI, 1996: 2). They were originally excluded from any social insurance scheme because they were too young to participate the labour market or because they were retired from the labour market due to old age. From this we may say that the NHI benefits the non-productive population most.

Another progress is made to the risks covered by the NHI. The medical care benefit attaching to the existing social insurance systems mostly focused on treatments of inpatient and outpatient, prevention care was limited to the female in pregnancy. This has now been expanding to the aged, the children under 4 years old, the female over 30 years old, and the male over 40 years old. Moreover, residential care is also a benefit of the NHI, which was totally absent in the past (Ko, 1997: 391-396). A more comprehensive health service system is establishing to meet three health needs of prevention, treatment and care. Although the treatment to the patients suffering mental disorder is not as a benefit of the NHI, this kind of patients can claim governmental resources through some schemes set up by the Act of Mental Health.

Equality in access to health care is improving as well. With the health insurance card system, the insured can access to every contracted medical agencies, around 90% of the total. In the past, medical agencies were making contracts separately with different social insurance schemes as well as with various services and items. An inequality was created because of this piecemeal and complicated situation. An insurant under the labour insurance, for example, could only access to medical agencies which had a contract with this scheme, and he would also find that the medicines and treatments he took were different from those who under other social insurance schemes. Doctors were required to ask patient’s status in order to decide which treatment should offer. Inequality was made not only between productive and non-productive population, but also between those who had different kinds of social insurance. The NHI integrates varied medical care benefits in all other social insurance schemes to be a unified system, in which the treatment every insurant has is equal. In this sense a more likely citizenship nature is attaching to the NHI, and therefore reduce the differentiation in gender, class, and status.

Finally, though it is difficult to assess the service quality of the NHI, the changes of people’s satisfaction to the NHI is probably a proper indicator to explore this issue. Figure 8 shows this development during 1999 to 2005, according to opinion surveys conducted by various public organizations in different timing. We find that NHI remains a high degree of satisfaction from the public, usually up to 70%, except for
the year of 2002 when NHI had to increase contribution rate.

![Graph showing changes in people's satisfaction to the NHI]

**Figure 4.7** Changes of People’s Satisfaction to the NHI

**Problems to Face**

Of course, there is no a welfare system completely perfect, so either the NHI. Although the NHI has made a great progress than before, so many problems are emerging to threaten its health. The core of the problems is still a money matter, accompanying with interests conflict between social groups and equality issue.

After the implementation of the NHI for two years, financial deficit seems to be a key problem in coming to face. As one comment say, ‘the operation of the NHI system must bear the cost of fiscal crisis in the future’ (Chen, 1997). Although a balance of financial statement has achieved for the first year, the surplus is not enough to underpin the development of the NHI. This forces the NHI considering seriously about to postpone some planned welfare provisions such as contribution preference to the aged, and about to increase contribution rate for more premium income though this is politically disputed very much. Financial health always occupies top priority of agendas in the DoH reports. Three reasons are talking about most to explain the emerging financial problem of the NHI.

First, demands of health care are growing not only because of the aging process in the population but also because of a possible positive impact of the NHI on medical demands of the population, especially the aged (Chen and Lin, 1996). A growth rate at
least 10% is expected for the second year, 1996-97, while the growth of premium is far lower than this figure and the amount mostly remains the same with the first year, 1995-96 (United Daily News, 24 February 1997). In this sense the surplus of the first year, around 2.2% of the total premium income only, could be easily exhausted.

Second, the financial health of the NHI is further damaged by an absence of a proper mechanism to control medical expenses. A cost-sharing system is indeed established to play the role of control mechanism, meaning that the insured themselves have to bear a fixed amount of cost, ranging from NT$ 50 to 100, to each visit of doctor. But the fixed amount is too low to press down medical demands. Increasing the rate of cost-sharing is probably a way to promote its function as a control mechanism, there is no a clear line to decide which rate is the most proper, however. If the rate is too high then this will in turn makes the NHI meaningless because the function as health care system will be damaged and inequality in access to medical resources could be even more worse. At the provider side, the doctors do not care about more patients coming in. On the contrary, they do their best to attract more patients because they can claim medical benefits from the NHI, meaning more profits indeed. The insurance card system promotes effective access to health care, but the system can not guarantee that both providers and customers would use medical resources carefully. Some radical cases show that an insurant could even visit hospitals and doctors three times a day, using up more than one hundred cards a year. However, this is legal according to the present system and nothing can be done to stop such overdoing behaviours.

Third, as a top-down system, the central government dominates the policymaking and regulations of the NHI. The local authorities find them nothing to do about the system except only make contributions for some categories of the insured, particularly for the low income households under the requirement of the central government. An illness feeling is emerging between politicians in the central and local governments. As political disputes arise, the contribution paid by the local authorities often holds as a means to bargain with the central government. This can be observed from that whether each government contributes in full of its share to the NHI. During March to December 1995, for example, the central government has contributed 99.64% of its share to the NHI, showing nearly a full support, while the figures were 87.78%, 56.66% and 31.17% respectively for three primary local authorities, namely Taipei, Kaohsiung and Taiwan province (DoH, 1996: 30). Clearly, without a full supports from the local authorities the gap between premium incomes and medical expenses of the NHI will be widening further. Financial health is therefore becoming critical, more and more, to the development of the NHI.

Most recently, a new measure introduced by the NHI evoked interests conflict
between doctors and pharmacists. The new measure was pressed ahead to separate medical treatment and medicine. Traditionally, the doctors in Taiwan usually made up medicines for their patients, which right is legally belonging to the pharmacists. The NHI announced that by 1 March 1997 the separation should be enforced and the insured only could get medicines from the contracted pharmacists with a prescription issues by a contracted doctor. As we mentioned in the first section, the doctor's groups have been not so happy with the NHI because its efforts to control medical expenses are in nature conflicting to doctors' interests. The new measure to separate treatment and medicine further eroded profits made by doctors, a market estimated around NT$14 billion a year. A radical protest, and even a strike, broke out involving thousands of clinics, in Taipei city about 80% of the contracted clinics joint venture against this measure for example (China Times, 1 March 1997). On the other side, the pharmacists are the group benefited most from the separation. They also organised together to fight for their right through demonstrations, which directly confronted to the same actions held by the doctor's groups on streets in Taipei, in which the NHI received great pressures from both sides as well as from the appeals of the insured for back to health care as soon as possible. A temporary compromise finally achieved, saying that doctors can make up medicines in some emergent situations. Reactions are now being peaceful but the interests conflict has not yet been sorted out completely. As the most major and probably the only organisation holds national medical resources, the NHI is inevitably located in the core of various disputes, politically and economically. The situation implies an instability of the NHI, to which the authorities, namely the DoH and the BNHI, must deal with carefully in order to maintain the operation of the NHI in normal. This is a very difficult task indeed due to the nature of the NHI as a state-run system. We will return to this point in the next section.

In regards to the inequality issue, we have discovered the NHI's progress towards de-commodification and equality in access to health care, but many aspects of inequality remain as problems to face. First, there are still around 2% of the population out of the coverage of the NHI, of which consist of three main groups: (DoH, 1996: 134)

1. Marginal welfare population such as residents in remote and isolated districts, the homeless, abandoned children and orphans, some low-income people without registering to the administration and so on.
2. The unemployed population who are now searching for a new job without claiming to change their categories of the insured and therefore out of insurance.
3. Those who refuse to join the NHI or would not pay contribution for their employees and dependants, especially those in the underground labour market.
As a universal and compulsory insurance system, the NHI must expand its coverage to all the population in order to pool risks. The groups uncovered by the NHI demonstrate some leaks in the system. In particular, those who are belonging to the most disadvantaged are also the groups most likely to be out of insurance, implying that inequality between social groups still exists under the NHI and needs to be care about.

Second, the NHI is not able to completely guarantee equality in access to health care because the distributions of medical resources are not so equal between urban and rural areas. The urban areas indeed own most of hospitals and clinics, while the rural areas usually have a small share of such medical resources. Although the NHI entitles both the residents in urban and rural areas with the equal right to health care, in practice the insured in urban areas are more capable to receive comprehensive and high quality medical services. To improve the distributions of medical resources, the Group Practice Centres have been set up by the DoH and spread to remote areas since 1983, supported by teaching hospitals and the rotation of professionals to train young physicians. Nearly 200 such centres have been founded so far (DoH, 1992: 20-33). Accompanying this, the NHI also implement a special preferential scheme for the insured in remote areas, in which patients do not need to pay the fixed amount of cost-sharing and payments to doctors are higher in order to encourage their coming to remote areas (DoH, 1996: 154). However, more efforts seem necessary to be done for the improvement of inequality between regional medical resources, the DoH report concludes (DoH, 1996: 198).

**Nationalization or Privatization?**

In fact, whether or not the NHI should be a state-run system has ever been an issue as early as in 1993 when the NHI was still in the planning period. An alternative way to set up a non-profit independent organisation to run the NHI was once considering by the premier. This idea even attracted the attention of former President Lee Teng-hui, who instructed the Executive Yuan to study the practicability of setting up an independent trust for the implementation of the NHI. However, the proposal was finally rejected for several reasons. Firstly, the idea of an independent trust came too late in the process to be considered by most of the KMT legislators. Secondly, it could not be supervised by the legislative Yuan and trouble might follow, in particular the government would eventually have to take the responsibility for any failure. Finally, as the proposal was originally offered by the opposition, it would be detrimental to the KMT’s dignity if it was adopted (Hwang, 1995: 235-237). Interestingly enough, the purpose to set up an independent trust is its nature beyond the state intervention, so
that it can avoid improper political intrusion and operate rationally. This characteristic was becoming a reason against the proposal by contraries. Nevertheless, the possibility of a privatized NHI system has been aware and constitutes a line in the policy disputes now.

Originally there are nine proposals in the consideration of the DoH for reforming the NHI, which are classifying with two principles: should the new NHI be a unified or a plural system? and should the new NHI be nationalized or privatized? These classifications could help us to make clear the differences between the nine proposals:

I. The new NHI as a Unified system:
   Option 1: mostly remaining the present system now, run by the BNHI.
   Option 2: changing the nature of the CBNHI, from a governmental department to a nationalized enterprise.
   Option 3: establishing an independent association in place of the BNHI.

II. The new NHI as a plural system:
   Option 4: setting up more than two independent funds to take over the responsibility of health insurance.
   Option 5: setting up more than two associations to take over the responsibility of health insurance.
   Option 6: the mixture of Option 4 and Option 5.

III. The new NHI as a compromised system:
   Option 7: separating health insurance and medical services, meaning that an insurer accompanies various agencies to monitor payments.
   Option 8: setting up an association with many the Health Maintenance Organisations (HMO hereafter).
   Option 9: remaining the BNHI, but plus the HMO.

Each option involves varied degrees of unification and nationalization, to which different effects are stressed. The merits of unification are that it does not need to change the existing NHI system radically, as well as it can have a more consistent and integrated effort to the commitment of providing universal health care to all the citizens. However, it could create a big bureaucracy and therefore reduce the flexibility of the new NHI to meet health needs in a changing society. On the contrary, the merits of a plural system are its promoting competition between service providers and through which to further guarantee value for money, though inequality could be more critical because various insurance policies offered by every funds and associations.

The most disputed issue is concerning with the possibility of a privatized NHI
system. As a state-run scheme, political forces are eventually influencing and intruding into every aspects of the operation of the NHI. With distinctive values, politicians care about much more the preferences of the public, for example offering more benefits without increasing contribution, for the reason of expanding votes for them in elections, that are often conflicting to the values of social insurance stressing on balance between benefit and contribution and between welfare and responsibility. Moreover, politicians are always threatening to cut the budget of the BNHI in order to make their claims successfully accepted, even though this could damage financial health of the NHI. Political preference has been regarded as a major and probably the most improper intervention to the NHI. An appeal is ever appearing to require an independent NHI system from the intrusions of political forces (China Times, 1 March 1997). A possible way to an independent NHI is a privatized system operating in market mechanism, through which to promote efficiency of limited resources, on the one hand, and to escape from emerging fiscal crisis, on the other.

However, profit-searching is one of the core principles of privatization and this could totally change the nature of the NHI, from an institution with social functions to a money-addicted organisation. Many difficulties can be expected. Firstly, without profits few private agencies would particular the NHI. Secondly, the problem of a reasonable profit level remains unanswered and it is very difficult to evaluate the appropriateness of profit levels. Thirdly, in a capitalist society the state can not turn a private organisation down only because it earns too much money, and this will make the state unable to manage it as the organisation gone too far. Finally, inequality is still a problem, particularly those groups with low incomes and high demands of health care are most likely out of insurance. Privatization is not all-purpose.

There is no a conclusion at the moment, but the DoH seems to favour not changing the present system radically. Option 1 is therefore on the agenda of the NHI reform, accompanying with Option 3 (United Daily News, 24 February 1997). This means that even if privatization is necessary, the DoH would keep the existing unified system and just change the title of the BNHI to be an association. Total privatization options such as Option 4 to 6, that can promote most market competitions, are opt-out. Noteworthily, this is not the end of the disputes. Nor is the certain future of the NHI. Although some efforts have made to an independent NHI, we still foresee political forces’ impacts on the development of the NHI.

So far, we have reviewed the development of the NHI in Taiwan, since its making, operation, impacts, problems, and the most recent policy disputes linking to its future. It will be quite interesting about what kinds of conclusions we can draw from the discussion, especially locating at the specific politico-economic context in Taiwan, as a newly industrialized countries in East Asia.
First of all, in order to consolidate its position in the international community as well as for its own security, the policy priority is always focusing on economic development. Welfare provisions are regarded as consumption of limited resources and therefore are not favoured by the Taiwanese state, except in some social fields with rich economic potentials such as education. However, a decline of the KMT authority and the emergence of social movements leading to democratization in Taiwan, force the government to introduce the first universal welfare system for all the citizens, in order to continually have the supports inside general people. This clearly demonstrates a fact that political reasons are the most important concerns of the state, though state welfare is expanding as well. Along with democratization, interests groups are now more capable to influence policymaking through some more radical actions and this in turn makes some politicians to be as their representatives for proposing various claims, so that we see so many conflicts and disputes throughout all the development process of the NHI.

However, it can not be said that the nature and policy priority of the Taiwanese state have changed. Economic goals remain as the top concern of the government. This concern is transformed into so a great effort to control medical expenses. Money matters, such as financial health, cost-sharing, value for money, balance between contribution and benefit, possibility of privatization and so on, were not disappearing along with the implementation of NHI, implying an uncertainty in the future. These concerns and efforts also induce conflicts directly to the interests of medical providers. Disputes arise between, with health needs of the insured as ransoms for bargaining.

It is particularly true that inequality and commodification in access to state welfare have been improved significantly than before, due to the introduction of the NHI, but some problems remain critical. This is so given as we consider those who uninsured mostly consist of the most disadvantaged groups living in remote and marginal areas of the society. Unfortunately, this issue seems not to have enough attention from both the government and the public because of the great shadow of so many conflicts and policy disputes.

**From Selective to Universal Availability: Public and Social Services**

In the postwar era, the prosperity of economic development in East Asia has attracted quite a lot of scholars to explain the brilliant performance with the developmental state thesis, which emphasizes the role and capacity of the state in managing productive conditions. Although the concept of reluctant welfarism is used to interpret the East Asian states’ reluctance to increase their roles in social welfare (e.g. Midgley, 1986), the growth of social policy is very significant with special reference to
education and health, as we discussed above. Similarly, the Government in Taiwan did pay much attention on the establishment of public services for the general people and then extend to social services for the disadvantaged groups.

Public services are closely linking to infrastructure fundamentally to economic development and general well-being. In colonial Taiwan, expenditures on public services like tap water, electricity, road construction, railway, postal service were extremely important that made up around 70% of governmental expenditures (Ku, 1997a: 27-28). For the reason of public health, tap water was firstly constructed by the colonial government in urban area that effectively prevented the spread of infectious diseases. Continuing with the efforts of colonial government, Table 4.7 and Table 8 show the development of public services up to the most recent year. We can observe that the coverage of tap water has been over 90%, together with the improvement of health care, contributing a lot to life expectancy of Taiwanese people. The indices of public services also demonstrate improvement at every aspect that make social mobility within the island easier than before.
Table 4.7  Selected Social Indicators in Taiwan, 1965-2006

<table>
<thead>
<tr>
<th>Period</th>
<th>Percentage of Population Served of Tap Water</th>
<th>Number of Health Personnel Per 10,000 Persons</th>
<th>Number of Beds Per 10,000 Persons</th>
<th>Life Expectancy at Birth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>1965</td>
<td>38.3</td>
<td>10.31</td>
<td>3.52</td>
<td>...</td>
</tr>
<tr>
<td>1970</td>
<td>43.7</td>
<td>9.30</td>
<td>3.96</td>
<td>...</td>
</tr>
<tr>
<td>1975</td>
<td>50.3</td>
<td>16.47</td>
<td>18.85</td>
<td>...</td>
</tr>
<tr>
<td>1976</td>
<td>53.7</td>
<td>19.39</td>
<td>19.66</td>
<td>...</td>
</tr>
<tr>
<td>1977</td>
<td>57.8</td>
<td>20.66</td>
<td>22.32</td>
<td>...</td>
</tr>
<tr>
<td>1978</td>
<td>61.6</td>
<td>21.12</td>
<td>21.33</td>
<td>...</td>
</tr>
<tr>
<td>1979</td>
<td>63.8</td>
<td>22.66</td>
<td>20.78</td>
<td>...</td>
</tr>
<tr>
<td>1980</td>
<td>66.8</td>
<td>23.82</td>
<td>22.22</td>
<td>...</td>
</tr>
<tr>
<td>1981</td>
<td>69.5</td>
<td>25.20</td>
<td>24.29</td>
<td>72.01</td>
</tr>
<tr>
<td>1982</td>
<td>72.4</td>
<td>27.03</td>
<td>28.98</td>
<td>72.12</td>
</tr>
<tr>
<td>1983</td>
<td>74.5</td>
<td>28.10</td>
<td>30.65</td>
<td>72.20</td>
</tr>
<tr>
<td>1984</td>
<td>76.4</td>
<td>30.19</td>
<td>32.86</td>
<td>72.61</td>
</tr>
<tr>
<td>1985</td>
<td>77.9</td>
<td>34.42</td>
<td>38.47</td>
<td>73.11</td>
</tr>
<tr>
<td>1986</td>
<td>79.1</td>
<td>35.64</td>
<td>41.63</td>
<td>73.22</td>
</tr>
<tr>
<td>1987</td>
<td>80.2</td>
<td>39.27</td>
<td>43.88</td>
<td>73.51</td>
</tr>
<tr>
<td>1988</td>
<td>81.7</td>
<td>41.72</td>
<td>44.50</td>
<td>73.46</td>
</tr>
<tr>
<td>1989</td>
<td>82.7</td>
<td>42.59</td>
<td>43.12</td>
<td>73.70</td>
</tr>
<tr>
<td>1990</td>
<td>83.6</td>
<td>44.79</td>
<td>43.80</td>
<td>73.97</td>
</tr>
<tr>
<td>1991</td>
<td>84.2</td>
<td>47.15</td>
<td>45.14</td>
<td>74.46</td>
</tr>
<tr>
<td>1992</td>
<td>85.1</td>
<td>49.62</td>
<td>46.30</td>
<td>74.50</td>
</tr>
<tr>
<td>1993</td>
<td>86.2</td>
<td>52.17</td>
<td>47.90</td>
<td>74.54</td>
</tr>
<tr>
<td>1994</td>
<td>87.5</td>
<td>53.87</td>
<td>48.98</td>
<td>74.81</td>
</tr>
<tr>
<td>1995</td>
<td>88.0</td>
<td>55.37</td>
<td>52.62</td>
<td>74.90</td>
</tr>
<tr>
<td>1996</td>
<td>88.8</td>
<td>57.53</td>
<td>53.39</td>
<td>74.94</td>
</tr>
<tr>
<td>1997</td>
<td>89.5</td>
<td>63.39</td>
<td>55.73</td>
<td>75.54</td>
</tr>
<tr>
<td>1998</td>
<td>90.0</td>
<td>65.70</td>
<td>56.80</td>
<td>75.75</td>
</tr>
<tr>
<td>1999</td>
<td>90.3</td>
<td>68.98</td>
<td>55.65</td>
<td>75.90</td>
</tr>
<tr>
<td>2000</td>
<td>90.5</td>
<td>71.47</td>
<td>56.78</td>
<td>76.45</td>
</tr>
<tr>
<td>2001</td>
<td>90.5</td>
<td>74.02</td>
<td>56.98</td>
<td>76.74</td>
</tr>
<tr>
<td>2002</td>
<td>90.8</td>
<td>77.90</td>
<td>59.23</td>
<td>77.18</td>
</tr>
<tr>
<td>2003</td>
<td>90.9</td>
<td>81.00</td>
<td>60.31</td>
<td>77.33</td>
</tr>
<tr>
<td>2004</td>
<td>91.3</td>
<td>85.00</td>
<td>63.18</td>
<td>77.46</td>
</tr>
<tr>
<td>2005</td>
<td>...</td>
<td>87.72</td>
<td>64.29</td>
<td>76.53</td>
</tr>
<tr>
<td>2006</td>
<td>...</td>
<td>90.48</td>
<td>65.12</td>
<td>77.45</td>
</tr>
</tbody>
</table>

Sources: The data are provided by the Ministry of the Interior; the Directorate-General of Budget, Accounting & Statistics; the Depart
<table>
<thead>
<tr>
<th>Period</th>
<th>Total Index (1) (2001=100)</th>
<th>Transportation Index (2001=100)</th>
<th>Telecommunications Index (2001=100)</th>
<th>Postal Service Index (2001=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>2.90</td>
<td>5.16</td>
<td>--</td>
<td>2.07</td>
</tr>
<tr>
<td>1955</td>
<td>5.30</td>
<td>9.40</td>
<td>--</td>
<td>4.05</td>
</tr>
<tr>
<td>1960</td>
<td>8.38</td>
<td>14.38</td>
<td>--</td>
<td>12.48</td>
</tr>
<tr>
<td>1965</td>
<td>12.58</td>
<td>21.95</td>
<td>--</td>
<td>13.77</td>
</tr>
<tr>
<td>1970</td>
<td>19.24</td>
<td>33.57</td>
<td>--</td>
<td>19.90</td>
</tr>
<tr>
<td>1975</td>
<td>34.50</td>
<td>60.39</td>
<td>--</td>
<td>27.62</td>
</tr>
<tr>
<td>1979</td>
<td>50.45</td>
<td>83.66</td>
<td>--</td>
<td>30.86</td>
</tr>
<tr>
<td>1980</td>
<td>53.74</td>
<td>88.21</td>
<td>--</td>
<td>32.43</td>
</tr>
<tr>
<td>1981</td>
<td>60.81</td>
<td>98.50</td>
<td>--</td>
<td>35.16</td>
</tr>
<tr>
<td>1982</td>
<td>63.23</td>
<td>100.86</td>
<td>--</td>
<td>37.10</td>
</tr>
<tr>
<td>1983</td>
<td>65.21</td>
<td>102.48</td>
<td>--</td>
<td>39.33</td>
</tr>
<tr>
<td>1984</td>
<td>66.60</td>
<td>103.26</td>
<td>--</td>
<td>41.84</td>
</tr>
<tr>
<td>1985</td>
<td>67.22</td>
<td>102.91</td>
<td>--</td>
<td>45.19</td>
</tr>
<tr>
<td>1986</td>
<td>67.09</td>
<td>100.53</td>
<td>--</td>
<td>49.32</td>
</tr>
<tr>
<td>1987</td>
<td>69.94</td>
<td>102.39</td>
<td>--</td>
<td>50.09</td>
</tr>
<tr>
<td>1988</td>
<td>70.12</td>
<td>101.93</td>
<td>--</td>
<td>54.04</td>
</tr>
<tr>
<td>1989</td>
<td>70.17</td>
<td>98.98</td>
<td>--</td>
<td>62.94</td>
</tr>
<tr>
<td>1990</td>
<td>73.52</td>
<td>104.31</td>
<td>--</td>
<td>60.69</td>
</tr>
<tr>
<td>1991</td>
<td>77.13</td>
<td>107.88</td>
<td>--</td>
<td>63.93</td>
</tr>
<tr>
<td>1992</td>
<td>80.74</td>
<td>109.36</td>
<td>--</td>
<td>68.65</td>
</tr>
<tr>
<td>1993</td>
<td>84.67</td>
<td>111.60</td>
<td>--</td>
<td>68.05</td>
</tr>
<tr>
<td>1994</td>
<td>86.61</td>
<td>108.87</td>
<td>--</td>
<td>74.56</td>
</tr>
<tr>
<td>1995</td>
<td>86.56</td>
<td>105.67</td>
<td>--</td>
<td>79.86</td>
</tr>
<tr>
<td>1996</td>
<td>82.12</td>
<td>105.29</td>
<td>51.40</td>
<td>83.23</td>
</tr>
<tr>
<td>1997</td>
<td>77.61</td>
<td>102.16</td>
<td>43.93</td>
<td>89.49</td>
</tr>
<tr>
<td>1998</td>
<td>82.79</td>
<td>101.26</td>
<td>57.85</td>
<td>95.14</td>
</tr>
<tr>
<td>1999</td>
<td>91.03</td>
<td>103.98</td>
<td>73.04</td>
<td>99.42</td>
</tr>
<tr>
<td>2000</td>
<td>93.88</td>
<td>105.97</td>
<td>88.81</td>
<td>112.71</td>
</tr>
<tr>
<td>2001</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>2002</td>
<td>106.62</td>
<td>102.32</td>
<td>113.38</td>
<td>96.37</td>
</tr>
<tr>
<td>2003</td>
<td>110.07</td>
<td>96.84</td>
<td>129.40</td>
<td>92.57</td>
</tr>
<tr>
<td>2004</td>
<td>117.58</td>
<td>103.47</td>
<td>138.41</td>
<td>96.68</td>
</tr>
<tr>
<td>2005</td>
<td>121.02</td>
<td>104.35</td>
<td>145.41</td>
<td>98.40</td>
</tr>
<tr>
<td>2006</td>
<td>104.08</td>
<td>104.81</td>
<td>150.05</td>
<td>94.89</td>
</tr>
</tbody>
</table>

(1) Aggregate indexes for operating volume exclude telecommunications indexes since 2006.

Source: The data are provided by the National Communications Commition, and Ministry of
Although public services are nearly universal for the general people, social services for those who are disadvantaged are not developing into the same direction until the 1990s. In fact, the Constitution in 1949 had imposed wide range of welfare responsibility upon the state. In Articles 152 to 157, the Constitution read that the state should maintain full employment, guarantee working conditions, harmonize industrial relations, establish social security system, protect maternal welfare, and realize a national health system (Ku, 1997a: 32-33). Furthermore, the revision of the Constitution in 1997 declared for more specific welfare measures such as the NHI, and protections for women, the handicapped, and the minorities. These all lay down basic legal contexts for social policy and legislation in Taiwan. However, whether or not the ideals can be realized into actions to meet social needs? This remains in question unless the state provisions for welfare are sufficient.

For personal social services, the Children Welfare Law 1973 is the first act in personal social services, in favour of a particular disadvantaged group of people. And then came with the Aged Welfare Law and the Handicapped Welfare Law in 1980, and the Youth Welfare Law in 1989. The Aged Welfare Law asked departments of social affairs in all levels of government to provide residential care and other social services to people aged 70 and over. The Youth Welfare Law aimed to protect teenagers between 12 and 18 years old from abuse, abandonment, delinquency and other improper behaviour, and required parents and families to take the responsibility for caring for the youth while the state would only intervene if parents and families could not properly afford this care. In particular, the Youth Welfare Law introduced a penalty regulation to fine parents and shopkeepers who sold prohibited goods like cigarettes, wines and drugs to young people or allowed them to behave improperly. The Handicapped Welfare Law specified that the provincial (municipal) and Hsien governments should, by considering actual needs, set up, or encourage private funds to set up, educational and caring institutions for the blind, the deaf and mute, the physically handicapped and the mentally retarded. In 1990, the Handicapped Welfare Law was revised to expand its definition of disabled and handicapped in order to include people who suffered mental disorder.

Nearly all of these acts were revised in the 1990s to improve and enhance the service capacity, except the Youth Welfare Law. Furthermore, in the 1990s four brand-new acts were made response to rising social concerns on abused and violated cases, especially on children and women. These include the Regulation Against Child and Adolescence Prostitute in 1995, the Act Against Sexual Violation in 1997, and the Act Against Domestic Violence in 1998, plus the Act for Social Worker Qualification in 1997 by which to establish a professional social work system dealing with above
problems as well as guaranteeing service qualities. In short, we may say that the personal social services in Taiwan have gradually transferred the focuses from general welfare to more specific cases in need.

Even if the above welfare Laws were enacted to promote welfare services for disadvantaged groups of the population, no comprehensive network of social welfare services has been established since 1980. In 1979, a few Hsien authorities set up social workers' units within their social affairs sections to deal with family problems, youth guidance, and services for the aged at community level. By 1982, half of the Hsien authorities in Taiwan province had established these units (Chan, 1985: 333-334). Since then the number of social workers has been continually growing in order to provide services for the disadvantaged. However, the professional status of social workers has not been recognized by the government so far, so that social workers are regarded as general assistants in most Hsien authorities and the possibility of forming a comprehensive network of welfare services has been blocked. As late as the end of the 1980s, the National Association of Professional Social Workers was founded for the purpose of establishing the professional status of social workers and to integrate various welfare services and agencies in order to provide more effective services for people in need.

The legislation around labour affairs was also at the heart of welfare development in the 1980s. Before the establishment of the Council for Labour Affairs in 1989, two acts concerning labour affairs had been enacted. The Vocational Training Law in 1983 further integrated and consolidated existing vocational training systems for unskilled workers participating in production in modern firms. The Labour Standard Law in 1984 was the first to regulate relations between employers and employees, working hours, wages and the protection of women and child workers. To pacify the rising labour movements, the KMT launched the Current Outline of Labour Policies in 1987 and promised to promote labour welfare. They prioritised labour affairs among national policies and established the Council for Labour Affairs. Although the Labour Standard Law was enacted just six years ago, a revision was underway in 1990 to enhance protection for labourers. However, the right to strike was still a key area of dispute in which the government did not wish to give up its control.

However, the need for aged caring seems to have little attention until some harsh conditions revealed by some newspapers. We can examine government efforts on improving social services for the elderly from the following two tables. Firstly, Table 9 shows the input side of government efforts in terms of expenditure on social services for various groups. We learn that the government expenditure on social services for the elderly ranks second, just behind the expenditure for the handicapped. However, the gap seems to be very large. In 1997, for example, the handicapped
received 52.27% of welfare expenditure, while the elderly only 22.23%. In particular, we should take the absolute numbers of the handicapped and the elderly into accounts, which are around 456,683 to 1,692,000 in 1996. Moreover, the percentage of government expenditure on social services for the elderly against GDP is only around 0.02%. It is very low, we must argue.

With such a low expenditure, whether or not the capacity of caring services can sufficiently meet the needs of the elderly. Table 4.10 shows the output side of government efforts in terms of caring beds available for the elderly in 1996. We find that veteran homes make up the largest share of the caring capacity, but these are not available for the general public. Caring homes for the healthy elderly are the second largest. However, given to the fact that about 10,000 old people need someone else to take care and expect to move in caring homes, long-term care should be the most demanded but the available beds are relatively insufficient. In particular, long-term care is the only kind of elderly homes dominated by the private sector, implying that the government does not pay enough attention to improve its capacity. This is probably one of reasons why so many underground private caring homes exist in Taiwan, lacking effective regulations to guarantee their service quality.

Another interesting feature we can find from Table 4.10 is the gap between the numbers of available beds and inmates. Table 10 demonstrates a lot of vacancies in all kinds of elderly homes that seems not compatible with the high demands. This probably can be explained from the perspective of accessibility. Firstly, caring services are generally assumed to low income households with, even, means-tested measures that retard the better-off households to access these services. They are forced to purchase caring services in the private markets without public regulations. Secondly, there is a critical shortage of professional social workers in local context to play well-functional roles as finding the needed old people, assessing their needs, transferring them to suitable agencies, and following up the improvement of their living conditions. And finally, the elderly usually would not like to leave the place or community they are used to live.
## Table 4.9  Expenditure on Social Services by Groups, 1991-1997

(Unit: NT$1,000; %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>%</th>
<th>Handi-capped</th>
<th>Elderly</th>
<th>Children</th>
<th>Women</th>
<th>Community Development</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>4,701,051</td>
<td>100.00</td>
<td>27.23</td>
<td>26.88</td>
<td>21.61</td>
<td>0.75</td>
<td>1.07</td>
<td>22.46</td>
</tr>
<tr>
<td>1992</td>
<td>5,624,183</td>
<td>100.00</td>
<td>57.92</td>
<td>18.88</td>
<td>12.95</td>
<td>1.38</td>
<td>1.42</td>
<td>7.45</td>
</tr>
<tr>
<td>1993</td>
<td>6,279,312</td>
<td>100.00</td>
<td>55.38</td>
<td>25.97</td>
<td>7.62</td>
<td>1.67</td>
<td>2.07</td>
<td>7.29</td>
</tr>
<tr>
<td>1994</td>
<td>7,337,924</td>
<td>100.00</td>
<td>51.29</td>
<td>26.77</td>
<td>11.28</td>
<td>1.87</td>
<td>2.04</td>
<td>6.74</td>
</tr>
<tr>
<td>1995</td>
<td>7,908,754</td>
<td>100.00</td>
<td>50.05</td>
<td>25.99</td>
<td>12.59</td>
<td>1.96</td>
<td>2.40</td>
<td>7.00</td>
</tr>
<tr>
<td>1996</td>
<td>7,444,850</td>
<td>100.00</td>
<td>50.37</td>
<td>24.40</td>
<td>12.02</td>
<td>2.59</td>
<td>2.55</td>
<td>8.07</td>
</tr>
<tr>
<td>1997</td>
<td>7,353,785</td>
<td>100.00</td>
<td>52.27</td>
<td>22.23</td>
<td>11.28</td>
<td>2.51</td>
<td>2.54</td>
<td>9.17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Homes</th>
<th>No. of Homes</th>
<th>No. of Beds</th>
<th>Available No. of Inmates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Caring Homes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-total</td>
<td>48</td>
<td>12,955</td>
<td>8,439</td>
</tr>
<tr>
<td>Public</td>
<td>16</td>
<td>7,145</td>
<td>5,381</td>
</tr>
<tr>
<td>Private</td>
<td>32</td>
<td>5,810</td>
<td>3,058</td>
</tr>
<tr>
<td><strong>Long-term Care</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-total</td>
<td>16</td>
<td>1,200</td>
<td>844</td>
</tr>
<tr>
<td>Public</td>
<td>1</td>
<td>422</td>
<td>305</td>
</tr>
<tr>
<td>Private</td>
<td>15</td>
<td>758</td>
<td>539</td>
</tr>
<tr>
<td><strong>Community Care</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-total</td>
<td>21</td>
<td>648</td>
<td>337</td>
</tr>
<tr>
<td>Public</td>
<td>21</td>
<td>648</td>
<td>337</td>
</tr>
<tr>
<td>Private</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Public Housing for Senior Citizens</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-total</td>
<td>3</td>
<td>828</td>
<td>115</td>
</tr>
<tr>
<td>Public</td>
<td>3</td>
<td>828</td>
<td>115</td>
</tr>
<tr>
<td>Private</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Veteran Homes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-total</td>
<td>14</td>
<td>21,358</td>
<td>18,038</td>
</tr>
<tr>
<td>Public</td>
<td>14</td>
<td>21,358</td>
<td>18,038</td>
</tr>
<tr>
<td>Private</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>102</td>
<td>36,989</td>
<td>27,773</td>
</tr>
<tr>
<td>Public</td>
<td>55</td>
<td>30,421</td>
<td>24,176</td>
</tr>
<tr>
<td>Private</td>
<td>47</td>
<td>6,568</td>
<td>3,597</td>
</tr>
</tbody>
</table>


A general survey on the aged population was conducted in 1996 and published in 1997, by which the most recent and comprehensive profile about the living reality of the Taiwanese elderly can be summarized as the following features: (DSMIA 1997)

1. There are 15.31% of the elderly with physical or mental disability and among them 76.16%, equivalent to about 200,000 old people in number, have not reported to the government for helps.
2. There are 55.69% of the elderly suffered from poor health and chronic diseases, in which every one in ten, about 92,000 old people, need someone else to take care their daily living.
3. In the group of 92,000 old people needing caring services, only 10.27% are living in caring homes. Their families care about 77.21%; and 1.96% are living alone. In addition, 10.96% of them, equivalent to about 10,000 old people, are expecting to move in caring homes.

4. During August to October 1996, every one in twenty of the elderly has ever been hospitalized over 15 days; every old person went to hospitals or clinics five times and average medical spending was NT$ 1,639.

5. Comparing to the situation that before the National Health Insurance was enforced, the average times of every old person going to hospitals or clinics in three months have increased 11.6% and average medical spending has reduced NT$ 1,770.

6. There are 64.3% of the elderly living with their younger generation but the number is declining. By contrast, the aged living with their partners or living alone are 20.63% and 12.28% respectively, increasing from 18.63% and 10.47% of the last survey in 1993.

7. The roles of aged people in the family mostly are shopping foodstuffs, cleaning and caring grandchildren.

8. The major income sources of the elderly are 48.28% from their children, 17.55% from occupational pension, and 13.15% from personal saving. The income source from children has been declining very significant from 65.81% in 1986, while the importance of occupational pension and social assistance is growing very fast.

9. The top three social services are regarded by the elderly as health care, pension and caring services in home.

10. The most satisfactory service by the elderly is health care and the most unsatisfactory is caring service no matter in public or in private institutions.

The top three social services, mentioned in the ninth point above, indeed demonstrate the needs most concerned by the elderly in Taiwan, namely health, economic security and caring. After the National Health Insurance was enforced in 1995, the health need now can be basically met. And the government has promised to establish a national pension system which has been realized in 2008.

An impact made by welfare reforms in Western welfare states should not be neglected. Since the publication of Norman Johnson’s book on welfare pluralism (1987), the idea that social and health care may be obtained from four different sectors has been widely advocated in Taiwan. So are the concepts as privatization, decentralization, managerialism, mixed economy of welfare, quasi-market, non-profit organizations, community care, and so on. All of these are implying a less dominant
role of the state in the collective provision of social welfare. We will further examine the welfare roles of non-governmental sectors in Taiwanese context.

**Market**

A sizable of literature and studies relating to these theories have been appearing in Taiwan, particularly focusing on privatization of social welfare. Also, in official reports published by the Department of Social Affairs obviously demonstrate the policy preferences of welfare on developing more service providers from the private, family, community, voluntary sector, and even profit organizations (Chen, 1996). Welfare privatization is indeed more corresponding to the liberal orientation of Taiwanese economic technocrats for at least three reasons. Firstly, more service providers from different sectors mean that the state can release its burdens of state welfare and pressures on finance. Secondly, effectiveness and efficiency should be better confirmed in the private than the public, and this is important very much because of limited resources. And finally, more service providers imply more choices empowered to welfare consumers and encourage self-reliance.

However, whether or not privatization is a unique way out of welfare crisis is still under examination in Western welfare states (Esping-Andersen, 1996). Some issues arising from privatization must be noted. The first is about the state role. Privatization as a state policy, meaning that the state is deliberately to promote this process using subsidies mostly, expresses a structural gap between theory and practice. Privatization in practice is not so totally an activity in the private and the state intervention is existing as usual. The second issue concerns with the defects of privatization, especially if the profit motivation is in social welfare. Although profits and competition for profits are theoretically able to guarantee effectiveness and efficiency, these could offend against marginal groups of welfare consumers without enough money to pay for services. In a pure market society, the more profits the better and there is no a formal mechanism to regulate a reasonable profit level. The private organization is therefore tending to reduce its costs, using unqualified manpower for example, in order to maximize its profits. This is going to make service quality declining, on the one hand; and the satisfied needs under privatization could be the most profitable rather than the most needed, on the other hand.

**Community**

Apart from privatization, decentralization is another idea concerned by the Taiwanese state, which refers to a top-down development of welfare responsibility from the
Central Government to local authorities, and even to communities. For example, a national conference on community development was held by the Department of Social Affairs under the Ministry of Interior Affairs in 1995, in which reached a conclusion to promote community-based welfare services (MIA 1995). Since then five experimental towns around the island are selected to see the possibility of community care (or so-called welfare communitization in Taiwanese term).

Although the Government advocates its merits in accessibility and acceptability, thing is not so simple. The Government poured NT$ 15 to 20 millions a year into these five experimental towns each for the construction of community-based service network. This is a real amount of money to such small towns, but what have be done are mainly on meal services, day care, respite care, in-home services, and greetings sending (Yang and Hwang 1999). This implies some limits of community care in Taiwan. First of all, as an experimental program, the Government regards the five towns as models, so that it gives away a lot of money. But the money is neither permanent nor available to all other communities that make these services only temporary and selective. Secondly, even the towns lucky enough to have the governmental money, it is not used to construct more care homes in community, without increase of care beds the needed people, especially those who need intensive care or live alone, can not move out the slum for a better living conditions. So we see all these services help to release care burdens of family members only. Family, rather than community or elderly homes in community, is still at the heart of care responsibility.

We doubt that community care in Taiwan can effectively meet such a demand, especially as aging process is speeding. Moreover, the towns selected to promote community care are relatively with better infrastructure and activity. Their successes can not guarantee its working in other communities, particularly those suffer radical declines. Three issues emerge:

1. Whether or not the community is ready to take over welfare responsibility?
2. Whether or not the community has the autonomy to make their own decision?
3. Whether or not the users are really satisfied with this change?

The first issue concerns with the capacity of the community, including resources and infrastructure. The community can not totally replace welfare role of the state, due to different communities with varied degree of capacity. The second issue concerns with the power of the community. Public participation is declining if the community is dependent on resources and regulation from the state, and this could further damage the acceptability of community care. The third issue concerns with the satisfaction of
consumers. Community care could become community abandonment if consumers do not really want this change. If the community would not or could not play well the role of service provider, then the welfare decentralization could be further to families under communities or even to the female individuals in families. Here comes another lesson concerning with the family in welfare services.

**Family**

The further question is the role of women in family. As traditional carers, women are at the heart of family services. This is still so given in Taiwan. In a survey conducted by the Taiwanese Government on labour division within household shows that the family responsibility of the male is as breadwinner and the female is as housekeeper. In particular, caring for the elderly and children is the responsibility primary for the female, 2,654 in 3,008 surveyed households approve this (DGBAS, 1999, Table 7). Even so, as the increase of female labour participation from 36.6% in 1966 to 45.6% in 1997 (DGBAS 1998, Table 17), this development has put women in a great pressure between their working careers and family roles, and also constrained the possibility of caring function in family. Now over 41.5% of households in Taiwan are two-career families, meaning that both husband and wife are in formal employment, and this figure even increases to 53.7% in the households with children below 14 years old (DGBAS 1999, Table 14 and 15).

In fact, no a welfare state says that it would replace the role of family in human value and living, but we must recognize the limits of family in modern society. In particular, changes in demography, family size, and economic structures have constrained the original caring and supporting functions of the family. A policy to support family is therefore not to replace or weaken family functions as some Taiwanese politicians argue (Ku, 1997a: 186). On the contrary, it is going to enhance the family to realize its functions promptly, especially to release the dilemma facing Taiwanese women.

**Voluntary Organization**

It is true that voluntary sector can be an important source of social welfare, but it usually suffers the problems of sustainability and consistence, especially its financial instability. By the end of 1997, there were about 12,825 voluntary organizations in Taiwan, in which 3,867 were founded with the purposes of social services and charity (DSMIA 1998, Table 49 and 50). A significant growth of voluntary organizations emerged after political democratization that has opened more participation
opportunities to public services. According some estimates, in 1990 the total expenses of voluntary organizations reached NT$ 13 billion, equivalent to 0.3% GNP, 10% of the social expenditure of the Central Government, and 35% of the total governmental expenditure on personal social services in that year. This figure has increased to NT$ 18 billion in 1996 (Wang, 1999).

Even though the role of voluntary sector is becoming important, it is difficult to replace the state for at least two reasons. The first is concerning with its financial aspect. In Taiwan, a survey reveals that social donation (39.9%) ranks top of income sources for voluntary organizations, and the second is subsidies from the Government (28.7%) (Shih, 1997). Social donation is closely linking to economic climate that could reduce the money for services. Without a more regular income voluntary organizations are difficult to develop a long-term program and to expand service capacity, and this will in turn confines activities of voluntary organizations to piecemeal and temporary. A much regular income is indeed from the Government. Along with the development of contracting-out under privatization, the importance of governmental subsidies is increasing very significant (Shih, 1997). However, a dilemma emerges. To bid for contracts from the state, voluntary organizations must change themselves according to governmental guideline. This could lead to a) loss of independence, b) changing shape of voluntary sector, and c) going where the money is (Lewis, 1993). In this case, the roles and functions of voluntary sector must be carefully defined, especially its boundary and relationship with public sector.

Secondly, there is an uneven development within voluntary sector that is not equally benefiting all the areas and groups. In Taiwan, urban areas do have more voluntary organizations. Those organizations with religious conviction are able to collect most resources, as the largest foundation in Taiwan is a Buddhist organization with over 3 million members, equivalent to around 14.3% of total population. Also, the elderly and children generally win more attentions from voluntary sector, while women get less. These all make voluntary services difficult to become a universal and comprehensive net for the people in need, and therefore indicate the necessity of collective effort for integration.

Nevertheless, the Government did enhance its efforts in the improvement of social services, even though gradually. Table 4.11 demonstrates the development of social services during 1991-2007 and we can observe the expansion of capacity at every kind of social services. So far, it is still difficult for social services to become universal, but Taiwan has constructed a rather comprehensive framework to deliver necessary services to the people in needs.
<table>
<thead>
<tr>
<th>Welfare institutions for handicapped</th>
<th>Caring institutions for the aged</th>
<th>Nursing institutions for the aged</th>
<th>Child day-care center</th>
<th>Education and nurture institutions for Child &amp; Juvenile</th>
<th>No. of child &amp; juvenile welfare centers</th>
<th>Mistreated children &amp; juvenile</th>
<th>% of population aged under 18 run away from home (100,000 pop.)</th>
<th>Welfare center for women</th>
<th>Housing for women</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Institutions</td>
<td>No. of Lodged Persons</td>
<td>No.</td>
<td>No.</td>
<td>No. of nursing persons</td>
<td>No. of institutions</td>
<td>No. of children (1,000)</td>
<td>No. of inmates</td>
<td>No. of mistreated children &amp; juvenile</td>
<td>Percentage of mistreated children &amp; juvenile</td>
</tr>
<tr>
<td>1991</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>85</td>
<td>41</td>
<td>8579</td>
<td>12</td>
<td>666</td>
<td>3664</td>
<td>230</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>95</td>
<td>41</td>
<td>8442</td>
<td>13</td>
<td>675</td>
<td>3650</td>
<td>234</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>96</td>
<td>45</td>
<td>8250</td>
<td>16</td>
<td>839</td>
<td>3288</td>
<td>223</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>113</td>
<td>48</td>
<td>8439</td>
<td>16</td>
<td>844</td>
<td>2222</td>
<td>235</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>130</td>
<td>50</td>
<td>6797</td>
<td>20</td>
<td>1049</td>
<td>2304</td>
<td>246</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>138</td>
<td>50</td>
<td>8429</td>
<td>33</td>
<td>1350</td>
<td>2449</td>
<td>249</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>144</td>
<td>54</td>
<td>7984</td>
<td>183</td>
<td>4116</td>
<td>2715</td>
<td>259</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>178</td>
<td>53</td>
<td>8049</td>
<td>475</td>
<td>9688</td>
<td>3345</td>
<td>310</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>193</td>
<td>55</td>
<td>7600</td>
<td>608</td>
<td>13099</td>
<td>3600</td>
<td>319</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>223</td>
<td>61</td>
<td>7480</td>
<td>726</td>
<td>17250</td>
<td>3897</td>
<td>327</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>241</td>
<td>49</td>
<td>7563</td>
<td>778</td>
<td>19853</td>
<td>4082</td>
<td>303</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>244</td>
<td>49</td>
<td>7609</td>
<td>837</td>
<td>22642</td>
<td>4257</td>
<td>300</td>
<td>77</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>244</td>
<td>47</td>
<td>7544</td>
<td>865</td>
<td>24815</td>
<td>4307</td>
<td>290</td>
<td>86</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>248</td>
<td>43</td>
<td>6774</td>
<td>901</td>
<td>27792</td>
<td>4213</td>
<td>266</td>
<td>89</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>254</td>
<td>17,002</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Linkage of the Developmental State and Social Protection

Inspired by the ‘Varieties of Capitalism’ approach in analyzing the institutional complementarities of production and welfare regimes in advanced industrial democracies (Hall and Soskice, 2001; Huber and Stephens, 2001b), recent researches examining linkages between models of economic development and welfare regimes in developing countries have emerged in the recent literatures of comparative political economy. Wibbels and Ahlquist (2007) developed a political model that seeks to identify linkages between the economic strategies pursued by developing countries and their social policy choices.

Rudra (2007) found the social policy development in developing countries is different from the trajectory in the advanced countries. The seminal work of Esping-Andersen (1990) on the typology of the welfare capitalism in advanced countries delineates three stages of social policy development: pre-commodification, commodification and de-commodification phrases. Contrary to the experience of advanced counties, Rudra (2007: 17) finds there are only two developmental stages in the social policy development for developing countries: pre-commodification and commodification/de-commodification phrase. She explains the differences between them lie mainly on the necessity of speedy catch-up for the late-developed countries. For enhancing the capitalist development, the labor force is required to be transformed from agricultural to industrial sector. The commodification of labor force is juxtaposed with the de-commodification process. The commodification of labor force in western countries results in the proletarization of the labor force during the industrialization process. This contributes to the formation and breeding of class consciousness and hence the class mobilization. Mixed with the growth of left-wing social democratic political parties, these factors explain the development of the welfare states in advanced countries, though there exists the variation between countries (Huber and Stephens, 2001).

Contrary to the experience of developed countries, the development of welfare states in developing countries runs another path. While they have to encounter the problem of catch-up in the world capitalist system, the commodification of labor forces is even preferable and necessary for the development, at least in the initial phrase to channel the rural labor force into industrial sectors. While in the advanced countries the state tries to decommodify the labor forces and reduce the social stratification by social policies, the state in developing countries even push the citizens to be dependent on the labor market by qualifying and therefore commodifying the labor forces. Whereas the western welfare states focus on diminishing the class conflicts and reducing the social inequality resulting from the ‘proletarization’of labor forces, the policy priority of the developing countries is to narrow the developmental gap with the advanced countries via effective ‘catch-up’ strategies. What really matters is not the inner inequality between employers and employees but the outer inequality between poor and wealthier countries. The competition state is more important than welfare state (Lue, 2001). It is then understandable why the economic policy is regarded as the best social policy, at least in East-Asian countries before democratization.

The citizens are encouraged to become wage-earners demanded by the commodified labor market. Social policies are therefore mixed with and even understood as one part of the (economic) developmental project. The measures for commodifying the labor force include the enhancing of literacy rate by education, the work training programs for qualified workforce and public hygienic measures. It is
expected that these public policies can improve the human capital and enhance the productivity of labors. The measures aim to enhance the employability of the workers and hence to serve the goal of capitalism development. As Rudra (2007) has forcefully pointed on, the developments of social policy in some developing countries (East-Asia particularly) represent the characters of productivism. Aiming to enhance the competitive edges in the world market, the productivism model takes the social policy as an instrument for economic development. However, the instrumentalist argument might be too simple to understand the interchange between social and economic policies the one hand, and the economic and political calculation of the states on the other hand. The theoretical insights of Varieties of Capitalism (VoC) could be an alternative for explaining and analyzing the complex complementarities between welfare and production regimes. From this perspective, the social policy could not be understood as pure instrument for attaining the economic development goal. Some unintended consequences of early social policy legislation functions for conducing the commodification of labor forces and contributing to the capitalist formation of late-developed countries deserve further examination in the future study.

Based on the factors endowment model, Wibbels and Ahlquist (2007) for example, asserts that each country is endowed with different production factors. The countries abundant with lands tend to develop the import-substitution industrialization (ISI) strategy because the scarcity of labor force makes the bargaining power of the workers higher. On the other hand, the countries abundant with labor forces are inclined to develop export-oriented industrialization (EOI) strategy because their comparative advantages rest in the cheap labor force. The low wage becomes the competitive edge in the international trade competition. Related to this problem constellation, the damping of the labor costs come fore to the policy concern of developmental strategies.

Under ISI economic strategy, the domestic market is sheltered from the foreign competition. The capitalist forges a coalition with the workers and pursues the protection of their interests. The high organization rate of workers in core industrial sectors (e.g. steel, coal, energy and other public services sectors) also helps to strengthen this tie. A social policy result of this interest constellation is the high social insurance benefits level for the core workers. This explains the high expenditures of social insurances in Latin-American welfare systems. The generous social insurance benefits could therefore be deemed as a rent for securing the political support of core workers for this coalition. However, the costs of low economic efficiency are shifted to the workers in the periphery sectors, such as atypical workers in informal sectors, youth and female workers.

The analysis of Wibbels and Ahlquist (2007) shows the choice of developmental strategy of developing countries is contingent on the comparative advantages of a state in the world market. A constellation between workers, employers and state will be developed across years. The choice of developmental strategy is shaped by this strategic interest coalition and maintain across time. The individual actor profits from the institutional arrangements and this strategic interaction makes reform costly in terms of political and economic costs.

**Conclusion**

In the past decades, we have witnessed the remarkable achievements of education and health care in Taiwan. Whatever in terms of coverage and opportunities, education and health care are nearly universally available to all citizens that are not merely the
result of economic growth but also fundamentally to further development, contributing to the formation of skilled and healthy workforce. Both constitute the most core part of policy regime in Taiwan, by which people can expand their economic opportunities and in turn reduce the risks of poverty.

Continuing with the efforts in the colonial period, public services linking to infrastructure have been well developed to cover all parts of the island, empowering people to access to public services for their social mobility. However, social services for the disadvantaged groups are more likely on selective base, even though we can observe their steady improvement during the 1990s and 2000s. The Government seems not ready to take its role in the provision of social services. For instance, though the needs for elderly welfare are coming more significant in Taiwan, who should be responsible for this remains as a question. We have examined the limits of private sectors – family, community, charity and market - in the provision of elderly welfare, it seems impossible for the state to escape from such a responsibility, no matter as a provider or a regulator.

A survey, conducted by the Ministry of Interior Affairs (DSMIA, 2000), shows some important findings about public expectations on state welfare. In the question concerning with which welfare measures the Government should make more efforts, elderly welfare still occupies the first priority with 45% of respondents. This figure is far beyond the second priority of social assistance with 24% only, implying that the Taiwanese citizens have recognized the important role of the state on elderly welfare and expected the state to do more improvement. It is also noting that the younger generation even holds similar attitudes with 37% favor on elderly welfare, by which we learn the issue not concerned by the elderly only; rather, it is crossing different generations.

Another survey of 495 elderly people around Taiwan shows that 37.3% of respondents would like depend on their own efforts to live in their retirements, no matter from personal savings, family supports or occupational pensions. But if they can not make it, they regard the state as the most reliable source, via statutory programs, to provide just helps. Importantly, the respondents have fully understood the DPP Government’s swaying away from its reformist position because of economic recession, and they also learn that the statutory welfare programs will not definitely be better than Buddhist Charities. However, over 58% of them still insist that the state should not give up its welfare responsibility (Ku, 2000).

Generally speaking, the Taiwanese publics have learned the increasing pressures of aging problems, especially after the reveal of so many distressful cases. But this is just a beginning, we would say, because the aging process will be even faster in the coming one or two decades. Although some efforts have been initiated by the government, these have not yet become a more comprehensive and consistent policy-orientation. There is a critical gap between public expectation and governmental policy particularly on the issue who should be responsible for elderly welfare. Time is short, no matter to the public or to the policymakers.
5
Democratization, Globalization and Policy Regime Changing

Introduction

The year of 2000 is a historic watershed for the Taiwanese politics. For the first time the authoritarian ruling party, the KMT, lost its power in the general election and was replaced by the young opposition party, the DPP. How this came about? It must be a question for so many people and the Asian Financial crisis in 1997 could be the prelude of the whole story. Although Taiwan was relatively strong against the crisis, comparing to its neighbours, it did not completely save from the crisis, I must argue. Rather, in order to restore its economic growth as soon as possible, the price it paid for is at the political aspect. This chapter will trace back historical development of Taiwan’s responses to the crisis that would make my argument more obvious. First of all, we will locate Taiwan into international context to see how good is its economic performance. Secondly, we would look at social situations and policy responses to the crisis. Thirdly, at social aspect the government did not pay enough attention and the pressures were aggregating, this in turn radically damaged the legitimacy of the government and its ruling party, the KMT. Fourthly, the spillover effects of the crisis were linking, more or less, to the KMT’s defeat in the presidential election on March 18, 2000. Finally, the DPP now is in power, but problems will not dismiss automatically. We will go further to see the challenges the DPP government faced in social reforms.

The Impacts of Asian Financial Crisis

This is an age of crisis and upheaval, particularly for East Asian countries after many decades of so called ‘economic miracle’. As growth is slowing down, the state of the economy is no longer only an economic issue. So we saw the collapse of Suharto’s power in Indonesia and the spread of violence. ‘Mobs attack people and property for any reason – political, religious, ethnic or merely criminal.’ according to the Economist (30 January 1999). Also in Korea, a worker demonstrated his protest against the International Monetary Fund (IMF) as I’m Fired, that the picture has hit the headline of so many newspapers and magazines in Asia. Fortunately, Taiwan was relatively strong against the crisis, comparing to its neighbors. This sharpest economic melting down indeed raised fears that Taiwan could be next. Local economists and policymakers warned the possibility of a critical ‘disaster’ or ‘recession’ to come. But as comments made by the Far Eastern Economic Review, ‘If that’s a crisis, it’s one that almost any other East Asian Country would envy’ (11 February 1999).

As the crisis began from the collapse of the Thai baht in July 1997, it spread very fast to equity and currency markets throughout Southeast and East Asian countries. It reached a peak in 1998 when Japan and Korea were also in troubles. Taiwan was hit too, while Hong Kong and China were mobilizing huge foreign reserves to support their currency values. Even though the admiration by the Far Eastern Economic Review, it is still necessary to examine Taiwan’s economic performance during the crisis, locating it into international context. We will use four indicators, namely GDP growth rates, exchange rates to the Dollar, consumer price changes and
unemployment rates, to compare Taiwan with its main neighbors. These four indicators cover macro economic performance and purchase power linking to the levels of human well being, to which, I believe, can precisely give us a comprehensive overview.

Table 5.1 shows GDP growth rates in Taiwan, Korea, Hong Kong and Singapore from 1996 to 1999. We learn that GDP growth in Taiwan was modest before the crisis, in 1996 it is only better than Hong Kong. But this completely changed particularly in 1998 as Taiwan became the top of the league, while economic sizes of Korea and Hong Kong were shrinking significantly. Although it was still positive, GDP growth in Singapore was dropping over 80% in just one year, comparing to Taiwan’s 30%. In 1999, Taiwan has shown improvement steadily, as well as the most significant Korea. But Hong Kong’s economy was still in a slump and there were no better signs in Singapore. We could say that Taiwan was hit indeed, but its economy remained active during the crisis.

Table 5.1 GDP Growth Rates (%) in Selected East Asian Economies, 1996-9

<table>
<thead>
<tr>
<th>Economies</th>
<th>1996</th>
<th>1997</th>
<th>1998</th>
<th>1999†</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>5.7</td>
<td>6.8</td>
<td>4.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Korea</td>
<td>7.1</td>
<td>5.5</td>
<td>-5.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4.5</td>
<td>5.3</td>
<td>-5.1</td>
<td>-0.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>6.9</td>
<td>7.8</td>
<td>1.5</td>
<td>1.0</td>
</tr>
</tbody>
</table>

† Projected.


However, macro economic management is by no means an easy task. To maintain economic activeness, currency value has to be adjusted carefully according to market conditions. But as it is floating too radical, damages could follow. Table 5.2 shows changes of local currency exchange rates to the Dollar. We find that Hong Kong has done its best to support its currency value, especially backed by China, while the devaluation of Korean Won was nearly 50%. Taiwan and Singapore were in the middle. As well known, the export-oriented industrialization (EOI) is the basic model of development in East Asia and this is particularly led by the state (World Bank, 1993). A low currency value could benefit local products in competing with world market, but the price it pays for is decreasing purchase power that will in turn aggregate pressures on inflation and hit production for domestic demands. On the contrary, an over-valued currency could raise production costs and this is not favorable to world market, though imported goods are relatively cheap. Both cases will result in high unemployment if balance can not be restored in a short time between supply and demand, as well as between world and domestic markets. We will see this further in the next two tables.
Table 5.2  Changes of Exchange Rates to the Dollar in Selected East Asian Economies, 1995-8 (1995=100)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan (NT$)</td>
<td>100</td>
<td>96</td>
<td>92</td>
<td>79</td>
</tr>
<tr>
<td>Korea (Won)</td>
<td>100</td>
<td>96</td>
<td>81</td>
<td>55</td>
</tr>
<tr>
<td>Hong Kong (HK$)</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Singapore (S$)</td>
<td>100</td>
<td>100</td>
<td>93</td>
<td>82</td>
</tr>
</tbody>
</table>

Source: Amended from Asian Development Bank 1999: Table A20.

From Table 5.3, Korea had a higher inflation in 1998 because of its radical devaluation of Won. Inflation in Hong Kong was around 6% before the crisis, but it has been interestingly improving as the crisis began, implying that the Hong Kong Dollar could be over-valued by political intervention from China. Similar to Table 5.2, Taiwan and Singapore were in the middle, consumer prices floating but within a reasonable scope. As the inflation rate is low, public investment projects will not lead to an overheating of the economy (Asian Development Bank, 1999). This should bring Taiwan out of the crisis as soon as possible, and secure employment opportunities as well. So we observe, from Table 5.4, that unemployment rate in Taiwan was increasing but remaining very stable during the crisis, comparing to radical rises in Korea, from 2.0% in 1996 to 6.6% in 1999, and in Hong Kong from 2.8% to 6.1% at the same period.

Table 5.3  Changes of Consumer Prices (%) in Selected East Asian Economies, 1996-9

<table>
<thead>
<tr>
<th>Economies</th>
<th>1996</th>
<th>1997</th>
<th>1998</th>
<th>1999†</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>3.1</td>
<td>0.9</td>
<td>1.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Korea</td>
<td>5.0</td>
<td>4.5</td>
<td>7.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>6.3</td>
<td>5.9</td>
<td>2.8</td>
<td>-1.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.4</td>
<td>2.0</td>
<td>-1.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>

† Projected.

Source: Amended from Asian Development Bank 1999: Table A9.
Table 5.4  Unemployment Rates (%) in Selected East Asian Economies, 1996-9

<table>
<thead>
<tr>
<th>Years</th>
<th>1996</th>
<th>1997</th>
<th>1998</th>
<th>1999†</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>2.6</td>
<td>2.7</td>
<td>2.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Korea</td>
<td>2.0</td>
<td>2.6</td>
<td>6.6</td>
<td>6.6</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2.8</td>
<td>2.2</td>
<td>5.7</td>
<td>6.1</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.0</td>
<td>1.8</td>
<td>3.2</td>
<td>3.6</td>
</tr>
</tbody>
</table>

† Monthly average during January-August, 1999.

Source: Amended from DGBAS, Social Indicators in Taiwan, various years.

In short, from tables above, it is true that Taiwan is the case every Asian country will envy. It was an outstanding economy well-balanced in these four indicators: a rather good GDP growth, a limited floating currency value that made Taiwan able to fully adjust its economy according to market conditions, a so low inflation as to increase public investment without worrying about economic overheating, and a modest unemployment that should give more credits to the legitimacy of the state. There seemed no any crisis to Taiwan at all, some commentators doubted it. But the Taiwanese public did not think so. Before we explore this issue further, we should look at firstly social situations during the crisis and the governmental policy responses, especially on whether or not such policies can effectively stabilize social order.

Social Consequences of the Asian Crisis in Taiwan

The world has witnessed a great development in the past decades, but the humans seem not able to completely escape from threats of unemployment and poverty, no matter they are old or young, female or male, and different peoples. This is closely linking to the changes of economic production that is not for consumption of direct producers but as commodities for profits. Workers are also becoming labour forces for hire in market, as one form of commodities.

Indeed, industrialization and capitalist development are two major changes of Taiwanese economy. The Former can be observed from labour forces in industry and service sectors that have increased from 55% in 1966 to 90.5% in 1997, while labour forces in agriculture sector have declined from 45.0% to 9.6%. At the same period, paid workers have become the most important occupation as its share in total labour forces is now over 70%, from 45.3% in 1966, and this is the social aspect of capitalist development, namely proletarianisation in Marxist term. Such a development will generate a new contingency to lose work and income, and therefore poverty follows (Gough, 1979: 32-33). Taiwan has been enjoying a long time of full employment, which is one aspect of its economic miracle. Now the miracle is under de-construction, gradually but significantly.

As the Asian crisis hit Taiwan, firms were impacted directly. Table 8 demonstrates the number of closedown firms comparing to the newly opened. Although the number of new firms remained very stable, the closedown firms reached a historic high in 1998. A gap up to 1,062 closed firms signaled the coming of economic recession and harsh market situations for operation, on the one hand. For
workers, this was implying limited job opportunities and the growing difficulties to find proper works and to improve working conditions, on the other hand. Two possible results follow: growing unemployment and conflict between employers and employees. Table 5.6 and 5.7 together give us a brief but significant profile about the consequences.

### Table 5.5 Number of Closedown and Newly-opened Firms in Taiwan, 1996-9

<table>
<thead>
<tr>
<th>Years</th>
<th>1996</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closedown (A)</td>
<td>5,339</td>
<td>2,904</td>
<td>6,788</td>
<td>3,982</td>
</tr>
<tr>
<td>Newly Opened (B)</td>
<td>5,414</td>
<td>6,039</td>
<td>5,726</td>
<td>5,846</td>
</tr>
<tr>
<td>B-A</td>
<td>75</td>
<td>3,135</td>
<td>-1,062</td>
<td>1,864</td>
</tr>
</tbody>
</table>

**Source:** Data from the website of DGBAS.

The number of unemployed persons was 242,495 by the end of 1996, and this has increased to 282,742 in 1999. Comparing to other Asian economies, unemployment in Taiwan was increasing but without dramatic growth. Nevertheless the most important change was the reasons to explain why people were out of work. In 1996, the major reason for unemployment was dissatisfied with work conditions. After working for many years, people would look for a better career and wage, and therefore they could choose temporarily leaving their original jobs to conduct a further study at universities, for example. This also implied a prosperous job opportunities at those days so that people were not worrying about unemployment in a much longer term.

However, the reason has changed radically. Just four years later, in 1999 the risk of layoff was increasing to be the major reason. In particular, when the recession was coming, workers were easier to become dismissing target for saving labour costs. It was worth to note that the decrease of people who were not satisfied with working conditions did not necessarily mean an improvement. On the contrary, it implied a loss of workers' bargain power because of limited job opportunities. And, we must argue, this was in turn provoking more conflicts between employers and employees. Table 5.6 shows this development very clear.

### Table 5.6 Reasons for Unemployment, 1996-9

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of the Unemployed</td>
<td>242,495</td>
<td>256,240</td>
<td>256,917</td>
<td>282,742</td>
</tr>
<tr>
<td>Reasons: (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Without Work Experience</td>
<td>23.2</td>
<td>22.4</td>
<td>22.9</td>
<td>21.3</td>
</tr>
<tr>
<td>Lay-off</td>
<td>28.2</td>
<td>27.7</td>
<td>27.8</td>
<td>32.1</td>
</tr>
<tr>
<td>Dissatisfied Work Conditions</td>
<td>32.5</td>
<td>32.8</td>
<td>32.0</td>
<td>30.4</td>
</tr>
<tr>
<td>Others</td>
<td>16.1</td>
<td>17.1</td>
<td>17.3</td>
<td>16.2</td>
</tr>
</tbody>
</table>

**Source:** Data from the website of DGBAS.
The cases of labour disputes were double during the Asian crisis, from 2,659 cases in 1996 to 5,860 in 1999. If we look at this development from the number of workers involved in disputes, it grew even more dramatically, from 21,654 in 1996 to the peak in 1998 with 103,568 workers involved, though down to 30,440 in the next year. This figure has been beyond 62,391 in 1989, when was the highlight of social movements for political democratization in Taiwan. Also, from Table 10 we learn that contract and wage were two key points for labour disputes, reflecting workers’ requirement on the improvement of working conditions.

<table>
<thead>
<tr>
<th>Years</th>
<th>1996</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Disputes</td>
<td>2,659</td>
<td>2,600</td>
<td>4,138</td>
<td>5,860</td>
</tr>
<tr>
<td>No. of Workers Involved</td>
<td>21,654</td>
<td>81,004</td>
<td>103,568</td>
<td>30,440</td>
</tr>
<tr>
<td>Reasons:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts</td>
<td>1,271</td>
<td>1,172</td>
<td>1,954</td>
<td>2,976</td>
</tr>
<tr>
<td>Wages</td>
<td>891</td>
<td>737</td>
<td>1,321</td>
<td>1,953</td>
</tr>
<tr>
<td>Retirement</td>
<td>239</td>
<td>251</td>
<td>306</td>
<td>360</td>
</tr>
<tr>
<td>Occupational Hazards</td>
<td>262</td>
<td>366</td>
<td>493</td>
<td>656</td>
</tr>
</tbody>
</table>

Source: Data from the website of DGBAS.

At the beginning of 1999, unemployment seemed to become more critical and no signs to show the possibility of improvement in the near future. This great pressure forced the government to propose policies and measures maintaining and even promoting job opportunities. The Labour Council declared the year as ‘the Year of Employment Security’, by which to establish a more consistent employment security system. The measures include (United Daily News, 23 February 1999):

1. From 1 January 1999 the Labour Insurance would have unemployment benefit particularly for those who are laid off, by which also integrates employment services and retraining to help workers back to labour market as soon as possible.
2. The Labour Council will provide subsidies, up to one year, to employers who would hire middle and senior aged workers in order to stop their increase of unemployment.
3. To prevent the vicious closedown of firms, by which employers avoid their responsibility to employees and transfer capitals to other countries, the Labour Council would set up a monitoring system to watch out for and regulate layoff in great number.

However, the effects will be more complicated if a rational policy cannot remain its nature and consistency. In fact, political interests are going to intrude into policy process and that could totally change the possible impacts of such a policy. It is so given in Taiwanese political Economy. We will see one example about the intrusion of
political interests that could make unemployment even worse, rather than improving this problem. That is the policy on the imports of foreign labourers.

Originally the purpose of importing foreign labourers is to fill the gap between supply and demand of native labourers. But such a function has changed to a competition between the two sides, native labourers vs. foreign labourers, for limited job opportunities. By the end of 1998, there were around 271,000 foreign labourers in Taiwan, most of them come from Philippines and Thailand. Tricky enough, the number of unemployed persons in Taiwan was 282,742 by the end of 1999. In other words, the foreign labourers just and effectively replaced the native labourers. This situation is not a problem if economy continues to grow fast and more job opportunities are created. But the financial upheavals in Asia also affected Taiwan. Economic growth rate was down and jobs were becoming scarce, and then the conflict was provoked to be radical.

To cope with the financial upheavals, capitalists were pursuing for a reduction of costs in which of course included labour costs. They preferred to hire foreign labourers because they were able to satisfy with basic wage, which was far below the wage level of native labourers and therefore significantly reduced labour costs. For this reason, the Chinese National Federation of Industries, which is one of two important organizations of employers, put a great pressure upon the Labour Council to increase 38,000 foreign labourers (United Daily News, 12 March 1999). On the contrary, the unions would not like the increase of foreign labourers to compete jobs and worried its negative impacts on employment. The imports of 38,000 foreign labourers reduced the motives of employers to hire native labourers, and this definitively traded off the expected impacts of policy proposal against unemployment.

But the employer organizations usually held a greater power in policy process, they did have better opportunities for their own interests. Moreover, under the development of globalization, the competition for limited jobs will be more critical. The consistency and effectiveness of governmental policy was therefore under serious examination. Was the Taiwanese state merely a means of capitalist class, or it was really the agent of public interests? Whether or not the policies and measures proposed by the Labour Council could remain its consistency and actually release the unemployment problem? The determining factor was not economic one only, but also politics. We should have more insights about the questions from its general policy responses to the Asian crisis.

**Governmental Policy and Its Implications**

The reasons about Taiwan’s successfully coping with the crisis have attracted a lot of attention from analysts and policymakers. Most of them focus on a distinctive characteristics of Taiwan’s economy that combines Taiwan’s special political status in the international community and its ever huge foreign reserves. Taiwan suffers diplomatic isolation since the early 1970s because of the change of American global strategy and China’s hostility (Ku, 1995). The number of countries to have official relationship with Taiwan, for example, were less than 30 in 1999 and Taiwan is not allowed to join international organizations such as the UN and the IMF. This makes Taiwan difficult to have foreign helps and therefore a huge reserves become necessary not only as bulwark against hostile China but also for its own stability of financial market. By the end of 1999, Taiwan’s central bank has accumulated around $100 billion in reserves, among the largest in the world. Two implications emerge. First, the huge reserves contribute significantly to Taiwan’s capacity against the crisis,
particularly in stabilizing its financial market with its own resources. And, second, the difficulties to get foreign helps also keep Taiwan’s external debt at very low level that takes Taiwan away from the negative impacts made by the radical changes of world economic climate. In 1997, for example, the debt-reserve ratio for Taiwan was 0.24, comparing to 2.06 in Korea and 1.70 in Indonesia (Asian Development Bank, 1999: 26).

This is not, however, the end of the story, we should note the incredible efforts made by the government through deliberate policy-making. To restore public confidence and market order as soon as possible, a lot of financial measures, accompanying with huge national resources, were launched by the government, including (The Far Eastern Economic Review, 11 February 1999; China Times, 25 February 1999; 9 March 1999; 8 June 1999):

1. Two-Taxes-in-One Program that gives investors and employers special preference to pay either business tax or income tax, depending on which is favorable to them, that will cost NT$30 billion very year.
2. Bailouts for selected companies that apply to the Finance Ministry for help, costs are confidential.
3. A NT$ 283 billion stockmarket-stabilization fund, which was financed by labor insurance and retirement funds, to boost share prices by a series of corporate defaults and to ease the anxiety of the island’s 5 million punters. This fund has been further enhanced and reorganized into the National Security Fund with NT$ 500 billion strong.
4. A floating tax rate on stock transaction and a completely tax-free on incomes from stock market that will further stimulate share prices, costing about NT$ 100 billion.
5. Banks encouraged to roll over loans to troubled corporate borrowers for six months, and the term for this is the decrease of business tax rate on banking from 5% to 2%, costing NT$ 40 billion every year.
6. Low-cost mortgages offered to encourage purchase of the 900,000 unsold houses on the market, costing NT$ 150 billion.

The total costs of above measures amounted to, at least, around NT$ 600 billion, depending on how much money has actually been spent. This was equivalent to 16% of the total government expenditure in 1998. It is probably true that such measures could have important impacts preventing Taiwan’s economy from a even deeper recession and therefore helping Taiwan out of the slump, ‘…given the inevitable delays and lags in these (public investment) projects, stimulating private consumption through tax cuts is also necessary. The government should also encourage private investment by broadening the scope of investment tax credit laws’, as the Asian Development Bank comments (1999: 64). However, such measures also provoked two political debates concerning with the fairness of taxation, on the one hand, and the class nature of the state, on the other hand. Both eventually made serious damages on the legitimacy of the government and the ruling party.

Regarding to the fairness of taxation, the debate emerged as to whose taxes should be cut. Obviously, the people who will benefit from the government preferential measures were mostly the people with enough surplus money to make investments in the stock market, namely the middle and upper classes. What the wage
earners will benefit seemed only the low-cost mortgages, but this program was also helping well-connected property developers who have oversupplied the island with 900,000 high-priced houses. Interestingly, the non-homeowners’ ‘Shell-less Snail’ movement, who have fought for many years to press down house prices, was not appreciated very much such low-cost mortgages and had a fierce criticism on it. They argued, the government should not save those profit-addicted developers and must let them down, so that the house prices in Taiwan will return to a normal and affordable level (*China Times*, 31 December 1998). But this did not get a real concern from the policymakers.

Moreover, a further problem emerged as the government proceeded with its policies. Without other revenue sources such incredible tax cuts implied fiscal deficit to come. Who will eventually take the tax burdens? Table 11 gives us some possible answers. We find the importance of income taxes in the government revenue increasing significantly, from 22.28% in 1991 to 35.50% in 1999, while other taxation sources were mostly decreasing. The wage earners were indeed the main contributors of income taxes, implying the fact that they were the final payers to the bills induced by the governmental policies.

<table>
<thead>
<tr>
<th>Items</th>
<th>Customs Duty</th>
<th>Income Tax</th>
<th>Commodity Tax</th>
<th>Tax on stock Transaction</th>
<th>V.A.T.</th>
<th>Land Value Increment Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>9.61</td>
<td>22.28</td>
<td>11.08</td>
<td>6.83</td>
<td>15.24</td>
<td>16.02</td>
</tr>
<tr>
<td>1992</td>
<td>9.05</td>
<td>21.92</td>
<td>12.23</td>
<td>3.61</td>
<td>15.30</td>
<td>20.07</td>
</tr>
<tr>
<td>1993</td>
<td>9.45</td>
<td>23.43</td>
<td>12.94</td>
<td>2.6</td>
<td>17.03</td>
<td>16.65</td>
</tr>
<tr>
<td>1994</td>
<td>9.08</td>
<td>23.85</td>
<td>12.68</td>
<td>4.94</td>
<td>17.35</td>
<td>13.96</td>
</tr>
<tr>
<td>1995</td>
<td>9.55</td>
<td>27.71</td>
<td>13.18</td>
<td>2.66</td>
<td>17.92</td>
<td>10.69</td>
</tr>
<tr>
<td>1996</td>
<td>8.46</td>
<td>28.58</td>
<td>12.38</td>
<td>3.48</td>
<td>18.26</td>
<td>9.74</td>
</tr>
<tr>
<td>1997</td>
<td>8.16</td>
<td>27.17</td>
<td>10.91</td>
<td>8.86</td>
<td>17.16</td>
<td>10.37</td>
</tr>
<tr>
<td>1998</td>
<td>7.99</td>
<td>30.07</td>
<td>10.76</td>
<td>6.94</td>
<td>18.21</td>
<td>8.34</td>
</tr>
<tr>
<td>1999†</td>
<td>7.13</td>
<td>35.50</td>
<td>10.74</td>
<td>4.55</td>
<td>25.74</td>
<td>6.83</td>
</tr>
</tbody>
</table>

† 1st Quarter.
Sources: Data from the website of DGBAS.

Then the class nature of the government and the ruling party (the KMT) became an important issue. It was very hard to believe the political slogan the KMT was declaiming to be a party for all people. Rather, it was indeed the party for the classes with wealth and higher incomes. The most significant example is the debate on cutting the tax rate for stock transaction. In February 1999, the former Premier Hsiao Wan-chang hosted a national conference on economic challenges when he was resisting great pressures from businessmen to cut tax rate for stock transaction from 3‰ to 1.5‰ or even tax-free. The businessmen group sought the former President Lee Teng-hui and the KMT for helps that provoked a conflict between the Premier and the President. A compromise was soon achieved, particularly after the President made many times of fierce criticisms on the Premier’s resistance. The tax rate was changing to floating between 3‰ to 1.5‰, signaling the victory of the businessmen.
group and the President (China Times, 22 February 1999). Some analysts commented on this such as ‘the Taiwanese State is a capitalist state to the bone’ and ‘where is Robin Hood’.

As the pressures of fiscal deficit were aggregating, especially for the reason that the government would not like to raise taxes from the rich classes, the policymakers had to do their best on balancing the current statement. Here came social welfare as scapegoat. We will turn to this issue in the next section.

**The Growing Demands for Social Reforms**

The year of 2000 was a highly politicized year to Taiwan because the presidential election was due. In January 2000, just three months earlier than the polling day, a leading magazine published its new issue, entitled ‘Why Don’t You Anger, Middle Classes?’, in which clearly demonstrated so many problems in social aspect to be concerned by the public. It is worth to summarize its findings as follows (The Commonwealth, 1 January 2000: 64-8):

1. The income gap between top 20% households to lowest 20% households has been broadening significantly, from 4.2 times in 1980 to 5.5 times in 1998, equivalent to NT$ 1.4 million annual incomes. This happened particularly in the 1990s.
2. The government did improve its welfare systems in the past two decades, as we analyzed in the last section, but the effects were limited. The government transfers through social welfare only increased NT$ 96,000 yearly to the lowest 20% households.
3. Since 1980, the market values of stocks in Taiwan have been increasing to over 38 times, reaching NT$ 8,377 billion in 1998. But it was almost tax-free that had a very preferential effect to the rich classes and therefore made more negative impacts on the income gap.
4. Apart from the stock market, land is another important source to make profits. The land profits were estimated about NT$ 10,030 billion from 1976 to 1996, in which only 10% were taxable. Also, this was becoming worse in the 1990s.
5. Wage as percentage of personal incomes was 55.7%, but it contributed 72.3% of total income taxes. While the percentage of employers’ incomes was 16%, it contributed only 5.3% of total income taxes. To which we learn the relatively heavy burdens on the waged classes.
6. To make profits for enterprises, especially through tax credits, fiscal deficit was increasing significantly in the 1990s. The public debts as percentage of GDP was growing from 4.8% in 1990 to 16.3% in 1998, equivalent to from NT$ 200 billion to NT$ 1,400 billion at the same period.

As social conditions were worsening, then in people’s view what was their most concerns and who should be responsible became important questions, because the people were going to vote their new president in less than three months. In a national survey with 1,112 effective samples, a lot of interesting points could be figured out (The Commonwealth, 1 January 2000: 92-96):

1. Comparing to ten years ago, 62.7% of the respondents thought that the income gap was more critical.
2. The reasons for this situation were ‘Black-Gold Politics’,\(^1\) money game in the stock market, unfair taxation, high-priced lands and properties, and improper policies.

3. Over 60% of the respondents worried about the possibility of getting worse in the future.

4. Regarding the question who should be responsible, 68.5% of the respondents blamed the president and the KMT politicians.

5. The most desired issues that the government should do more reforms were physical safety and family livelihood.

Obviously, the people have been aware of injustice in social aspect and therefore called for social reforms to be done. However, the desired reforms seemed to be hardly offered by the KMT, because these all happened at the period of the KMT in power and especially under the presidency of Lee Teng-hui. If these came from the nature of the KMT as a capitalist party, then how could you expect such a party to do a just reform? So came to the result that nearly 70% of the respondents blamed the president and the KMT responsible for worsening social conditions.

A similar survey conducted by a national newspaper shown likely results. Based on a size of 1,051 samples, this survey compared the changes of people’s feeling between 1998 and 1999, just the years the government launching so many measures to fight over the Asian financial turbulence. Many important changes happened in only one-year time (United Daily News, 30 December 1999). For example, though economic growth and employment were relatively better than Taiwan’s neighbours, the worry about income gap was also increasing. There were not significant changes in living quality, but the degrees of dissatisfaction to governmental performance was radically increasing to over 50%. The policies on justice, social welfare and taxation all received a more negative evaluation in this survey.

This is a tricky but reasonable result, I must argue. The government has poured quite a lot of tax expenditure into financial market and production that could have an important and positive effect to restore market order in a short time. But such a measure also uncovered the conflicting class relationship, in which the feeling of relative deprivation in the waged classes was growing more and more. What they asked for were not only prosperous economic growth and secured employment opportunities, but also a just social welfare system and a fair taxation. This will in turn challenge the legitimacy of the KMT if it can not keep balance between the conflicting classes. As the myth of the KMT as an intermediator equally for all classes was broken, it could win some votes from the benefited classes but could also lose some from the classes relatively deprived. The fate to be a ruling party came to depend on which side was stronger. This was the real cost induced by the policies the KMT proposed and also the test it had to face in the presidential election.

On March 18, the public went to polling stations to select their new president for the coming four years. The result came out very excited and totally changed the distribution of political powers since the World War II. Mr. Chen Shui-bian, a president candidate from the DPP, won the election with 39.3% of votes, while former Vice President Lien Chan, also the president candidate with the full support from the KMT, lost the election with 23.1% only. And the independent candidate, Mr. James Soong who was former secretary-general of the KMT, came to second with 36.8%

\(^1\) A special Taiwanese term to describe an ever-close relationship among politicians, businessmen and Mafia members.
This result further angered the traditional supporters of the KMT and therefore induced a three-day protest at the door of the party, forcing the outgoing president, Lee Teng-hui, to step down as party chairman. The KMT’s collapse was so total that the possibility of its survival in the future was even in doubt, particularly under the threat of the coming People First Party, which is a new party organized by Mr. James Soong and his supporters and expected to be the strongest opposition party at those days. The KMT was even very difficult to maintain its status as a well-functioned opposition party after lost its power. This is far beyond expectation if we learn the fact that the KMT has been in power for over fifty years and accumulated a huge assets worth over NT$ 200 billion.

There are three implications from the result. Firstly, as the ruling party to take Taiwan away from the Asian crisis the KMT should have an incredible advantage to win the election, and, as we read in the second section, the economic performance was so good comparing to Taiwan’s neighbors. We could argue, the reason for the KMT’s defeat was not the economic one. Rather, the nature as a capitalist party and its serious neglect on social reforms should be taken more into accounts. A lesson emerges as that economic growth should be still important to win the legitimacy, but aggregating pressures from social aspects could fight back if such a growth is achieved by unfairly preferring a particular class or sector.

Secondly, some politicians from the KMT blamed Mr. James Soong for this defeat because he took away a large amount of the KMT supporters. It could be one reason, but not the only one. The reformist characteristics of Mr. Soong have attracted quite a lot of supports from the middle classes. Even as he was excluded from being a member of the KMT, he did not suffer a decline to become an independent candidate. Moreover, the share he had in the election was still bigger than the KMT candidate, former Vice President Lien Chan, implying that the KMT and its policy orientation was not preferred by most of the waged classes.

And, finally, the DPP won and has been in power since May 20, but the share it had was not over 40% and still 10% below the half, meaning that the new president did not have an status of absolute majorities. This will limit the scope and capacity of the new government to make policies. Nevertheless, Mr. Chen has tried to proceed with some reforms at social aspect, which are desired by the waged classes, as well as to keep economy growing and stock market prospering, which are desired by the employer classes. However, the balance between these two requirements is by no means easy and this is going to be the great challenge the new government will face.

The DPP’s Welfare Claims

Table 5.8 demonstrates some selected social indicators in Taiwan before and after the 1997 crisis, through which a significant improvement of social conditions has been observed. The success of economic growth has brought Taiwanese people a well-off income, from US$ 3,297 in 1985 to US$ 16,471 in 2006. This combines with low unemployment rate, prolonging life expectancy, improving literacy and available medical resources, indicating that Taiwan has escaped from mass poverty and becomes a developed economy. The infant mortality is fluctuating but under control, that is better than most of the developing countries and stands on the lines of the Western industrial countries, where the average infant mortality is about 7 (Midgley, 1997:55-67). The aging process is now speeding in Taiwan, the population of 65 years old and over has gone beyond 7% since 1993, and this increased to 10% in 2006, five years earlier than the estimation made by the Council for Economic Planning and
Development (CEPD, 1996:7). The growing aged population is expected to be an important pressure pushing the realization of related social programs such as pension and community care. But people are not satisfied enough with such records, I must argue. Taiwan did not completely save from the crisis. Rather, in order to restore its economic growth as soon as possible, the price it paid for is at the political aspect, leading to the change of government in 2000 which is the first time since 1945.

Table 5.8  Selected Social Indicators in Taiwan, 1985-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP Per Capita (US$)</th>
<th>Life Expectancy</th>
<th>Illiteracy (%)</th>
<th>Infant Mortality Per 1,000</th>
<th>No. of Hospital Beds per 10,000</th>
<th>Unemployment (%)</th>
<th>65+ as % of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>3,368</td>
<td>70.8</td>
<td>9.62</td>
<td>6.8</td>
<td>38.5</td>
<td>2.9</td>
<td>5.1</td>
</tr>
<tr>
<td>1986</td>
<td>4,071</td>
<td>71.0</td>
<td>9.18</td>
<td>6.3</td>
<td>41.8</td>
<td>2.7</td>
<td>5.3</td>
</tr>
<tr>
<td>1987</td>
<td>5,397</td>
<td>71.1</td>
<td>8.76</td>
<td>5.1</td>
<td>43.9</td>
<td>2.0</td>
<td>5.5</td>
</tr>
<tr>
<td>1988</td>
<td>6,573</td>
<td>71.0</td>
<td>8.34</td>
<td>5.3</td>
<td>44.5</td>
<td>1.7</td>
<td>5.7</td>
</tr>
<tr>
<td>1989</td>
<td>7,805</td>
<td>71.1</td>
<td>7.98</td>
<td>5.7</td>
<td>43.1</td>
<td>1.6</td>
<td>6.0</td>
</tr>
<tr>
<td>1990</td>
<td>8,325</td>
<td>71.3</td>
<td>7.59</td>
<td>5.3</td>
<td>43.8</td>
<td>1.7</td>
<td>6.2</td>
</tr>
<tr>
<td>1991</td>
<td>9,222</td>
<td>71.8</td>
<td>7.15</td>
<td>5.1</td>
<td>45.1</td>
<td>1.5</td>
<td>6.5</td>
</tr>
<tr>
<td>1992</td>
<td>10,822</td>
<td>71.8</td>
<td>6.84</td>
<td>5.2</td>
<td>46.3</td>
<td>1.5</td>
<td>6.8</td>
</tr>
<tr>
<td>1993</td>
<td>11,283</td>
<td>71.6</td>
<td>6.59</td>
<td>4.8</td>
<td>47.9</td>
<td>1.5</td>
<td>7.1</td>
</tr>
<tr>
<td>1994</td>
<td>12,184</td>
<td>71.8</td>
<td>6.26</td>
<td>5.1</td>
<td>49.0</td>
<td>1.6</td>
<td>7.4</td>
</tr>
<tr>
<td>1995</td>
<td>13,103</td>
<td>71.9</td>
<td>5.99</td>
<td>6.4</td>
<td>52.6</td>
<td>1.8</td>
<td>7.6</td>
</tr>
<tr>
<td>1996</td>
<td>13,714</td>
<td>72.4</td>
<td>5.68</td>
<td>6.7</td>
<td>53.4</td>
<td>2.6</td>
<td>7.8</td>
</tr>
<tr>
<td>1997</td>
<td>14,048</td>
<td>73.0</td>
<td>5.34</td>
<td>6.4</td>
<td>55.9</td>
<td>2.7</td>
<td>8.0</td>
</tr>
<tr>
<td>1998</td>
<td><strong>12,773</strong></td>
<td>73.1</td>
<td>5.08</td>
<td>6.6</td>
<td>56.8</td>
<td>2.7</td>
<td>8.2</td>
</tr>
<tr>
<td>1999</td>
<td>13,737</td>
<td>73.3</td>
<td>4.72</td>
<td>6.1</td>
<td>55.7</td>
<td>2.9</td>
<td>8.4</td>
</tr>
<tr>
<td>2000</td>
<td>14,721</td>
<td>73.8</td>
<td>4.45</td>
<td>5.9</td>
<td>56.8</td>
<td>3.0</td>
<td>8.6</td>
</tr>
<tr>
<td>2001</td>
<td><strong>13,348</strong></td>
<td>74.1</td>
<td>4.21</td>
<td>6.0</td>
<td>57.0</td>
<td>4.6</td>
<td>8.8</td>
</tr>
<tr>
<td>2002</td>
<td>13,604</td>
<td>74.6</td>
<td>3.97</td>
<td>5.4</td>
<td>59.2</td>
<td>5.2</td>
<td>9.0</td>
</tr>
<tr>
<td>2003</td>
<td>14,012</td>
<td>74.8</td>
<td>3.03</td>
<td>4.9</td>
<td>60.3</td>
<td>5.0</td>
<td>9.2</td>
</tr>
<tr>
<td>2004</td>
<td>15,156</td>
<td>74.7</td>
<td>2.84</td>
<td>5.3</td>
<td>63.2</td>
<td>4.4</td>
<td>9.5</td>
</tr>
<tr>
<td>2005</td>
<td>16,067</td>
<td>74.5</td>
<td>2.67</td>
<td>5.0</td>
<td>64.3</td>
<td>4.1</td>
<td>9.7</td>
</tr>
<tr>
<td>2006</td>
<td>16,471</td>
<td>74.9</td>
<td>2.52</td>
<td>4.6</td>
<td>65.1</td>
<td>5.1</td>
<td>10.0</td>
</tr>
</tbody>
</table>

2. DGBAS, Social Indicators in Taiwan, various years.

As the strongest opposition party in the 1990s, the DPP (the Democratic Progressive Party) was well known not only for its political argument for Taiwanese interests but also for its pro-welfare ideology, in contrast to the KMT’s Chinese values and economics first. This was significantly shown in the DPP’s white paper on social welfare in 1993, proposing: (DPP 1993)

1. Establishment of a universal social insurance system covering pension, health, work injury and unemployment benefits.
2. Family allowances for children and young people.
3. Increased cash benefits for social assistance.
4. Expansion of welfare services to disadvantaged groups.
5. A comprehensive medical care system and network.
6. A housing policy for everyone.
7. Collectively bargained working conditions.
8. Establishment of a ministry particularly responsible for social welfare at central government level.
9. Inclusion of social welfare into national development plans.
10. Proceeding with resources redistribution across the nation.

From then on, welfare issues policy proposed by the DPP become important policy debates against the KMT, with each coming election (Ku, 2000; 2002). This in turn enhanced the DPP’s public image for social reform, for example, in 2000 a survey showing that 47 per cent of the respondents regarded the DPP as a party for poor classes and only 11 per cent thought it for the rich (Ku, 2003).

On the contrary, the KMT launched many favoured financial measures such as tax cuts, bailouts, and public purchases of company shares, to help businesses in trouble. The total costs were equivalent to 16 per cent of the total government expenditure in 1998. These measures did have important impacts preventing Taiwan’s economy from an even deeper recession and therefore helping Taiwan out of the Asian financial crisis, ‘...given the inevitable delays and lags in these (public investment) projects, stimulating private consumption through tax cuts is also necessary. The government should also encourage private investment by broadening the scope of investment tax credit laws’, as the Asian Development Bank comments (1999: 64). However, such measures also provoked two political debates concerning the fairness of taxation, on the one hand, and the class nature of the state, on the other. Both eventually caused serious damage with regard to the legitimacy of the Government and the ruling party – the KMT.

Obviously, the general public were not happy with such measures because they found themselves as the final payers of the bills induced by the government policies. For example, the importance of income taxes, mainly bore by wage earners, increased significantly from 22.28 per cent in 1991 to 35.50 per cent in 1999, and VAT, mainly bore by customers, also increased from 15.24 per cent to 25.74 per cent during the same period, while other tax revenue sources from land taxes and the stock market had mostly decreased. This implied that the upper class was the biggest winners. In early 2000, less than three months to the presidential polling day, a national survey revealed that over 60 per cent of the respondents were aware of the unfair taxation and increasing income gap, and worried that the situation would become worse. More interestingly, 68.50 per cent of the respondents blamed the President and other KMT politicians for such problems (Ku, 2003).

In short, the social situations in the year 2000 laid down the reason for the failure of the KMT, ‘...the reason for the KMT's defeat was not an economic one. Rather, its nature as a capitalist party and its serious neglect with regard to social reform should be taken into account. Economic growth, thus, is still important to obtain governmental legitimacy, but aggregating pressures for social reforms can offset such gains in legitimacy...’, as Ku comments (2003). Under such a condition, the pro-welfare image of the DPP was helpful to the presidential campaign. In particular, President Chen Shiu-bian has proposed the following welfare policies: (1) NT$ 3,000 welfare allowance per month for the elderly who do not receive any pension; (2) free medical care for children below three years old; and (3) low-cost mortgage with 3 per cent interest rate only for the young first-time buyers of houses (Ku, 2003).

Actually, since the 1990s, a lot of liberalist policies and measures, such as tax
cuts, privatization, deregulation, and so forth, had been widely enforced to restructure the Taiwanese economy from state-led to market-led, even though it was accompanied by rising social costs of unemployment and inequality. Some followers of liberalism thought regarded these social costs as necessary and temporary in moving towards a better national competitiveness in the globalizing world along with economic growth, but before this scenario occurred the KMT Government had been abandoned by the people in the 2000 election. The DPP Government rose with a growing expectation of social reform, but was unable to deliver as promised. President Chen’s declaration of welfare giving way to economic growth precisely revealed the tension for limited resources, which basically came from the unhealthy public finance left by the former KMT Government.

**Globalization, Social Transformation and Poverty**

The triumph of the DPP in the 2000 presidential campaign signified not only a new era of Taiwanese democratisation, but also a rising expectation for social reform. However, there is not a happy ending to this story. Democracy can place a specific party in power but problems still remain. The DPP Government needs to take on challenges one at a time, particularly between the increasing economic competition at the global level and the requirement of social reform at the domestic level.

The export-oriented development strategy adopted by the state has opened the economy more to the rise and fall of world market and global competition. Since the beginning of the 1990s, there has been a migrant movement of labour-intensive industries, which was the core source of Taiwanese economic growth in the 1970s and the 1980s, to low labour cost areas, such as Southeast Asia and China. This raised the unemployment rate and in turn increased pressures on state welfare. If the Government pours more public resources into state welfare as a result, then the shortage of money for economic development could be critical and inflict even greater damage on profit-making enterprises. Yet if the Government is unwilling to expand its welfare efforts, it could forfeit its position as the ruling power in the next election. The pressures of unemployment and low pay aggregate with an increasing flow of capital are a growing problem. A great difficulty looms (Ku, 1997b):

In the process of globalization, local laborers are not only competing with other laborers in the country, but also competing with foreign laborers for limited job opportunities. The having or having not jobs and the levels of wage will influence employees’ subsistence and enterprises’ profits directly. However, wage levels are very difficult to raise because of global competition. If the Government should raise wages through social programs and statutes, they risk reducing job opportunities. Both high unemployment and low wages will greatly damage the legitimacy of the state...economic crisis will transform into a political crisis.

The difficulty did not improve even under a different government. Interestingly, the DPP Government soon abandoned its ideals on social welfare due to a series of controversies over financial predicaments, the national pension program, and protests against the fourth nuclear power plant that caused a major stock market slump. The market lost half its value since the presidential election. On September 16, 2000, just 100 days into President Chen Shui-bian term in office, he declared economic development as the Government’s new priority and that social welfare programs would be postponed (Ku, 2003). Similar to the former KMT Government, this
announcement implied incompatibility and zero sum relation between economy and welfare in the minds of the DPP policy-makers, though in reality this would not definitely happen. Nevertheless, the promises for social reform have been put on uncertain ground.

Why Taiwan’s economy is so vulnerable under globalization? This is closely linking to the transformation of Taiwan’s economy in the past fifty years. Table 3 shows the economic transformation in Taiwan since the 1960s to 2000s, in which, we may learn, Taiwan has been now a post-industrial economy and over 70% of labour forces are employees. This implies two typical risks in a capitalist society now also critical in Taiwan: unemployment and retirement.

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Services</th>
<th>Employers</th>
<th>Self-employed</th>
<th>Unpaid</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>45.0</td>
<td>22.6</td>
<td>32.4</td>
<td>2.3</td>
<td>27.9</td>
<td>24.6</td>
<td>45.3</td>
</tr>
<tr>
<td>1971</td>
<td>35.1</td>
<td>29.9</td>
<td>35.0</td>
<td>2.9</td>
<td>25.9</td>
<td>18.5</td>
<td>52.7</td>
</tr>
<tr>
<td>1976</td>
<td>29.0</td>
<td>36.4</td>
<td>34.6</td>
<td>2.5</td>
<td>23.9</td>
<td>14.5</td>
<td>59.1</td>
</tr>
<tr>
<td>1981</td>
<td>18.8</td>
<td>42.4</td>
<td>38.8</td>
<td>4.5</td>
<td>20.8</td>
<td>10.4</td>
<td>64.3</td>
</tr>
<tr>
<td>1982</td>
<td>18.9</td>
<td>41.3</td>
<td>39.8</td>
<td>4.3</td>
<td>21.1</td>
<td>10.5</td>
<td>64.1</td>
</tr>
<tr>
<td>1983</td>
<td>18.6</td>
<td>41.2</td>
<td>40.2</td>
<td>4.0</td>
<td>21.1</td>
<td>11.1</td>
<td>63.8</td>
</tr>
<tr>
<td>1984</td>
<td>17.6</td>
<td>42.3</td>
<td>40.1</td>
<td>4.1</td>
<td>20.7</td>
<td>10.8</td>
<td>64.4</td>
</tr>
<tr>
<td>1985</td>
<td>17.5</td>
<td>41.6</td>
<td>41.0</td>
<td>4.3</td>
<td>20.8</td>
<td>10.8</td>
<td>64.1</td>
</tr>
<tr>
<td>1986</td>
<td>17.0</td>
<td>41.6</td>
<td>41.4</td>
<td>4.3</td>
<td>20.2</td>
<td>10.9</td>
<td>64.7</td>
</tr>
<tr>
<td>1987</td>
<td>15.3</td>
<td>42.8</td>
<td>42.0</td>
<td>4.3</td>
<td>19.2</td>
<td>9.9</td>
<td>66.7</td>
</tr>
<tr>
<td>1988</td>
<td>13.7</td>
<td>42.5</td>
<td>43.8</td>
<td>4.5</td>
<td>18.9</td>
<td>9.5</td>
<td>67.1</td>
</tr>
<tr>
<td>1989</td>
<td>12.9</td>
<td>42.1</td>
<td>45.0</td>
<td>4.6</td>
<td>18.8</td>
<td>9.2</td>
<td>67.4</td>
</tr>
<tr>
<td>1990</td>
<td>12.9</td>
<td>40.8</td>
<td>46.3</td>
<td>4.8</td>
<td>18.6</td>
<td>9.0</td>
<td>67.6</td>
</tr>
<tr>
<td>1991</td>
<td>13.0</td>
<td>39.9</td>
<td>47.1</td>
<td>5.1</td>
<td>18.6</td>
<td>9.1</td>
<td>67.1</td>
</tr>
<tr>
<td>1992</td>
<td>12.3</td>
<td>39.6</td>
<td>48.1</td>
<td>5.1</td>
<td>18.2</td>
<td>8.9</td>
<td>67.8</td>
</tr>
<tr>
<td>1993</td>
<td>11.5</td>
<td>39.1</td>
<td>49.4</td>
<td>5.2</td>
<td>17.6</td>
<td>8.5</td>
<td>68.7</td>
</tr>
<tr>
<td>1994</td>
<td>10.9</td>
<td>39.2</td>
<td>49.9</td>
<td>5.3</td>
<td>17.3</td>
<td>8.6</td>
<td>68.9</td>
</tr>
<tr>
<td>1995</td>
<td>10.6</td>
<td>38.7</td>
<td>50.7</td>
<td>5.3</td>
<td>17.0</td>
<td>8.5</td>
<td>69.2</td>
</tr>
<tr>
<td>1996</td>
<td>10.1</td>
<td>37.5</td>
<td>52.4</td>
<td>5.4</td>
<td>17.0</td>
<td>8.4</td>
<td>69.3</td>
</tr>
<tr>
<td>1997</td>
<td>9.6</td>
<td>38.2</td>
<td>52.3</td>
<td>5.5</td>
<td>16.5</td>
<td>8.0</td>
<td>70.0</td>
</tr>
<tr>
<td>1998</td>
<td>8.9</td>
<td>37.9</td>
<td>53.2</td>
<td>5.4</td>
<td>16.3</td>
<td>7.7</td>
<td>70.6</td>
</tr>
<tr>
<td>1999</td>
<td>8.3</td>
<td>37.2</td>
<td>54.5</td>
<td>5.5</td>
<td>16.2</td>
<td>7.7</td>
<td>70.6</td>
</tr>
<tr>
<td>2000</td>
<td>7.8</td>
<td>37.2</td>
<td>55.0</td>
<td>5.4</td>
<td>16.0</td>
<td>7.5</td>
<td>71.1</td>
</tr>
<tr>
<td>2001</td>
<td>7.5</td>
<td>36.0</td>
<td>56.5</td>
<td>5.2</td>
<td>15.8</td>
<td>7.3</td>
<td>71.7</td>
</tr>
<tr>
<td>2002</td>
<td>7.5</td>
<td>35.2</td>
<td>57.3</td>
<td>5.2</td>
<td>15.8</td>
<td>7.4</td>
<td>71.6</td>
</tr>
<tr>
<td>2003</td>
<td>7.3</td>
<td>34.8</td>
<td>57.9</td>
<td>5.2</td>
<td>15.5</td>
<td>7.3</td>
<td>72.1</td>
</tr>
<tr>
<td>2004</td>
<td>6.6</td>
<td>35.2</td>
<td>58.2</td>
<td>5.2</td>
<td>14.9</td>
<td>7.0</td>
<td>72.9</td>
</tr>
<tr>
<td>2005</td>
<td>5.9</td>
<td>36.4</td>
<td>57.7</td>
<td>5.1</td>
<td>14.5</td>
<td>6.7</td>
<td>73.8</td>
</tr>
<tr>
<td>2006</td>
<td>5.5</td>
<td>36.6</td>
<td>57.9</td>
<td>5.1</td>
<td>13.9</td>
<td>6.4</td>
<td>74.6</td>
</tr>
</tbody>
</table>

Sources: DGBAS, Social Indicators in Taiwan, various years.

Figure 5.1 is a general picture about Taiwanese economic changes since 1991, from which we can observe a radical slump of economic growth rate just after the DPP
Government comes into power. The growth rate in 2002 seemed to be getting better, but it was only a reaction to the radical recession in the former year, and it was also far lower than the economic performances before 2000. Along with the poor economic growth, the Taiwanese wealth, in terms of GNP per capita, was shrinking back to the level in the mid-1990s. Moreover, recession was spreading out and job opportunities were under threat, which can be examined in Figure 4.

Following the economic recession, unemployment became a serious problem. In the early 1990s, unemployment in Taiwan remained below 2 per cent but it has increased remarkably to over 5 per cent in 2002. We also note that the major reason for unemployment was not seasonal adjustments of the labour market, rather, it was large scales of lay-offs, from around 16 per cent of unemployment in 1991 to nearly 50 per cent in 2002. This signified the important impacts made by the migrant movement of businesses at the global level, and the degree of difficulty of finding a new job was increasing. In 2002, the average time for an unemployed worker moving to a new job was over 30 weeks, while in 1991, it was 15 weeks only.

On the other hand, social inequality, in terms of income gap, was also worsening. The income gap between the top 20 per cent households to the bottom 20 per cent has increased from 4.97 in 1991 to 6.16 in 2002. The most radical jump happened in just one year between 2000 and 2001, from 5.55 to 6.39, showing that the DPP Government’s welfare efforts and promises for social reforms was not really enforced (Ku, 2003). The harsh conditions stimulated further social instability in Taiwan. Figure 5 demonstrates two related indicators. For reasons of job security and decent wages, conflicts between employers and employees increased from 1,810 cases in 1991 to 14,017 cases in 2002 and even higher since then. During the same period, the cases of violent crimes increased too, implying that the DPP Government was not able to maintain social order not only for good living quality but also for economic

![Economic Changes, 1951-2008](image-url)

**Figure 5.1 Economic Changes in Taiwan, 1951-2008**
The fear of unemployment and poverty cycle (see Figure 5.4) is now a common social circumstance in Taiwan. A survey in 2002 showed that the people felt poor was up to 67%, two times higher that those who not felt poor. However, as Figure 5.5 notes,
even though the social expenditure has been increasing from 4.5% of GDP in 1991 to the peak of 5.8% in 2001, the population covered by social assistance is still less than 1% of the total population.

![Diagram of cycle of unemployment and poverty]

Figure 5.4 Cycle of Unemployment and Poverty

There are two different interpretations to the above question. The first is the poor performance of the DPP Government in attracting private investments as the main reason of businesses moving out and, therefore, leading to more requests from public investments for infrastructures, for example, higher education and economic restructure. The second focuses on the global labour and production division and argues for a more liberal and deregulated economic policy. Finally, the DPP Government published its policy statement entitled ‘Challenge 2008: National Development Plan (2002-2007)’ which clearly shows its intentions.

In the statement, the DPP Government recognizes three major challenges, saying (CEPD, 2002):

1. Global Competition: a growing intensive global competition for talent and
capitals that has significantly changed core production elements to quality, creation, and speed, implying a more flexible production and more investments on knowledge.

2. Mainland China’s Magnetic Effect: China as an even stronger competitor with cheap labour and land, and vast market which has attracted a lot of Taiwanese businesses and, in turn, made an impact on increasing unemployment in Taiwan.

3. Historical Burden: such as social problems left over from the period of the authoritarian regime and democratic transition (e.g. black gold politics), rigid administrative and legal systems, and long accumulation of bad debts and financial burdens.

Interestingly, Taiwan has accumulated a lot of trade surplus from China, increasing remarkably from US$ 7 billion in 1991 to US$ 22 billion in 2002. However, during the same period, governmental statistics show that Taiwanese businesses have invested over US$ 24 billion in China, occupying about 70 per cent of the total outward foreign direct investment (FDI) in Taiwan, while the inflow of FDI in Taiwan was US$ 17 billion only. A tricky picture emerges. Taiwan has to rely on China’s market for profits, but China is also regarded as the major competitor for Taiwanese private investments, as well as other foreign capitals.

To restore Taiwan’s competitiveness in the global economy, the DPP Government promises more reforms in respect to finance and taxation and more investments on human capitals and infrastructures. However, it is not so simple, I must argue. The statement is indeed a hybrid of the above two interpretations. For coping with the growing global competition, a more open and deregulated environment will encourage more private and foreign investments in Taiwan, but this could also risk an even speedier migration of Taiwanese businesses to China, on the one hand, and a great loss of government revenue, particularly if tax credit is adopted as an encouragement, on the other. The loss of government revenue will eventually reduce the necessary public resources for more investments. Furthermore, without more investments it is very difficult to restructure Taiwan’s economy towards high value-added industries and therefore enhances Taiwan’s competitiveness. This constructs a great dilemma, which fundamentally changes the traditional explanation of East Asian development, especially regarding the role of the state in directing economic development.

The shortage of public funds eventually confined governmental policy choices and state capacity, especially as more necessary investments, such as human capital and infrastructure, were needed for improving national competitiveness, on the one hand, and more benefits required to enhance the welfare image of the DPP Government and its legitimacy, on the other. The clash between economy and welfare is growing day by day. The slogans of ‘We Want Jobs’, ‘Anti-poverty’, ‘Affordable Education’ and so forth have become the main theme in every social movement. More and more people, including laborers, school teachers, and farmers have gathered on the street to demonstrate their dissatisfaction with social conditions and government liberalization policy.

A strange policy emerges with a mixture of tax cuts and welfare increases. Without more taxation revenues, the DPP Government launched a series of temporary public employment programs in order to reduce unemployment, which was projected to provide over 75,000 temporary jobs with NT$ 70 billion. On the other hand, more public funds, ranging from NT$ 810 billion for national development in 2001 to the
most recent NT$ 500 billion in five years, were planned to pour into the improvement of infrastructures and expected to create thousands upon thousands of jobs as well. These measures induced a radical political debate concerning the issue of ‘where will the money come from’, especially as we understand that there was no improving sign of the long accumulated bad debts and the growing gap between revenue and expenditure. Under the condition of no more taxes, funds for the above new programs will either come from public bonds and therefore amassing more debt; or from selling government shares of national enterprises and properties and therefore further liberalizing Taiwan’s economy. The former is not good for long-term development and not accepted by economic officials. The latter could help economic rationalization but seems not to be favored by the employees because of the fear of unemployment. Moreover, it is very difficult to find good deals during a recession, so that most of the privatization programs, such as telecom, did not reach their projected goals.

The Changing Policy Regime in Taiwan

For a long time we have enjoyed a state-led development in Taiwan, and it is very difficult to understand that the impact of intensive global competition have fundamentally eroded the way we used to. ‘National states in an increasing competitive global world must accept performance competitiveness as a constraint on the pursuit of other goals’, as Gough argues (1996: 215). However, democratic politics makes this more complicated because the people could grant politicians and officials with power but also could withdraw it at any time. The DPP Government is precisely in this deep dilemma, striving to keep capital and jobs in its own territory without lowering wages and working conditions. There are varied ideas for taming globalization (e.g. Held and Koenig-Arribugi, 2003), but its feasibilities have not really been examined yet.

Democratization in the 1990s has totally transformed policy process in Taiwan, reducing authoritarian nature of the state and changing the relationship between it and civil society. This implies the utilities of public resources not only for the state’s goals but also for the needs of people, in order to have a maximum support keeping the government in power, particularly under a strong party competition. The further question is how democratization shapes welfare development in Taiwan. The answer could be found from the changes of state structure which make welfare issues more possible on political agenda.

The concept of the state structure here refers the way the state apparatuses and institutions to be organised, reflecting the operation and process of various powers and interests in policy-making. The state structure could open a preferential opportunity to a specific policy’s passing through political processes and therefore consuming part of public resources for its realisation. But it could also stifle some kinds of policy because of the incompatibility with the dominating powers. To explain democratization’s impacts on welfare development, five possible dimensions of changing state structure in Taiwanese context should be addressed.

First of all, tenure and regulative elections are the nature of democratic politics, by which any government must testify its legitimacy against the number of votes from the public, after many years in power. This could be the most important change made to the relationship between the state and civil society, meaning that the people in society can directly determine the fate of a government and its party, as well as its policies, of course. Two impacts follow: 1) the government must take social needs into account as it makes policies; and 2) the promises it made in the last election will
be examined by the public in the coming election, so that pressures have been put upon the state capacity of realizing policy in a not very long period. Under such a context, state welfare should have a better opportunity to expand because of its concerns on well being of people and, in turn, favoring the state legitimacy. However, democracy could also have a lethal effect on the development of institutional welfare system for two reasons: 1) the policy is unable to be really realized and to become an institution, if a government could not stay in power long enough; and 2) the politicians could pay much attention to please the public for more votes, rather than to establish a viable institution.

Secondly, democratization should be even more penetrating into political processes as party competition is confirmed. In the one-party state before, the KMT’s status as ruling party had not any threat from the opposition and this made it unnecessarily to change the policy-orientation the KMT usually favored. But this privilege has gone with the rise of the DPP to struggle for power. In order to become majority in elections, the DPP did do its best to propose a very different policy-orientation, by which to identify itself as an alternative option to Taiwanese voters. Needless to say, state welfare is one of key policy fields. The DPP tried to make itself as the founder of a Taiwanese welfare state, in contrast to the KMT’s ideology of reluctant welfarism. This put the KMT under great pressures to expand welfare measures, as we can see in the policy process of elderly welfare allowance.

Thirdly, a gap is now widening and deepening between the government and the Legislative Yuan. In democratic politics, the legislators should rely on the supports of the voters in his electoral district if they are going to stay in the Legislative Yuan. But in Taiwan the premiers and ministers are assigned by the President, rather than selected from the legislators. In case of critical policy dispute, the legislators must consider their position in accord with the preference of voters. In this situation the government finds many difficulties to control legislating and budgeting process, unless it can satisfy, more or less, the demands of the legislators. This also opens a very important channel to interests groups by allying some legislators for enacting specific acts. The most significant case is the Welfare Allowance for Aged Farmers, which is passed under pressures from a group of legislators whose electoral districts are dominated by agricultural economy.

Fourthly, power imbalance between different governmental departments has been changing along with democratization and this favors social policy listing in political agenda. Before 1987 the Martial Law was lifted, the national efforts were focusing on military establishment against China and economic development to finance the former (detailed discussion please refer to Ku, 1995; 1997a), that empowered the military and the economic departments with superior statuses, including their officials and policies. In those days, social policy had to serve the requirements of such national priorities, rather than to meet social needs. As a result, nearly all the premiers of the Executive Yuan, the highest administration of the Taiwanese government except the President, were occupied by officials from these two backgrounds (Ku, 1997a:187). The foundation of the Council for Labor Affairs in 1988 was a breakthrough into the capitalist dominated government, but its functions seemed not strong enough to transform the policy orientation, needless to say about the Department of Social Affairs which is the highest authority in charge of national welfare measures but only staffed around 60 manpower, comparing to the Ministry of Economic Affairs with 3,094 officials, for example. However, the great political pressures in the 1990s did give welfare scholars and officials more opportunities to argue for social policy against the economic side. The national pension scheme is the case as the Premier
Hsiao Wan-chan declared that it is the policy goal to implement, even though under the CEPD’s reluctance. And now a claim to establish a concrete ministry for health and social welfare is heating. If it is done in the future, the power imbalance between governmental departments should have a more significant improvement.

And finally, democratization also changes the relationship between politicians and civil servants. Theoretically civil servants are expected to completely obey the orders of politicians. But under democratic elections, the civil servants are also the voters and they can even become candidates themselves. The bureaucratic control on civil servants is actually in decline, particularly as civil servants have learned that the power could change hands to the opposition. To protect themselves, they would keep balance between two sides of politicians and would not put all the eggs in one basket. Although they may be difficult to directly say ‘no’, they will remain open minds to different policy-orientations, in case of the government changes. Incrementalism could be a result of such a development, but political sensibility also makes them more aware of social changes. They must have an important role to play in policy process because they now have a more independent thinking, and because they are actually the persons who implement policy.

**Conclusion**

In my analyzing welfare capitalism in Taiwan, I concluded that capitalist development and democratization are going to be two major movements in the Taiwanese society. The former refers to the necessity of economic growth not only for consolidating Taiwan’s status in the global political economy but also for providing resources to the usage of social welfare. The latter refers to the state legitimacy that helps to stabilize existing political and production orders, in which social welfare is an important means to harmonize conflicting classes. However, both requirements are in a very complex, and sometimes contradictory, relationship. Moreover the development induced by the state in the previous stage would eventually react on the state itself. We saw this theme very clear from the Taiwan’s case in the Asian crisis.

It is true that the KMT as the then ruling party led Taiwan peacefully passing through the Asian financial crisis, but it is also true that reasons for the defeat of the KMT in the presidential election were the policies it formalized for the crisis. This is a historical trick that the KMT laid down the seeds for its own failure. Nevertheless this is by no means that the new government led by the DPP is able beyond the same constraints. The DPP is more likely to go ahead with some social reforms. But, whether or not the scope would effectively meet people’s expectation? Whether or not the capacity of the new government would possibly realize its promises? Both are still in doubt. Democratization notes a beginning of a new political era in Taiwan, though the challenges and difficulties are not so new, with structural constraints imposed by capitalism and production relations, locally as well as globally.
6
Organized Interests in the Making of Social Policy

Introduction

On a holiday afternoon, several women in their 50s have gathered in a fashionable coffee shop for afternoon tea. Mostly retired teachers or civil servants, or the wives of civil servants, they enjoy a leisurely chat that touches on such topics as their trips abroad, their children’s academic and financial accomplishments, the relative merits of various health and beauty aids, which stocks have the least risk and highest dividends, and financial strategies for retirement. Having chatted to their hearts' content, before departing they each take out their date books and jot down the plan for their upcoming trip to the department store and, of course, their next afternoon tea.

At the same time, a less fortunate group of women from the same age group is getting together in a rather different setting. Wearing rubber gloves and face masks, they wearily push carts full of cleaning materials down the halls of the school in which they toil as custodians. When they take a short break from their drudgery, their chat consists of a quite different set of topics: their early experiences as factory workers, a husband who lost his job and now idles all day, the difficulty of paying their children’s tuition fees, and the like. Yet another group of tired-looking women are at the traditional market counting up the day’s proceeds and putting away their unsold vegetables, while chatting about what they will do when the market takes its weekly recess. One plans to return to her village and plant some short-term crops, exclaiming: “The price of onions and garlic is out of sight; I’d be better off growing some myself!” Another says she plans to spend her day off working for a catering service, reasoning: “Not only can I make some money, but I can also take home some of the scraps!” As the sky begins to darken, they hurriedly finish closing up their stands and start thinking about getting back home to prepare dinner.

Although they are of the same age group, these three groups of women pass the afternoon quite differently. On the surface, this might appear to be merely the differing conditions of different professions, or perhaps the workings of fate by which some people are predestined to enjoy a life of leisure while others are doomed to endure a life of toil. But behind these differences lies a more meaningful question: how have these differences come about?

A person’s life can be seen as a process of socialisation by which he or she is continuously differentiated and sorted according to social class. Taiwanese who are now around 50 years old have had a different experience growing up than other generations of Taiwanese. Having been distinguished by provincial background right from birth, in the course of growing up this generation developed a strong sense of group and family identity, as well as a sensitivity to people's provincial background. This ultimately has given rise to distinct social boundaries and a strong sense of in-group and out-group.  

---

1 I would like to thank Professor Ku Yeun-wen for offering me the opportunity to work on this project. I am grateful to Dr Anna Shefl and Mr Ken Kraynak for their insightful comments and editorial assistance. And most of all I thank UNRISD for providing the opportunity for me to take a closer look at the history of my country, which has been an awaking experience for me.
When the KMT\(^2\) shifted to Taiwan it brought with it Mainland Chinese culture and Mandarin Chinese, at the same time painstakingly deprecating the culture of Taiwan and the Taiwanese language (presently the first language of 80% of Taiwan’s population) as vulgar and base. Mandarin was made the exclusive medium of education, and to the KMT one major role of education was the inculcation of the ideology of Chinese unity, totally neglecting the distinct historical, cultural, and geographical background of Taiwan. Language is a type of habitual behavior as well as a tool, and different languages have different means of expression and modes of communication. Compelling all members of society to use the language of a certain group is a way of indoctrinating other groups into the dominant culture, while giving one group an unfair advantage in society. The culture of Taiwanese speakers was regarded as vulgar, while the Mainlanders who spoke fluent Mandarin formed the new upper class and became the owners of culture. Although the KMT may have appeared neutral in its language policies, it actually introduced a system of unequal cultural capital, whereby it used its cultural hegemony to tighten its grip on Taiwanese society. In this way the KMT used the educational system to create a society characterized by cultural, political, economic, and class inequality.

The exclusive medium of education for this generation was Mandarin, and most of the teachers were from Mainland China. Thus, many students of that generation whose first language was Taiwanese found it difficult to keep up with their classmates whose family recently arrived from the mainland and who generally spoke Mandarin as a first language. Moreover, the educational policy of the time was based on the needs of industrialisation, so, after the completion of primary school, only the relatively small number of students who passed the junior high school entrance exams were able to continue their studies; the rest had little choice but to enter the job market (Lin Zhaowu, 1996). Those who gained admission to junior high school then had a good chance to go on to high school or vocational school, but university and postgraduate places were still very limited. This strictly controlled education system gave rise to rigid distinctions based on level of education, which became the main factor in determining one’s employment opportunities.

Perhaps the best analysis of the cultural hegemony carried out by the KMT during its first few decades on Taiwan can be provided by Bourdieu’s cultural reproduction theory (Bourdieu, 1991; 1993). Bourdieu explores the question of unequal educational opportunities from the perspective of culture, asserting that culture has a decisive influence on educational success. Culture is inherited from one’s family, and since upper class families possess a higher amount of “cultural capital” they pass on to their offspring a culture which is academically advantageous, making the members of such families much more likely to meet with academic success than members of families belonging to other classes.

Taking professionals, farmers, workers, and merchants as the main classes of labour\(^3\), farming and manual labour are the only possible career choices for most people who lack a relatively high level of education. Those who had enough education to enter the ranks of the professionals (military officers, civil servants, teachers, management personnel, and other professionals) were mostly Mainlanders, who, together with their offspring, came to constitute the majority of government employees. Moreover, research has shown that government policies have been

---

\(^2\) The Kuomintang (國民黨), the Chinese Nationalist Party.

\(^3\) Chinese feudal society was roughly divided into four occupational categories: intellectuals, farmers, artisans, and merchants (shi, nong, gong, shang 士農工商).
formulated in such a way as to treat this same minority more favourably with regard to promotions, salary, and benefits in comparison to those of Taiwanese background (Wang Hongzen, 2001). Thus, by examining the course of an individual’s life we can discern certain patterns that are determined by differences of provincial, educational, and career background, making clear how a group’s position in the social matrix determines its collective fate.

Humans are inextricably embedded in society, and the tenor of society is necessarily influenced by political affairs. From the time the KMT shifted to Taiwan after losing the mainland to the Communist forces in 1949, right up until the lifting of martial law in 1987, the government exercised ubiquitous control over Taiwanese society, like an invisible hand influencing the lives of every member of society (Gong Yijun, 1998). In order to gain some insight into the background of the current situation, it will be necessary to go back to the social engineering that was part and parcel of the era of KMT hegemony in Taiwan.

This paper systematically investigates the influence government policy has had on how farmers, workers, public sector employees (military personnel, civil servants, and teachers) and SME (small and medium enterprise) owners all pursued their respective social, political, and economic interests, as well as the effects government policies have had since the transition to democracy. The focus is on how the KMT appealed to martial law and the Temporary Provisions Effective during the Period of Communist Rebellion in order to justify its intrusion into the non-political spheres of daily life and social class. Although basically invisible, this social meddling by the government had a pervasive influence on people’s livelihood. This paper also examines how the KMT went about stratifying Taiwanese society and creating a division of labour based on differences of provincial, educational, and career background, a stratification that gave rise to an unequal distribution of societal resources, thus exacerbating already-tense inter-group social relations.

**Taiwanese Farmers**

*The Influence of Japanese Colonial Rule before the Arrival of the KMT*

To understand the political and economic development of Taiwan, it is necessary to have some understanding of the era of Japanese colonial rule (1895–1945). The first Sino-Japanese war came to an end in 1895, with China being defeated by Japan and signing the Treaty of Shimonoseki (also known as the Treaty of Maguan), which relinquished Taiwan and the Pescadores (or Pênghú Qúndāo) to Japanese sovereignty.

Over the following 50 years of occupation, the Japanese developed Taiwan into a semi-modern society and a major food producer. Japan developed the food industry, widened irrigation systems to increase rice and sugar production for export to Japan, and standardised weights and measures; it also conducted a cadastral survey and undertook partial land reform. Much of Taiwan’s infrastructure was built by Japan in this period, including roads, railways, bridges, dams, and several harbours (Zhou Xianwen, 1980), providing a solid foundation for the later development of Taiwan. Investments in sewage and sanitation systems, as well as vaccination programmes, reduced the death rate dramatically (ibid.). Additionally, the Japanese introduced a free and compulsory Japanese-medium education system. By the early 1940s, approximately four fifths of school-aged male children and two thirds of school-aged female children were attending school, and approximately one quarter of the population was literate (ibid.; Li Cheng, 1996). The annual growth of industrial output
was six % during the 1930s and largely consisted of cement, paper, fertiliser, metal products, textiles, bicycles, and petroleum refinement. Thus the island was more developed than many Chinese provinces on the mainland (Kerr, 1965; Wade, 1990).

However, the medium- and large-sized enterprises were mostly controlled by Japanese nationals, and Taiwanese capitalists were denied entry to the industrial sector. As might be surmised, workers were not allowed to form unions. The Japanese colonial state, through farmers associations and a strictly controlled baanja system,\(^4\) was able to infiltrate Taiwanese society at little cost (Zhou Xianwen, 1980; Andreas Martin Fulda, 2002).

**The Arrival of the KMT**

In 1945, after the defeat of Japan in World War II, Taiwan was surrendered to the Allied forces and ‘returned’ to the Republic of China (ROC, led by the KMT). Yet, ever since Chiang Kai-shek’s troops marched in and assumed sovereignty over the island, the validity of the KMT’s take-over of Taiwan has been subject to debate (Gong Yijun, 1998). When the KMT lost control of mainland China in 1949, Taiwan became the “temporary base” of the KMT government, from which it hoped to retake the mainland from the Communist forces.

The transition from colonial rule between 1945 and 1953 was a difficult period on account of the large number of refugees fleeing to Taiwan from Mainland China. The government at this time suffered from disorganization and widespread corruption, and inflation was a constant nightmare\(^5\) (Kerr 1965: Wang Zuorong, 1996).

In 1951 the average annual income was around US$137 (Zhuang Yiqi and Lin Zujia, 2006). The mainstay of the economy was primarily agricultural commodity production. Haunted by their previous experience with farmers in Mainland China, the KMT found the wide income gap between landowners and their tenants to be a great concern that could not be ignored. In the 1950s and 1960s, the KMT underwent a broad restructuring aimed at eradicating political corruption, and also implemented land reform.

**Land Reform and Farmers**

With the sudden influx of Mainland Chinese there was a great increase in the demand for food. Thus agriculture was given great emphasis by the government, and developing (or revitalising) industry became imperative. The irrigation systems and agro-industries developed by the Japanese continued to play an important role in Taiwan’s agricultural economy. The land reforms imposed by the KMT had the effect of narrowing the income and asset distribution gaps, as did the further development of industry.

**The 375 Rent Reduction**

\(^4\) A neighbourhood watch system, in which 10 households made up one ja and 10 jas made up one bao.

\(^5\) Between 1945 and 1950 Taiwan suffered from runaway inflation rates of 500% to 1,200% per year. During this five-year period the wholesale price index increased more than six fold. The government responded by instituting currency reforms, and in 1949 the new Taiwan dollar was put into circulation. 40,000 old Taiwan dollars were worth only one new Taiwan dollar.
In 1949, the government introduced the 375 Rent Reduction Program, which set a ceiling on the amount that landlords could charge for rent. This programme established a limit whereby such rent could not exceed 375/1000 of the value of the annual yield of the farm. This regulation eliminated unjust and exploitative practices such as short-term leases by which landlords could withdraw land whenever they wished, the seizing of deposits, and collecting rent in advance (Yu Yuxian and Peng Zuokui, 1996). A related measure stipulated that landlords could no longer confiscate a tenant’s farming equipment if he failed to pay the rent because of a poor harvest.

A landlord and tenant rental committee was set up to mediate disagreements and disputes. With this concrete set of regulations, tenant-farmers received a certain level of state protection.

**Land to the Tiller**

In the early 1950s, only a third of all farmers worked their own land (Peng Zuokui, 2000: 41). In 1951, after implementation of the 375 Rent Reduction Program, the government introduced another reform scheme, placing state-owned land on the market for public tenders. The government released 138,957 hectares of public land, which benefited 286,287 households (Land Reform Museum). The income thus collected by the Land Bank of Taiwan was turned into a fund to support the self-reliance of farmers. In 1952 the government implemented its Land to the Tiller Plan, according to which landowners could own no more than three hectares of wet farmland and six hectares of dry land (ibid.); all landholdings above this amount had to be distributed to tenant-farmers. In total, 139,249 hectares of land were redistributed to 194,823 households (ibid.). The cost of the land was calculated at two and one-half times the value of the crop yield for that year, to be paid within a 10-year term.

The landlords did receive compensation. They recouped 70% through 10-year-term commodity certificates with a 4% interest rate; the remaining 30% of the compensation consisted of stocks in state-owned industries, including mining, forestry, paper mills, and cement operations.

This series of land reform policies apparently eliminated poverty and the large income gap, and it is claimed that they constituted the most successful land reform ever carried out by a developing country (Yu Yuxian and Peng Zuokui, 1996).

**Critique of the Land Reforms**

Although the 375 Rent Reduction and Land to the Tiller Programs did lighten the burden of farmers, they also restricted the mobility of those who worked in agriculture. Economically, it did not help to maximise the marginal utility of the land (Zhang Li Shurong, 2005: 127). Another problem was that farm workers were overprotected at the expense of landowners, as the policy tended to favour farm workers who had not possessed farmland previously.

Although on the face of things the land reforms seem to have promoted the well-being of tenant-farmers, the extent to which tenants benefited from the scheme is debatable. Since they were unable to transfer title, were saddled with debt, and had to continually purchase farming supplies, tenants were in effect bound to their land. This policy of encouraging farmers to possess their own land was linked to the mechanism

---

6 Originally, rent came to 50%–70% of the crop yield.
of state-controlled standardised crop prices, and the system whereby farm products were exchanged for fertiliser at the state-regulated rate. The profit made from the fertiliser exchange system was used to foster the development of industry.

**Hidden Taxation**

Chemical fertiliser and pesticide use was largely dependent on imports from abroad. Due to high shipping costs, the cost of such products was out of reach to many farmers. The result was that most farmers used organic fertiliser rather than more costly chemical fertilisers that could have increased their crop yields considerably. With the joint encouragement of the United States and the KMT government, farmers became keen on using chemical fertiliser. However, the US and KMT disagreed over issues of distribution. The US argued that the government should let the market regulate the price of fertiliser, while the KMT government insisted on the crop-exchange scheme (Zhang Xianqiu, 1990).

The fertiliser exchange programme was criticised by American observers as unfair and burdensome to farmers. One of the main crops of the time was a special breed of rice known as *penglai* (蓬萊), which required great quantities of fertiliser. The fertiliser exchange scheme became a means of control and exploitation, via which the state held total control over the import and distribution of fertilisers, and at certain levels prevented farmers from selling their crops freely. Given that crop prices were set by the state, the scheme amounted to a hidden tax. It also had the effect of artificially stabilising crop prices at an affordable level, which, in turn, depressed land prices. The tenants-turned-landowners shouldered a heavy burden under this scheme, which remained in effect until 1972, when the reforms of the Accelerated Rural Development Program (加速農村建設九大措施) were implemented by the Executive Yuan (Yu Yuxian and Peng Zuokui, 1996).

**Multiple Taxation**

In addition, farmers had to pay a farm production tax on the basis of their annual yield (Zhang Xianqiu, 1990: 242). Sometimes the cost of production exceeded the income from the crops, forcing landowners to give up farming. However, if they stopped farming they were punished with the fallow land tax (ibid: 241). In effect, farmers were taxed for both producing and for not producing. Thus, it is clear that there was not only hidden taxation, but also multiple taxation.

**The Creation of the New Rich and the New Poor**

The land reforms seem to have eliminated the gap between the “haves” and “have-nots.” It can be argued, however, that these same reforms left many former landowners impoverished, and resulted in many medium- and small-scale landowners becoming distrustful of and unhappy about the policies of the KMT government. With a decrease in livelihood and little knowledge of stockholding, many quickly sold their stocks at a low price. Others, especially big landowners, quickly bought up the small landowners’ stockholdings, thereby acquiring a significant amount of capital, which was often invested in industrial and commercial enterprises. Of these industries, some

---

7 At that time, Taiwan stopped importing fertilisers from Japan, and the US became the main provider of fertilisers. The additional shipping costs added to the final price.
received government protection, among them pineapple canneries, cement processing plants, and paper mills. At the same time, some small industries began to grow, following the free-market trend.

Indeed, the land reforms harmed all but the bigger landowners. As Shu Shihjung has pointed out, during the land reforms, the KMT applied strict definitions and regulatory parameters that, among other things, penalised landowners for hiring labourers to tend their land, no matter how much land they owned. Labelled as ‘landlords,’ such farmers were lumped into the same category as those of Mainland China, even if they only owned small lots or rented part of a large piece of land to tenants. Shu stressed that, according to the Legislative Yuan’s estimates at the time, at least two million landowners were seriously affected (Taipei Times, Feb.1, 2007). The number of landowners whose livelihoods were affected by the reforms has never been clearly calculated or addressed.

The extent to which the transfer of land from the landlord class to the poor tenants was smooth and without large-scale protests was mostly due to the widespread climate of fear engendered by a large military presence and the 2/28 incident in 1947. If anyone wished to act in opposition, the consequences would be severe. Even after five decades, many former landowners were still reluctant to speak out. One recalls:

After the 2/28 incident, who dared to resist? One could easily be executed without knowing what wrongdoing one has committed. What could one do? They were like barbarians; they acted without reason. They did as they liked.

(Chen Shu-shiou, personal interview, July 3, 2007)

This is echoed in the comment:

If you take it as a revolution, then you can have some peace of mind. Yes, we did receive compensation, but those commodity certificates and stocks were just useless paper, and we had no understanding of stockholding. Then came the [hyper] inflation; in one night all your money became worthless. The KMT made many poor people become rich, but they made us become poor. If this was not a revolution like the one they had in China, you tell me then, what was it?

(Liu Shanlung, personal interview, July 3, 2007)

Tenant-farmers who benefited from the land reforms have different points of view:

My father was a tenant-farmer, and the land reforms improved our family’s economic situation, making it possible for the kids to go to school. My mother believes that if not for the KMT we would never have had a change of fortune, so she is a diehard KMT supporter. My father, however, favors the DPP. After being drafted and sent to Jinmen [Island, near Mainland China], he was nearly killed in the 823 Artillery Bombardment. But after being discharged from the army he didn’t receive any [veteran’s] benefits whatsoever.

(Jian Mingxue, personal interview, Aug. 23, 2007)

The Farmers’ Quality of Life

8 Shu is a professor at Department of Land Economics, Chengchi University.
9 The 2/28 Incident was an anti-government insurgence in Taiwan. It started on February 28, 1947 and was brutally suppressed by the KMT, resulting in many civilian deaths. The Incident marked the dawn of the White Terror period in Taiwan in which thousands more Taiwanese, were imprisoned, killed, or simply disappeared.
Following the land reforms, the emphasis of the government was mostly on crop yields, sales, and distribution, without much attention being paid to the actual benefit and quality of life of the farmers themselves (Xiao Xin-huang, 1992). The cost/price ratio of farm products cannot compete with that of industrial products. A farmer’s outlay is extremely large in relation to the final price and quantity of his products, which can be affected greatly by outside forces such as climate, natural disasters, typhoons, plant diseases and pests (Wang Junhao, 2005). Industrial products, however, are more easily controlled in the process of production, distribution, and sales.

It was believed that after the land reforms the quality of farmers’ lives had improved. Over the decades, however, the income of farmers had gradually declined when compared to that of average non-farming households. In 1966 the average farmer’s income was 95% of that of a non-farming household (Zhang Li Shurong, 2005), followed by a gradual decline to 76.68% in 1981. The level has remained about the same ever since. Even these amounts were largely made up of non-farm earnings and government subsidies (Chiu Yungchung, 2005). (See Table 6.1).

Several factors affecting the income of farmers, such as the cost of production and wages for farm labourers, have been expensive for a long time. In 1969, a member of the assembly pointed out that farmers were suffering from instability caused by ill-conceived farm policies that resulted in a large gap between the prices of farm products and industrial products (Liao, Huang, and Xiao, 1993). Keeping the prices of farm products low had the effect of suppressing wages for labourers. The prices and distribution of the country’s main farm products, such as rice and sugar, were supposedly controlled by the state and not allowed to follow market trends. However, some merchants and middlemen would import food at harvest time in order to push prices down or would hoard food until prices went up again (Zhang Xianqiu, 1990). The Farmers Association, Fishermen Association, and Produce Growers Co-operative all attempted to work together to avoid exploitation by middlemen. Still, exploitation remains a problem for some (Lei Lifen, 2007).

Another factor that affected farmers was the initiation of imports of food products from other countries, especially the USA. Such imports became a diplomatic

<table>
<thead>
<tr>
<th>Year</th>
<th>Total farm family income</th>
<th>Non-farm family income</th>
<th>Farmers’ income /non-farmers’ income</th>
<th>Percentage of income derived from other sources</th>
<th>Farmers’ income derived from farming</th>
<th>Agri. income / total family income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>108,162</td>
<td>134,662</td>
<td>80.32</td>
<td>65.39</td>
<td>41,349</td>
<td>0.38</td>
</tr>
<tr>
<td>1981</td>
<td>244,454</td>
<td>318,808</td>
<td>76.68</td>
<td>62.91</td>
<td>64,457</td>
<td>0.26</td>
</tr>
<tr>
<td>1986</td>
<td>337,331</td>
<td>414,798</td>
<td>81.32</td>
<td>69.59</td>
<td>78,341</td>
<td>0.23</td>
</tr>
<tr>
<td>1991</td>
<td>572,269</td>
<td>736,750</td>
<td>77.67</td>
<td>68.74</td>
<td>122,360</td>
<td>0.21</td>
</tr>
<tr>
<td>1996</td>
<td>885,469</td>
<td>1,072,461</td>
<td>82.56</td>
<td>72.93</td>
<td>176,837</td>
<td>0.20</td>
</tr>
<tr>
<td>2001</td>
<td>881,298</td>
<td>1,136,274</td>
<td>77.56</td>
<td>69.86</td>
<td>163,158</td>
<td>0.19</td>
</tr>
<tr>
<td>2005</td>
<td>872,677</td>
<td>1,156,935</td>
<td>75.43</td>
<td>68.01</td>
<td>180,999</td>
<td>0.21</td>
</tr>
</tbody>
</table>

Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan, ROC
survival strategy in the 1970s, and Taiwan was forced to open its markets to imports of food products such as meat, fruit, and cereals, all of which began to compete with locally produced products. This brought about a great transformation in the Taiwanese diet, with a switch from rice to a greater variety of food choices.10

**Satisfaction among Farmers**

In their study of farmers’ well-being, Liao, Huang, and Xiao (1993) asked farmers what to them would constitute satisfaction and happiness. The most common answers were a sound living environment, solidarity of the farming community, and their children being able to attend school and eventually gain full-time employment in the industrial and commerce sectors so that they would no longer need to till the land. The migration of the young rural population to the cities and industrial zones has led to an ageing of the farming population as well as increased wages for farm workers. It is clear that had they enjoyed prosperity and economic development in agriculture, they would not have had to give up farming.

**Developing Industry at the Expense of Agriculture**

The KMT government took over the industries left by the Japanese, but the destruction of the war and a lack of resources left these industries in a depressed state, resulting in a great reliance on imports. In order to remedy this situation the KMT government began to promote the idea of “using agriculture to foster industry.”

Such a scheme was not without its merits. From the standpoint of the development of the country, it is commonly believed that it paved the way for the Taiwanese ‘economic miracle.’ First, as mentioned earlier, many former landowners became capitalists in the newly developed enterprises, the most important of which were mining, forestry, paper mills, and cement. Secondly, with the Fertilizer Exchange Program, the state controlled the import of chemical fertilisers and monopolised its production. Further, this programme gave the state direct control over agricultural products and their prices, thereby securing a sufficient supply of food to support government personnel, who were mostly mainlanders. The consistent suppression of the price of rice encouraged many to switch from farming to industrial production, creating an influx of capital and labour into industry. Thirdly, supported by American agricultural technology and aid, the KMT government further concentrated on modernising the agricultural infrastructure through developing irrigation and fertiliser production. This dramatically reduced the need for farm labour and allowed surplus labour to be injected into the industrial sector.

**Further Development of Agriculture**

1968 to 1983 was a decisive period for the Taiwanese economy. Before 1968, the economy was mainly dominated by agriculture, but from then onward Taiwan saw itself as a rising industrial power (Zhang Li Shurong, 2005). Yet the government continued to value the farming sector, since it had played a very important role in the country up to that point. In the early days, agriculture saw steady annual growth of

---

10 For example, people switched from rice as their staple food to flour products. Also, since Taiwan was an agricultural society, most Taiwanese did not consume beef because they considered the ox to be their farming companion and a family member. Today, however, a great quantity of beef is imported, and people devour it without reservation.
around 2%, but soon this fell far behind industrial growth. Agriculture as a proportion of the GDP fell from 32% in 1951 to 7% in 1981. By 2006, it was less than 2% (see Table 6.2).

Table 6.2  Taiwan’s GDP between 1951 and 2006

<table>
<thead>
<tr>
<th>Year</th>
<th>Total GDP</th>
<th>Agri. GDP</th>
<th>Agri. GDP / total GDP</th>
<th>Industrial GDP</th>
<th>Industrial GDP / total GDP</th>
<th>Service GDP</th>
<th>Service GDP / total GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>12,374</td>
<td>3,978</td>
<td>0.32</td>
<td>2,615</td>
<td>0.21</td>
<td>5,781</td>
<td>0.47</td>
</tr>
<tr>
<td>1961</td>
<td>70,746</td>
<td>19,206</td>
<td>0.27</td>
<td>18,498</td>
<td>0.26</td>
<td>33,042</td>
<td>0.47</td>
</tr>
<tr>
<td>1971</td>
<td>266,884</td>
<td>34,402</td>
<td>0.13</td>
<td>101,321</td>
<td>0.38</td>
<td>131,161</td>
<td>0.50</td>
</tr>
<tr>
<td>1981</td>
<td>1,813,290</td>
<td>128,815</td>
<td>0.07</td>
<td>778,000</td>
<td>0.43</td>
<td>906,475</td>
<td>0.50</td>
</tr>
<tr>
<td>1986</td>
<td>2,911,773</td>
<td>157,393</td>
<td>0.05</td>
<td>1,304,775</td>
<td>0.45</td>
<td>1,449,605</td>
<td>0.50</td>
</tr>
<tr>
<td>1991</td>
<td>4,942,042</td>
<td>180,435</td>
<td>0.04</td>
<td>1,879,056</td>
<td>0.38</td>
<td>2,882,551</td>
<td>0.58</td>
</tr>
<tr>
<td>1996</td>
<td>7,944,595</td>
<td>242,608</td>
<td>0.03</td>
<td>2,575,400</td>
<td>0.32</td>
<td>5,126,587</td>
<td>0.65</td>
</tr>
<tr>
<td>2001</td>
<td>9,862,183</td>
<td>182,826</td>
<td>0.02</td>
<td>2,724,049</td>
<td>0.28</td>
<td>6,955,308</td>
<td>0.71</td>
</tr>
<tr>
<td>2006</td>
<td>11,858,987</td>
<td>181,709</td>
<td>0.02</td>
<td>3,179,942</td>
<td>0.27</td>
<td>8,497,336</td>
<td>0.72</td>
</tr>
</tbody>
</table>

Source: Commonly Used Income Statistics:
http://www.dgbas.gov.tw/ct.asp?xItem=11978&CtNode=2854,
Directorate-General of Budget, Accounting and Statistics, Executive Yuan, ROC

As mentioned earlier, with the aggressive import of food products there was a change in the population’s diet, and the growth in rice production far exceeded that of the population, giving rise to a crop surplus. With the growing external competition, a discrepancy in the distribution and sale of crops and food products became a constant problem for the agricultural sector.11 The government responded by trying to restructure the agricultural production process by encouraging the building of family farms, diversification of crops, joint co-operatives, mechanisation, and improved marketing strategies (Peng Zuokui, 2000).

The inheritance system posed another problem for agriculture. This system stipulated that land be distributed to all offspring rather than being left to only one (ibid.), resulting in a very large number of small farms, which were not very suitable for mechanisation. Even today, farms rarely occupy more than one hectare.

The Role of Farmers Associations (FAs)

The farmers associations are semi-governmental non-profit organisations that perform economic, educational, social, and political functions. They represent farmers and promote farmers’ rights and interests by conducting education and training activities, promoting agricultural modernisation, increasing of farmers’ incomes, and developing the rural economy, according to the Web page of the Taiwanese FAs. The FAs are divided into three administrative levels: the central division at the provincial level; 21

11 There were constant bail-out schemes for various agricultural products in response to overproduction or – especially in typhoon season – underproduction. Still, none went so far as to establish a farmers insurance program.
FAs at the county/city level; and 268 FAs at the town level. There are also 4,635 smaller FA units, located in various towns and villages across the island.

Membership can be either individual or group, and one can be a regular or associate member. At the end of 2001, there were 1,009,061 regular members and 788,713 associate members (see Table 6.3). The associations have paid personnel and three bodies of elected officials: a general assembly of members, a board of directors, and a board of supervisors.

<table>
<thead>
<tr>
<th>Year</th>
<th>Group Members</th>
<th>Individual Members</th>
<th>Total</th>
<th>Members</th>
<th>Associate Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>290</td>
<td>1,732,716</td>
<td>1,007,777</td>
<td>724,939</td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>297</td>
<td>1,770,681</td>
<td>1,011,150</td>
<td>759,531</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>290</td>
<td>1,767,219</td>
<td>1,004,332</td>
<td>762,887</td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>304</td>
<td>1,787,511</td>
<td>1,005,433</td>
<td>782,078</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>306</td>
<td>1,797,774</td>
<td>1,009,061</td>
<td>788,713</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>366</td>
<td>1,824,083</td>
<td>1,010,963</td>
<td>813,120</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>270</td>
<td>1,819,059</td>
<td>1,003,074</td>
<td>815,985</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>290</td>
<td>1,791,181</td>
<td>985,416</td>
<td>805,765</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>289</td>
<td>1,792,891</td>
<td>990,141</td>
<td>802,750</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>288</td>
<td>1,812,778</td>
<td>992,804</td>
<td>819,974</td>
<td></td>
</tr>
</tbody>
</table>

*Source:* Year Book of the Taiwan Provincial Farmers Association

The representatives and board of directors are politically influential and have traditionally had great control over patronage. For example, during elections they play the role of thiau-a-kha. In various forms and at different levels, the FAs were built into the KMT’s patron–client networks, giving them power as well as control over the distribution of economic and social resources. In short, they have become the leading brokers between the state and farmers (Chiu Yungchung, 2005).

Bosco (1994), who observed local FA elections in 1985 in a village in Zhutian Township, writes:

The Farmers Association controls much patronage, so its elected political offices are harshly contested by local factions. The purpose of Farmers Association elections is to select representatives who elect the Farmers Association board of directors, who, in turn, elect a general manager (zongganshi). The general manager controls Farmers Association patronage, so each faction seeks to win at least half the representative positions to be able to elect this valuable post. (p.117).

**Problems of the Farmers Associations**

---

12 During elections, thiau-a-kha operating at the local, regional, and community levels use money or gifts to solicit votes from members in their association or its vicinity.
Farmers and their FAs have a symbiotic relationship, sharing the same ups and downs in times of prosperity and adversity. In the 1970s, under the patronage of the KMT, the FAs became very wealthy. The farmers also became rich, even though their main sources of income were state subsidies and non-agricultural operations (Chiu Yungchung, 2005). In 1994, the 366 FAs together had a net profit of NT$ 11.7 billion, while in 2002 they suffered a net loss of NT$1.41 billion. The loss came as a result of the bursting of the country’s economic bubble, in which the FAs’ credit, supply, and sales departments had invested. This, of course, reflected the FAs’ extensive involvement in risky lending and speculative investment. That the supply and sales departments lost NT$ 100 million and NT$ 420 million, respectively, in 2002 showed their inefficiency. As a result, farmers and FAs together shared the same ill effects of the losses (ibid.).

Traditionally, the farming sector has served as a cushion amid economic downturns and a source of manpower in times of economic expansion. Although the land reforms of the 1950s allowed many farmers to obtain title to the land they worked, they did not increase agricultural efficiency. Instead, the country became crowded with small farms planting more or less the same crops or producing the same farm products. The farming community became a closed society, and competition intensified therein, resulting in the community failing to act as the traditional refuge in times of trouble (ibid.).

As a large percentage of the young farming population was drawn to the cities in the 1980s, ageing has become another problem facing the farming community, leaving behind mostly women and aged farmers to till the land. In 1990, the average farmer’s age was about 60, according to Chiu (ibid.). In 2005, the Council of Agriculture and Council of Labour Affairs set out to assess whether import of farm labourers would be a viable solution.

**The Dawning of the Farmers’ Movement**

The lifting of martial law in 1987 marked the end of decades of suppression, and the following years witnessed increasing numbers of farmer demonstrations. In December of 1986, in a prelude to the farmers movement, farmers in Yunlin and Jiayi counties, led by DPP party workers, staged protests against water fees. Afterwards, the farmers movement began to expand and become better organised.

As mentioned earlier, due to US pressure to balance the Taiwan–US trade imbalance, the government opened its market to low-priced US farm products. In the late 1980s, such imports threatened the livelihood of small farmers. As a result, fruit farmers in the central region initiated the “Mountain Farmers Rights Association”, setting in motion the farmers movement in Taiwan. Subsequently, rice, vegetable, livestock, and fish farmers successively established their own “Farmers Rights Assistance Associations,” and farmers nationwide steadily developed safeguards to defend their basic rights (Huang Lijun, 2003).

In 1987, the number of protests by farmers increased to 24, and in 1988 the number was 51 (Zhang Yun, 1999: 54 quoting Wu Jiemin, 1990). On 20 May 1988, several thousand farmers staged demonstrations in front of the Central Executive

---

13 The Democratic Progressive Party (DPP, 民進黨) is a major political party in Taiwan. Upon being founded by family members and defense lawyers of political prisoners in 1986—one year before the lifting of martial law—it vigorously challenged KMT hegemony in Taiwan. In 2000 the DPP took control of the presidency with the election of Chen Shuibian, ending more than half a century of KMT rule in Taiwan (Wikipedia: DPP). In 2008, the DPP lost the presidential election to the KMT.
Committee, the Executive Yuan, and the Legislative Yuan. Their seven demands included that the government allocate NT$2.1 billion for agricultural assistance programmes, establish a comprehensive insurance plan for both farmers and their dependants, and abolish the Farmers Cooperative General Secretary Selection Act. Later referred to as the “520 incident,” the demonstration turned violent and resulted in large-scale bloodshed (Ibid.). On 1 July 1989 the Farmers Health Insurance Act was officially promulgated, representing the first social welfare measure enacted as a result of popular agitation following the changed relationship between Taiwanese society and the state (Ibid. quoting Zheng Zhipeng, 1997: 98).

**The Impact of Accession to the WTO**

On 1 January 2001 Taiwan formally became a member of the World Trade Organization (WTO). The government opened wide its agricultural market and gradually eliminated agricultural subsidies to attest to its sincerity in its bid for WTO membership. Membership resulted in a huge influx of transnational farm products into the market and gave rise to increasingly fierce competition in the agricultural industry, further squeezing out barely surviving small farms. In anticipation of WTO accession, the “Taiwan Agriculture Policy White Paper” of 1996 advocated a tripartite synthesis of production, livelihood, and ecology to upgrade farming efficiency and strengthen international competitiveness. It also aimed to improve the livelihood of the farming community and create an ecologically sound environment.

The agricultural development ordinances drafted by the Agricultural Committee amount to policies of leasing or selling farmland and abandoning farming in order to fulfil WTO membership requirements (Huang Lijun, 2003). To prove that in recent years the Agricultural Authority has worked diligently toward opening up the market, the Agricultural Committee has explicitly specified that, within three years of WTO entry, agricultural labour would begin to be phased out. All this can be attributed to the central government's policy of reducing agriculture and leasing agricultural land, conveniently timed to reduce the shock from its entry into the WTO (Zhang Yun, 1999).

In 1993 the agricultural workforce consisted of 1.005 million members, but by 2006 it was reduced to 555,000 (see table 5.4). Not only was the agricultural workforce reduced, but land and agricultural water was reallocated for other purposes (Huang Lijun, 2003).
From the “industry at the expense of agriculture” policies of the 1960s, up to the “economic revival” policies of the 1990s, the rezoning of agricultural land was often in concert with the nation's economic development policies. The increasingly severe problem of land manipulation in the 1980s, along with the impact of the government's opening up of the agricultural market in its aggressive bid to enter the WTO, lent legitimacy to the calls for the elimination of farmland controls (Yu Zongxian and Wang Jinli, 2001).

With the increasing competition from the international market following Taiwan's accession to the WTO, farmers simply cannot compete with the much cheaper imports, and, by offering generous subsidies, the government is gradually discouraging them from growing anything. At the same time, the government has changed the regulations on the use of farmland, allowing commercial building and establishing industrial zones.

The latest example came in June 2007, when the Executive Yuan instituted a NTS 1 trillion fund to assist farmers in rebuilding or renovating their farm buildings and residences (United Daily News June 13, 2007). And farmers are allowed under certain circumstances (e.g., if they have accumulated more than 25 acres of land) to sell land to developers for the construction of residential buildings. Chen’s government stressed that this will benefit farmers, while making them disappear.

**Ecological Cost**

Taiwan’s industrialisation created a scarcity of land, leading the government to open up new land for agricultural development. One scheme involved creating new farmland by transforming hilly slopes and the banks of rivers and streams. When the Central Cross-Island Highway was completed in the 1960s, the veterans who worked on the project started planting fruit trees in the vicinity, including apple and peach trees. Aboriginal communities also began growing vegetables on the mountainsides,
and other Taiwanese farmers began growing betel nut and pineapples on the slopes. This brought prosperity to many farmers, but with accession to the WTO Taiwan’s agricultural sector was confronted with serious competition, and many crops, including the fruits produced on the mountainsides, lost their competitiveness. Also, over-farming of the mountain slopes caused landslides and other severe ecological problems.

Neglected Farmers

Even though considerable reforms were made to farmers’ benefits after 1970, it was still a case of too little, too late. The first measure, the Accelerated Rural Development Program, was instituted in 1972, but farmers’ insurance was not implemented until 1985, and then only on a trial basis.

What is more, farmers’ insurance is the only type of social insurance that does not provide old-age benefits, leaving retired farmers without any retirement income. The Legislative Yuan passed the Temporary Statute Regarding the Welfare Pension of Senior Farmers in 1995, but the income criteria were extremely strict, similar to those for social relief. Wealthy and nominal farmers were excluded, as well as the following: those receiving any other type of government allowances or old-age benefits, those who held non-agricultural jobs, those whose real property was valued at more than NT$5 million, and those whose most recent annual individual consolidated income exceeded the basic minimum annual wage. Those who met the eligibility requirements were given a monthly elderly farmer’s subsidy of NT$ 3,000. In 1998, as a result of the pressure imposed by the rapidly approaching legislative election, the Legislative Yuan finally cancelled the above restrictions, thus greatly increasing the number of elderly farmers eligible for benefits. Also, elderly fishermen began to receive practical social welfare benefits, and restrictions were relaxed in order to allow those who were already receiving old-age social security benefits to also benefit from the new programmes. Furthermore, restrictions concerning personal income, property, and profession were cancelled in order to bring benefits to larger numbers of farmers and fishermen.

It is true that the government applied a practical, problem-solving approach in developing agricultural policies. However, while these policies might appear to have been well-conceived – indeed, the problems seemed to be solved in the short term – there was often a lack of long-term strategic vision.

As mentioned earlier, farmers’ incomes in the 1960s to 1990s amounted to only three quarters of that of non-farmer groups, and even that was possible only because of heavy government subsidies and welfare payments. Although it alleviated the income gap, the heavy injection of subsidies created a dependency that reduced farmers’ competitiveness (Zhang Li Shurong, 2005).

It might be argued that, out of gratitude for the land reform measures, farmers have universally supported government policies, making it possible for the KMT to make use of farmers associations to gain firm control of rural areas, thus making it unnecessary to provide farmers with further social welfare benefits.

The Plight of the Labourers

Labour, the State, and Capitalism
In an industrial society, workers should be valued as the foundation of the socio-economic structure. Both workers and capitalists occupy and compete for various positions and benefits in the country’s political and economic structure. Given state interest in overall economic development, the state machinery must maintain a close partnership with capitalists while also protecting workers, since they are essential to the life of the state (Li Yunjie, 1999).

Throughout modern history, workers, although part of the state, generally have not enjoyed the same privileged relationship with state structures as capitalists do. The capitalist class is formed and protected by state machinery and policy, with the capitalist economy built on the accumulation of capital and the efficient manipulation of the workforce. This creates a very intricate and complex relationship involving interdependence of the state and the capitalist class. Although subject to state regulation, capitalists are at the same time integrated into the state system and can exploit it to their advantage when state control weakens or the capitalist system finds itself further entrenched in the state (Chen Zhengliang, 2005).

In the case of Taiwan, the formation and development of trade unions may have affected the capitalist system’s structural organisation, but not always in the expected manner. In fact, trade unions were actually responsible for the interaction between the state and the corporate managers of production (Fang Xiaoding, 1991). The main function of trade unions under the KMT was not the advancement of workers’ rights, but gaining the support of the workers for the state’s social and economic goals. With such intricate interactions, the relationship between the state and the trade unions took on a more complex political and social meaning. Through the enactment of laws, exercise of control, and infiltration (Gong Yijun, 1998), the state machinery applied a heavy hand to regulate the development of the trade unions by forbidding them to form liaisons and solidarity with other trade unions.

Structurally speaking, the state’s trade union policy involved different levels of operations and utilitarian considerations. The state was interested in the proclamation of government policies rather than concern for workers’ rights or benefits (Cheng Taisheng, 2003). Such policy announcements usually were unpersuasive to the ears of workers. The trade unions became mono-functional organisations for the promotion of both the interest groups and the state machinery, while conveying the appearance of dissimilation from the two. Thus, in the public eye, the unions were seen as organisations that pressured their members to conform to the wishes of the politicians.

To gain insight into how trade unions were created and have operated in Taiwan, one should note that the first labour union law was promulgated in Mainland China in 1929. In its spirit, this law took into consideration the political and economic situation of the country at the time. Then, with the imposition of martial law in May 1949, the military took control of the administration of the judicial system, imposed repressive laws and regulations that suspended freedom of assembly and association, and proscribed the establishment of any new political parties. Any resistance to these measures was crushed with great military force.

In light of such conditions, the function of trade unions in Taiwan is restricted and has always been manipulated by the state (Cheng Taisheng, 2003; Chen Zhengliang, 2005). The model for trade unions in Taiwan was mostly copied from Mainland China, with the Chinese Federation of Labour (CFL) sitting alone at the top, organising and overseeing sub unions at county, city and provincial levels. It was established by the KMT and became an integral part of the regime. The CFL received most of its funding for personnel and office rental expenses at all levels from the KMT. With KMT backing, the main function of the CFL was to facilitate the work
and activities of the state as well as function as a mouthpiece for state propaganda. The KMT had the power to impede union elections, and, in fact, there was no chance for a unionist who was not a member of the KMT to be elected or appointed to an official union post. At times of local elections, the CFL became an instrument to solicit votes for the KMT candidates.

As far as the trade union movement is concerned, Taiwan has enjoyed relative peace and harmony in its industrial relations. Actually, this apparent harmony is due to the ineffectiveness and inefficiency of the labour movement, which, in turn, has been caused by the unions’ internal problems, including lack of solidarity, a paucity of involvement, lukewarm labour leadership, shortages of funding, and overall disillusionment amongst the general membership (Gu Songmao and Weng Meiling, 2007). The most basic cause, however, is the government’s manipulation and control of trade union activities.

The Composition and Categories of Trade Unions

Many of the articles of the labour union laws were rendered obsolete by the changing social, political, and economic scene in Taiwan. During its several decades in power, the KMT allowed no amendments to these laws and prevented any changes that might encourage a greater sense of labour union solidarity. Thus, the basic laws remained unmodified for the past three quarters of a century (ibid.). Still, the decline of the KMT and the rise of the DPP has not engendered any substantial changes.

Under these old laws, Taiwan’s labour unions are divided into two categories: industrial trade unions and occupational trade unions. The former comprise workers of different professions working in the same industry, and trade union laws specify that workers who work in the same plant or in the same public transport service where there are more than 30 workers are eligible to form an industrial trade union. Taiwan’s industrial sector previously consisted mostly of small and medium-sized firms and factories, but the law forbade factories in the same industry from consolidating their union operations. Thus, such regulations rendered trade unions “company unions,” which were subject to unfair manipulation by the management (Fang Xiaoding, 1991; Lin Liangrong and Guo Guowen, 2000).

By contrast, the occupational trade union consists of workers sharing the same profession or self-employed workers in the same trade. The majority of Taiwanese trade unions fall into this category, accounting for four fifths of all trade union members (see Table 5.5). Most who join these unions do so to take advantage of the national labour insurance scheme (Chen Zhengliang, 2005). As members of occupational trade unions usually do not have the same employers, they usually have fewer industrial disputes with management (Lin Liangrong and Guo Guowen, 2000). If one compares the membership data of the industrial labour unions with the total number of plants, one finds that the distribution of industrial labour union members is rather concentrated in a limited number of companies or locations (ibid.).
The Ineffectiveness of the Trade Unions

As mentioned earlier, the trade unions in Taiwan were assisted, manipulated, and controlled by the state, and thus failed to promote workers’ rights. Since the 1950s, when Taiwan began to develop its export-oriented industries, the government has used its leverage within the trade union movement in order to attain its political, financial, economic, and diplomatic goals. It was state policy from 1950 to 1980 that the trade unions were under the care and direction of the local government, thus ensuring firm capitalist control over the unions (Chen Zhengliang, 2005) while deflecting the accusation of government interference in workers’ rights. Such a policy enabled the state to consolidate its newly established export-oriented industries.

Taiwan’s industries and trade unions are mostly small, unions are poorly funded, and their activities are restricted according to territory, all of which hinder long-term industrial actions and mitigate against the formation of large labour unions. The stipulation by the labour laws that labour unions may be organised only according to industry and occupation also discourages a strong labour movement. The end result is that industrial disputes and strikes have rarely taken place, workers have not benefitted from collective bargaining, and have lost sight of the ultimate objective of the trade union movement.

As a result, there has never been a genuine respect for the true purpose of the labour movement. Under the martial law of the KMT era, the unions tended to avoid touching on radical or large-scale issues or initiating general reforms. Their role is...
often seen as a bridge between workers and management. In the event of a dispute, the unions indeed often play the role of mediator. The union is not seen as a defender of the workers’ interests; instead, it is often expected to ask the workers to make concessions and to sacrifice their interests for the good of the whole country.

Most of Taiwan’s labour disputes are centred on worker benefits such as injury and layoff compensation, and retirement benefits. The labour unions appear to have very little bargaining power when it comes to group negotiations, wage increases, and adjustment of working hours.

**The Lifting of Martial Law**

In recent decades, a close link gradually formed between Taiwan’s trade union and democracy movements. In the interim before and after the lifting of martial law, the trade unions were moving from a position of semi-independence towards one of full independence. The government and the employer’s control of the trade movements began to be challenged, and, as the workers’ strength became more consolidated, trade unions that truly care for the rights of the workers came into being. In addition, labour unions became active partners in various social and political movements (Xia Linqing, 1990). Actually, the lifting of martial law and the subsequent amendment of the laws governing labour disputes proved to be but a minor boon to genuine trade unionism based on the triple rights of solidarity, negotiation, and engaging on a more even footing in disputes.14

**The Formation of Independent Trade Unions**

Following the lifting of martial law, labour groups took a more radical and confrontational approach in their protests (ibid.). The attitude of the central government’s labour authority also underwent a change. Labour actions that once had been deemed “illegal agitation” by the central and local authorities were described in softer terms such as “not keeping strictly to the legal requirements.”15 With the lessening of government oppression and control, the trade unions should have won some substantial victories in the battle for their legal rights, yet the KMT’s continuing conservative and oppressive pro-capitalist leadership prevented this from happening. With the decline of the KMT and the rise of the DPP, the Chinese Federation of Labour lost its supremacy and saw the creation of seven other independent trade unions, among them the Taiwan Confederation of Trade Unions and the Chinese General Labour League. With the exception of the independent trade unions that are working to form a General Industrial Union entity, the majority of such general unions are lackeys of the KMT or DPP (Minns and Tierney, 2005).

---

14 It was not until 2004 that President Chen stressed in his second-term inaugural speech that he would make constitutional re-engineering a priority of his administration, including the three rights of trade unionism.

15 The Constitution of the Republic of China clearly grants the freedom to petition and the freedom of assembly. Nevertheless, the Assembly and Parade Act requires groups to apply for and receive permission from the relevant authorities prior to carrying out a protest march. Moreover, according to articles 8 and 25 of the Assembly and Parade Act, the police have the right to inspect such events in advance, issue on-site warnings, and control or disband them at their own discretion, thus curtailing the freedom and right of citizens to express their views.
The Introduction of Labour Standards Law

Should the state play a role in the regulation of labourers’ working conditions? Some scholars believe that the state should not interfere in employment relationships and should let market forces regulate the process of negotiation between workers and employers (Pan Shiwei, 2004). Partly on account of varying opinions, it was not until 1984 that the Taiwanese government introduced the Labour Standards Act (LSA). Prior to the passage of this law, the regulations governing labour standards in Taiwan were mainly based on the increasingly antiquated pieces of legislation known as the Factory Act of 1929 and the Mine Act of 1936.

Work Conditions and Benefits Granted to Labourers

The LSA mandated that employers meet minimum standards of labour conditions, protect workers’ rights and interests, strengthen the labour-management relationship, promote social and economic development, and that “No labour conditions concluded between an employer and a worker shall fall below the minimum standards provided for in this law.”

However, the road towards just working conditions was to be full of a series of confrontations in which the state, labour groups, and capitalists all vied for interest. The most recent example was in 2000, when Taiwan’s legislature passed an amendment to its labour law which reduced the maximum workweek from 48 hours to 42 hours. Under pressure from both the Council of Labour Affairs (CLA) and business groups, trade unions refused to consent to the CLA-proposed 44-hour work week. With various parties pulling out of the negotiations, in an unexpected twist, the KMT-led legislature hastily consented to a scheme of 84 hours for each two weeks. Labour groups, however, did not see the KMT’s gesture as a genuine concern for the working class, and they deemed it merely cunning support of labour.16

Between 1997 and 2007, Taiwan’s minimum wage remained at NT$15,840 per month.17 It was believed that the formation of the DPP was largely supported by the working class, and its founding mission clearly stressed its pro-labour stance. Throughout the first six years of the Chen administration, however, the DPP government did not make even the slightest gesture to adjust the minimum wage, while even the KMT era saw minimal increases in wages (see Table 5.6). It was only in July 2007 that the minimum wage rose from its 1997 level to NT$17,280 per month. Labour groups were not very satisfied with this adjustment, arguing that the adjustment came too late and did not reflect ever-increasing consumer prices. Thus they remained dubious, viewing this as merely a pre-election gesture from the DPP.

16 The CLA persuaded the DPP administration to support its position by emphasising that if the employers could not cope with the decrease in work hours they might close down or move their operations offshore.
17 NT$528 per day or NT$66 per hour.
Still, the response of employers was predictable, and they found ways to bypass and subvert such regulations. Chen Pochih, economist and think-tank chairman, responded to the government’s decision by warning that such a move might create unemployment: “The government’s proposal would raise the minimum wage above the value of some workers’ labour, thus discouraging employers from hiring and pushing companies to move [overseas]” (Taipei Times, February 14, 2007).

Chen Pochih ominously predicted that “in the end it is the disadvantaged workers that will be hurt.” Not enough time has passed for this prediction to be found to be accurate or not, but the former seems more likely, especially when developments in wages are considered alongside other recent changes.

The system for distributing unemployment insurance benefits only went into operation on 1 January 1999, achieving its goal of employment security by integrating the registration process with job counselling and professional training.

**Labour Insurance and Pensions**

In January 1950 the Taiwanese provincial government promulgated the Taiwan Provincial Labour Insurance Act and Enforcement Rules (Chen Jinfu 1999). In 1958

---

**Table 6.6 Adjustments to the Monthly (and Daily for 1961) Minimum Wage**

<table>
<thead>
<tr>
<th>Date</th>
<th>Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>300</td>
</tr>
<tr>
<td>1961</td>
<td>450</td>
</tr>
<tr>
<td>1964</td>
<td>600</td>
</tr>
<tr>
<td>1968</td>
<td>2,400</td>
</tr>
<tr>
<td>1978</td>
<td>3,300</td>
</tr>
<tr>
<td>1980</td>
<td>5,700</td>
</tr>
<tr>
<td>1983</td>
<td>6,150</td>
</tr>
<tr>
<td>1984</td>
<td>3,300</td>
</tr>
<tr>
<td>1986</td>
<td>6,900</td>
</tr>
<tr>
<td>1988</td>
<td>6,900</td>
</tr>
<tr>
<td>1989</td>
<td>8,130</td>
</tr>
<tr>
<td>1990</td>
<td>8,820</td>
</tr>
<tr>
<td>1991</td>
<td>9,750</td>
</tr>
<tr>
<td>1992</td>
<td>11,040</td>
</tr>
<tr>
<td>1993</td>
<td>12,365</td>
</tr>
<tr>
<td>1994</td>
<td>13,350</td>
</tr>
<tr>
<td>1995</td>
<td>14,010</td>
</tr>
<tr>
<td>1996</td>
<td>14,880</td>
</tr>
<tr>
<td>1997</td>
<td>15,360</td>
</tr>
<tr>
<td>2007</td>
<td>15,840</td>
</tr>
<tr>
<td></td>
<td>17,280</td>
</tr>
</tbody>
</table>

Source: [http://fclma.org/ShowPost/3066.aspx](http://fclma.org/ShowPost/3066.aspx)
the government completed the judicial procedures relating to the Labour Insurance Act. The act was first applied to state-run factories, mines, and transportation, as well as public service industries, with the result that the majority of those covered by the labour insurance were employees of state-run enterprises (Lin Wanyi, 1994). Later, with the enactment of the Taiwan Provincial Professional Labourer Insurance Act, the labour insurance plan was expanded to include those employed by privately run enterprises. The next group targeted for labour insurance consisted of workers who belonged to labour unions but had no fixed employer, such as taxi drivers, dock workers, tailors, hairdressers, and printers.

At first, the Labour Insurance Act didn’t cover illness, and even with the 1956 reforms illness was covered only if the patient required hospitalisation (Guo Mingzheng, 2002). The insurance coverage for working families was inferior to that received by the families of military personnel, civil servants, and teachers, and it was not until 1990 that the medical insurance of workers began to cover their dependants (ibid.).

One key area of change that may bode ill is that of workers’ pensions. Prior to the passage of the Labour Standards Act in 1984, retired workers only received the old-age subsidies provided by labour insurance, but these were fixed according to the beneficiary’s salary. Taking 1990 as a standard of comparison, the average salary of those covered by civil servants’ insurance was 48% higher than the salary of those covered by workers’ insurance (Lin Qiuhuang, 2006: 100, quoting Wu Kaixun, 1993). In principle, the Labour Standards Act stipulated that retired workers would also receive a pension, but in fact only about half of all workers covered by labour insurance were eligible, and the other half continued to receive only the old age benefits provided by labour insurance. Moreover, only a minority of companies actually paid the pensions stipulated by the Labour Standards Act, with the result that very few workers actually received pensions.

In the past, under Article 53 of the Labour Standards Act, statutory-pension-entitled employees could either retire with a pension at 55 after having worked for the same employer for 15 years, or retire with a pension before 55 if they have worked for the same employer for more than 25 years. However, only 2.22% of all the enterprises in Taiwan today have been in business for over 25 years, and the average life span of small and midsize enterprises is 13 years (Chinese National Federation of Industries website). Thus, many companies will be out of business before their workers become eligible for a pension (Guo Mingzheng, 2002).

Even workers whose jobs are covered by the Labour Standards Act don’t necessarily receive the pensions they are entitled to by law, and, even if they do, they only receive a one-time payment and do not enjoy preferential interest rates on savings accounts. Thus, if the largest payments according to the Labour Standards Act and labour insurance were to be added together and converted into an annuity, the income-replacement ratio would be only 32.67% which is clearly insufficient (ibid.). By comparison, the total benefits received by retired military personnel, civil servants, and teachers added together amount to an income-replacement ratio of over 90% (ibid.).

Lin Wanyi (1994) argues that the KMT’s social insurance and labour policies were by and large extensions of policies formulated merely as a pet project of the central government. While it is impossible to say with absolute certainty that the labour insurance policies were all formulated as a way of maintaining the KMT’s grip on power, it cannot be denied that the labour insurance plan was put into effect by the KMT.
In 2005, the Chen administration launched the Labour Retirement Pension Ordinance, establishing a new labour insurance system consisting of individual accounts and an annuity system, allowing workers to change jobs and still accumulate credit towards a pension. Now employers must pay the equivalent of six % of a worker’s salary as a pension contribution, which is not to be deducted from the worker’s pay. Furthermore, upon reaching 65 years of age, workers will be eligible to receive a pension, whether or not they actually retire.

Chen optimistically called this system a “giant step that moves Taiwan toward becoming a country with more social justice and welfare.” He described the need for it in terms of the previous system’s shortcomings: “This kind of strict requirement is extremely unreasonable. Ninety percent of our hard-working employees will not be able to receive their pension after they have devoted themselves to their work for most of their life” (*Taipei Times*, July 2, 2005).

Unsurprisingly, the new scheme was opposed by employers, who objected to the requirement that they pay at least the equivalent of six percent of an employee’s monthly salary into his or her retirement fund, arguing that the profit margin of small and medium size enterprises – the country’s economic core – was less than six percent in 2004 (Chen Wenyen, 2007; SMEs White paper, 2007). As a direct consequence of the new labour pension scheme, many employers have begun to reduce their number of full-time workers and hire more temporary staff, who enjoy few or no benefits. Other companies have responded by moving production overseas.

Referring to a survey conducted among 94 companies belonging to Hsinchu’s Human Resources Management Association, Chen Chikuo states that 42.6% of the respondents would prefer to “increase variable salaries (non-pensionable, bonus) and reduce fixed salaries (pensionable, basic salary).” In another survey, conducted by the 1111 Manpower Bank, 41.84% of the respondents reported a cut in their pay, 29.08% reported a change in their insurance coverage, and 25.53% reported employers’ falsification of their salary figures in order to cut spending (*Taipei Times*, July 1, 2006).

**The Future of the Job Market**

Since the late 1980s, Taiwan has faced several economic shifts. In response to demands by Taiwanese workers to increase wages, companies and factories started to relocate their plants abroad, mainly to China and Southeast Asia. Accordingly, a great number of small and midsize factories closed down, the effects of which were mostly felt by middle-aged workers (Yeh Xiuzhen, 2001). In 2002, the unemployment rate reached a record high of 5.17%, but it has declined each year since. Also worth noting is that the unemployment rate is probably much higher than the government statistics indicate. In 2001 and 2002, the DPP administration pushed forward the Long-term Employment Security Program and the Employment Diversification Plan, both of which expanded job opportunities and helped to relieve unemployment pressure. The Employment Insurance Act was put into effect in 2003, providing unemployment benefits, an extra payment for those finding employment within a specified period of time, and national health insurance for the unemployed and their dependents. At any rate, the increases in unemployment insurance are still not enough to offset the influence of economic fluctuations.

---
18 Chen is the manager of the human resource department of the Taiwan Semi-conductor Manufacturing Company.
When the main breadwinner in a family becomes unemployed on a long-term basis, compensating for the lack of income becomes the duty of women and children. Increasing numbers of middle-aged females are joining the labour force, and school-aged youth are starting to engage in part-time contingent work to help offset family expenses. The gap in distribution of wealth has widened, and in 2001 those in the highest 20% income band enjoyed more than 6.39 times the income of the bottom 20%, an increase from the previous year’s 5.55 times (DGBAS website).

Faced with rising consumer prices as well as educational costs, most people find it hard to maintain their quality of life on a single salary. This has resulted in millions of credit card debtors, a recent phenomenon which has pushed the government to step in to resolve the situation. Among the problematic issues facing middle-aged and older unemployed workers is their inability to compete with migrant workers who are more than willing to accept low wages and poor work conditions. Even with further job training, they are not very competitive in the job market and easily become discouraged. Another phenomenon worthy of mention is the increasing number of suicides, many due to unemployment and economic hardship.

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>1.23</td>
</tr>
<tr>
<td>1985</td>
<td>2.91</td>
</tr>
<tr>
<td>1990</td>
<td>1.67</td>
</tr>
<tr>
<td>1991</td>
<td>1.51</td>
</tr>
<tr>
<td>1992</td>
<td>1.51</td>
</tr>
<tr>
<td>1993</td>
<td>1.45</td>
</tr>
<tr>
<td>1994</td>
<td>1.56</td>
</tr>
<tr>
<td>1995</td>
<td>1.79</td>
</tr>
<tr>
<td>1996</td>
<td>2.60</td>
</tr>
<tr>
<td>1997</td>
<td>2.72</td>
</tr>
<tr>
<td>1998</td>
<td>2.69</td>
</tr>
<tr>
<td>1999</td>
<td>2.92</td>
</tr>
<tr>
<td>2000</td>
<td>2.99</td>
</tr>
<tr>
<td>2001</td>
<td>4.57</td>
</tr>
<tr>
<td>2002</td>
<td>5.17</td>
</tr>
<tr>
<td>2003</td>
<td>4.99</td>
</tr>
<tr>
<td>2004</td>
<td>4.44</td>
</tr>
<tr>
<td>2005</td>
<td>4.13</td>
</tr>
<tr>
<td>2006</td>
<td>3.91</td>
</tr>
</tbody>
</table>

*Source: DGBAS, Important Indicators Based on Annual Manpower Surveys: http://eng.dgbas.gov.tw/ct.asp?xItem=17241&ctNode=3102*
The Plight of the Aborigines

Although not focused on in the above discussion, at least some mention should be made of the plight of Taiwan’s aboriginal population in the face of social change and stratification. The aborigines are the earliest group of people to inhabit Taiwan. Taiwan has been colonized by a number of foreign powers, including Holland, Spain, Portugal, Japan, and China, all of which, especially the Chinese, referred to the aborigines as the “Eastern Savages” (Wikipedia: Taiwanese aborigines). After shifting to Taiwan the KMT used the less-offensive appellation “mountain people” or “mountain compatriots.” Successive waves of immigration and the establishment of a capitalist state left the aborigines with little choice but to retreat to Taiwan’s mountainous regions. The KMT carried out a strict policy of assimilation and sinicization of the aboriginal peoples, resulting in the slow disappearance of aboriginal culture. Due to their weak position in the socioeconomic and political structure, aboriginals have been denied their fair share of such social resources as education, employment, and medical services.

Due to significant differences of language and culture, when the aboriginals were compelled to enter Taiwan’s capitalist system they inevitably ended up as a disadvantaged minority. With marginalisation and the lack of economic opportunities in their isolated mountain villages, most aboriginals had little choice but to immigrate to the cities in search of work as unskilled manual labourers with unsteady incomes. The large numbers of foreign workers coming to Taiwan from Southeast Asia in recent years has given rise to a fair amount of controversy, since many claim that such imported labourers are making it even more difficult for aboriginals to find work.

The unemployment rate of Taiwan’s aborigines far exceeds that of the rest of the population. The surge in exports in the 1960s created many jobs, making unemployment negligible. In the 1990s, globalisation and the exodus of Taiwanese industries resulted in a decreased demand for labour. In 2001, the unemployment rate was 5.26% for the general population but 14.86% for indigenous people (Chou Jenny, Taipei Times, December 11, 2005). In 2008 there were 487,205 aboriginals in Taiwan, about 2.1% of the total population.

Official Designations and Aboriginal Rights

The national government denied the existence of the “aboriginal issue” for many years, and it was only following the rise of the international indigenous peoples movement and the democratic movement in Taiwan in the 1980s that cultural diversity became an issue of importance, and the government finally began to pay attention to the rights of indigenous peoples of Taiwan. In order to help expel Han Chinese stereotypes about aboriginals and promote an awakening of consciousness amongst aboriginals, aboriginal leaders established the Association for the Promotion of Aboriginal Rights, which decided on the new self-designation of “aboriginal.” In 1994 “mountain compatriot” was changed to “aboriginal” in the Constitution of the Republic of China. In 1996 the Legislative Yuan approved the establishment of the Council of Indigenous peoples of the Executive Yuan, which is responsible for aboriginal services. In 1997 the Legislative Yuan passed the Education Act for Indigenous Peoples, the first to use the new designation “aboriginal.”

While running for president in 1999, Chen Shuibian and representatives of
Taiwan’s aboriginal tribes signed a treaty-like document titled A New Partnership Between the Indigenous Peoples and the Government of Taiwan. Afterwards, “aboriginal self-rule” became one of the main slogans of the DPP election campaign. In 2000 the Constitution of the Republic of China was augmented by the addition of Article Ten titled “Basic National Policy,” which officially recognized the rights of indigenous peoples. Clause 11 stipulates, “The country affirms cultural diversity, and will actively safeguard and develop the languages and cultures of Taiwan’s indigenous peoples.” Clause 12, which became a kind of manifesto of aboriginal self-rule, stipulates, “According to the wishes of the people, the country must safeguard the status and political participation of indigenous peoples. Moreover, the country must support and encourage the development of its aboriginal peoples in such areas as education, culture, communications, water resources, sanitation, and medical treatment, as indicated by law.”

Another major shift in aboriginal policy came in 2001 when the DPP government officially recognized the Thao tribe—the first addition made to the classification system consisting of nine tribes which was inherited from the Japanese colonial era. Up to the present, a total of 14 aboriginal tribes have been officially recognized, and aboriginal rights issues have gradually been gaining the attention they deserve.

### The Hakka Minority

Although the Hakka ethnicity is the second largest minority in Taiwan, for over 50 years the Hakka-speaking community was virtually invisible as a result of the KMT’s policy of national assimilation based on Mandarin Chinese. When the DPP came to power, however, it established the Council of Hakka Affairs in the Executive Yuan and a 24-hour television channel in the Hakka language.

### Issues Concerning Migrant Workers

As difficult as life may be for Taiwanese labourers, their plight pales in comparison to that of migrant workers in Taiwan. Government officials have full knowledge of the various issues affecting the well-being of migrant workers, as well as the unjust and exploitative treatment they often face. Yet government officials and the CLA have displayed no political will to address the situation and implement a set of policies and regulations that would be fairer and more humane (Wu Jingju, 2008). Constant and severe warnings from local and international human rights groups in regard to the handling of these issues have had little impact. Among many exploitative practices, the brokerage system is the most troubling and worthy of note.

### The Brokerage System

The brokerage system has for some time been one of the major problems affecting Taiwan’s migrant workers. Playing the role of middlemen, brokers recruit workers in Indonesia, Vietnam, the Philippines, and Thailand for work with eligible employers, including factories, construction sites, and households. In return, the migrant worker must pay the broker NT$100,000 to NT$150,000 in advance. Many such workers must seek a loan or sell property to accumulate such a sum, sending them into debt before they even commence their work in Taiwan (Chen Lingping, 2005).
The Private Employment Agencies Convention of the International Labour Organization (ILO) specifies that private employment agencies may not charge any fees to workers. The CLA, long aware of the excessive broker fees, has done little to address the issue. It was only in 2002 that a mandate was passed stipulating that brokers shall only charge their service fee to migrant workers on a monthly basis. However, brokers continue to charge brokerage fees on top of the service fees approved by the CLA (Alice Gose, personal interview November 11, 2005), and the burden posed by these fees remains grave. The CLA has admitted that the hiring procedure is so complicated that employers have to rely on the assistance of professional brokers when they need to hire migrant workers. Many employers also pass on the managerial responsibility to the brokers. Mistreatment or exploitation on the part of the employers has often been concealed by both the employers and the complicit brokers, leaving migrant workers with no recourse.

Side Agreements

Another major problem faced by migrant workers is that they are often required to sign “side agreements” that in essence replace the original employment contract they signed before coming to Taiwan. Some of these agreements force caregivers, domestic helpers, and nursing home workers to surrender their right to a day off, and since such workers are not covered by the Labour Standards Act there is little they can do. Many have not had a single day off in their entire time working in Taiwan, even though the Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights have asserted that one day off per week is a human right, and not a privilege given to workers by employers or governments.

Other Issues

Other issues faced by Taiwan’s migrant workers include non-implementation of the provisions of the Labour Standards Law by employers; early repatriation not due to any fault of the worker or because of failed medical checks; restrictions on the right to change employers; limits on how long they can continue to work in Taiwan; physical, sexual, and verbal abuse; and racial discrimination encountered in Taiwanese society.

Industrial Transformation

Taiwan went through a new industrial transformation in the 1990s, with increasing numbers flocking to the IT, high technology, and knowledge-based sectors. At the same time, industry began to shift from manufacturing to services. In 2006, more than 58% of all jobs were in the service sector, which accounted for 72% of Taiwan’s GDP.

Two new phenomena have arisen in response to the increasing importance of the service sector: contingent work and dispatch work. In the service sector, contingent work occupies the bottom stratum of the labour market. Consisting of temporary and part-time jobs, contingent work lacks job security and pays on a piecework basis with few or no fringe benefits. With dispatch work, workers are sent by an agency to a client company for a short, temporary contract. This rapidly
became an industry in its own right, prompting the government to legalise the practice. This, in turn, sparked opposition from trade unions, which argued that the main benefits are for the employer, since it reduces employment costs and provides a more flexible labour force. The rapid transformation of the work landscape has become a great challenge for workers and trade unions, as well as the government charged with regulating these new phenomena (Zhao Weici, 2002).

With the onset of economic depression, jobs are becoming increasingly scarce and workers are finding it gradually more difficult to find work. Since the prime goal of entrepreneurs is making a profit, it should come as no surprise that they are more inclined to hire workers who are more talented and willing to endure long work hours and accept less pay. In such a situation, it is mostly middle-aged and older workers who find it difficult to compete in the job market, especially low-paid manual labourers, who often end up unemployed and thoroughly discouraged. Even if such a laid-off worker is able to make a career change to the service sector, it is not an easy transition.

**The Literati System and Its Cultural Connotations**

In Chinese feudal society, people were roughly divided into four occupational categories: intellectuals, farmers, artisans, and merchants (shi, nong, gong, shang). The government officials who made up the Chinese scholar-bureaucrat ruling class for over two thousand years are traditionally described as the literati. They were a high-status group of well-educated gentry who had gained government positions by passing the imperial examinations focussed on literary knowledge and writing proficiency. This selection system was greatly influenced by Confucianism and continues to have much influence on Chinese societies, including that of Taiwan. For example, those seeking a career as a civil servant must pass national exams administered by the Examination Yuan. The majority of Taiwanese regard any position in a government bureaucracy as high status and refer to such a position as an “iron rice bowl,” since it provides a stable income, generous fringe benefits, and a pension guaranteed by the government.

**Provincial Quotas in the National Civil Service Exam**

Article 18 of the Constitution of Taiwan clearly stipulates that “The people have the right to participate in public employment exams” Article 85 sets out the constitutional basis for provincial quotas: “A public competitive exam system should be instituted for the selection of civil servants. The exams are to be administered according to province, and provincial quotas are to be established. Only those who pass the exam will be deemed qualified for civil service positions.” When passed in July 1948, the new exam legislation included regional quotas for the upper-level and ordinary national exams, and was administered according to individual provinces or several provinces together. The quotas stipulated that five examinees should be selected from each province with a population of less than three million; the figure was the same for the rest of the provinces, with one more examinee being selected for every additional three million in population (Constitution of Taiwan; Lin Qiuhuang, 2006). On the basis of the statistics of the Population Bureau, in 1948 the

---

19 The Examination Yuan is one of the five bureaucratic branch institutions of government in Taiwan.
Ministry of the Interior created the Regional Quota Chart for the Selection of National Civil Servant Examinees.

The Examination Yuan had to base its selection ratio on the population statistics provided by the Ministry of the Interior, even though it was impossible to verify these largely-inferential population figures after the KMT government retreated to Taiwan (Lin Qiuhuang, 2006). Following its retreat to Taiwan, the KMT government continued to use the same selection ratios for the upper-level and ordinary exams, resulting in a skewed situation. Because the entire population of the mainland did not move to Taiwan, the Taiwanese examinees were placed at a distinct disadvantage, since they now constituted the largest number of examinees. The KMT had yet to institute major reforms of the examination system, and the only modifications that were made were superficial. For example, beginning in 1952, the Examination Yuan doubled the quota ratio for every province across the board in the upper-level and ordinary exams, a change that brought no benefit to Taiwanese examinees (ibid.). Thus it can be seen that Taiwanese examinees faced very limited opportunities for success in the civil service exams.

Following the lifting of martial law, people began to voice their dissatisfaction concerning the unfairness of the national exams, and with the constitutional reforms of 1991 the quotas designated in Article 85 came in for a thorough review (ibid.). At that time, the quota for successful Taiwanese candidates was 22 out of a total of 599 examinees, or a mere 2.7% (Ibid.:34). With the revisions to the Examination Act of Public Functionaries in 1996, the articles relating to provincial quotas were all abrogated.

According to Lin Qiuhuang (ibid.), the provincial biases of the upper-level and ordinary exam system weren’t actually painstakingly engineered by the KMT, but were more the result of existing policies that, though out of touch with the changed circumstances, the KMT were unable to amend because it was “immersed in the legal system of greater China.” Yet, it has to be admitted that the KMT neglected to take any pragmatic measures to address these inequities and safeguard the rights of the Taiwanese examinees.

**Provincial Bias in Employment Opportunities**

The above-mentioned provincial biases gave rise to a disproportionately large number of mainlanders being employed by the public sector. According to the statistics of the Examination Yuan’s Ministry of Civil Service, in 1962 mainlanders accounted for 42.8% of all civil servants and teachers in Taiwan (ibid:69–70), even though they constituted only 12.6% of the general population (Gong Yijun, 1998). If soldiers were to be included, the ratio would be much higher.

Statistics for 1981 reveal that the higher the level in the civil service, the greater the disproportion between mainlanders and Taiwanese: mainlanders made up 84.3% of high-level officials in the civil service, 61.4% of middle-level civil servants, 35.3% of lower-level civil servants, and 43.1% of ordinary employees (ibid:70). However, it should be noted that the proportion of mainlanders in the civil service has gradually decreased over time.

Lin Qiuhuang (2006) believes that there is a tendency to oversimplification when the question of provincial partiality and economic opportunity is touched on in discussions of Taiwanese society. Thus, according to Lin, many people automatically think just because somebody was a mainlander that he certainly must have enjoyed some sort of preferential treatment, but they overlook the fact that many mainlanders
were unable to take advantage of such preferential employment opportunities. Still, even Lin would have to admit that the overwhelming majority of those who did receive preferential employment and economic assistance were mainlanders.

**Resettlement and Job Placement for Demobilised Soldiers**

Once the KMT and the Chinese Communist party began their Cold War stand-off, how to deal with the huge number of military personnel who accompanied Chiang Kai-shek on his retreat to Taiwan became a major challenge for the KMT. The approximately 600,000 soldiers who accompanied the KMT on its retreat to Taiwan were nearly all mainlanders, and these were the men who would later make up the bulk of the retired military personnel.

When the Veterans Affairs Commission was established in 1954, its main mission was helping demobilised military personnel find employment in various sectors. During this era of KMT rule, the bulk of the national budget was being spent on defence. At that time military expenses alone accounted for over 85% of the general budget of the central government (Wang Zhenhuan, 1996; Fu Liye, 1993b), and more than 70% of the professional soldiers were mainlanders (Lin Qiuhuang, 2006), even though mainlanders constituted only 12% of the total population. As will become apparent in the discussion of career change assistance below, this imbalance resulted in a provincial bias that figured prominently in the government’s resettlement and job placement for veterans.

The government established a number of channels whereby large numbers of enlisted men and officers could gain employment in government organisations and schools, and enter the job market at all levels of society. The applicants for some positions had to pass an exam, but the standards were set quite low, the pay and benefits were stable and generous, and most were lifetime positions with pensions.

**Veterans’ Career Change Organisations**

In 1952, the KMT government began a demobilisation system on an experimental basis under which veterans were assigned positions in various state-run enterprises. Under this system, veterans were given positions in public companies such as the railway, highway, telecommunications, and postal administrations, as well as in state-run industries such as the Taiwan Power Company, the Chinese Petroleum Company, the Taiwan Salt Company, the Taiwan Sugar Corporation, and the Taiwan Fertilizer Company (Lin Qiuhuang, 2006).

After the civil war, the KMT implemented a planned economy in which special permission was required to operate in many industries, and strict government control allowed specially designated entrepreneurs to gain monopolies or near-monopolies (Chen Shimong 2006). Businessmen without government permission were barred from operating in such industries. One of the distinguishing characteristics of the KMT’s planned economy was the granting of preferential treatment and economic assistance to specially designated groups (ibid.; Zhang Maukuai, 1989). For example, the Veterans Construction Department of the Veterans Affairs Commission was specially contracted for government projects and employed a large number of retired soldiers from the mainland.

---

20 According to KMT policy, all enterprises were required to establish what was called a ren-er office. Designed to prevent the infiltration of Communist spies, the ren-er office was a type of public security organisation and reported to the qingzhi department. Since it was staffed mainly by retired military officers, it became one way of providing employment for retired soldiers from the mainland.
soldiers. Of the over 80,000 veterans who had entered the programme by 1981, only 2,000 were natives of Taiwan – the remainder were all mainlanders (Lin Qiuhuang, 2006).

With the increasing weight of public opinion during the process of democratisation, the abuses of the planned economy and specially designated beneficiaries naturally became the object of suspicion. Following democratisation, the industries under the control of the Veterans Affairs Commission no longer enjoyed special charters.

**Veterans Gaining Employment in the Public Sector**

Veterans gaining positions in the public sector through success in the specially designed civil service exams seems to have been nearly the exclusive preserve of mainlanders. Of the 22,322 who registered for the exam in 1962, only 116 were natives of Taiwan. Of the 8,074 who passed the exam in 1965, only 60 were Taiwanese (Lin Qiuhuang, 2006: 49, quoting Zhong Jinian, 1993).

On the basis of the mandate of Chiang Kai-shek’s Military Affairs Council, in 1965 the Examination Yuan began to administer the Ministry of Defence Administrative and Technical Personnel Special Exam every other year. Soldiers still on active duty were allowed to take the exam, and those who passed were deemed qualified for civil service positions.

**Verification of Professional Qualifications**

There were also demobilised soldiers whose professional qualifications needed to be validated, such as those who served as military lawyers and medical personnel. In 1963, the Legislative Yuan passed the Retired Military Medical Personnel Professional Qualifications Exam Act, which was designed to verify the credentials of such medical professionals as doctors, pharmacists, dentists, and nurses. Those who were deemed up to standard could apply to city and county governments to open a private practice. Eligibility to participate in the exam was not very exclusive and was open to any military surgeon who had received even six months’ advanced training. A total of 3,095 former military surgeons gained their medical credentials in this way, seriously compromising the standards of medical training and the verification of credentials (Lin Qiuhuang, 2006: 63, quoting Yuan Zilun, 1993). There were quite a few who gained medical licences in this way despite not being able to properly practise their profession, some of whom then rented their licence out to underground doctors, exploiting a large loophole in the regulation of the medical profession (ibid.). Furthermore, veterans only had to be graduates of a military academy, a high school, or the equivalent in order to be qualified to take the exam for primary and secondary school teachers, making it rather easy to move into the teaching profession. Other veterans underwent training and were then given jobs as policemen by the Taiwan Provincial Police Department (ibid.).

Again, however, it should be noted that, despite the significant differences in treatment based on one’s place of origin, not all mainlanders enjoyed the above-mentioned special benefits. Only a minority of the 600,000 soldiers from the mainland were able to make smooth career transitions, and most veterans of lower rank and education were provided with jobs as factory workers, labourers for public organisations, or custodians. There were many elderly veterans who retired early and received only a paltry pension (ibid.). Yet the standard monthly pension of NT$
13,500 for veterans is still much higher than the NT$ 5,000 pension for farmers and the NT$ 3,000 pension for other elderly people.

**Housing Subsidies**

Free or subsidised housing is amongst the many fringe benefits the government provides to military personnel and civil servants. In 1956, the Ministry of Defence established the Taiwan Military Personnel and Family Affairs Act. This legislation required the state to provide housing to military personnel and their families, and each soldier who had completed 10 years of active duty was given priority and lifetime residential rights to the property for both himself and his spouse (Lin Qiuhuang, 2006). The National Women's League of the Republic of China, founded in 1950 by Madame Chiang Kai-shek, took responsibility for the fund-raising task and organised a military housing plan called Civil Contribution. The organisation’s funds mostly came from donations by industrial and commercial circles and donations from abroad. Additional funding was obtained by levying a kind of duty on foreign exchange transactions by industry, import and export trade association activities, and entertainment ticket sales (ibid.). It was only with widespread resistance by many import and export trade associations following the lifting of martial law in 1987 that these “donations” finally became voluntary.

Up to the present, these groups continue to enjoy preferential mortgage interest rates, as well as housing and transportation allowances. Furthermore, the households of military personnel receive a 50% discount on their utility bills.

**Tax Exemptions**

All military personnel, as well as teachers at nursery schools, kindergartens, primary schools, and secondary schools are exempt from income tax. They are also granted special tax deductions for dependants and spouses who are required to file tax reports. Several times, the Ministry of Finance planned to expand the tax base by cancelling the tax-exempt status of military personnel and teachers. But each time the amendments were being worked out happened to fall on the eve of an election, and the emendations ended up being cancelled out of fear of negative repercussions for the ruling party. The issue of unfair taxation continues to be a major concern to the people.

**Education Subsidies for Children**

In 1950 the government began to provide tuition assistance and education subsidies to the children of soldiers, civil servants, and teachers. Even though retired military personnel and civil servants were already receiving pensions, subsidies, and

---

21 Since there was a shortage of foreign currency in the 1950s, the government required that all businessmen make these mandatory “donations.” One third of the amount went to the ROC Friends of the Military Society, and two thirds went to the Chinese Women’s Anti-Communist Society. The exact amount of the donations fluctuated over time (Economic Times: Huang Hin-Tang, 1995).

22 Both veterans and those on active duty receive a 50% discount on their household electricity bill for consumption up to 500 kilowatt-hours, and a 30% discount for consumption between 500 and 1,000 kilowatt-hours. As controversial as it may prove to be, this preferential scheme will be phased out beginning in 2011.
maintenance allowances, they could also receive financial aid if their children were enrolled in high school or an institution of higher education. Despite their tax-exempt status, civil servants and teachers were entitled to continue receiving educational subsidies for their children even after retirement. Only following the amendments to the income tax laws in 2000 did the education subsidies received by civil servants and teachers begin to be taxed.

Tuition fees at most private and public schools are set by the government, and every time tuition rates are revised, government organisations respond by increasing the education subsidies for the children of soldiers, civil servants, and teachers. By 1990, these subsidies were nearly enough to cover all educational expenses (Lin Qiuhuang, 2006). These education subsidies increased considerably when the tuition exemptions for children of civil servants and teachers were cancelled in 1992. In view of the principle of fairness, in recent years some members of the legislature have begun to propose that the education subsidies for the children of civil servants and teachers be replaced with education subsidies that take better care of the truly disadvantaged.

Such widespread differential treatment in educational assistance offered by the KMT government has resulted in greater academic achievements by the children of mainlanders relative to Taiwanese (Tsai Reiming, 2002). Once the children of mainlanders gain admission to an educational institution, it is very unlikely that they will have to withdraw due to inability to pay the tuition fees. By contrast, economic pressure often compels children in Taiwanese families to discontinue their studies. This is especially true of the eldest son or daughter, who is frequently compelled to sacrifice his or her education and enter the job market in order to help younger siblings complete their education. Concerning the correlation between education level and job opportunities, the education subsidies received by many children of soldiers, civil servants, and teachers provided them with greater educational opportunities, thus increasing their chances of gaining employment in a variety of fields, including the military, civil service, and education.

In analysing the post-war education levels of both mainlanders and Taiwanese, Luo Mingqing (2001) and Wang Hongzen (2001) both identified a stable phenomenon: a much higher proportion of college graduates among male mainlanders in comparison to Taiwanese men. Although the gap narrowed amongst those born after 1949, it nevertheless remained large, and significant improvements became apparent only when the economy began to take off after 1965.

**Insurance Programme and Retirement Benefits**

The most controversial benefit received by military personnel, teachers, and civil servants is their retirement benefits (Guo Mingzheng, 2002). As part of its social control strategy, the KMT instituted separate insurance programmes for civil servants and manual labourers (Fu Liye, 1993a: 58). Sufficient retirement benefits are provided to military personnel, teachers, and civil servants, but the benefits available to farmers and labourers are largely insufficient.

The first social insurance programme enacted by the central authorities was the Armed Services Military Personnel Insurance Act, which took effect on 19 November 1953 (although the programme actually began operating in June of 1950). At first, this insurance covered only commissioned officers, and it was not until 1960 that enlisted men began to be covered. The insurance covered death, disability, and demobilisation, but not illness, since soldiers could receive free medical treatment at
veterans’ hospitals all over the island. The civil servants’ insurance programme was enacted in 1958 and later expanded. The Private School Faculty Insurance Act came into effect in 1980, and the Dependents of Civil Servants Health Insurance Act was passed in 1982. In 1985, civil servants and private school faculty members began to receive retirement benefits and health insurance plan coverage for their spouses.

Special Privileges of Military Personnel, Civil Servants, and Teachers

Upon completing 15 years of service, civil servants are given a choice between a one-time retirement allowance and a monthly pension. Retired civil servants receive a pension and in-kind subsidies23 for both themselves and their dependants. Those who choose to receive their pension on a monthly basis get regular payments in addition to in-kind subsidies for both themselves and their dependants. Retired public school faculty members receive roughly the same retirement benefits as retired civil servants. After 20 years of active duty (15 years for those over 60 years of age), military personnel are given a choice between a one-time retirement allowance and a monthly pension for the rest of their lives. There are five basic options: 1) a one-time retirement payment, 2) a monthly pension, 3) half of the one-time payment and half of the monthly pension, 4) one third of the one-time payment and two thirds of the monthly pension, and 5) one fourth of the one-time payment and three fourths of the monthly pension (Guo Mingzheng, 2002; Taipei Times January 1, 2007: Lin James).

All of the above-mentioned social security benefits can be deposited in a savings account that pays at least 18% interest by law, with interest payments made on a monthly basis. Most military personnel, civil servants, and teachers refrain from withdrawing the principal from such accounts and instead rely on the similarly favourable interest payments received on their annuities. This 18% interest preferential savings scheme creates a heavy burden on the government budget. Those who have entered the ranks of military personnel, civil servants, and teachers since 1995 have not been provided with the decidedly generous benefits of the past. Yet it must be kept in mind that the benefits offered to those who began to serve before 1995 are still in effect, placing great strain on the government’s financial resources. In an editorial article, James Lin states: “There is a serious shortage of funds for retired civil servants. Some estimates put the total shortfall at NT$3 trillion, and NT$ 70 billion is added to this deficit annually […] this ‘borrowing from future generations’ is posing a direct threat to the nation's solvency.”

Civil Servants Protecting Their Interests

During the KMT era, most high-level civil servants were mainlanders who had only a superficial relationship with Taiwanese society (Gong Yijun, 1998). The civil servants of that time had a firm grasp on the state apparatus and thoroughly understood the importance of social insurance to the individual and family. Thus, nobody was surprised when they put in place the civil servant insurance programme for their own benefit. As a matter of course, civil servants advocated expansion of the social insurance administration in order to safeguard their own interests, and they have continued to set their own benefits, putting in place such programmes as health

23 Since the early 1950s, the government gave in-kind subsidies, which was institutionalised in 1972; from 1989 through 1995, such programmes were gradually replaced with cash subsidies.
insurance for the dependants of civil servants, retirement insurance, retirement health
insurance, insurance for the spouses of retired civil servants, and insurance for
elected representatives at all levels. Nearly two thirds of all social welfare
expenditure supports civil servants and military personnel (Zhang Yun, 1999; Lu
Zhengtsun, 1995).

In such a “welfare state for soldiers, officials, and teachers,” clients are allotted
benefits in proportion to their loyalty to the state and the extent to which they assist
the state in maintaining its grip on power. Li Mingcong (1996) points out that every
time a new measure is approved that will provide new benefits to disadvantaged
minorities, corresponding measures are also passed that further increase the
advantages of military personnel, civil servants, and teachers. Thus, when three new
welfare acts were enacted in 1980, at the same time the Private School Faculty
Insurance Act was also put through, and the Civil Servants’ Spouse Act was passed
the following year (Zhang Yun, 1999: 44, quoting Li Mingcong, 1996).

Old-age social security coverage in Taiwan is clearly stratified. Military
personnel, civil servants, and teachers comprise the upper strata and enjoy four types
of retirement security: a savings-based pension, an old-age pension, a military
pension, and a co-operative pension fund with a preferential interest rate. The
average labourer, by contrast, is covered by only two types of retirement benefits:
the retirement funds for labourers provided under the Labour Standards Act and the
old-age pension payments included in the Labour Insurance Act. Moreover, farmers
began to receive old-age pension benefits only with the passage of the Temporary
Statute Regarding the Welfare Pension of Senior Farmers by the Legislative Yuan in
1995.

The implementation of a separate social insurance system for the three main
divisions of the labour structure – military personnel, civil servants, and labourers –
laid the groundwork for the later system of special privileges that might be called the
welfare state for soldiers, officials, and teachers (Lin Wanyi, 1994). Throughout the
KMT era, social welfare benefits for the rest of the population were insufficient, and
up until 1990 nearly half of the population was without any form of social insurance
protection whatsoever. Although those covered by labour insurance made up the
largest portion of the insured population, the average payments paid out by labour
insurance were far less than those paid out by the civil servants’ insurance scheme
and were even less than the average insurance payments received by farmers – the
smallest group of all (Guo Mingzheng, 2002; Zhang Yun, 1999).

The welfare system was established by taking an autocratic, top-down approach,
with the party and government bureaucrats playing the leading role. During the
legislative elections held at the end of 1992, the opposition DPP made the
establishment of a welfare state a central part of its party platform. Following a brief
period of resistance, the KMT caved in to the considerable pressure and jumped on
the bandwagon. In 1992, the DPP took the lead in initiating the discussion of senior
citizens’ annuities, and the pressure of the election finally pushed the topic onto the
government’s agenda. In 1994, the DPP began to grant senior citizen subsidies in all
cities and counties in which it came to power, prompting the KMT government to
begin providing subsidies to aged farmers in the following year. Thus it can be seen
that the establishment of the national health insurance programme in 1995 was
closely related to the fierce political competition of the time (ibid.).

**Stratified Welfare Policies for Different Occupations**
One of the roles of the state is the formulation and implementation of social, political, and economic policies. The state is responsible for reducing and rectifying social inequality, but at the same time may also carry out policies that give rise to social stratification. In a conservative state, welfare benefits are distributed according to occupation, with civil servants receiving favourable treatment so as to ensure their loyalty to the state (Fu Liye, 1993b). This type of policy tends to maintain the traditional social structure and class relations, and it also engenders a sense of loyalty amongst the citizenry to the traditional forms of government. Taiwan’s social welfare system is relatively conservative, as evidenced by the dividing of the social security system into three departments: white collar, blue collar and farmer. Government organisations regard the social security plan as an integrated system divided into separate departments.

Fu Liye states “the state must support economic development in order to insure that individual capitalists will make a profit; on the other hand, the state must also maintain a certain degree of wealth distribution in order to maintain social harmony and gain the loyalty of the citizenry” (Fu Liye, 1993a: 3). Taiwan’s welfare system has been considerably influenced by authoritarianism and clientelism, both of which were used by the KMT as a way to guarantee the support of the people and to help legitimate its political authority (Wang Zhenhaun, 2002; Tsai Reiming, 2002). One of the results of clientelism is that the clients loyal to the regime – military personnel, civil servants, and teachers – have come to enjoy greater welfare benefits than workers and farmers (Guo Mingzheng, 2002).

The military is the most loyal supporter of the state and is also the champion of the authoritarian system. When Mainland China fell to the Communist forces in 1947, the KMT fled to Taiwan accompanied by large numbers of soldiers and officials who then formed the backbone of the KMT’s power base in Taiwan. As a result, the welfare policy in Taiwan has clearly become skewed in favour of officials, teachers, and – first and foremost – military personnel (ibid.). Under the one-party system of the time, the military, government, and education system all functioned as branches of the KMT, so increasing the welfare benefits of military personnel, officials, and teachers amounted to increasing the welfare benefits of KMT members. Party loyalists who accompanied the KMT from the mainland were bestowed with especially generous benefits (Tsai Reiming, 2002: 166).

Under today’s two-party system consisting of the KMT and the DPP, social welfare policies have often been characterised by clientelism, in which preferential welfare benefits are offered to one’s supporters in exchange for party loyalty, with the result that the supporters of one’s opponents get pushed out, intentionally or otherwise. The KMT largely reserved its social welfare largesse for military personnel, officials, and teachers, while the old-age pension benefits put in place by the DPP have largely excluded elderly veterans (Zhang Yun, 1999).

**Industrialization**

Changes in government structures necessitated a shift in policy, and when the KMT government moved to Taiwan it set in motion a process of economic integration and social change. In the midst of this restructuring process, the national government consolidated and expanded its hegemony (Li Yunjie, 1999: 23). When the KMT government was given possession of Taiwan at the end of World War II, it inherited the assets of the Japanese colonial government, and with the KMT’s defeat in the civil war four years later, it retreated to Taiwan along with whatever assets it was
able to shift to its island stronghold. These resources were supplemented by American support to form a sizeable sector of state-run industries, gradually transforming the face of Taiwan’s economy from a Japanese colonial possession or a Chinese borderland into an independent national economic system (Li Guoding and Chen Muzai, 1987; Wu Ruoyu, 1992). This system of state-run enterprises was used to obtain and control agricultural and industrial resources, becoming the basis for establishing and developing the new economic system, and also helping to solve the economic and political predicament the country was facing at the time (Wu Ruoyu, 1992). Nevertheless, this seemingly independent system of state-run enterprises was actually formulated as part of the one-China doctrine, and the KMT government had no intentions of creating a self-sufficient economic system that would be fully independent of Mainland China. On the contrary, the KMT’s intention in establishing a system of state-run enterprises was actually to strengthen the interdependent relationship between Taiwan and the mainland (ibid.) and to sustain its political clout. In fact, the KMT used the unclear distinction between party- and state-run enterprises to turn the national treasury into a party treasury, expand its control over Taiwan, and carry out its policy of regaining control of Mainland China (Chen Shimong, 1991).24 25

The beleaguered KMT government arrived in Taiwan in desperate need of American political, military, and economic support. Thus American “guidance” had a major influence on economic policies in the early stages, and the government had little choice but to accept Washington’s terms and conditions in implementing its development strategies (Li Guoding and Chen Muzai, 1987). In response to changes in American aid policy in 1957, and giving due regard to both the need for economic development and American pressure, in 1960 the KMT government promulgated 19 financial and economic measures that effectively transformed its previous economic policy of industrial development based on import substitution to one with an export orientation (Wu Ruoyu, 1992).

Taiwan’s economy began to take off in the early 1960s, largely due to the export-oriented industrial development policy, bringing greater political and economic stability. In the short span of 10 years, the foundation of Taiwan’s economy was transformed from agriculture to industry and manufacturing, and by the early 1970s the first stage of industrialisation was complete (Zhuang Yiqi and Lin Zujia, 2006). The open-door policy on export trade and increased job opportunities for displaced farmers in labor-intensive light industries resulted in a higher standard of living and a more even distribution of wealth. Nevertheless, beginning in 1970, a series of international political and economic setbacks had a major impact on Taiwan’s political and economic development. First, Taiwan lost its seat in the United Nations in 1970, and then it was hit hard by the oil crisis of 1973. The KMT government responded in 1973 by proposing the Ten Major Construction Projects, a massive state investment plan designed to boost the nation’s morale and

24 Under martial law, the KMT exerted its supreme power in its business transactions, and freely shifted funds between the national and party coffers. According to Chen Ching-chih (Taipei Times, Sep. 07, 2006) “The KMT’s own report released on Aug. 23 admitted to NT$80.8 billion (USD2.33 billion) in party assets when Lien Chan took over as party chairman in 2000.” It is believed that the value of its assets is greatly underestimated.

25 The wealth the KMT accumulated through its business undertakings is the key to sustaining its political power. And a political party being sustained only by its billions of dollars in assets has dubious implications for the election climate.
bolster the flagging economy. Thus it can be seen that in the 1970s state-run enterprises were used to stabilise the political and economic situation in Taiwan.

The middle period was comprised of the 1970s. While manufacturing continued to expand, the labour-intensive light industries were gradually being transformed into heavy industries such as steel and petrochemicals, as well as capital- and technology-intensive ones. A new era began in 1980, when the output value of industry began to account for a smaller proportion of overall production, while the labour productivity of the manufacturing sector continued to increase (ibid.). In the 1990s, the electronic and information industries became the mainstay of manufacturing, while the service industries began to account for a greater proportion of economic output, ushering in the stage of post-industrial development based on the service sector (ibid.). By 2001, the service industries accounted for more than 70% of Taiwan’s GDP.

At the end of the 1980s, Taiwan began to implement a policy of privatising state-run industries (Zhu Yunpeng, 1999), and at the same time many small and medium-sized enterprises (SMEs) began to be slowly transformed into large companies. This created a dual economy consisting of large enterprises on the one side, and small and medium enterprises on the other.

The Dichotomous Enterprise System

When the KMT moved to Taiwan, the economy of the island was roughly composed of two broad sectors: the state-run enterprises, mostly consisting of large enterprises under the direct control of the KMT, and a smaller number of privately-run SMEs. While the lion’s share of the economy remained firmly in the grip of the KMT, there was little opportunity for private investment. During the 1960s, however, the implementation of a policy of industrialisation based on exports greatly expanded the opportunities for private investment. In each of the phases of economic development over the past three or four decades, the state-run enterprises have provided the economic and production base required for the development of privately run enterprises. Private enterprise steadily grew during the 1980s, especially through the privatisation of state-run enterprises and the selling of stock rights. Although this brought much-needed funds into the national treasury, it also resulted in the state-run enterprises losing their dominant position in the domestic economy. In the slow transformation of Taiwan’s economy into a dual system, large enterprises began to dominate the domestic sector and SMEs concentrated on export manufacturing (Zhou Tiancheng, 1992; Xiao Xinhuan, 1992; Yu Zongxian and Wang Jinli, 2003). Large enterprises have continually received special government protection, while the needs of SMEs have been largely ignored (ibid.). Plans for investing in large enterprises are consistently much more comprehensive than those for investment in SMEs. For example, the 1996 investment plan of the Ministry of Economic Affairs included investments of over NT$ 200 million in large industries but was largely indifferent to the needs of SMEs (Chen Huiju, 2008). In such an environment, SMEs

---

26 The selling of public land, state-run enterprises, and stock rights has become an expedient measure for solving budget deficits for both the KMT and the DPP. Many state-run enterprises hold large tracts of land, and selling off land has become a way of concealing embarrassing deficits in both state-run enterprises and partially privatized enterprises.

27 Xue Qi and Hu Mingwen (1999) point out that the dividing line in this dual economy is not always cut and dry. Actually, there is close interaction between the two groups, and their positions in the export market are by no means immutable.
have difficulty competing with large enterprises, although stiff competition and fluctuating markets make it especially important for SMEs to stand on their own two feet.

**The Definition of SMEs**

Three main factors are used to determine the scope of an enterprise: capital, number of employees, and business volume. However, the exact definition of SME in Taiwan’s Standards for Identifying SMEs has changed eight times since its institution in 1991. The most recent definition, announced by the Ministry of Economic Affairs in 2005, divides SMEs into two sectors, each with its own criteria for inclusion. The first sector includes legally registered companies engaged in manufacturing, construction, mining, and quarrying and that have invested capital of less than NT$ 80 million, or fewer than 200 employees. The second sector includes legally registered companies engaged in agriculture, forestry, fishing, animal husbandry, water services, electricity production and provision, gas services, wholesale and retail operations, accommodation, restaurant work, transportation, warehousing, communications, finance, insurance, real estate operations, rentals, scientific and technical services, educational services, medicine, health care, social services, culture, sporting and leisure services, and other service industries with a total revenue of less than NT$100 million for the previous year, or that normally have under 50 employees. Any enterprise in the first sector with under 20 employees, and any enterprise in the second sector with fewer than five, is classified as a micro-business.

SMEs account for a significant proportion of Taiwan’s entrepreneurs, job opportunities, and export earnings, and they were the main force behind Taiwan’s “economic miracle.”

**The Contribution of SMEs to Taiwan’s Economic Development**

The contribution of SMEs to Taiwan’s economic development over the past 50 years can be measured in terms of output value, sales volume, export value, taxes paid, and the number of workers employed. In the area of employment opportunities, the flexibility of SMEs in hiring and releasing workers has had a positive regulating effect on the workforce.

**The Burgeoning Workforce**

One important element of the industrial structure is the distribution of the workforce. The land reforms described above led to a restructuring of Taiwan’s socio-economic system and resulted in many farmers becoming landowners, as well as some landlords losing their land. Some long-time landlords used the money they gained during this process to invest in industry, becoming new investors or even starting their own businesses. Following the development of an import substitution economy in the 1950s, economic policies shifted in the 1960s to the development of an export-based economy. The new emphasis on exports and labour-intensive industries led to rapid development, in the process absorbing unskilled and semiskilled workers from rural areas. Before schooling for nine years was made mandatory in 1968, the overwhelming majority of young people, especially those of Taiwanese background, were unable to continue their studies and had little choice but to join the industrial
sector. In this way, the problem of excess farm labour was solved, and it was this generation of energetic and cheap labour that allowed the economy to take off. By leaving the farms and taking jobs in the industrial sector, these workers earned a steady salary that was more than they could make in agriculture and became major sources of economic support for their rural families. Some of these young men and women found employment in the large factories of the manufacturing sector, while others were employed in smaller, neighbourhood factories as machine operators or assembly line personnel.

This abundant and high-quality labour force was one of the main factors behind Taiwan’s “economic miracle.” From the 1950s to the 1960s, unemployment was virtually non-existent throughout Taiwan (Yu Zongxian and Wang Jinli, 2003), especially in the manufacturing sector. The research of Xie Guoxiong (1989) on the small-scale manufacturing industry indicates that, due to its extensive network, the business world is highly effective in mobilising a large and flexible pool of workers. Workers have a wide variety of relationships with enterprise-owners and other workers, and business-owners rely on personal networks to find workers. One example is the owner of a small enterprise whose former co-worker has become his business partner. Owners of small enterprises also make use of a more extensive network of indirect contacts. For example, an enterprise-owner may have an upstream and downstream outsourcing network, as well as a more local network of potential workers who reside in his neighbourhood, especially housewives, senior citizens, and older children28 (Wang Zhiqing, 2001; Xie Guoxiong, 1989).

Blue-collar Entrepreneurship or Pulling Oneself up by One’s Bootstraps

In the Chinese way of thinking, being one’s own boss is preferable to being an employee, since self-employment provides a greater degree of autonomy and higher social status. After gaining experience, learning how to operate machinery, and accumulating some capital, many factory workers, especially men, begin to think about setting up their own enterprises. Add to this the relative freedom to enter or leave most lines of work and the small number of related laws and regulations, and it is no surprise that quite a few former employees with a small amount of capital will try their hand at setting up their own enterprises. Thus, the majority of SMEs in Taiwan are actually blue-collar enterprises (Xie Guoxiong, 1989; Chen Jiexuan, 1995; Wang Hongzen, 2001). By virtue of their tenacity, home-made management style, and flexibility, SMEs are highly adaptable to changing business environments and are able to continuously expand in a competitive environment (ibid.). SMEs provide an array of employment opportunities affording a regular salary for their employees. Moreover, quite a few poor farmers and other workers have become wealthy by setting up their own SMEs. Thus, SMEs represent one way to escape poverty and improve one’s socio-economic standing. Due to limitations of capital and training, however, not all SMEs succeed. Some undergo a series of fluctuations.

28 In the early years of Taiwan’s industrialisation, there were many small factories scattered throughout residential areas. During the oil crisis of the 1970s, provincial chairperson Xie Dongmin put forward the slogan “turning living rooms into factories.” encouraging housewives to make use of their homes to generate extra income by undertaking such contract manufacturing as packaging and handicrafts assembly. Women, the elderly, and even some school-age children joined the ranks of the at-home contract labourers. This not only brought considerable economic benefit to the family, but also provided a cheap and flexible workforce for SMEs. This phenomenon has become a collective memory of many Taiwanese.
while steadily absorbing capital, only to fail in the end. The government regards the owners of SMEs as investors and therefore does not extend to them the same social welfare benefits and safeguards that it offers to civil servants, farmers, and company employees. Of course, some SMEs in the same industry pool their resources to form guilds providing such services as labour insurance, subsidies, and subventions.

**Creation of Job Opportunities**

In addition to providing salaried jobs, SMEs also employ the SME owner and, often, some of his family members. In the early 1960s, farmers made up about half of Taiwan’s population, but this was set to change. In 1992, there were 4,020,000 paid employees working at SMEs, accounting for 68.6% of all paid employees, and in 2006 the number climbed to 5,190,000, or 68.8% of all paid employees. The percentage of paid workers employed by SMEs has consistently been around 69% (see Table 6.8). In 1992 SMEs provided 6,790,000 jobs (including the owner and other unsalaried workers), accounting for 78.7% of total employment. This number has steadily increased, reaching 7,930,000 in 2007. Over the years SMEs have accounted for around 77-78% of total employment. The average number of employees per SME is around seven, showing that most SMEs in Taiwan are in fact small enterprises.

**The Steady Growth of SMEs**

There were approximately 700,000 SMEs in 1982 and about 1,020,000 in 1997. While the KMT was still in power, there were approximately 1,060,000 SMEs, and this increased by 180,000 in the eight years the DPP was in power. By 2007, there were approximately 1,240,000 SMEs. Although the number of SMEs has steadily increased since 1982, at the same time they actually accounted for an increasingly smaller proportion of all industry. In 1982, 98.6% of all enterprises were SMEs, which steadily decreased until reaching 96.26% in 1994. In 1995, this increased to 98%, but subsequently decreased to 97.77% in 2006. In recent years, the proportion of SMEs has continued its steady decline because of the increasing number of large enterprises.

---

29 Because of a relaxing of the SME classification standards in 1995 and 2000, the proportion of SMEs increased in those two years. In recent years, however, the proportion of SMEs has been declining due to the relatively larger growth margins of large enterprises.
The Role of SMEs in International Trade

Taiwan’s first stage of export-based industrialisation was fuelled by large numbers of SMEs filling orders for customers abroad, developing Taiwan into a base for contract manufacturing (Wang Zhiqing, 2001: 314). While some SME manufacturers would source out orders on their own, most relied on medium-sized and small international trading companies to secure contract manufacturing orders from abroad. Since the owners and managers of manufacturing SMEs were from working-class backgrounds and were not highly educated, they came to rely on the international trading companies, whose managers and employees were mostly university or junior college graduates and thus had the requisite knowledge of foreign languages and international commerce (Wang Hongzen, 2001).

Thus these trading companies became the middlemen between foreign buyers and domestic manufacturers. This arrangement constituted another division of labour.

---

Table 6.8  SME Numbers and Employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of SMEs (Thousands)</th>
<th>Proportion of all enterprises (%)</th>
<th>Total Jobs (including non-salary positions) Millions</th>
<th>Proportion of total employment (%)</th>
<th>Average number of employees per enterprise</th>
<th>Paid Employees Millions</th>
<th>Proportion of all paid employees (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>870</td>
<td>96.8</td>
<td>6.79</td>
<td>78.7</td>
<td>7.8</td>
<td>4.02</td>
<td>68.6</td>
</tr>
<tr>
<td>1993</td>
<td>900</td>
<td>96.5</td>
<td>6.88</td>
<td>78.7</td>
<td>7.6</td>
<td>4.15</td>
<td>69.0</td>
</tr>
<tr>
<td>1994</td>
<td>930</td>
<td>96.3</td>
<td>7.08</td>
<td>79.2</td>
<td>7.6</td>
<td>4.31</td>
<td>69.9</td>
</tr>
<tr>
<td>1995</td>
<td>990</td>
<td>98.0</td>
<td>7.21</td>
<td>79.8</td>
<td>7.3</td>
<td>4.43</td>
<td>70.8</td>
</tr>
<tr>
<td>1996</td>
<td>1000</td>
<td>98.0</td>
<td>7.13</td>
<td>78.6</td>
<td>7.1</td>
<td>4.35</td>
<td>69.2</td>
</tr>
<tr>
<td>1997</td>
<td>1020</td>
<td>97.8</td>
<td>7.20</td>
<td>78.4</td>
<td>7.1</td>
<td>4.45</td>
<td>69.3</td>
</tr>
<tr>
<td>1998</td>
<td>1050</td>
<td>97.8</td>
<td>7.27</td>
<td>78.2</td>
<td>7.0</td>
<td>4.54</td>
<td>69.2</td>
</tr>
<tr>
<td>1999</td>
<td>1060</td>
<td>97.7</td>
<td>7.34</td>
<td>78.3</td>
<td>6.9</td>
<td>4.59</td>
<td>69.3</td>
</tr>
<tr>
<td>2000</td>
<td>1070</td>
<td>98.1</td>
<td>7.41</td>
<td>78.1</td>
<td>6.9</td>
<td>4.67</td>
<td>69.2</td>
</tr>
<tr>
<td>2001</td>
<td>1080</td>
<td>98.2</td>
<td>7.29</td>
<td>77.7</td>
<td>6.8</td>
<td>4.64</td>
<td>68.9</td>
</tr>
<tr>
<td>2002</td>
<td>1100</td>
<td>97.7</td>
<td>7.36</td>
<td>77.9</td>
<td>6.7</td>
<td>4.68</td>
<td>69.2</td>
</tr>
<tr>
<td>2003</td>
<td>1150</td>
<td>97.8</td>
<td>7.43</td>
<td>77.6</td>
<td>---</td>
<td>4.75</td>
<td>67.0</td>
</tr>
<tr>
<td>2004</td>
<td>1160</td>
<td>97.8</td>
<td>7.55</td>
<td>77.2</td>
<td>---</td>
<td>4.90</td>
<td>68.7</td>
</tr>
<tr>
<td>2005</td>
<td>1220</td>
<td>97.8</td>
<td>7.64</td>
<td>77.0</td>
<td>---</td>
<td>5.05</td>
<td>68.8</td>
</tr>
<tr>
<td>2006</td>
<td>1240</td>
<td>97.8</td>
<td>7.75</td>
<td>76.7</td>
<td>---</td>
<td>5.19</td>
<td>68.8</td>
</tr>
<tr>
<td>2007</td>
<td>1240</td>
<td>97.8</td>
<td>7.93</td>
<td>77.1</td>
<td>---</td>
<td>5.28</td>
<td>68.8</td>
</tr>
</tbody>
</table>

Source: “SME White Paper” and “SME Statistical Table,” produced by the SME Administration, Ministry of Economic Affairs, and “A Profile of SMEs in Taiwan during the Past Ten Years,” produced by the Directorate-General of Budget, Accounting and Statistics of the Executive Yuan.

---

30 Textiles and ready-made garments are one example. Textile businessmen known as the “Shandong Gang” and the “Shanghai Gang” who accompanied the KMT on its flight to Taiwan used their close government connections to influence government policies regarding the textile business. When quota restrictions were placed on the international ready-made garment market due to the influence of the 1962-1974 Long-term Textiles Agreement and the 1974 Multi-fiber Arrangement, businessmen belonging to the Shanghai Gang and the Zhongxing Gang gained control of virtually the entire quota allotment. The result was that SMEs and factories had to rely on these businessmen to acquire part of the quota (Chung Qwui-yin 2007, personal interview).
in SMEs: the clear demarcation between blue-collar and white-collar workers, largely based on educational disparity (ibid.). As described above, those unable to continue their studies often became machinery operators in factories, and, after gaining some experience and capital, many started their own enterprises. In the heyday of the manufacturing industry, there was little correlation between academic success on the one hand, and business success on the other. At that time there were many examples of successful business-owners who had very little formal education, some of whom were even in a position to hire highly educated employees. By the time the last phase began, in the 1980s, however, most new enterprises focused on the more knowledge-based and technology-intensive areas of manufacturing.

Taiwan’s economy is highly dependent on foreign trade, and, according to Yu Zongxian and Wang Jinli (2003: 63), foreign trade dependence at the end of 1970 exceeded 100%, and in the 1990s remained at around 90%. SMEs have made a major contribution to the expansion of trade and “are in the vanguard due to their flexible management style, ability to seize opportunities in a timely manner, efficiency, and their adaptability to rapidly changing international markets” (ibid.). However, over the past decade, the proportion of SME exports declined. The value of SME exports was NT$1.25 trillion in 1997, and NT$1.56 trillion in 2006. SMEs accounted for 26.42% of the overall export value in 1997, declined for several years to reach a low of 17.05% in 2004, and then slowly rebounded to 17.89% in 2006 (see Table 6.9). Taiwan’s economy had long been based on exports, and the steady decline in the proportion of SME exports indicates that large industry has already become the most important part of Taiwan’s export sector. In the early years of industrialisation, SMEs carved out their niche by concentrating on labour-intensive manufacturing. Scholars attribute the decrease in the proportion of SME export value to foreign investment by SMEs resulting in many factories moving abroad. Thus the concept of “small enterprise for exports, large enterprise for domestic industry” has slowly changed, and the co-operative arrangement between large and small enterprises has already been transformed.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>SMEs</th>
<th>Share (%)</th>
<th>Large enterprises</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>4,735,043</td>
<td>1,250,914</td>
<td>26.42</td>
<td>3,484,129</td>
<td>73.58</td>
</tr>
<tr>
<td>1998</td>
<td>5,183,873</td>
<td>1,233,135</td>
<td>23.79</td>
<td>3,950,738</td>
<td>76.21</td>
</tr>
<tr>
<td>1999</td>
<td>5,675,461</td>
<td>1,197,820</td>
<td>21.11</td>
<td>4,477,641</td>
<td>78.89</td>
</tr>
<tr>
<td>2000</td>
<td>6,840,552</td>
<td>1,369,937</td>
<td>20.03</td>
<td>5,470,615</td>
<td>79.97</td>
</tr>
<tr>
<td>2001</td>
<td>6,296,729</td>
<td>1,197,820</td>
<td>21.11</td>
<td>4,477,641</td>
<td>78.89</td>
</tr>
<tr>
<td>2002</td>
<td>7,008,076</td>
<td>1,350,884</td>
<td>19.28</td>
<td>5,657,192</td>
<td>80.72</td>
</tr>
<tr>
<td>2003</td>
<td>7,332,745</td>
<td>1,327,839</td>
<td>18.11</td>
<td>6,004,906</td>
<td>81.89</td>
</tr>
<tr>
<td>2004</td>
<td>8,493,156</td>
<td>1,448,374</td>
<td>17.05</td>
<td>7,044,782</td>
<td>82.95</td>
</tr>
<tr>
<td>2005</td>
<td>8,630,921</td>
<td>1,518,823</td>
<td>17.60</td>
<td>7,112,098</td>
<td>82.40</td>
</tr>
<tr>
<td>2006</td>
<td>8,731,753</td>
<td>1,562,224</td>
<td>17.89</td>
<td>7,169,529</td>
<td>82.11</td>
</tr>
</tbody>
</table>

Changes in SME Sales Volume

Annual increases in SME sales volume were accompanied by a slight drop in proportion: SMEs had a sales volume of NT$2.62 trillion in 1986, and this increased to NT$10.24 trillion by 2006, showing a steady increase in these two decades. However, the SME proportion of total sales volume reached a peak of 40.28% in 1986, and then slowly declined year by year. The SME classification standards were relaxed in 1995 and 2000, resulting in an increase in the SME proportion of total sales volume in 1995, although the changes in 2000 had little effect. The SME sales volume percentage reached a low of 28.38% in 2001, due to a negative economic growth rate of 2.17% and a negative SME growth rate of 7.67% that year (see Table 6.10). Afterwards, even though the proportion of sales volumes represented by SMEs slowly increased, it was still much less than it was in 1986.

Table 6.10: Sales Volume of SMEs

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>SMEs</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>6,493,995</td>
<td>2,616,092</td>
<td>40.28</td>
</tr>
<tr>
<td>1990</td>
<td>10,426,268</td>
<td>3,598,516</td>
<td>34.51</td>
</tr>
<tr>
<td>1991</td>
<td>11,947,373</td>
<td>4,102,665</td>
<td>34.34</td>
</tr>
<tr>
<td>1995</td>
<td>19,020,898</td>
<td>6,842,025</td>
<td>35.97</td>
</tr>
<tr>
<td>1996</td>
<td>19,596,383</td>
<td>6,719,182</td>
<td>34.29</td>
</tr>
<tr>
<td>2000</td>
<td>26,112,488</td>
<td>7,566,617</td>
<td>28.98</td>
</tr>
<tr>
<td>2001</td>
<td>24,108,790</td>
<td>6,841,564</td>
<td>28.38</td>
</tr>
<tr>
<td>2002</td>
<td>25,395,635</td>
<td>7,495,287</td>
<td>29.51</td>
</tr>
<tr>
<td>2003</td>
<td>27,673,536</td>
<td>8,708,904</td>
<td>31.47</td>
</tr>
<tr>
<td>2004</td>
<td>31,755,313</td>
<td>9,726,721</td>
<td>30.63</td>
</tr>
<tr>
<td>2005</td>
<td>33,941,857</td>
<td>10,000,220</td>
<td>29.46</td>
</tr>
<tr>
<td>2006</td>
<td>34,326,070</td>
<td>10,241,215</td>
<td>29.84</td>
</tr>
</tbody>
</table>


The Government and SMEs

In the early years of SME manufacturing, all that was required for one to get started was some capital and the necessary technology. The process was not difficult, and many factories and businesses commenced operations without proper registration. In 1966, the International Economic Cooperation Committee of the Executive Yuan established the SME Guidance Working Group, which implemented loans and occupational training programmes for SMEs. In 1968, this group was transformed into the SME Assistance Administration, which was responsible for SME inspection, development, research on assistance programmes in developed countries, promotion of technology, management, handling of financial affairs, and co-operation. In 1970, the Industrial Development Bureau of the Ministry of Economic Affairs established the SME Joint Services Centre, which focused on technical management research, and which later established a credit guarantee fund and an SME bank.
In 1981, the Small and Medium Enterprise Administration (SMEA) was established under the Ministry of Economic Affairs to formulate strategies for the development of SMEs and pertinent legislation, as well as to provide assistance to and undertake the inspection of SMEs. In 1991, the president announced the implementation of the SME Development Statute, the Standards for Identifying SMEs, and the SME Operation and Development Fund Regulations. In 1997, the SME Protection Statute was passed, making clear the government’s commitment to supporting small-scale economic undertakings. In 2002, in order to encourage middle-aged and older unemployed people to go into business, the Executive Yuan ratified the Micro Enterprise Start-up Loan Program, the Micro Enterprise Start-up Loan Regulations, and the Micro Enterprise Start-up Loan Guidance Regulations.

**SMEs’ Sources of Capital**

Raising capital is one of the keys to establishing and developing an SME. In the past, most SME entrepreneurs had to rely on traditional personal networks to raise funds. Some would borrow money from friends and relatives, which often required them to pay a high rate of interest or accept a high risk level, placing the new company’s financial affairs in a precarious state. The government now provides preferential loans, guidance, preferential customs duties, land, and loans for young entrepreneurs. For example, for the past 30 years, the Sino-American Fund has provided more than 17,000 long-term, low-interest loans, creating around 100,000 new jobs (Yu Zongxian and Wang Jinli, 2003: 30). Nonetheless, due to the large numbers of SMEs operating in a wide variety of industries, it often happens that government assistance is ineffective or unevenly distributed. Thus, despite government guidance and assistance for the establishment and development of SMEs, most SMEs subscribe to a philosophy of self-reliance. In the late 1980s, the financial industry entered an era of liberalisation. In 1986, interest rates were deregulated. Then, in 1988, exchange rates were deregulated, and large numbers of privately run banks opened in the 1990s, further stimulating the growth of SMEs by providing more sources of funding (Yang Yahui 1999; Cai Mingzhang, 2001). However, according to a 1995 investigative report by the Small and Medium Enterprise Administration, only 37% of its financial support went to SMEs, much less than what was provided to large enterprises (Economic Times August 12, 1996). In 1995, the government created a NT$5 billion development fund to assist SMEs, as well as the Six-year Development Plan, which included increased opportunities for SMEs to gain public construction and procurement contracts (Economic Times November 25, 1993). Such opportunities notwithstanding, SMEs were still no match for the large enterprises.

There is also a co-operative loan programme, and the government has used the SME assistance and guidance system to help SMEs obtain the development funds they require. Programmes have been set up to strengthen the financial situation of SMEs and encourage investment. Moreover, revolving funds, research and development funds, project funds, and loan guarantee funds have been established for SMEs. Nonetheless, the administrative procedures are highly complex, and many SMEs are unfamiliar with the application process and loan qualifications and conditions (Chen Huiju, 2008). Moreover, the agency in charge often requests supplementary documentation, resulting in losses due to delays.

**SMEs’ Relocation and Transformation**
The Decline of SME Manufacturing

Starting in 1985, facing steadily increasing costs and outside competition, SME manufacturing in Taiwan gradually began to lose its edge, and soon many factories were forced to either move abroad or cease operations. Year by year, SME manufacturing has become less and less important to Taiwan’s economic development. In 1987 – the year the government finally allowed citizens to visit their relatives in mainland China – SME manufacturing accounted for 70.77% of all exports, but by 1998 this had dropped to less than 50% (Yu Zongxian and Wang Jinli, 2003: 65, Chart 3-13). This huge decline in SME manufacturing was related to other changes occurring in Taiwan’s economy. The cost of manufacturing in Taiwan was steadily rising, and recent years have witnessed limitations of capital, information, and skilled personnel, as well as exchange rate fluctuations, labour shortages, market liberalisation, and increasing environmental awareness (ibid.). The younger generation is better educated and thus reluctant to enter manufacturing, resulting in a domestic manual labour crisis. The government responded in 1992 by allowing companies to employ low-paid migrant workers from Southeast Asia in order to cut manufacturing costs. At this time, SMEs underwent large-scale structural change, and in 1987, in order to adapt to the changing manufacturing environment, the government increased the pace of economic liberalisation by loosening exchange controls, reducing the threshold of outward investment, and encouraging investment from abroad, all of which were aimed at giving manufacturing SMEs a new lease on life (Xue Qi and Hu Mingwen, 1999). Nonetheless, the export-oriented, labour-intensive SMEs engaged in manufacturing continued to relocate to Mainland China and Southeast Asia in search of lower production costs, and in the 1990s manufacturing was characterised by a large number of enterprises with large amounts of overseas investment. It was at this time that many Taiwanese businessmen began to invest overseas. It is estimated that, at any given time since 2000, there have been at least one million Taiwanese businessmen and employees in mainland China.31 It should be emphasised that those who suffered most from the economic decline have been middle-aged workers, who became the nation’s invisible unemployed when they were laid off from their factory jobs and are unable to adapt to changed circumstances.

SME Technology Transfer and the Growth of the Service Industry

Despite the continued decline of SME manufacturing in Taiwan, high-tech industries began to take off, including those focusing on information technology, consumer electronics, and semiconductors, stimulating a transformation and upgrading of the structure of Taiwan’s manufacturing industry. Another SME sector that began to expand in the post-industrial phase is the service industry. The past three decades have witnessed the rise of service industries, including banking and insurance, communications and transport, marketing and information, food and beverages, and

31 Most Taiwanese businessmen and employees leave their spouses and children behind in Taiwan when they go to Mainland China. Since the DPP refused to allow regular direct flights between Taiwan and Mainland China during its eight years in power, flights had to pass through a third country, wasting much time and money. Thus encouraged to spend long periods away from home, many Taiwanese businessmen and workers in China take mistresses, resulting in strained relationships and broken families.
leisure and recreation. Services grew rapidly, and in 1986 they accounted for 47.34% of Taiwan’s GDP and by 2001 they accounted for 70% of Taiwan’s GDP.

Challenges and Turning Points

Upgrading and Innovation in the Manufacturing Industry

The continued survival of SMEs depends on the critical issue of “enterprise transformation.” The main challenges facing SMEs are undertaking diversification, modifying production processes, increasing product competitiveness, and improving marketing tactics (Xue Qi and Hu Mingwen, 1999). While successful transformation requires mobilisation of a wide range of resources, the resources of SMEs are limited. Moreover, not all SMEs are able to successfully transform, and this is one of the reasons for the relatively short life span of the average SME in Taiwan. SMEs are typically hindered by a lack of technological innovation. Yet, in the era of the information economy, research and development, globalisation, and internationalised management, SMEs have already become the main thrust of national competitiveness and economic growth.

In order to stimulate innovation and research and development among SMEs, the Technology and Information Committee of the Legislative Yuan passed a resolution in 1997 to set up a programme modelled on the Small Business Innovation Research (SBIR) programme of the United States. In 1998, the same committee passed another resolution, to create the Technology Development Program, whose budget would be increased 10% each year, and which gave priority to SMEs. In 1999, this programme began to accept applications from SMEs for subsidies. Then Taiwan set up its own version of the SBIR programme, in order to stimulate innovation and encourage research and development by SMEs, lending impetus to industrial upgrading and increased international competitiveness (SBIR Web site).

The DPP Era

The KMT successfully brought the agricultural society of Taiwan into the industrial age and then quickly led the nation into the post-industrial age. When coming to power in 2000, the DPP continued to promote industry, and it gave a major boost to high technology in Taiwan by establishing the Central Taiwan Science Park. Nonetheless, most of those interested in continuing to invest in Taiwan belong to medium-sized and larger enterprises, indicating that large enterprises are gradually becoming the mainstay of Taiwan’s economy. Moreover, at a time when most enterprise owners have their sights set on Mainland China or Southeast Asia, it is no wonder that “benefits for all” policies and how to encourage enterprises to remain in Taiwan became major issues in the 2008 presidential election. Largely because the economy continued to falter during the eight years in which the DPP was in power, and the DPP was tainted by a series of corruption cases, the KMT won the 2008 election. Several phenomena related to the post-industrial era seem to have contributed to the economic stagnation during the tenure of the DPP, however, it was argued that the most prominent of which were the DPP’s unwillingness to compromise with the Chinese Communist Party and its restrictions on overseas investment.

Conclusion
The preceding discussion places us in a better position to gain solid insight concerning the groups of middle-aged women depicted in the introduction to this paper: the retired civil servants enjoying a leisurely retirement, and the others toiling away at low-paying jobs. Appearances and occupations aside, what is the most basic difference between these groups of women? Why does a civil servant lead a life that is worlds apart from those of custodians and produce vendors, or vice versa? Within the particular political framework of Taiwan, this phenomenon is the direct result of government policy.

An individual’s particular position in society is largely a result of the amount of social resources and opportunities that have been made available to him or her. And one’s particular position in the social resource allotment structure has a decisive influence on one’s educational level and competitiveness in the job market, as well as on the overall course of one’s life.

Political forces in Taiwan have had a powerful influence on the stratification of society. Government policies have deeply influenced the structure of the social class system and have played a leading role in the process of social stratification. The political power of the KMT decisively shaped affairs that have had a major bearing on the stratification of society. Land reform is a case in point. The result of the KMT’s mediation between tenant-farmers and landowners at the time appeared to have a win–win outcome, but it should also be noted that the KMT also took maximum advantage of its position as mediator to consolidate its political authority at the local level, and several of its subsequent measures were essentially aimed at exploiting the agricultural economy.

The KMT government energetically implemented new agricultural policies whereby tenant-farmers were given title to their land, the land-owning class was encouraged to directly or indirectly invest in industrial enterprises, and the surplus farmers could find employment in the newly created industries. The government not only benefited from the flow of capital but gained the confidence and support of the majority of farmers.

The majority of land and labour that was thus freed up was absorbed by the contract manufacturing industry, which began producing products for export to the international marketplace. Despite the major contribution to economic expansion made by the working class, for a long time the KMT largely ignored its welfare, preferring to bestow its largesse on the bourgeoisie. This era marked the beginning of the trend that saw large numbers of women entering the job market. In the early stages of this trend, women began to leave their villages to take factory jobs in the cities or export processing zones, providing a large source of cheap labour for factories that were mainly producing goods for export. In recent years, women have begun to receive higher levels of education, and more and more women are gaining employment as skilled professionals, but women with only a basic level of education still have difficulties finding good jobs.

The first group of women we met in the introduction benefited from the KMT’s solicitude to the employment opportunities of the mainlander class, and it was this solicitude that gave rise to the policies designed to benefit military personnel, civil servants, and teachers. Compared to those of Taiwanese background, those of the mainlander class have been much more successful in gaining posts and promotions in the public sector. Moreover, financial assistance provided for education has given a distinct advantage in the job market to the children of public servants. In light of all this, the background to the life of leisure enjoyed by the first group of women becomes clear.
Looking from the perspective of Taiwanese politics and history, we can find one era in which class distinctions became less distinct. This was the time of rapid economic expansion during the 1980s when everybody was feeling very confident and optimistic about the future, resulting in greater inter-group tolerance. But with the bursting of the economic bubble in recent years, as well as the financial storm, the oil crisis, inflation, and other economic turbulence, the class structure has once again gradually became more pronounced. The advent of the M-shaped society, changes in socio-economic status, and the widening gap between rich and poor have all given rise to a situation in which Taiwanese women in the same age group spend their days in very different ways.

A hot topic of discussion in recent years has been whether or not the change of party in power has been a change for the better. Taiwan is gradually taking on the form of an M-shaped society. With the fortunes of the working class remaining stuck in low gear, a large section of the middle class experiencing a reverse of fortune, and another segment of the middle class continuing to clamour forward with alarming speed, the gap between rich and poor is becoming ever more apparent. The process of economic transformation and the resulting changes in employment opportunities has resulted in quite a few SMEs going out of business and large numbers of workers losing their jobs to foreign labourers. Moreover, many workers have had to choose between vocational training and unemployment. As for farmers, although land policies allowed some to get rich quickly, the price of land is controlled by local government and politicians, and the very high prices are mostly limited to land with great potential for development. Even in this case, the farmers earn nowhere near as much as the developers.

In the KMT era, provincial background was a taboo topic, but with gradual social integration due to intermarriage and social interaction, the boundary between the two groups is no longer very distinct. Nevertheless, following the lifting of martial law, the DPP made waves throughout society when it began to promote an awakening of Taiwanese consciousness. It can be said that the greatest accomplishment of the DPP, was its cultivation of Taiwanese consciousness and its gaining of increased recognition of Taiwan as a distinct political entity. The DPP also encouraged the political neutrality of civil servants and the military, normalised the democratic system, and oversaw the clear demarcation and separation of KMT enterprises and state-run enterprises. However, the economic and political disarray has yet to show any signs of improvement. Moreover, as the political climate continues to be tempered by both KMT and DPP intransigence and heated hostility, provincial background is becoming an increasingly weighty issue in party politics.

To be sure, the provincial background issue is kicking up a storm. Upon analysis it can be seen that the source of this storm is the conflict between the vested interests and those who would like a greater share of social resources. It should come as no surprise that it is very difficult for party politics to result in social equality, a situation that becomes especially apparent in view of the allocation of social and welfare benefits. Since social resources are necessarily limited, they can easily become a point of contention between vying political parties, such that any gain on one side means a

---

32M-shaped society was put forward by Ohmae Kenichi, a Japanese business and corporate strategists, who argues that under the influence of globalization, the wealth of a society is divided into three parts, with the poor on the left, and the wealthy on the right. The shrinking middle class, which was earlier the largest and most stable section of society, is in the middle, sinking lower and lower towards oblivion.
loss on the other. In such a situation, the demagogues in charge of the political parties are all too willing to ignite the provincial powder keg in order to attain their goals.

We have seen clearly that political policies implemented several decades ago have given rise to the complex social phenomena we are witnessing today. How to strike a balance between the advantages of the vested interests and the welfare of the disadvantaged requires great circumspection on the part of policy-makers. It constitutes a critical issue that can only be dealt with by squarely facing the problem with wisdom and courage.
The Re-emergence of Inequality and Poverty

Introduction

Along with the radical changes in global economy and family structure, Taiwan has experienced the re-emergence of poverty problem that was thought disappearing after remarkable economic growth in the 1980s. We place some of the most recent developments in the context of unbalanced growth and increasing family crises. Ironically, people in Taiwan have widely used the terms of new poverty and M-shaped society since the end of 1990s, while the ‘economic miracle’ the island wrought still remains a fond memory. Official statistics on poverty, unemployment, divorce, mental disease, and child abuse have all shown increases. The trend is a matter of serious concern, with critical implications to the state capacity of managing development, welfare and democratization in the globalizing world.

Class Division and Inequality in Historical Context

In colonial Taiwan, class conflict combined with the interest conflict between the Japanese and the Taiwanese, namely race conflict. This constituted the fundamental social contradiction of colonial Taiwan and also the major challenge to Japanese authority.

The formation of class division whereby the Japanese liberated the labour forces in the countryside through the land survey and establishing the sugarcane-growing districts which reduced Taiwanese farmers to a labourer-like status. In fact, under the contract the Taiwanese tenants of sugar farms were bound to sell their labour to the Japanese sugar mills when there was a shortage. This made the tenants similar to farm labourers (Chang, 1957: 92-93). Thus, buying and selling labour had developed in the countryside of colonial Taiwan and had spread to the bigger family farms with insufficient family labour. Furthermore, smaller family farms not only cultivated their own fields but also sold the labour of family members to other peasants. Ka points out, ‘These semi-capitalist and semi-proletarian characteristics are common in family farms of colonial Taiwan’ (Ka, 1987: 134). It is worth noting that agricultural workers, who had no land capital and earned a living purely by selling labour, had also emerged. There were 38,012 such workers in 1917 of which 58% migrated from more remote areas such as the Pescadores (Ka, 1987: 138).

In addition, the growth of industrial workers, who were mostly Taiwanese, was significant in the colonial period even though the total output of industry never exceeded that of agriculture under Japanese colonialism. In 1930 the total number of industrial workers in Taiwan was 577,752, around 12.3% of the total population. Only 3 years later, the figures had increased to 704,497 industrial workers which constituted 13.9% of the total population in 1933. Among the workers over 70% were day-workers paid daily. They searched factory after factory to sell their labour and had no stable income or capital (Weng, 1992: 10-11). Thus, they could be regarded as the group with purely proletarian characteristics who suffered most from economic recession. Along with capitalist development in colonial Taiwan, class division grew in significance because of the increasing number of people who were separated from means of production and became wage-workers or of a similar status.
The interest conflict between capitalists and workers, from the Marxist perspective, is the major source of social instability. In colonial Taiwan, such conflict was further worsened by the inequality between the Japanese and the Taiwanese. Under the protection of the colonial government, Japanese capital and capitalists were spread over various economic activities in Taiwan. By 1926, among the capitalists with assets worth over 500,000 Yen the Taiwanese numbered 57 compared with the Japanese’s, 93; and Taiwanese capital was only about 78 million compared with Japanese capital of 480 million (Yanaihara, 1985: 85-87). To prevent the development of Taiwanese capital and capitalists, the colonial government forbade the Taiwanese to set up modern corporations unless they were joint ventures with the Japanese. Management positions were always occupied by the Japanese, and Taiwanese investors had no power of decision-making in the corporations (T’u, 1992: 397-398; Yanaihara, 1985: 89). Only five Taiwanese families benefited from the Japanese rule because of their allegiance, such as Ku Hsien-Jun who helped the Japanese forces to invade Taipei in 1895. They all assisted the Japanese in their occupation of Taiwan and were, therefore, rewarded with monopoly privileges to invest in various undertakings in sugar milling, land development, retailing, and mining (Gold, 1986: 39-40). We can say that most of the capitalist class in colonial Taiwan was dominated by the Japanese (Yanaihara, 1985: 87).

This situation made the conflict of interests between capitalists and workers equal to the conflict between the two nations, the Japanese and the Taiwanese, especially as the Taiwanese people were always engaged as low paid labourers. Furthermore, the colonial government had never provided adequate opportunities for upward mobility to the Taiwanese people. This can be illustrated by three points: firstly, the average wage of Taiwanese workers only reached half that of Japanese workers (Weng, 1992: 17), so Taiwanese workers found it difficult to improve their living conditions or provide better career prospects to the next generation; secondly, the opportunities for higher education were limited among Taiwanese pupils, especially courses that could lead to a career as a politician rather than a technician (Tsurumi, 1977; Wu 1992); thirdly, the pattern of occupational movement was quite stable during the colonial period so that Taiwanese youth usually followed the occupations of their parents. This implies that the Japanese did not do enough to increase the number of more skilled jobs through improving the colonial economy in Taiwan, or those such jobs had already been assigned to the Japanese youth (Barclay, 1954: 73-101).

In short, as Yanaihara’s powerful conclusion on the social contradiction in colonial Taiwan, the race conflict between the Japanese and the Taiwanese was a conflict between the dominant and the dominated as well as a conflict between capitalists and labourers (Yanaihara, 1985: 100). This was the most fundamental source of instability within the social structure induced by Japanese colonial policy.

Following the formation of class division initiated in the colonial period, capitalist development in postwar Taiwan caused further development in class division with most of the labour force becoming wage-workers, such as white and blue collar workers. There are two characteristics of class division that we can identify from the experience of postwar Taiwan: proletarianisation and the shift from agricultural workers to industrial workers.

Proletarianisation, which means a greater proportion of the labour force living on a wage in return for selling their labour, has been the most significant tendency. Table 1 shows the change in the workforce by class of workers in selected years. We find that paid employees increased from 36.8% of the total in 1956 to 67.0% in 1988. Employees in the private sector account for most growth, also implying that the private sector has been getting stronger -- a development of civil society beyond state control. By contrast,
the increase in the number of employers was far lower than that of paid employees. Furthermore, proletarianisation was also found in the decline of the number of self-employed and unpaid family workers who have mostly transferred to become wage workers. This has made the contrast between the two major classes, capitalists and workers, far sharper.

However, the KMT did not take measures to reduce the degree of this contrast. On the contrary, to speed up economic growth the KMT intentionally pushed down labour wages in order to encourage domestic and foreign investment. They also suppressed the labour movement through strict control over trade unions in order to secure stable production relations. For example, between 1952 and 1986, the real GNP in Taiwan increased by 17.7 times, while the average labourer’s wage only increased by 6.4 times (Social Welfare Indicators, 1987). Also, the average hourly-wage of labourers in Taiwan in 1980 was US$ 1.25, still lower than Mexico (US$ 2.76) and Brazil (US$ 1.73) in the same year (Deyo, 1987), though the GNP per capita in Taiwan was higher than that of both countries (Taiwan -- US$ 2,344; Mexico -- US$ 1,749 in 1979; Brazil -- US$ 2,021) (Taiwan Statistical Data Book, 1991; UN Statistical Yearbook, 1981). In fact, to set up an independent union beyond state control in postwar Taiwan was a formidable task. Workers not only faced employers, who were doing their best to stop the formation of such unions through informal or formal networks, but also faced the state, who always regarded workers movements as a threat to economic growth and was reluctant to give any help to such actions (Hsia, 1989). Under these circumstances, class conflict developed further with ease due to the increase in discrimination.

<table>
<thead>
<tr>
<th>Year</th>
<th>Employers</th>
<th>Self-employed</th>
<th>Unpaid Family Workers</th>
<th>Paid employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Subtotal</td>
</tr>
<tr>
<td>1956</td>
<td>3.2</td>
<td>35.5</td>
<td>24.4</td>
<td>36.8</td>
</tr>
<tr>
<td>1988</td>
<td>4.5</td>
<td>18.9</td>
<td>9.5</td>
<td>67.0</td>
</tr>
</tbody>
</table>


In contrast with colonial Taiwan when most of the labour force was confined to rural areas, the shift from agriculture to industry in postwar Taiwan provoked a rapid growth in industrial workers whose numbers were three times bigger than agricultural workers in 1990 (Taiwan Statistical Data Book 1991). In fact, extracting agricultural resources to promote industry was one strategy towards industrialisation applied by the KMT (Thompson, 1984). By combining many methods such as lowering the prices of agricultural products, unequal rice-fertilizer barter, and paying taxes with crops, a huge sum of agricultural surplus was transferred to subsidize industrial development. As a result in 1951-55 the net outflow of capital from agriculture was 14.2% of the net national product and 74.8% of total capital formation (Lee, 1971; Thompson, 1984; Ka and Selden, 1986; Bello and Rosenfeld, 1992: 183-186). Two impacts of the government policy came about: firstly, the farmers’ incomes were intentionally held down so that only around 30% of the average income of farmer households was actually derived from farming; and, secondly, nearly 2 million agricultural workers were forced to move to industry in search of better pay (Thompson, 1984; Bello and Rosenfeld, 1992: 186-187).
Thus, the gap between industrial and agricultural development has widened.

As for social mobility, the degree of openness of class mobility has been doubted by some Taiwanese scholars. Sheu’s study on class mobility in Taiwan reveals that the small farmers are the largest class in father’s class structure while the workers are the largest class in son’s class structure. This transformation is due to changes in economic activity, not the openness of its class mobility (Sheu, 1990). Similarly, Hsieh and Yu’s study focusing on the class structure and its relative chances of occupational mobility in Taiwan also finds that class mobility is not so open in Taiwan because only 48% of occupational mobility is due to class mobility and the other 52% is due to occupational change. In fact, the farming class has the highest class mobility rate, but moves to the blue-collar class whose class mobility rate is lowest. This implies that the chance of upward mobility is limited, especially beyond the level of the blue-collar class (Hsieh and Yu, 1990). These studies, like those of Goldthorpe’s research on British social mobility, show that the openness of society, after examining absolute and relative mobility rates, is not as great as expected; most mobility chances are due to increases in the occupational division of labour (Goldthorpe, 1980: Chapter 3).

Even so, the KMT has not significantly oppressed economic activity among the Taiwanese people, partly because of American intervention in constructing Taiwan as a liberal economic system. Although the KMT often gave favourites to the state-and-party-owned enterprises through monopoly and privilege (Chen et al., 1992), it still left Taiwanese private enterprises enough room to develop themselves and enhance the rise of Taiwanese economic elites. In fact, the KMT opened up some chances of upward mobility to the Taiwanese people in the economic sphere rather than in the political sphere which was mostly occupied by the mainlanders. Sheu’s study examines class structure in Taiwan and its changes from 1976 to 1984. It echoes the point that the native Taiwanese own more means of production, while the mainlanders have more authority in the public sector (Sheu, 1989). Table 7.2 precisely notes this special distribution of powers in the KMT state. In 1987, the year Martial Law lifted, the mainlanders still occupied most of political positions, even though their numbers were only less than 30% of the total population, while the Taiwanese with their advantages in numbers were largely confined in local authorities.

<table>
<thead>
<tr>
<th>Table 7.2</th>
<th>The Distribution of Major Political Posts Occupied by Mainlanders and Taiwanese in the KMT State, 1987</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Positions</td>
<td>Occupied by Taiwanese, %</td>
</tr>
<tr>
<td>KMT Central Standing Members</td>
<td>31</td>
</tr>
<tr>
<td>KMT Party Chiefs</td>
<td>11</td>
</tr>
<tr>
<td>Ministers</td>
<td>30</td>
</tr>
<tr>
<td>Military Generals</td>
<td>--</td>
</tr>
<tr>
<td>Members of the Legislative Yuan</td>
<td>348</td>
</tr>
<tr>
<td>Members of the Control Yuan</td>
<td>78</td>
</tr>
<tr>
<td>Members of Provincial Assembly</td>
<td>77</td>
</tr>
<tr>
<td>Mayors</td>
<td>21</td>
</tr>
</tbody>
</table>


Of course, the rise of Taiwanese economic elites was not a smooth process. The original
KMT policy was in favour of mainlander capitalists who came to Taiwan with Chiang Kai-shek, but land reform did secure some Taiwanese capitalists’ control over four sectors -- cement, paper, mineral, and forestry products. Along with the export-substitution development strategy, the world market, beyond the control of the KMT, was open to both mainlander and Taiwanese capitalists to compete with each other on a more equal level. This was a great opportunity for ambitious Taiwanese economic elites. Eventually, by 1983, of the ten leading business groups, seven were headed by Taiwanese (Bello and Rosenfeld, 1992: 235-240). The Taiwanese economic elites even benefited from government policies. They were not so happy with the KMT’s favouring of mainlanders, as Simon claims, ‘....the current regime has only a limited amount of direct political support among a select group of businessmen of Taiwanese extraction.’ (Simon, 1980: 386). This implies a potential contradiction between mainlander and Taiwanese within the KMT state. However, as the Taiwanese advanced in the economic sphere, they definitely asked for a greater share of power in the political sphere. This situation has also led to more pressure on the KMT for democratisation.

In short, three contradictions existed in the postwar Taiwan, namely, the conflict between capitalists and workers, the gap between industrial and agricultural development, and the contradiction between the Taiwanese and the mainlanders.

**Farewell to the Taiwan Miracle: Current Trends of Inequality**

In his review of economic growth and poverty reduction in East Asian countries, Jomo comments: (2006: 3)

‘Though East Asian growth and structural changes led to spectacular reductions in poverty, the impact on inequality has been much less apparent. Income inequality has been low in Korea and Taiwan, but has increased with globalization....For most of the economies under consideration, the 1997-1998 regional financial crises had great, but varied impacts on equity. The substantial rhetoric on social safety nets during the crisis obscured the negative impacts of structural adjustment and economic liberalization programs in the 1990s on redistribution, welfare rights, and social protection provisions and institutions.’

Taiwan is also the case if we look at its trends of inequality particularly after 1997, which is going to be examined with the following dimensions and indicators.

The following figures will explain themselves. We may have some summaries of main findings about current inequality in Taiwan:

1. In terms of GDP per capita, Taiwan has enjoyed a very significant growth, especially the periods of 1970s and 1980s as the export led development strategy initiated. Asian Financial crisis in the late 1990s was slowing down this trend of GDP per capita but it resumes its growth shortly.

2. According to the economic growth rates in Figure 2, there are two major rapid stages in Taiwan’s development. The first is the 1950s-60s when the import-substitution strategy was launched, even though it had not significant impact on the improvement of GDP per capita. The second is the 1970s-80s when export led strategy induced significant growth of GDP per capita because of more job opportunities. However, since 1990 the economic growth has been slowing and a very sharp decline in 2001.

3. The income gap between top and bottom 20% households has been kept under 5
times before 1990, while in the whole 1990s this figure is jumping up to over 5
times. In the beginning of twenty-first century the income gap further increase to
over 6 times, meaning that inequality is getting worse in Taiwan.

4. Even though the Government intentionally increases welfare provision, from 1.2
% of personal income in 1991 to 3.6 % in 2005, but this effort shows no
significant improvement of income gap.

Figure 7.1  The Growth of GDP per capita in Taiwan, 1951-2007
Figure 7.2  The Changes of Growth Rate in Taiwan, 1951-2007

Figure 7.3  The Gap of Disposable Income between top/bottom 20% Households, 1968-2007
Labour Participation and Employment

There are some very interesting developments in labour participation and employment with difference sexes. We will discuss the general trend first and further explore the sex differences in the section of gender inequality. Overall speaking, the labour participation is going down during 1951-2007, implying a more difficult situation of employment. This can be examined with the changes of unemployment during the same period. Taiwan has had a relative low unemployment in the 1970s and 1980s, but this has changed by the end of 1990s when the general unemployment increased remarkably from 3% to 5% and since then never come back to the similar level in the earlier decades.
However, as we look at Figure 7.7, the average monthly working hours in industry and service sectors have decreased over 30 hours, while the average monthly earnings increased from NT$ 10,000 in 1979 to nearly NT$ 45,000 in 2005. It seems a good development to Taiwanese workers because they can do less but earn more and, in such case, lower labour participation and higher unemployment will not constitute a problem. It is not so, I am afraid. Figure 7.8 shows the worsen long-term unemployment, implying not all levels of workers benefited from the improvement of working conditions. We can further examine this issue with Figure 7.9.
Figure 7.9 demonstrates the income sources in top and bottom households. In 1980, the structure of income sources between top and bottom households was almost the same, with two thirds from wage and another one third from investment and property. Up to the year of 2004, wage as income sources has sharply declined to 33% and the importance of public transfer became the first in the bottom households, while the structure of income sources for the top households did not change a lot. This figure implies the bottom households hit more by unemployment and therefore the wage as income sources declining remarkably. Partition of labour market endows different...
workers with varied opportunities that ultimately influence their careers and levels of incomes.

**Figure 7.9** The Comparison of Income Sources between Top and Bottom 20% Households in Selected Years

**Inequalities between Economic Sectors**

Following the above discussion, Figure 10 precisely notes the wage differences among workers engaged in varied economic sectors. Although a significant growth of monthly earnings has been noted since the 1970s, the overall growth rate has been slow down especially after 2000 when monthly earnings remained about NT$ 40,000 for eight years. It is actually a stagnation which could hit the real living standards of wage workers, blue and white collars. There is also a gap between workers in mining, industry, and service sectors. We can find that the monthly earnings in service sector has overtaken industry sector and the gap is expanding, which implies a post-industrial economy in Taiwan, differing from a pure export-oriented industrialization especially in the 1970s and the 1980s. Mining, as an example of the primary industry, has a floating wage level but the real number of workforces is far minor than industry and service sectors.
Another significant income gap happens between farm and non-farm households, as Figure 11. Even though farm and non-farm households both enjoyed income increases during 1964-2005, the gap between them is expanding. In 1964, the income in farm households was about 97% of the non-farm households', almost no difference at all. A very sharp change happened in the 1970s when export-oriented industrialization was confirmed. The percentage of income in farm/non-farm households declined to 72%, since then floating at around 80%. This gap could be even higher if we account into some parts of income in the farm households actually from temporarily working in factories. This is because of the seasonal characteristic in farming. Some workforces in farm households could go to factories in towns for more incomes. Just like mining, the workforces in agriculture have remarkably declined to 5.5% of the total employed population in 2006, in contrast with 57.9% in service sector and 36.6% in industry sector at the same year, implying that incomes in farming can not attract enough workforces, especially from the younger generation.
Inequalities between Areas

The economic transformation in Taiwan, from agriculture to export-oriented industrialization and now the post-industrial service economy, has endowed people living in cities, towns, and villages with varied income levels. From Figure 7.12, we learn that the average disposal income for the people living in villages is about two thirds of those who living in cities. In Taiwan, the north part, especially the surrounding area of Taipei City, is the most urbanized area with higher valued properties. This also means an area inequality between the North Taiwan and the other parts of Taiwan. For example, the 2006 average disposal income for households living in Taipei City was NT$ 1,262,405, in contrast with NT$ 624,931 in Taitung County, one of poorest counties in Taiwan where disposal income was only half of Taipei. Although the level of general daily expenditure is high too, Taipei City still accounts for the highest annual saving. In 2006, for example, annual saving in Taipei City was NT$ 317,061, which was higher than NT$ 242,422 in Kaohsiung City, the second largest city and also the largest city in the South Taiwan. The gap between north and south can also be explained by economic transformation that Taipei City is the financial and business centre with high technological industries most in the North Taiwan, and Kaohsiung City is a traditional heavy industry zone for steeling and shipbuilding. Not mention to some agricultural counties suffered with lowest income and saving.
Inequalities between Genders

First of all, we can look back Figure 7.5 and Figure 7.6 for the details of gender differences in labour participation and unemployment. The labour participation for the male is going down significantly during 1951 to 2007, while the labour participation for the female is improving steadily, from just over 40% in 1951 to about 50% in 2007. Even so, we still observe a remark gap between male and female, implying a gender inequality in the labour market. However, secondly, Figure 6 demonstrates the changes of unemployment and by sexes, for which we only have the data after 1979. We can find that the female unemployment is lower than the male particularly in the most recent decade. Somehow it implies a significant improvement of female employment in the labour market, but it could be also from relatively low female labour participation while a great portion of female population are confined in the informal domain, rather than in the formal labour market like the male. There are two different interpretations about the above indicators: for the good side, it means a stable improvement of female employment and the economic transformation towards post-industrial service economy endows the female workers with more job opportunities; for the bad side, however, it means the female as supplementary labour forces remaining still. The latter interpretation is given if we further examine the income gap between male and female workers. Figure 7.13 is the result for the period during 1979 to 2007. The female income as percentage of the male was 68.6% in 1979, while it is getting improved, along with the economic transformation in the 1990s and 2000s, to nearly 80% in 2007. Up to nowadays, the female workers suffer less from unemployment but more from lower pay, we may say. But we still do not know the implications of lower pay to less unemployment in the female workers, in contrasting with the male workers.
Conclusion

Taiwan has long been regarded as model for economic growth with equity. Given to the development prior to the 1980s, nearly all indicators showed significant improvement at every aspect. However, this case does not last long and especially after the 1990s, economic growth has been slowing down, combined with higher unemployment and stagnation of income. We also review the trends of inequality at aspects of income, employment, economic sectors, area, and gender. The main conclusion we can make is that, after significant improvement prior to the 1980s, it is very difficult to resume the similar improvement trends. The Asian financial turbulence in 1997 is actually the watershed for such a development, in which Taiwan has suffered a higher unemployment and this in turn makes people concerned with the sustainability of their incomes. The claims for social reform have accelerated huge pressures to the government. Under democratic election, how to acquire both economic growth and social equality has become the greatest challenge for the state legitimacy. The KMT Government did not pay much attention on this change and led to its failure in the year of 2000. The succeeding DPP Government did increase welfare expenditure but could not stop the trends of inequality.

In conclusion, we would argue that social inequality has now been the main political concern and this in turn promotes many welfare measures to come, that will be examined in the other papers of the Taiwan case report. Differing from the period prior to the 1980s, economic growth is no longer the only reason for the state legitimacy. Any governmental policy for economic growth must take the social impacts into account and therefore change the nature of policy regime in Taiwan. A mixture of economic and welfare instruments is now popular, and such a development also notifies Taiwan’s wandering away from its old fashion of developmentalism and reluctant welfare state.
Conclusion: Challenges and Prospects for the Taiwanese Developmental State

The Embattled Developmental State under Democratization and Globalization

As it should be clear now, the state in Taiwan is ubiquitous, powerful, and all-embracing. It has played a leading role in shaping and reshaping the class structure through the state-led economic development strategies, initially by land reform and then followed by strategies of capitalist industrialization. In this process, economic strategies were also accompanied by alterations in the nature of state-society relations. Such change involves a complex dynamic between state and society. Each sphere acts upon the other; the state and society are mutually transforming each other, though with asymmetrical intensity and uneven consequences. As a result, what we are witnessing since the late 1980s is a restructuring of state-society relations well under way. And the state is undergoing a metamorphosis brought on by structural change both domestically and globally.

State Autonomy and State Capacity on the Wane

First, at domestic level, the developmental state with an agenda of capital accumulation served as midwife to the emergence of two distinct classes: a class of industrial entrepreneurs, which then come to prefer its own quest for profitability over a state-led project of accumulation, and a class of laborers increasingly determined to give redistributive goals priority over state-sponsored accumulation of capital. While the previous welfare state has been constructed within a matrix of authoritarian politics, the challenge of democratization has changed the political parameters by giving space for new voices and creating greater pressures for more comprehensive welfare provision with the result of advocacy coalitions emerging to press their agenda for inclusive social policy. Democratization signifies openness to, and tolerance of, divergent groups and their demands. Openness to divergent perspectives is a critical component of democratization, and democratic consolidation is a process in which this is institutionalized and formalized. Various classes that emerge in the process of economic development present different demands to the state. The state was obligated to listen to the demands of both capital and labor, since the political environment is one of democracy and not the authoritarian regime by the mid-1980s. Moreover, democratization is about the institutionalization of political competition. In Taiwan, the formation and legalization of the opposition Democratic Progressive Party (DPP) in 1986, the lifting of martial law in 1987, and the expansion of national-level elections together marked the initiation of democratic transition. Democratization greatly complicated governance in Taiwan. As part of the process of transition from an authoritarian party-state to democracy, many of the features such as high state autonomy and strong state capacity that had characterized the Taiwanese state in the earlier period have been transformed. Democratization has rendered the state increasingly porous and more attentive to interest groups and democratically accountable. Bureaucratic coherence and state dominance over society have been
difficult to maintain. Together with the economic liberalization following from changes in the international political economy, the state’s control of society in general and business activities in particular has been greatly weakened. The state is thus challenged to negotiate not only production but also redistribution issues to cater to divergent demands. To do this successfully requires more skills and greater finesse than are found in an authoritarian regime, when the state can simply repress and ignore demands.

Thus, the KMT party-state’s economic policies was caught in and oscillated between pro-capital and pro-labor policies during the late 1980s and early 1990s. As witnessed, the state has fluctuated openly back-and-forth from the capital’s demand for a growth-oriented *productivist* state to labor’s welfare state. In this sense, on the one hand, state loses some control over accumulation process and becomes more responsive to the demands of capital. Previously business associations as one of the governance mechanism under state corporatism were only what Juan Linz (1970) calls “auxiliary government” or an “agent of implementation”, not a “source of pressure”. They were the transmission belt of the KMT party-state and were used to legitimize the state’s economic policy. But now the state needs to negotiate with them and incorporated them into policy network as junior partners. On the other hand, the rise of working class forces the developmental state to add a redistributive agenda to a project of accumulation, which complicates and compromises the state’s previous single-minded developmentalism.

Second, at the global level, the once-vaunted developmental state in Taiwan might become less competent now especially under the given current international accumulation regime propelled by globalization. One outstanding feature of the Taiwanese developmental state has been the “governing” of markets through import substitution policies, export promotion, credit rationing, strategic industry targeting and a whole gamut of interventionist policies. However, many of these policy instruments are now either ruled out, in structural adjustment programs, or are illegal under the new world trade dispensation. It would be useless to deny that the institutional architecture which provided a basis for the developmental state has been gradually eroded by the convergent pressures of structural transformation under globalization especially in the state’s capacity to deal with the China-Taiwan economic interaction and political tension. As macro-economic tools appear to lose their efficacy, as external pressures for homogenization of trade regimes increase, and as cross-border flows of people and finance between Taiwan and China threaten the domestic base, the Taiwanese state is in many ways taking the bull by the horns, trying to steer its own course as desired.

As a whole, the future viability of the developmental state is subject to a double squeeze: from the outside by the international regime (globalization) and from the inside by an increasingly assertive and vibrant civil society (democratization). The developmental state is caught in between these two (sometimes opposing) forces and found itself in a new battlefield. To cope with these challenges of *globalization* and *democratization*, the state in Taiwan was thus reconfigured. It is precisely in this sense that the developmental state is a dynamic entity of amorphous configurations, occurring over a long period of time in various incarnations and poised to adapt itself to still newer realities. But so far there is no systematic treatment of this important issue. Based on policy regime approach, we’ll engage it in the next section.
Accumulation versus Legitimation: Mapping the Policy Regimes

Accumulation Regime: Exportism

Exportism: The Overarching Principle of Taiwanese Capitalism and the Taiwanese Route to Flexible Accumulation

I’ll start with identifying the “structurally inscribed” characteristics of the Taiwanese regime of accumulation since the 1960s as exportism as opposed to peripheral Fordism or post-Fordism.¹ According to Sum, exportism as a mode of growth is based on “the articulation of internal and external moment in an advanced stage of internationalization of production” (Sum, 1994: 69). As an extraverted mode of growth, exportism depends on the advanced capitalist countries’ imported technology and capital goods in combination of domestic low-wage labor power to engage in labor-intensive light manufacturing industries. Mass consumer goods produced for export are sold in the foreign market to get the external realization of value and the profits secured by this exportist process are then reinvested in production.

In such a theorization, exportism, by its very nature, is extraver ted and thus is subject to dynamic changes induced by the external conditions (Sum, 1998). This external dependence inherent in the extraverted exportist regime is thus highly vulnerable to the fluctuation of global market, especially the market of targeted countries. This very dependence on foreign market in value realization in order to reproduce itself makes it impossible for the exportist regime to be organized under an “autocentric” logic which accordingly makes a fundamental difference between Fordist regime and exportist one.

Fordism is a paradigmatic mode of development based on a particular pattern of mass production and mass consumption considered in abstraction from the existence of national economies which can be reproduced over time despite its conflicting tendencies. The driving force of Fordism is claimed to be the mass production dynamic, pioneered by the United States. Mass production technology created unprecedented increases in output based on Taylorism, which comprises two parts: the decomposition of jobs into their smallest constituent units; and top-down management. The de-skilling of jobs and top-down management, however, created downward pressure on wages, such that the mass consumption necessary to sustain mass production is jeopardized.

In order to sustain Fordist mass production comes the rescue with Keynesian welfare state of demand management and infrastructural provisions which help to create the basis for a relatively autocentric mode of growth. Fordism’s logic is autocentric in the sense that the accumulation regime and the mode of regulation are self-sustainable through the coupling of mass production and mass consumption within the control of a national state. By contrast, according to Sum, exportism, as an extraverted mode of growth, depends on the advanced capitalist countries for production of key investment goods and access to foreign markets to sell goods at a profit. Articulation with the international sphere of exchange for their exports means that demand (consumption) is beyond the control of local capital in the aggregate and/or the control of the local state. Exportist logic is

¹ Lipietz’s concept of peripheral Fordism (1987) was strongly criticized by Amsden (1990). Partly addressing this debate, Sum (1994) has formulated a new model termed “exportism” to capture the specificities of latecomer capitalism in East Asian NICs and use Hong Kong as the case study.
more or less uncoupled from domestic consumption and links production to investment and reinvestment….As an extraverted mode of growth, exportist logic is primarily external and production related rather than internal and consumption related (Sum, 1998:57).

Thus far, it should therefore become obvious that Exportism and Fordism have entirely different process, logic, and mode of regulations. The implication is that we should treat exportism as a generic mode of growth sui generis; it is not Fordism. We need recognize the originality of the growth model of the East Asian Newly Industrialized Countries in its own terms instead of reading it off from the “center” advanced industrialized countries. The introduction of the concept of “exportism” can thus serve as a heuristic device that enable us to delve into the hidden abode of how contemporary capitalism in Taiwan really works and avoid the danger of reading it through an Eurocentric glasses.

I would therefore claim that exportism as a mode of growth constitutes as the overarching principle of the accumulation regime in Taiwan. Taiwanese capitalism is by nature “exportist” because trade, particularly exports, is the most important modality of Taiwanese firm’s involvement in the global economy. Taiwanese economy has been fundamentally an export-led growth model since the 1960s. As a matter of fact, Taiwan was an early advocate of the export-free zone, setting up the first such zone in East Asia at Kaohsiung in 1965. It would be no exaggeration to claim that no exports no Taiwanese capitalism. This exportism is very important and consequential for the production regime later emerged in Taiwan and defines historically the Taiwanese route to/through flexible accumulation over the last five decades.2

**Exportism’s Imperative**

As Sum aptly points out, “Exportism is external-demand-driven with a virtuous cycle whose dynamic hinges on flexibilization of production (supply). Fordism is supply-driven with a virtuous cycle whose dynamic is adjustment of demand through welfare expenditure and contra-cyclical demand management.” Because of the demand uncertainty from foreign markets, for the exportist regime, the most important regulation task is to make the *domestic-supply* factors in production as *flexible* as possible. Flexibility renders the exportist growth regime less vulnerable to fluctuations in external demand and is very consequential for the formation of the flexible firm and the production regime in Taiwan.

For instance, exportism as a mode of growth prioritizes the wage as an international cost of production at the expense of its role in generating domestic demand; this is reinforced where the wage relations can be subordinated to an

---

2 In such a theorization of Taiwan as an exportist accumulation regime, to contrast it with the small export-oriented European countries, like Demark, or Belgium, or even Sweden is instructive. These countries were also highly dependent upon exports and trades for their economic development. Nothing I have stated here seems to differentiate Taiwan from these European small countries. Indeed, one can even argue that these countries are more export oriented than Taiwan (i.e., a higher percentage of its GDP is produced for export) since Taiwan has a relatively larger population and a larger internal market for domestically produced goods and services. However, I would argue despite the apparent similarities of being export oriented economies, the *timing* of development makes them quite different stories. As a late latecomer, Taiwan was encountering harsher international environment than that of those countries because the more backward the country, the harsher the justice meted out by market forces. It is in this sense that Taiwan provides an intriguing case for late latecomers as a reference point.
exportist and workfarist (rather than welfare) logic through a strong national security state that also restricts opportunities for organization in favor of worker’s economic, political, and social rights. Besides, the catch-up dynamic of the Taiwanese economy also privileges the allocation of credit according to long-term growth priorities and hence the subordination of the national economy (and international aid or loans) to investment rather than consumption. This also requires a strong developmental state and/or close coordination between banking and industrial capitals that are mobilized behind the national accumulation strategy (Jessop, 2001). In a word, the dynamic of successful exportist accumulation entails a *productionist* bias rather than consumption bias. In this context, it is revealing to compare the different logics between Fordism and exportism. If the “Fordist equation” is the virtuous relationship between productivity growth, rising real wages, and the expanding consumer market, then by contrast the “exportist equation” of the virtuous cycle would proceed from *investment* (for the production of export goods) through *production* (of exportist goods) and *realization* (of surplus embodied in exportist goods) to *reinvestment* (profits). As an exportist accumulation regime, in order to gain international competitiveness in global market, the production regime would constrain the welfare regime to be a “productivist” one so as to accord with the exportist imperative.

**Welfare Regime: Productivist Social Policy Regime**

To identify the type of Taiwan’s social policy regime, Esping-Andersen’s *The Three Worlds of Welfare Capitalism* (1990) is an expedient point of departure because it provides a powerful framework for comparative analysis. Esping-Andersen identifies three clusters of welfare regime types: liberal, conservative and social democratic. A *liberal* welfare state is dominated by the logic of the market. Benefits are modest, often means-tested and stigmatizing. The principle of “less eligibility” requires that welfare should not undermine the propensity to work. The state encourages the private provision of market forms of welfare (private insurance/occupational welfare). The typical examples are US, Canada, and Australia. In the *conservative* welfare state, the liberal obsession with market efficiency and commodification was never preeminent and correspondingly the granting of social rights was never so contested. Private insurance and occupational welfare are minimal. However, the emphasis of social rights is upon upholding existing class and status differentials and its redistributive effects are negligible. Such welfare states often have their origins in pre-democratic or authoritarian regimes which sought to use social policy as a means of diffusing the threat of working class mobilization. In many cases, conservative regimes are shaped by the Church, and this tends to determine their conservative attitude to the family. The typical examples are Austria, France, Germany and Italy. The *social democratic* welfare state is characterized by universalism and the usurpation of the market. It is envisaged as a welfare state that would promote an equality of the highest standards, rather than an equality of minimal needs. Benefits are graduated in accordance with earnings, but this is a way of securing universal support for, and participation in, a universal insurance system. Unlike the other regimes, the state is not seen as a second or last resort, but as the principal means of realizing the social rights of all of its citizens. It is, of necessity, committed to the principle of full employment, since the enormous costs of maintaining a solidaristic, universalistic and de-commodifying welfare state can be best and perhaps only achieved with most people working, and the fewest possible living off social transfers. The typical examples are Sweden and Norway.
At first glance, Taiwan’s social policy regime has something in common with Esping-Andersen’s liberal type, except that it espouses an overarching commitment to developmentalism, which put a different spin on things. Under such commitment, social rights are minimal, stratification effects are very limited, and the market is prioritized. Generally speaking, Taiwan’s social policy is strictly subordinated to the overriding policy objective of economic growth. Everything else flows from this: minimal social rights with extensions linked to productive activity, reinforcement of the position of productive elements in society, and state-market-family relationships all geared toward growth. Therefore, Taiwan’s “welfare state” might be better characterized as “productivist social policy regime” and it is fair to say that its overarching concern is “workfare” rather than “welfare” oriented.

As a workfare state, national resources were mostly poured into accelerating capital accumulation and social measures with a rich potential for economic productivity such as health and education (in order to produce “useful” body in Foucauldian sense). This reflects a single-mined commitment to rapid, state-induced industrialization at whatever social cost necessary. As witnessed, Taiwanese pathway to industrialization has been decidedly undemocratic in its repression of organized labor and exploitation of women. Obviously, in a production-driven and development-oriented regime, the distributive politics is almost invisible in Taiwan’s previous political landscape.

As a whole, Taiwan’s social policy regime is therefore workfare-oriented, whereby welfare arrangements have been shaped to fit the strategic priority of rapid industrialization. Rather than being “wasted” on “unproductive” welfare expenditures, financial resources have been concentrated on economic development. In contrast to the relatively developed social insurance system targeted toward the “productive” population, social assistance and personal social services for the disadvantage were underdeveloped. This created a hole in the security net for Taiwanese people especially for those who had no significant value in the labor market. The whole thing was totally different after the democratization took place since the late 1980s.

While the 1990s is the era of dismantling and deregulation of social welfare in the advanced industrial democracies, however, the state in Taiwan has institutionalized many welfare programs and expanded the number of coverage to protect workers, their dependent families and disadvantaged groups. As a matter of fact, accompanying by the increased number of insured people in social insurance and the expansion of social relief, social welfare expenditure rose up rapidly. The expenditure of social welfare in the government budget has increased from 11.1% in 1980 to 24.7% in 1999. Its share in GNP has increased from 2.9% to 6.1% during the same period (Taiwan Statistical Data Book, 2000). The percentage of social welfare in

---

3 I adopt the term “productivist” from Holliday (2000). Using Esping-Andersen’s “worlds of capitalism” approach, he argues that there is a fourth cluster of welfare capitalism, what he terms as “productivist welfare state capitalism” that characterized the East Asian capitalism including Japan and the four NICs: Hong Kong, South Korea, Singapore and Taiwan. The “productivist welfare state capitalism” thesis argues that the regime has two central features: that of the existence of a growth-oriented developmental state and that of the subordination of social policy to economic and industrial policy (Holliday 2000:709). Formulated as such, the perspective is particularly emphasized that social policy does not have its own autonomous developmental logic and is fundamentally restrained by growth-oriented economic policy (Holliday 2005:149). Other than “productivist welfare state capitalism coined by Holliday (2000), a variety of terms had been suggested to capture the distinctive features of welfare provision in East Asian countries, including “Confucian welfare states” (Jones 1993), “a hybrid of conservative and liberal welfare regimes” (Esping-Andersen 1997), and “Japanese-focused welfare regimes” (Goodman and Pang 1996).
terms of the structure of the social welfare expenditures, social insurance ranked the highest since 1995, covering a total of 45% among all welfare expenses in 1998, followed by the welfare service’s expenditure (38.2%), and social assistance expenditure (12.5%), etc (Huang, 2002). As a whole, social welfare expenditure is obviously a newly added fiscal burden for the state, given that the revenue side of fiscal regime did not yet rise proportionally during the same period.

Fiscal Regime: An Emerging Debt-Oriented Fiscal State

Toward a Fiscal Sociology Approach to the Study of the State

In the essay “The Crisis of the Tax State”, based on a speech gave in 1918 to the Viennese Sociological Society, Schumpeter argues that the state is best studied within the field of “fiscal sociology.” Finanzwissenschaft as known in Germany was introduced by the Austrian sociologist and political activist Rudolf Goldscheid in his book Staatssozialismus und Staatskapitalismus (1917). Goldscheid here argues that in order to understand the state, one must study its finances. As he put in a famous phrase, which Schumpeter liked to cite: “The budget is the skeleton of the state stripped of all misleading ideologies.” Schumpeter fully agreed with Goldscheid that an analysis of the budget and the tax system offered an excellent vantage point for analyzing the state. The state apparatus is actually so much formed by its financial tasks that Schumpeter called it the “tax state” or “the tax-collecting state”. This also echoes a well-known quote from Jean Bodin: “Financial means are the nerves of the state” (Bodin [1567] 1986: 35). In The Eighteenth Brumaire of Louis Bornaparte, Marx also wrote: “Taxes are the source of life for the bureaucracy, the army, the priests and the court, in short, for the whole apparatus of the executive power. Strong government and heavy taxes are identical.” Or as Edmund Burke put it, “The revenue of the state is the state”. Because the state and the economy are fundamentally embedded in each other partly through taxation, it is therefore the case that the budget provides an important insight into the state-economy relationship. Just as profits and capital accumulation comprise the nerve center of capitalism, so tax revenues and fiscal accumulation constitute the sinews of the state.

According to Schumpeter, fiscal sociology allows us to penetrate deeply beneath the surface of the state and to approach a whole series of important social and economic phenomena “stripped of all phrases” ([1918] 1991: 101). Schumpeter observed that the extraction of tax revenue by the state has an enormous influence on economic organization, social structure, human spirit and culture, and the fate of nations. For this reason, he concludes that “fiscal sociology” is an important new field in sociology and is one of the best starting points for an investigation of society, and particularly its political life.⁴ Although others have echoed his call for the development of fiscal sociology, until recently the field has remained in its infancy. As

⁴ Schumpeter wrote glowingly of the promise of fiscal sociology:

“The public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life. The full fruitfulness of this approach is seen particularly at those turning points, or better epochs, during which existing forms begin to die off and to change into something new, and which always involve a crisis of the old fiscal methods. This is true both of the causal significance of fiscal policy (insofar as fiscal events are an important element in the causation of all change) and of the symptomatic significance (insofar as everything that happens has its fiscal reflection). Notwithstanding all the qualifications which always have to be made…we may surely speak of…a special field: fiscal sociology, of which much may be expected” (Schumpeter 1991: 101)
a matter of fact, after the contributions by Schumpeter, very little happened in fiscal sociology for the next few decades. In the early 1970s, however, James O’Connor made an effort to recast fiscal sociology in Marxist terms in The Fiscal Crisis of the State (1973).

**The Relation between Capital Accumulation, Legitimation and the State**

O’Connor describes his work as based on “an investigation of the sociological foundations of government or state finances” (1973: 3). O’Connor starts from the shared analytic premises with Claus Offe and Jurgen Habermas that contemporary capitalist states must try to fulfill an accumulation function and a legitimation function simultaneously. And his main thesis was that there exists a dangerous contradiction in late capitalism in fulfilling these two central tasks of the capitalist state and ultimately would lead to a situation where the state simply cannot afford to insure that capital is accumulated and that the population is kept happy through social expenditure (O’Connor, 1973: 5-10). According to O’Connor, the accumulation function both authorizes and mandates the state to maintain or create conditions in which profitable business activities can take place. At the same time, the state must try to win the loyalty of the classes that are exploited economically by the capitalist accumulation process. Thus, to concur with Offe (1985), O’Connor argues that the two functions are in principle mutually contradictory. This also echoes Offe’s (1972; 1974) “contradictory functionality thesis”. Offe maintains that the most significant feature of the state is the way it is enmeshed in the contradictions of capitalism. Hence, the state is faced with contradictory tasks. On the one hand, the state must sustain the process of accumulation and the private appropriation of resources; on the other hand, it must preserve belief in itself as the impartial arbiter of class interests, thereby legitimating its power.

Based on “system-theoretical” analysis of advanced capitalism, Offe views capitalist society as a social system and is actually a matrix of three interrelated but relatively autonomous subsystems each with its own “organizational principle”: the economic subsystem is based on “exchange relationships”, that is, its organizational principle consists of the exchange of marketable commodities; the political subsystem comprises those processes involving “coercive relationships” based on power; the normative subsystem, finally, is based on specifically “normative structures” (Offe, 1976: 33-34). And the defining characteristic of the social system as capitalist lies in the fact that in capitalism as a whole “the organizational principle of exchange (of equivalents) is universalized, i.e., also extended to apply to labor power—which is in the process of becoming a commodity—and becomes dominant, i.e., is freed from normative and coercive constraints” (Offe, 1976: 33). However, as Marx had shown, capital accumulation through commodity exchange is a profound contradictory process, as it constantly tends to undermine and destroy the condition of its own existence and continuity. A contradiction, according to Offe, “is the tendency inherently within a specific mode of production to destroy those very preconditions on which its survival depends” (Offe, 1984: 132). Consequently, the historical development of a contradiction must inevitably cumulate in some crisis event that makes the contradiction perceptible as a crisis. Thus state intervention in the economy is vital for the capitalist system as a whole to counteract the self-destructive tendencies and crisis provoked by the private capitalist accumulation process. Victimized by an economic subsystem whose organizing principle is private control over investment and production, as a result, any extended reproduction of the economic subsystem requires
the uninterrupted support of a socialization subsystem and the persistent intervention of the political subsystem. Offe refers to these interventions as “social policy”. Many welfare state provisions and programs can therefore be seen as efforts by the state to avoid or resolve crises and conflicts that might otherwise have threatened the very foundations of the capitalist system, rather than as fundamental changes of that system.

Therefore, the main question to be answered revolves around the changing role of the Taiwanese developmental state capacity in facilitating economic development (accumulation) and in providing social welfare (legitimation). It is precisely in such a context that I intend to move toward a fiscal sociology approach to the study of the state by analyzing what role the state plays in coping with the accumulation and legitimation dilemma by examining the fiscal regime.

Thus, the purpose of what follows is to map out briefly the fiscal regime in Taiwan by deploying and extending John Hobson’s (1997) concept of mode of taxation to get an idea of state revenue production which according to Margaret Levi (1988) is equivalent to the history of the evolution of the state. According to Hobson, the mode of taxation, as with Marx’s famous “mode of production”, comprises the social relations of taxation and the forces of taxation. The relations of taxation refers to where the burden of taxation lies—either on the lower or upper income orders—whereas the forces of taxation comprise the various means which support the relations of taxation (Hobson, 1997).

I argue that the fiscal sociology approach to the state can squarely tap into both the Weberian and Marxist approaches to the state if we extend the notion of the mode of taxation a bit. Because relations of taxation can be seen as who (or more precisely which classes) are the major bearers of tax burden which is unevenly distributed across all classes in a society. Seen in this light, relations of taxation can take up the “class character” of the state that is the core concern of the Marxist approach to the state. Indeed, at the root of the taxation is a set of class relations because the taxes are the state’s “sources of life” (Marx, 1934). Taxation is a critical arena in the politics of who gets what in society and who pays for it at all polities. Therefore, the study of tax policy provides an outstanding opportunity to identify the class character of the state. After all, there are few policies areas in which the class interests would come into sharper conflict than tax policy. The distribution of tax burdens (along with the distribution of expenditures benefits) plays a large part in promoting an equitable distribution of the fruits of economic development. It is unfortunate that tax issues are rarely seen as class issues because the fiscal system itself obscures the class character of the budget. The politics of taxation is one of the most important aspects to provide a class analysis of the Taiwanese developmental state, yet we know very little about it. So far, there is virtually none of the existent literatures dealing with this important issue in Taiwan.

In addition, I will extend the notion of the forces of taxation by defining it as revenue extraction capacity—namely, the capacity of the state to mobilize financial resources (in the sense of tax collection) from the society. And the revenue extraction capacity is one of the most important aspects of state capacity in a more general sense. By extending and defining the forces of taxation this way avails us to catch the “state capacity” dimension that constitutes the fundamental concern of Weberian approach to the state. Moreover, we can also define another state capacity related to this, namely steering capacity, that is the state capacity of allocating the extracted resources to guide national socioeconomic development that is the defining characteristic of the developmental state. And arguably, we can measure the
performance of steering capacity based on the efficacy and efficiency of state’s fiscal policy in terms of juggling between state revenue and expenditure. It is in this sense that fiscal sociology constitutes a vantage point from which to analyze the actions of the state and the central issue of fiscal sociology lies in how the generation of income and its expenditure by the state affect the nature of the state, the economy, and the rest of society.

I will argue that the reliance on deficit financing since mid-1990s of the Taiwanese developmental state is a clear sign of undermining the link between expenditure and revenue policies (thus the weakening of steering capacity) because the state had difficulties in surmounting the contradiction between accumulation and legitimation to make the accumulation imperative accord with the new emerging legitimation (welfare) function. This is manifested in the state’s enlarging fiscal deficit while attempting to finance a new emerging welfare state since 1990s. Thus we see the embattled developmental state in coping with the tension of “functional compatibility” between accumulation and legitimation in a difficult way.

**State Revenue Extraction Capacity**

Taxation has often been a key to successful state-building. In order to collect taxes, the state has to possess “infrastructure power” (Mann, 1988) to penetrate society to build administrative and enforcement apparatuses, promulgate tax laws, and in order to generate consent for taxation, create avenues of political participation. Thus, revenue extraction capacity is at the heart of state capacity, as Theda Skocpol (1985) once aptly argued: “A state’s means of raising and deploying financial resources tell us more than could any other single factor about its existing (and immediately potential) capacities to create or strengthen state organizations, to employ personnel, to co-opt political support, to subsidize economic enterprises, and to fund social programs.”

The hallmarks of the Taiwanese public economy are its low tax level, the new emerging fiscal deficit after mid-1980s, its comparatively generous treatment of corporate and capital income, and the salaried-earners as the main bearers of tax burdens. The Taiwanese tax structure has, however, undergone major changes over the past few decades. Some features can be briefly singled out here:

1. Prior to 1989, the tax system relied mainly on indirect tax, with heavy emphasis on custom duties before 1980 (above 20%) but then dropping considerably. Custom duties contribute 3.9% share of total revenue in 2006. This reflects the liberalization and internationalization of Taiwanese economy since 1980s and it is worthy of our attention to see whether the trend of decreasing will drop even further after joining WTO.
2. Another quite noticeable decline of the share of revenue is tobacco and alcohol tax. At the peak of 1954, it is 20.6% and then dropped to 2.3% in 2006.

---

5 The investigation of the fiscal regime will be revised and pursued further when the paper is finalized.

6 The public economy is defined here in terms of the total of all revenues obtained by all levels of government in a nation. Included are all direct taxes, e.g., those on personal and corporate incomes and property; all indirect taxes, e.g., those on sales and value added, and all other fees, taxes, rents, and withdrawals from enterprises which flow into government treasury. I have calculated the ratio of all governmental revenues to Gross Domestic Product to measure the revenue-generating capacity of the state.
3. We can also see, after 1981, the income tax (18.5%) became the major state revenue source exceeding custom duties (18.3%). My tentative explanation for this is as follows. In the early years of the KMT authoritarian rule, when the state relied more on “despotic power” (Mann, 1987) to dominate Taiwanese society and the state’s “infrastructure power” was not yet strong enough, the state depended heavily on the tariff tax and monopoly, rather than domestic economic activity because the collection of tariffs and duties does not require an elaborate fiscal structure.

4. More recently after 1989, the direct tax has come to contribute an important and increasing share of state revenue and exceeded indirect tax. We find that the income taxes in the government revenue increasing significantly, from 8.9% in 1991 to 24.50% in 2006, while other taxing sources were mostly decreasing. The tax burden falls largely into the wage earners, who were indeed the main contributors of income taxes. Nations vary considerably in their balance of revenues from income tax, which tends to be progressive, and from indirect taxes on expenditure, which are regressive. This balance crucially affects the visibility and public perception of the tax levied. The balance between revenues raised by direct and indirect taxes is thus a basis for considering whether revenues are raised on principles of citizenship. In this context, it is noteworthy that much taxation debate in the 1980s was concerned with changing the balance in favor of indirect taxation and away from direct taxation, therefore the case of Taiwan merits an explanation in future study.

5. A comparison of the Taiwanese tax system with that of major other countries shows that the overall level of taxation in Taiwan is surprisingly low. From Figure 2, we can see that total tax as a proportion to GDP in 2000 varied significantly between 13.2% in Taiwan, 29.6% in the U.S. and up to 54.2% in Switzerland, suggesting there are considerable possibilities for choice. As a matter of fact, this percentage for Taiwan is the lowest if we compare it with other countries with similar economic development level; it is even lower than South Korea (26.1%) and Singapore (15.8%). The ratio of tax to GNP of Taiwan is much below than other developing counties.

6. The tax burdens have been discernibly falling since 1987, while the annual average increase rate of tax revenue during the 1970s, 1980s, 1990s decades are 22.32%, 12.82% and 5.42% respectively. The tax revenues as percentage of expenditure also keep falling through 1970s, 1980s to 1990s. Both reflect the declining state revenue extraction capacity facing the embattled developmental state which in turn constrains the fiscal policy instrument for the state. From a Weberian perspective of the state, this is obviously an ominous sign.

State Expenditure

We now leave the revenue side of the budget and consider the expenditure side. Writing in the 1880s, the German economist Adolph Wagner advanced his “law of rising public expenditures”, the so-called “Wanger’s law that he expected the public expenditure of the state will continue its expansion. Has this law been born out over

---

7 In pre-modern trading economies states relied heavily on the extraction of goods and services via tariffs, but in modern industrial societies where economic activity is monetized, states depend more on the extraction of money via income and other taxes.
the years? As shown in Table 1, the ratio of expenditure/GNP has risen steadily with the average rate of 20.5%, 21.1%, 23.2%, and 23.0%, and 26.3% for the 1950s, 1960s, 1970s, 1980s and 1990s respectively. This shows that the law of public expenditure growth has been in operation in Taiwan over the last five decades that the public expenditures as a percentage of GNP have shown a more or less steady upward trend over the last fifty years. Paralleling the growth in public expenditures was, however, not matched by the increase of state revenue and thus creating outstanding debt (especially since 1987). The outstanding debt as the percentage of GDP in 1987 was a minor 2.88% and then increased upward steadily to 4.8% in 1990 and rose to 30.5% in 2006.

Taiwan has long been noted for its conservative fiscal policy. For the three decades prior to the 1990s, tight fiscal policy typically yield surplus, and Taiwan enjoyed one of the lowest debt/GDP ratio of any country in the world. However, democratization has resulted in some fundamental changes in Taiwan’s fiscal policy: deficits have emerged, with a concomitant growth of government debt (Cheng and Haggard, 2001). Although imbalances occasionally occur between the aggregate totals of all government revenues and expenditures previously, the two have usually moved in tandem before 1990. The very phenomenon of the fiscal deficit in Taiwan since 1990s evokes an interesting puzzle both empirically and theoretically. What accounts for those changes in fiscal policy? Is the state caught in between fulfilling accumulation and legitimation function simultaneously? Is Taiwan entering into what James O’Connor once proclaimed “the fiscal crisis of the state”? Whether Taiwan is entering a fiscal crisis or whether the deficit is a cyclical deficit or structural deficit are hard to decide for now, but the sign is alarming, to say the least. And whether Taiwan is moving toward a debt-oriented country remains to be seen.

One thing worthy of pointing out here. Although government expenditure on economic developments has long ranked to national defense as a percentage of total expenditure, it only accounted for around 10% of total expenditure in the 1950s and then increased sharply from 17.9% of total government expenditure in 1970s to 32% in 1980. While government expenditure on economic development exceeded that on social security most of the time during the past few decades, the situation changed after mid-1990s when the Taiwanese developmental state was besieged under democratization by popular sector to quest for a welfare state. The expenditure on social security exceeded that of economic development for the first time in 1996 as shown in Figure 6.

As witnessed, the development of welfare state policies in Taiwan since 1990s are marked by clumsy and fluctuating patterns of intervention, withdrawal and compromise. This ‘muddling through” is only aggravated by the fact that one set of priorities of the welfare state such as legitimation-seeking to win mass loyalty is typically accommodated within or even negatively subordinated to every other form of policy related to process of capital accumulation.

In addition, the likelihood of permanent fiscal deficits grows because there is a contradiction between the ever-expanding costs associated with the welfare state’s “socialization” of production costs and the continuing private control over investment and the appropriation of its profits. Under conditions of welfare state capitalism, thus, state expenditures persistently tend to outrun state revenues.

The tension of “functional compatibility” between accumulation and legitimation is a common and recurrent phenomenon facing advanced capitalist countries. However, the tension would be even much more irreconcilable for Taiwan. Obviously, in a production-driven instead of distribution-driven and single-minded
development-oriented regime, the distributive politics is almost invisible and largely downplayed by the developmental state. But, in the process of ongoing democratization and the resurrection of the civil society, what would be the effects of democratization on developmentalism? Can democracy, with its significant welfare policy demands, coexist with the high-growth goals of developmental state? This would be a harsh test for the Taiwanese developmental state. Because “developmentalism” is the luxury of authoritarian-type states which can ignore redistributive demands from below and are incompatible with democratic politics. Such states do not and cannot pursue redistributive kinds of policies because these would heavily compromise their industrial strength.

Therefore, I argue that the developmental state since 1990s is incapable of working its way out of the contradictions that both the conditions of production (accumulation function) and the expectations of political life (legitimation function) have imposed on it. The developmental state is besieged and became a crippled leviathan in steering between accumulation and legitimation.


Historically, the inadequacy of the Taiwanese welfare model was obscured by sustained economic growth, which provided for full employment and wage rises in real terms. By comparison with Western countries, the Taiwanese developmental state are relatively low spenders on welfare, and non-state agents—community, firm, and family—have been expected to play a major role in providing welfare within the ideological context in which self-mutual help is encouraged and dependence on the state is discouraged (indeed stigmatized).

It was only in response to democratization and increasing social movements and electoral challenges that Taiwan established its incipient welfare state programs. Anticipating challenges from emerging opposition parties and a revitalized civil society the authoritarian KMT party-state preemptively initiated the universalization of the health care during the late 1980s. Social policy change reflected a political pattern of “crisis and selective compensation” and was used by the state as a political instrument to weather times of political crisis (Wong, 2004). In this sense, we might argue that Taiwan has a “reluctant” welfare state.

Social policy was previously seen as essentially obstructive largely because of postulated “equity-efficiency” or “equity-growth” trade-offs. Social welfare was believed to be inimical to rapid and aggregate economic growth, the latter being the top priority for the Taiwanese developmental state. And so far, within the context of a prevailing set of policy ideas, to pursue economic growth is still the fundamental goal and social policies are predominantly structured for facilitating economic development. Social policy still serves to an adjunct to economic policies. We should bear in mind that the development of social policy in Taiwan has been greatly influenced by the requirements of economic policy. Social policy was only conceived as instrumental to economic and political objectives and not as involving overall and prior concerns with social development and as a central component that works in tandem with economic policy to ensure equitable and socially sustainable development. The intrinsic values of social policies such as human well-beings, social justice, redistribution do not enjoy the equal importance as economic development.
The reluctant incipient welfare state still places stronger emphasis on economic development than social inclusion.

It is acknowledged that in Western welfare states during the golden age of post-war expansion, Keynesian economic policy had been compatible with the expansion of the welfare state. If this is the case for Western welfare states, how about the case of Taiwan? Conceptually, models of capitalism have two essential components, growth-oriented strategies and equity-oriented strategies. The growth-oriented strategies are conventionally identified with economic policies, and the equity-oriented strategies with social policies and labor market policies. Whereas the traditional conservative view has posited a trade-off between growth-oriented and equity-oriented policies, the social democratic view has held that the two can be mutually reinforcing. We can refer to the former as the “rivalry” view of policy regime and the latter as the “synergy” view. By now social scientists have also come to recognize that there need not be a trade-off between growth-oriented and equity-oriented strategies, but rather they can be compatible and that some equity-oriented strategies may actually have positive effects for economic growth (Huber, 2002). A strong social role for the state was not incommensurate with economic development. As the Scandinavian model historical experience has showed that it is possible to pursue growth and equity in the context of highly open, export-dependent economies. And we are wondering if the new emerging welfare regime will be compatible with the path-dependency “growth-first” developmentalism in Taiwan.

Without further elaborations here, I will tentatively propose Negatively Subordinated Thesis: Productivist Welfare Regime are supposed to be “negatively subordinated” to the process of exportist accumulation regime.

As Deyo (1992) notes, social policy is embedded in development policy. He has urged that East Asian social policies have been more strongly shaped by the developmental priorities of politically insulated states. For the Taiwanese developmental state, economic development is given first priority over other spheres of public policy and was set as overarching goal of public policy. In retrospect, we can find that the requirements of economic policy have significantly constrained the development of the social welfare system in Taiwan. The exportist accumulation regime with its export-oriented industrialization strategy had a great influence on the form and content of social security. As a matter of fact, by the end of the 1970s the social security system in Taiwan was clearly minimal and residual. Compared to the active role of the state in the economy, the developmental state in Taiwan played only a small role in social welfare. The welfare system was a residual system. What is clear is that social policy has been embedded in and constrained by the requirements of economic policy.

Economic and social policies are not determined in isolation from each other. Economic and social policies are intrinsically interwoven in the policy-making process, affecting reciprocally the form and content of each other in direct or indirect ways. The mutual adjustment of economic policy and social policy is a fundamentally dynamic process. Despite numerous studies of contemporary Taiwanese political economy, there has been very little, if any, discussion about the policy linkages between economic policy and social policy take place. Given the close linkage between economic policy and social policy, this conspicuous research gap is rather surprising.

Based on their data analysis of the West European countries, Huber and Stephens (2001) argue that there is a clear link between the production regime and the welfare
regime that a country may have developed. They contend that within a given country, different aspects of the welfare state “fit” together and “fit with different aspects of the production regimes, in particular their labor market components. But they caution us that the “fit” is not one-to-one correspondence between a whole configuration of welfare state and production regimes. It is important not to exaggerate the fit between welfare state and production regime. As we can see that coordinated market economies (CMEs) are equally compatible with social democratic or Christian democratic welfare states, and these two welfare types have distinctive characteristics that have a major impact on their future viability. They also argue that countries with different production regimes tend to respond to economic challenges with different social policy reforms. Nevertheless, the link is not automatic and it depends on the intermediate political process.

Different welfare regimes are embedded in different production regimes. Liberal welfare regimes are embedded in uncoordinated market economies, social democratic and Christian democratic welfare regimes are embedded in coordinated market economies.

**Searching for the High Road to Globalization**

Among developing nations, Taiwan has engaged in substantial government steering. Taiwan is commonly viewed as among the most successful newly industrializing countries at raising productivity and spurring sustained growth. Although orthodox economists frequently attribute this success to a faithful commitment to laissez faire, the historical record suggests otherwise. The Taiwanese developmental state has made extensive use of loans, subsidies, tax incentives, import protection, technology assistance, and other measures to direct this nation’s development toward particular industries and away from others. The developmental state has also maintained strict control over finance, limiting foreign ownership and restricting capital outflows, in order to assure national control over industry. The 1960s and 1970s represents the heyday of Taiwan’s “economic miracle”. However, when entering the 1980s, the developmental state is under stress and the bureaucratic coherence also becomes unraveling.

Adaptation to the double squeeze of democratization and globalization brought about a sequence of substantive changes in the institutional infrastructure of Taiwanese capitalism, and these changes in turn opened fissures that stymied further positive adaptation. These changes meant that by the late 1980s and the early 1990s the Taiwanese political economy had strikingly diverged from what it had been in the 1960s and 1970s. Under the democratization pressure to search for legitimacy, social policies has been established as part of the overall framework of economic development, or moving toward, for want of a better term, “welfare developmentalism”. “Welfare developmentalism”, for the Taiwanese developmental state, thus now entails the subsumption of its social, economic and public finance policy in the logic of economic globalization—that is, to create condition that are attractive to international capital, keeping taxing low and maintaining financial prudence. As a result, numerous parts of the once fine-tuned machine of policy regimes no longer meshed so smoothly. This paper is a preliminary exploration of the Taiwanese developmental state coping with the challenges of democratization and globalization. And the once-vaunted Taiwanese developmental state is now becoming an embattled developmental state and is in the painful restructuring process. We are wondering if the “space of flows” of increasing globalization will erode the
place-based “politics of place” of the developmental state.

Taiwan is now facing a tug of war between steering a steady course between fulfilling the accumulation and legitimation function simultaneously. The state has to concern with reconciling the exigencies of accumulation with those of legitimacy and national cohesion. The biggest challenge facing the Taiwanese developmental state is how to make economic, labor market, and social policies compatible with each other or even mutually supportive in the dual quest for growth (accumulation) and equity (legitimation). It is a quite enormous challenge, to say the least. Retooling the developmental state is an uphill task as path dependency has the effect of past choices impinging on future options. Thus, state capacity must be further developed and whether the Taiwanese state is up to the job to steer a stable course to navigate between Scylla and Charybdis remains to be seen.
Bibliography


Copper, John F. (1990) *Taiwan, Nation-State or Province?* Boulder, Colorado,
Westview.


Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taipei. [in Chinese]


Chinese]
Economic Times (1993) ‘So SMEs only Get Attention at Election Time?’, November 25. [in Chinese]


Lin, Heng-tao et.al. (1990) *Taiwan History*. Taipei, Chung-wen. [in Chinese]


Sum, Nsai-Ling. (1994) *Reflections on Accumulation, Regulation, the State, and Societalisation, A Stylized Model of East Asian Capitalism and an Integral Economic Analysis of Hong Kong.* Ph.D. Dissertation, Department of Sociology, University of Lancaster, U.K.


Taiwan Farmers’ Association Website, http://www.farmer.org.tw/

Taiwan Provincial Documentary Committee. (1971) *The Provincial Gazette of Taiwan (Social Affairs).* Taipei. [in Chinese]


Wu, Jingju. (2008) Personal interview. Wu is the executive secretary of Taiwan International Workers Association


Yeh, Wan-an. (1967) Taiwan's Economics During the Last Twenty Years. Taiwan Bank, Taipei. [in Chinese]


253


