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Public-Private Pension Mix in East Asia
- An Integrated Political-Economic Explanation

by

Chung-Yang Yeh

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ABSTRACT

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PUBLIC-PRIVATE PENSION MIX IN EAST ASIA

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Inspired by the regime approach, East Asia is identified as a distinctive welfare state regime featuring ‘the subordination of social policy to economic or industrial objects’ and consequently, the significance of private welfare. The public-private pension mix, as a critical criterion in the welfare regime approach, however, was not scrutinised. This study aims to explain the cross-national variations in the patterns of the public-private pension mix, and pension reforms, in Japan, Korea and Taiwan. After reviewing five perspectives, I elaborate an integrated political-economic explanation through synthesis of the developmental state thesis and the varieties of capitalism to analyse similarities and variations in public-private pension mix in East Asian welfare states. This integrated political-economic explanation assumes that, in order for economic catch-up, the East Asian governments had to be production-oriented, acting as the institutional coordinator, but how they coordinate institutional coherence between social protection and capitalist production depends on their national capitalist structures. Through ‘comparative institutional analysis’ and ‘comparative historical analysis’, this study demonstrates that shaped by national capitalist structure, political actors’ pension preferences are divergent and, consequently, the patterns of the public-private pension mix in East Asia. In Japan and Korea’s business-conglomerate-dominated capitalist structure, the state and employers tend to used pensions to resolve economic coordination of capital and skill formation in the post-war period. Since 1980s, Japan and Korea reformed the pension systems in line with the dualist strategy- the universalisation of public pensions and the introduction of DC corporate absorb the cost, and address problems, of the non-regularisation of the labour markets; but core workers are maintained having generous corporate welfare and employment security. Both Japan and Korea, therefore, have ‘basic’ and ‘earning-related’ public pensions, supplemented by a well-developed corporate pension system. By contrast, pension rarely considered as a resource in economic coordination and capital mobilisation, but initially as a policy instrument of social control, that enhances ethnic division between indigenous Taiwanese and mainland Chinese, in Taiwan's SMEs-dominated capitalist structure. Through exploitation of ethnic division by the opposition party, the pension issue arose following democratisation. The institutional fragmentation, and its SMEs-dominated capitalist structure, however, forced the state to select a fragmented national pension scheme. Due to its SMEs-dominated capitalist structure, of which flexibility is treasured as the main comparative institutional advantage, corporate pensions are negligible in Taiwan. Thus, the statist pension system was created, and remains. This study concluded that the integrated political-economic explanation is a more appropriate for illuminating pension and social policy variations in East Asia, and remind us that social policy variation within East Asia should not be ignored.

Content

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DECLARATION OF AUTHORSHIP

I, CHUNG-YANG YEH

declare that this thesis and the work presented in it are my own and has been generated by me as the result of my own original research.

Public-Private Pension Mix in East Asia

—An Integrated Political-Economic Explanation

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Abbreviations

CMEs	Coordinated Market Economies
DB	Defined-Benefit
DC	Defined-Contribution
DPP	The Democratic Progress Party (Taiwan)
KMT	The Kuomintang (the Nationalist Party, Taiwan)
LDP	The Liberal Democratic Party (Japan)
LMEs	Liberal Market Economies
Nikkeiren	The Japan Federation of Employer's Association (Japan)
OECD	Organisation for Economic Co-operation and Development
Rengo	The Japanese Trade Union Confederation (Japan)
SMEs	Small and Medium Enterprises

Chapter 1 – Introduction

> *"Typologizing, as anyone who can still remember the tedium of memorizing the Linnaean hierarchy in high school biology will agree, is the lowest form of intellectual endeavour: necessary perhaps, a precondition no doubt for loftier and more sophisticated pursuits, but the preserve nonetheless of the bean counter and bookkeeper."*
>
> *(Baldwin, 1996, p. 29)*

1.1 East Asian Welfare State Regime?: A Critical Review

Thanks to the East Asian economic miracle, a large number of East Asian studies have accumulated since the 1980s. At the beginning, endeavours focused on the story of economic development, and the issue of social policy was understandably less emphasised. Since the 1990s, however, more and more efforts have been devoted to East Asian welfare states, mainly because of Esping-Andersen's (1990) seminal book on three worlds of welfare capitalism. From then on, the East Asian welfare state became an important topic of East Asian studies, and the regime theory inspired the following studies to debate whether or not there is a distinctive East Asian welfare state regime that differs from three worlds of welfare capitalism (Ku & Finer, 2007, pp. 121-122).

'Confucianism' was initially proposed as the common factor in illuminating the significance of 'family' in East Asian social policy development (Jones, 1990). Then, 'conservative politics' was argued to be the reason why East Asian welfare states shared similar conservative features in social policy (Aspalter, 2001). Recently, the focus has shifted to a political-economic explanation. Holliday (2000) put forward that the idea of 'productivism' should be integrated into Esping-Andersen's three dimensions of welfare state typology (decommodification, stratification, and the relationship of the state-market-family) as the fourth criteria. Accordingly, East Asia should be categorised a 'productivist welfare state regime' featuring "the subordination of social policy to economic or industrial objects" (Holliday, 2000; Holliday & Wilding, 2003b). In this sense, resources are channelled into economic sectors, avoiding or limiting social policy, or others, that are expected to obstruct economic development. Holliday's work is particularly important, the idea establishing linkage between social and economic policies.

It is widely accepted that 'productivism' is rooted in the developmental state (Y. J. Lee & Ku, 2003, 2007). K.-L. Tang (2000) argues that in the 'tiger economies', the state played a critical role in industrialisation by purposely channelling financial resources to economic sectors, penetrating the ideology, to civil society, of growth-first. Thus, welfare was left to market and private actors (market and family). Y. J. Lee and Ku (2007) demonstrated this argument, showing that Korea and Taiwan could be grouped into the developmental welfare state regime, whereas Japan cannot fit perfectly into this model.

Put simply, these studies, inspired by Esping-Andersen's regime perspective, draw the 'big picture' of the worlds of welfare capitalism, rather than individual social policy areas. The focus is on the totality of welfare efforts, outcomes and endeavours, linking to the relationship of the state-market-family. The object of these studies is not to reject Esping-Andersen's regime approach, but rather to add a fourth welfare state regime to his original three. To construct an East Asian welfare state regime, similarities in institutional arrangements of welfare provision are highlighted in these studies. To categorise East Asian welfare states, including Japan and the other four Asian 'Tigers' (South Korea, Taiwan, Hong-Kong and Singapore) into one distinctive welfare state regime, common elements shared by them all are explored. That is, variations across East Asian welfare states are not the focus of attention.

It is prudent to be cautious about conclusions made by the East Asian welfare regime studies when we know the variations in pension policy, between East Asian welfare states, are conspicuous. Their theoretical underpinnings have three problems. First, these studies "operate at an abstract level, setting up an ideal type and then drawing selectively on data which support it or imposing it" (White & Goodman, 1998, p. 16). Holliday (2000) and Jones (1990), for example, both assumed an ideal East Asian welfare model exists, and sought a common factor shared by the states, but lacked empirical materials.

Next, East Asia is seen as a homogenous region. Seeing it as a unit of analysis helps minimise variations within the region, and then the construction of an East Asian welfare state regime. For example, Haggard and Kaufman (2008) compared the social policy development of East Asia, Latin America and Eastern Europe, attributing the variations to the interaction of the developmental strategies, critical realignments, and financial capacities. When one East Asian country is compared to another, however, the differences will be salient. For example, although Korea and Taiwan have similar patterns of industrialisation, their developmental strategies are very different (T. J. Cheng, 1990; Cumings, 1984). Likewise, Izuhara (2013, p. 2) suggested East Asia to be a diverse region, in terms of factors such as country size, level of economic development, and colonial history, thus, social policies in East Asia tend to vary widely across societies. Pension policy is a good example of this.

Also, the term ‘regime’ denotes that the country is mature, and stable, such as countries in the Organisation for Economic Cooperation and Development (OECD). However, the East Asian developing countries (four tigers) are not mature or stable enough to be mapped out within an ideal framework, nor classified as an ideal model for comparison with other models of the Western welfare states (even Japan) (Esping-Andersen, 1997). Gough (2004), and Holliday and Wilding (2003a) both contend that though East Asia could be described as a productivist welfare regime, sharing some particular features, East Asian welfare states are at the mercy of future shocks and challenges (such as financial crises, globalisation, democratisation, and the integration of women into the formal labour market) that will undermine “the essential basis of the tiger reliance on growth as the universal solvent” (Holliday & Wilding, 2003a, p. 175).

Ku and Finer (2007, p. 124) questioned: “why should we be trying to classify East Asian welfare in ‘model’ terms at all?” These regime studies help the difference between East Asia and other regimes (or regions) to be understood, but will lead to the social policy variances between East Asian welfare states being ignored. They concluded: “we should not confine our effort to looking for an East Asian welfare model, but should also be searching more thoroughly for a theoretical framework by which to understand its development” (p. 128). The focus of this study is, therefore, to understand the continuity and change of ‘pension policy’, and the cross-national variations in pension policy within East Asia (Japan, South Korea (hereafter Korea), and Taiwan).

1.2 Pension Systems in East Asia: An Unsolved Puzzle

Pension policy is a good starting point, not least because the pension system is the most important part of the welfare state, in terms of social expenditure. It also allows the nexus of the state and market to be examined. The public-private pension mix is the essential basis to understanding a particular welfare state regime, as Esping-Andersen (1990, p. 103) argued: “in any case, the logic of any welfare system can only become clear when we examine the interplay of public and private provision”. However, the public-private pension mix has not been scrutinised in East Asian welfare state studies, even non-state welfare provisions were emphasised as a crucial element of East Asian welfare states (Deyo, 1989; Holliday & Wilding, 2003a).

Generally, Japan, Korea and Taiwan are categorised into the ‘Bismarckian pension model’, since their public pension systems were designed according to the principles of social insurance and fragmented along the lines of occupational categories, or employment status (Bonoli & Shinkawa, 2005). In Taiwan, different public pension schemes exist for different types of public workers; the Labour Insurance is mainly for private workers; a non-contributory payments is received by peasants above 65 years of age; the rest of the population are covered by the National Pension Insurance. Similarly, in Korea there are different public pensions for different types of public workers, with the National Pension Insurance introduced in 1988 (mainly for private employees, and the rest). In Japan, the Mutual Pension Schemes were launched for public workers, the Employees' Pension Insurance is for private employees, and the National Pension Insurance is for peasants and the rest. This perspective neglects two crucial facts, however. In contrast to European conservative welfare states, whose pension systems are also often the social insurance pension model, the benefit level of public pensions is low in East Asia and the states are reluctant to be direct pension providers, only regulators (Holliday & Wilding, 2003a; White & Goodman, 1998). The relatively lower level of pension benefit left ample scope for complementary private pension and family in East Asia (Deyo, 1989; Holliday & Wilding, 2003a; Pempel, 2002). The public-private pension mix is crucial to understanding the nature of East Asian welfare states, but has not drawn much attention.

In East Asia, formal, private pensions (i.e. corporate pensions) or informal security schemes (family) are important in the early stage of welfare state formation (Gough, 2004; Jones, 1990; Pempel, 2002). A great variation in corporate pensions in East Asia is seen, however. In Taiwan, the state introduced the 'Workplace Act' to encourage employers to offer lump-sum retirement payments, based on volunteerism, which was formalised in 1984 by the Labour Standard Act. In 2004, the Labour Pension Act was introduced to replace the old defined-benefit (DB) corporate pension, with lump-sum payments. Corporate pensions never became a critical element of Taiwan's pension system, and instead, public pensions dominate. This is because the state, as an employer, plays the part of pension provider for the employees in public enterprises through the Labour Insurance, and other social insurance programmes, for state officials and military serviceman. By contrast, Japan and Korea have relatively well-developed corporate pension schemes (Kimura, 1997; Phang, 2010; Shinkawa & Pempel, 1996; Yi, 2007). In Korea, the corporate pension (the Retirement Allowance) (1954) came before the National Pension Insurance (1988). Before the National Pension Insurance's introduction, the Retirement Allowance was the primary retirement income protection for private employees. In 2005, the new corporate pension system was introduced to allow employers to provide their employees with either DB or DC (defined-contribution), or individual account pensions. Likewise, enterprise welfare has been acknowledged as a distinctive feature of the Japanese welfare system, not only providing private pensions, but also other fringe benefits (Esping-Andersen, 1997; Estévez-Abe, 2008; P. H. Kim, 2010). In Japan, the corporate pension was introduced in the late 19th century in order to reduce labour market mobility. It expanded in the 1920s, as part of human resource management (Nishiguchi, 1994; Nishinarita, 2009). In the post-war period, Japan's corporate pensions were significantly developed again- two main corporate pension schemes were introduced (the Tax-Qualified Pension Schemes and the Employees' Pension Funds) (Estévez-Abe, 2008; Gordon, 1998). In 2001, two corporate pension acts were legislated, allowing employers to offer DB or DC pension to their employees. Japan and Korea, thus, have well-developed corporate pensions, whereas Taiwanese corporate pensions are underdeveloped.[1] It is interesting to explore why these East Asian welfare states have different patterns of public-private pension mix, even they have shared features (these being Confucianism, productivism and conservative-dominated politics). Existing studies have drawn insufficient attention to this issue.

Further, conditioned by institutional legacies, the patterns of pension reforms in East Asia are divergent. In Japan, following World War II, its public pension system underwent a process of expansion and consolidation; yet, since the 1980s, a series of public pension reforms has been introduced to unify the flat-rate pension component of fragmented pension insurances- to reduce benefits, but conversely to increase the statutory retirement age. In 2001, two new corporate pension acts were legislated. In Korea, public pension for private employees was not established until 1988, when the National Pension Insurance was also introduced. With the introduction of the National Pension Insurance, the Korean government expanded the coverage to rural areas and the self-employed. However, various measures were introduced to cut benefit levels before the first retirement benefit was paid in 2008. Furthermore, the Korean government also launched an allowance scheme in 2007. Since the 1990s, expansion and retrenchment in Korea has occurred simultaneously, and overall, recent pension reforms in Japan and Korea could be summarised as: the universalisation of public pensions, and the retrenchment in benefits.

[1] However, because of a lack of data regarding private pensions (even in OECD's social expenditure data, the relevant data is lacking) it is difficult to show the cross-national variations in the public-private pension mix in terms of expenditure. For example, OECD's data shows that Japan's government expenditure on pensions is wholly categorised as 'public', and nothing goes to private. It can probably be ascribed to the definition of a private pension. According to Katsumata's estimate (2004), however, private pensions shared more than 12% of total pension expenditure, almost equal to 1% of GDP. This is in contrast to private pensions in Korea which shared almost half of pension expenditure. In Taiwan (not an OECD country), social expenditure data does not count the part attributable, to private pensions. Comparable data on private pensions in East Asia is lacking- the data mentioned here can be found on the OECD website.

In Taiwan, although the major public pension– the Labour Insurance– was introduced in the early 1950s, there was no significant expansion in the public pension system until the 1990s. Since then, a conspicuous expansion of public pension has occurred, with varieties of allowance schemes initiated. Two important public pension reforms were the introduction of the National Pension Insurance, and the annuitisation of the old-age benefit in the Labour Insurance. Simply, pension retrenchment does not occur in Taiwan.

The public-private pension mix, and the patterns of pension reforms are both critical issues in contemporary comparative pension studies. In East Asia, both of them received scant attention- East Asian welfare state studies, generally, aim to account for why public welfare was underdeveloped, rather than to study the diversity of public-private welfare mix (Deyo, 1992; Holliday, 2000; Y. J. Lee & Ku, 2007; Pempel, 2002). More specifically, though a large number of East Asian pension studies were produced over the past two decades, two problems exist. First, the majority of them are single case studies, attempting to explain the development of pension system in each country through emphasise of either politics, or socio-economic changes, such as, for Korea, J-.J. Yang and Klassen (2010), Klassen and Yang (2014), Joo (2010) and others; for Japan, Shinkawa (2005b), Yoshida, Guo, and Cheng (2006); and for Taiwan, Shi and Yeh (2011), Shi (2010) and W.-H. Tang and Yeh (2006). Then, corporate pensions were under-scrutinised, except for some studies (C.-L. Chen, 2010; Nishinarita, 2009; Phang, 2010; Shinkawa, 2005a, 2005b). Evidencing that a comparative theoretical framework, to understand and explain the variations in public-private pension mix, and pension politics in East Asian welfare states, is lacking.

Explaining the cross-national variations in the pattern of public-private pension mix, and patterns of pension reforms, in East Asia is something to focus on; these cross-national variations within East Asia are the point of departure of this study and in order to explain the cross-national variations in pension policy within East Asia, I will elaborate an integrated political economy approach to explain these research questions.

1.3 Brief Argument and the Organisation of the Thesis

In this study, to analyse similarities and variations in public-private pension mix in East Asian welfare states, I elaborate an integrated political-economic explanation through synthesis of the developmental state thesis, and the varieties of capitalism. This integrated political-economic explanation assumes that, in order for economic catch-up, the East Asian governments had to be production-oriented, acting as the institutional coordinator, and how they coordinate institutional coherence between social protection and capitalist production depends on their national capitalist structure. Shaped by national capitalist structures, Japan and Korea tended to mobilise capital to assist business-conglomerates through policy loans, while Taiwan facilitated export-oriented small and medium Enterprises (SMEs) through fiscal incentive schemes, such as tax exemptions. Also, national capitalist structure shaped political actors' social policy preferences, and how they interacted and collaborated. In Japan and Korea, employers tended to see corporate pensions as a resource for resolving economic coordination problems; employers in Taiwan, however, were inclined to reduce labour costs as much as possible. The state could either dominantly coordinate, such as in Taiwan where employers and labour were politically incorporated into the KMT's party-state ruling regime; or collaborate with the capitalists- as in Japan and Korea, where business-conglomerates are enhanced through the state's assistance, becoming symbiotic partners of the state. A statist, but fragmented, pension system was forged in Taiwan, with negligible corporate pensions; conversely, Japan and Korea both developed a hybrid pension system, containing well-developed corporate pensions. While public pensions provide a relatively low benefit level, the corporate pensions are relied upon to resolve economic coordination problems.

To systematically illuminate this theoretical argument, the structure of this thesis is organised as follows. In chapter 2, five perspectives of welfare state development are reviewed: (1) the logic of industrialism; (2) the power resource theory; (3) the democratisation thesis; (4) the developmental state thesis; and (5) the varieties of capitalism approach. The first two theories are critical in explaining cross-national variations in western welfare state development. The democratisation thesis is vital to developing countries, shedding light on how democratisation not only influences the expansion of social spending, but also the design of social policy. Two political economic explanations – the developmental state thesis and the varieties of capitalism – endeavour to explain how social policy is inter-connected with capitalist development. The developmental state thesis argues that the East Asian social policy development should be analysed in the context of the developmental state; the varieties of capitalism emphasise institutional complementarity to explain cross-national variations in social policy. To conclude, the synthesising of these two political economic explanations can refine our understanding of how East Asian welfare states are linked to their national structure of capitalist production. This is will be further expanded in chapter 3.

In chapter 3, three issues will be addressed, elaborating the theoretical framework. To begin with, neither seeing the state as an omnipotent actor (the developmental state thesis) nor the firm as the coordinator (the varieties of capitalism), the state will be analysed as the core coordinator in economic coordination. Firms in East Asian developing countries were too weak coordinate, as were their counterparts in advanced countries. The next issue is the state still needing to collaborate with firms to enhance their capacities to compete in the world market. The state intervention models consequently vary according to national capitalist structure. This diversity thus needs addressing. Following Walter and Zhang's (2012a) theoretical criteria, three institutional spheres will be analysed and compared: (1) business system; (2) financial system; and (3) labour market regime. Finally, state-business relations will be discussed. The nature of cross-class coalition is the key to understanding welfare state development (Esping-Andersen, 1990; Mares, 2003; Mares & Carnes, 2009; Swenson, 1991, 2002). In East Asia, the state-business developmental alliance was dominant in coordinating a productive-oriented environment (Hundt, 2009; Johnson, 1987). This does not imply labour is completely excluded and irrelevant, but either incorporated into the state-business developmental alliance (in Taiwan) or decentralised to enterprise unionism (in Japan and Korea).

Case selection and research methods will be discussed in Chapter 4. Based on the most similar system method, three cases from Northeast Asia will be selected- Japan, Korea and Taiwan- to control systematic variables and focus on the diversity of capitalist production. Two methods will be adopted: 'comparative institutional analysis' and 'comparative historical analysis'. The former helps to analyse institutional complementarities between the business system, the financial system, and the labour market regime (in chapter 5). The latter will use the process-tracing method to analyse how the national capitalist structure has shaped political actors' preferences over pensions, and how they were designed to embed into the structure (chapters 6-8).

Chapter 5 will use comparative institutional analysis to dissect the diversity of East Asian capitalism, and understand how the sub-institutions are inter-embedded. In Japan, the keiretsu-centred business system, complemented with the main bank financial system, aids large Japanese firms to develop long-term commitments in inter-firm relations and employment relations, in turn developing a firm-specific, skill formation system. In Korea, the state intentionally developed the chaebol-dominated business system, controlling banks to channel financial resources, such as policy loans, to assist the chaebols. The Korean state also repressed labour, encouraged enterprise unionism, and developed the company-based skill formation system. In Taiwan, export-oriented (SMEs) were encouraged through fiscal incentive schemes, such as tax exemption, to develop export-oriented industrialisation, becoming the core of the national capitalist structure. This, despite domestic-oriented public enterprises and large private firms being developed to support the KMT's import-substitution industrialisation in the 1950s. The SMEs-dominated capitalist structure relied on informal financial channels, and general skills, creating a flexible cooperative production network that enhanced its comparative institutional advantage- flexibility. The comparison of national capitalist structure lays the foundation for three case studies to analyse how it shapes political actors' preferences, and the nature of cross-class coalition.

Chapter 6 will show that public and private pensions tend to be used to resolve economic coordination of capital and skill formation in Japan, shaped by the keiretsu-centred capitalist structure. Although financial liberalisation and the non-regularisation of the labour market forced Japanese firms to put more emphasis on short-term profits, it did not change the institutional logic of the public-private pension mix in Japan. Japan adopted a dualist strategy to retain its core workers, who can enjoy generous corporate pensions; by contrast, it can externalise the cost of economic liberalisation to the state, through non-regularisation of the labour market.

Chapter 7 will discuss Korea, where the privatisation of public enterprises led the state to encourage corporate pensions, in turn, externalising pension costs to the chaebols. Initially employers were resistant to launching corporate pensions for their employees. From the 1970s, as the developmental strategy shifted to heavy and chemical industrialisation, employers started to favour enterprise welfare. Public pensions for private employees were lacking in the post-war period, although the state attempted to launch the National Welfare Pension Insurance for capital mobilisation in the early 1970s. The National Pension Insurance for private workers was implemented in 1988, thanks to democratisation. It then underwent a dual transformation: an expansion in coverage, and a retrenchment of benefit level, to address the deregulation of the labour market. In the face of economic liberalisation, and the Asian Financial Crisis, the chaebols adopted a strategy of maintaining a portion of core workers. This created a source of comparative institutional advantage, but the cost of economic liberalisation was externalised, through subcontracting networks, to non-regular workers and SMEs. Despite corporate pensions reforming in 2005 due to economic difficulties, the dominance of DB pensions for core workers was maintained; further, DC pensions are introduced for non-regular workers of SMEs. In short, the Korean pension system is shifting to the multi-pillar pension model.

Chapter 8 examines Taiwan's pension system, rarely considered as a resource in economic coordination, but initially as a policy instrument of social control, that enhances ethnic division between indigenous Taiwanese and mainland Chinese. This forged a political opportunity for the opposition party, and through exploitation of ethnic division, the pension issue arose following democratisation. The institutional fragmentation, and its SMEs-dominated capitalist structure, however, forced the state to select a fragmented national pension scheme. Due to its SMEs-dominated capitalist structure, of which flexibility is treasured as the main comparative institutional advantage, corporate pensions are negligible in Taiwan. Thus, employers prefer to reduce labour costs where possible, and the statist pension system was created, and remains.

In chapter 9, a brief argument will be summarised. Shaped by national capitalist structure, political actors' pension preferences are divergent in East Asia. In Japan and Korea's business-conglomerate-dominated capitalist structure, employers tend to used pensions to resolve economic coordination of capital and skill formation. With unfixed preferences, they varied in developmental strategy. By contrast, employers tend to consider pension as financial burdens in Taiwan. Both Japan and Korea, therefore, have 'basic' and 'earning-related' pensions, supplemented by a well-developed corporate pension system. In Taiwan, however, the statist pension system, constituted by public pensions and supplemented by negligible corporate pensions persists. It can thus be argued that the integrated political-economic explanation, synthesising the developmental state thesis and the varieties of capitalism perspective, is a more appropriate explanation can be established to illuminate pension and social policy variations in East Asia and other developing countries. Emphasising pension variations is not to reject the notion that East Asia be construed a distinctive welfare state regime, but rather to remind us that social policy variation within East Asia should not be ignored.

Chapter 2 – Literature Review

The focus of this study is not to emphasise similarities in pension policy and politics of Japan, Korea and Taiwan, but to explain their variations. For this reason, East Asian regime studies, that place more emphasis on similarities, would not be the focus. Instead, five main explanations of welfare state development: (1) the logic of industrialism, (2) the power resource theory, (3) the democratisation thesis, (4) the developmental welfare state thesis, and (5) the varieties of capitalism approach will be studied.

2.1 The Logic of Industrialism

In the 1960s and 1970s, the logic of industrialism was developed to demonstrate how welfare state development was affected by the emergence of social needs, produced by universal developmental processes such as industrialisation, urbanisation and population ageing. In the process of industrialisation, labour is commodified to rely on wages but then made to face employment-related modern social risks, such as retirement, unemployment, work-injury, and health. In this transition, the change in demographic structure (the ageing population and declining fertility rate) intensified the demand for public social provisions, but simultaneously eroded the traditional welfare provider– family (Wilensky, 1975, 2002). In the process of industrialisation, the state is therefore considered to play a critical role in welfare provision, to deal with social risks and the social demand facing citizens. Wilensky (1975, p. xiii) wrote: “economic growth and its demographic and bureaucratic outcomes are the root cause of the general emergence of the welfare state.”

Wilensky (1975) found that the increase in social security effort (social spending/ GNP) is the result of economic development (GNP per capital) and which is mediated by the number of the elderly and the age of social security; but political influence is negligible (p. 24). As time goes on, more of the beneficiaries either reach retirement age, or experience disabilities or other risks, and the resources to devote to these social security programmes must be increased. Then, due to the increase in the fraction of elderly social security efforts would significantly increase– an ageing population increases the demand on social care and economic security of them. Furthermore, older people constitute a population in need, and a political force for further social security development. The elderly form a ‘grey power’ in democratic politics, prompting the government to initiate social security programmes (Wilensky, 1975, 2002).

With this argument, the logic of industrialism points to a general convergence in the institutional structure of social security programmes in rich countries, irrespective their political and economic systems, or dominant ideologies (Overbye, 1994; Wilensky, 2002, p. 212). It expects that the pension system in rich countries would converge towards the dual systems of income maintenance in the long run. The countries that institutionalised earning-related pension schemes, such as Germany and Austria, tend to adopt a universal flat-rate, tax-financed minimum pension, in order to secure a minimum standard for the aged; the inverse is true for Britain and Sweden. Overbye (1994) argues that industrialisation weakened 'traditional insurance institutions' (family, the guild, the church) to meet the need of the inhabitants; it also led to increasing longevity, however, exposing an increasing percentage of the population to the risk of reaching an age at which the ability to work begins to fall, fuelling the demand for an old-age pension. As a catalyst, democratic politics forces politicians to respond to social demands in order to ensure electoral supports. The working population needs contributory, earning-related pension schemes to preserve their living standards, while the marginal groups need minimum pension schemes for provision of a basic pension. The result is that the pension system of rich countries will converge into the dual pension system (Overbye, 1994, pp. 156-157).

In short, the logic of industrialism predicts that the government will 'functionally' initiate social policy to deal with social risks. Therefore, it asserts that a general convergence in aggregate welfare effort, and the institutional structure of social security programmes due to the convergence of social structure, exists. Two problems in explaining East Asian pension developments are evident however. It cannot explain why the first pension scheme for private employees was different in Taiwan and Korea. Korea introduced a corporate pension scheme in 1954, while Taiwan introduced the Labour Insurance (public pension) in 1958. Also, the logic of industrialism emphasises public welfare, thus it would be insufficient for explaining the public-private pension mix in East Asia. Unlike Japan and Korea, Taiwan does not have well-developed corporate pensions.

2.2 The Power Resource Theory

The power resource theory sees the class division between the capitalist and the working class as the determinant of welfare state development (Korpi, 1983; Stephens, 1979). In contemporary capitalism the working classes tend to increase their political influence through democratic means, in turn improving working conditions and their social and economic status. The stronger the labour's political influence, the higher social spending.

In the transition from pre-industrial society to industrially capitalist society, two conflicting classes were produced: the working class and the capitalist. In the market sphere, capital and economic resources are the foundation of power. Thus, the capitalist, owning ownership and the means of production, could exploit the proletariat (the working class who is considered as the subordinate class in the capitalist system) (Korpi, 1983). Simultaneously, capitalist development furthered the centralisation of ownership and means of production, and in turn, created material conditions for the working class to form class consciousness, and promote labour organisation (Stephens, 1979, pp. 8-9). The working class has political rights to vote and to organise for collective action. Though relatively weak, in terms of their market resources, a numerical advantage in political resources allows them to affect the conditions for, and outcomes of, distributive market conflicts (Korpi, 1983). The working class and the capitalist have different power resources that can be mobilised, used in politics, and on markets (ibid, p.312).

The power resource theory assumes that wage earners have interests to modify market processes, and to extend social citizenship in the democratic political process, striving for the introduction of social policies, or the commitment of full employment, to improve their living standards. Their interests, however, must be articulated by political parties, in particular, the socialist parties, for example, the social democratic party in Scandinavian countries (Esping-Andersen, 1985, p. 3). Social democratic parties need electoral support from the working class to win the elections and control the government. Democratic socialists, once in control of the government, can launch a series of welfare and economic policies to improve the living standards of the working class, to establish the conditions of social democratic class formation (ibid, pp. 30-36). The working class and social democratic party, as such, form a symbiotic relationship.

Generally, social democratic class formation involves three basic conditions. Decommodification via 'universalistic welfare policy' is crucial. Under the constraints of market power, class solidarity would be weakened if workers are atomised and commodified (Esping-Andersen, 1985, pp. 32-35). Thus, a universalistic welfare policy can stimulate class solidarity to diminish the effect of stigma of poor relief schemes. Social democratic class formation needs the centralised coordination of trade unionism, as it helps resolve the logic of collective action. The bargaining advantages thus could be socialised to the entire working class (p. 33). Forging cross-class coalitions is a chief consideration of the social democratic party. The solidaristic universe must address the 'people', instead of the 'class', in order to manufacture its own political bases (p. 32). Thus, universalistic social policies would be a “natural consequence of social democratic mobilisation” (p. 34). Social citizenship can be seen as an outcomes of the political coalition between the working class mobilisation, and socialist parties. It is therefore assumed that the higher the power of the working class and the left parties, the better the public pension scheme, in terms of coverage, generosity and other factors.

It is worth mentioning two important studies on pension development in western welfare states. Myles (1989) adopted a cross-sectional method to demonstrate that three independent variables of working-class power (being measures of mobilisation, union centralisation and the measure of labour control over government), have influence over the quality of old-age benefits in the capitalist democracies. The mobilisation of electoral support is important for working-class parties to win elections, and sustain political control for extended periods of time (pp. 86-88). Since cohesive labour movements are the precondition for this mobilisation. Simply, the degree of labour solidarity determines the quality of pension benefits.

To analyse whether pension rights and expenditure in 18 OEC countries from 1930-1985 were conditioned by labour power, Palme (1990) adopted time-series, and cross-sectional methods. In the cross-sectional comparison of 1930 and 1980, he found labour power to positively impact on pension rights, but age-vote and industrialism have weak associations. In the time-series analysis, however, industrialism and working-class power mobilisation both have a positive association with pension rights. It suggests that the logic of industrialism has had more to do with the timing of the expansion of old-age pension entitlement, than the cross-national differences in its levels. If the dependent variable is replaced by pension expenditure, it is determined automatically by the number of recipients and its generosity rather than the working-class mobilisation and economic development.

In their studies, labour power was evidenced as a critical variable in explaining the variations of pension quality. It may, however, be insufficient for explaining East Asian cases. In the power resource theory, ‘class struggle’ is central in the analysis of social policy development, but not all social policy initiatives are the result of class struggle between the capitalist and the working class. In countries where the working class are too weak to be an important political actor in social reforms, this is particularly evident. Taiwanese pension reform since the 1990s, for example, was centred, not on class struggle, but ethnic division, resulting from Taiwan’s specific historical legacies. Labour power hadn’t influenced the pension policy making.

Next, the power resource theory assumes that the distribution of power resources is crucial in explaining the difference in social institutions. Thus, the state is neutral in relation to these different groups, and is conceived of as a set of institutional structures that have emerged in the struggles between classes, and interest groups in a society (Korpi, 1983). Recent East Asian studies have demonstrated, however, that the state is neither a neutral actor, nor are institutional structures (Johnson, 1982; Wade, 2004). In order for economic catch-up, the state ‘actively’ channelled resources to strategic industries. That is, the state in East Asia was an active actor in the economic, and social policy, development. This argument will be more clearly stated later.

The power resource theory assumes that employers’ social policy preferences are antagonistic. Esping-Andersen (1990) argues that social policy aims to “emancipate workers from market-dependence” and to “minimise the importance of market-generated income” (p. 26), and, thus, “decommodification strengthens the workers and weakens the absolute authority of the employer. It is for exactly this reason that employers have always opposed decommodification” (p. 22). However, employers’ opposition to the welfare state is often assumed, rather than documented. The varieties of capitalism school, recently, have systematically studied employers’ social policy preferences, and political strategies, which are conditioned by institutional contexts rather than assumed (Hall & Soskice, 2001; Mares, 2003; Swenson, 2002). This will be discussed later in the paper.

Finally, in the power resource theory, labour is assumed as a homogenous actor, with unified preferences, in favour of social policy expansion. However, the composition of labour is heterogeneous. Different occupation groups have different risk and income profiles, thus different social policy preferences. This is particularly true in East Asia, where, in Japan and Korea, enterprise unions consisted of core workers and were often in favour of protecting their generous corporate welfare rather than expanding public welfare provisions (Kume, 1998; J.-J. Yang, 2013).

By and large, the core problem with the power resource theory illustrating the East Asian public-private pension mix is that labour power in East Asia is simply assumed to be weak, and linked to the underdevelopment of social policy. Why labour power is weak, and secondly, why different structure of labour power in East Asia cannot be explained.

2.3 The Democratisation Thesis

Democracy in advanced welfare states is not a critical variable, as, since the Second World War, most societies have remained continuously democratic. It is, however, often used to explain the development of the developing welfare state (Haggard, 2005; Haggard & Kaufman, 2008; Wong, 2004). The democratisation thesis emphasises the importance of political competition on social policy development.

The median voter perspective is a critical theory about the political economy of public expenditure used to illuminate how democratisation affect social policy development. It argues: "Any voting rule that concentrates votes below the mean provides an incentive for redistribution of income financed by (net) taxes on income that are (relatively) high. Extensions of the franchise to include more voters below mean income increase votes for redistribution and, thus, increase this measure of the size of government" (Meltzer & Richard, 1981, p. 916). This perspective is premised on two theoretical prerequisites- one is that economic growth will lead to a less equal income distribution, that is, a right-skewed income distribution will be formed. This unequal income distribution will increase political support for redistributive policies. The other is that democratisation is a process whereby the franchise that leads to a broader inclusion of voters below the mean income is extended. Generally, voters with a higher than median income will vote for candidates that favour lower taxes, and less redistribution; voters with a below median income generally prefer higher taxes and more redistribution meanwhile. Consequently, it is expected that democratic politics tend to have a bigger government, and more redistribution.

This perspective, however, cannot explain the difference across East Asian pension mix, particularly between Korea and Taiwan who exhibit a similar process, and timing of democratic transition. It also ignores the significance of other political actors in pension policy-making in East Asia. Wong's (2004) research on health politics in Taiwan and Korea fulfil these insufficiencies. His perspective is distinct from the median voter perspective, at least, in three points. First, he sees democratisation as a dynamic process, rather than a concept of dichotomy. Second, he puts emphasis on political and societal actors, and political coalitions, in the policy making process, rather than the aggregate preference of the median voters. Third, as well as electoral competition, the idea of welfare is involved.

Democratisation is a dynamic process. The transition from authoritarian regime to democratic polity is "a sequence of political (and policy) events" (Wong, 2004, p. 14), and that four periods should be identified: (1) authoritarian breakdown; (2) democratic breakthrough; (3) democratic crafting; and (4) democratic consolidation. In the era of authoritarian regime, the ruling elites conceived welfare as being unproductive in Taiwan and Korea. As such, social policy was subordinated to economic policy, and directed from the top-down. The pattern of social policy reform in the authoritarian period was ‘crisis and selective compensation’ (ibid). In this regard, social policy was typically not universal in scope, but focused on the privileged. The political coalition of this era was then formed between the conservative ruling elite, and the privileged. The democratic breakthrough of the 1980s changed political institutions in Taiwan and Korea, where, in order to maintain political legitimacy, their ruling conservative governments had to universalise health policy as a strategic response to political competition. In the period of ‘democratic crafting’, the effects of democratisation on social policy reforms were advanced due to economic insecurity generated in the late 1990s, and earlier 2000s. In the initial stages, the changing in the rule of the game led to radicalised electoral competition and political mobilisation, and although this opened a ‘window of opportunity’ for social policy development, it was not fully realised (pp. 15-16). In this period, the previously marginalised actors realised it, learning how to use these opportunities for promotion of social policy expansion. Civil society groups soon learnt from past experiences that intergroup cooperation was instrumental in effective societal mobilisation (p. 145). In other words, policymaking became more pluralistic and contested, the previously conservative coalition gradually losing its influences.

Democratisation also altered the idea of welfare. In democratic transition, the idea of welfare gradually changed from productive-first to idea, focusing on economic equality in Taiwan and Korea. In the period of democratic consolidation, economic growth was not prioritised: “new normative understandings of redistributive social welfare and democratic government created new expectations for economic growth with equity among political actors in both Taiwan and South Korea” (Wong, 2004, pp. 16-17). That is, social policy is independent from economic policy, and redistribution becomes the main goal of social policy.

Wong (2004) additionally noted, in the context of democratisation, the differences of strategic adaptations in Korea and Taiwan. Democratic transition in Taiwan was predominantly managed by the ruling KMT government, despite greater pressure coming from below; democratisation, meanwhile, came from an intense confrontation between the state and society in Korea. Furthermore, electoral competition was phased in gradually in Taiwan; while in Korea, elections were almost held immediately. Consequently, while the Roh regime in Korea had to introduce a quick-fix reform, the Taiwanese KMT was allowed to plan a more transformative health policy reform (Wong, 2004, p. 38).

Wong’s argument offers a sophisticated theoretical framework that dissects social policy development in new democracies. However, it would be called into question, while his theoretical framework is applied to pension policy in East Asia. After democratisation, different patterns of pension reform in Korea and Taiwan can be observed. In Korea, the National Pension Insurance was implemented shortly after democratisation, but since the 1990s its expansion and retrenchment occurred simultaneously. In Taiwan, however, the expansion of pension system has been clear across the last two decades. It should be investigated how the dual transformation in pension politics in Korea, and the different patterns of pension politics in Korea and Taiwan, can be explained.

With the public-private welfare mix assuming that the worse-off prefer public welfare, with its highly redistributive effects on democratic politics, the democratisation thesis tends to shed light on public welfare (Aspalter, 2002; Wong, 2004). Consequently, it cannot dissect the differences in public-private pension mix in East Asia, or explain the non-state pension reforms of these countries.

Though democratisation changes political institutions, the policy preferences of political actors are not assumed. Instead, actor preferences are conditioned by the given national capitalist structure- for example, highly unionised core workers in Japan and Korea wanted to maintain the existing pension systems; in Taiwan, though, labour preferred a universalistic national pension insurance (Yeh & Chen, 2013).

The democratisation thesis provides a prominent perspective from which to analyse East Asian welfare states, when, since the mid-1980s, a significant increase in social spending in Taiwan and Korea has been seen. East Asian pension development, however, is more complicated than it assumed. Differences in pension politics, pension mix, and pension governance cannot, through a historical, comparative study focusing on historical and national idiosyncrasies, be perfectly explained by the democratisation thesis.

2.4 The Developmental State Thesis

The developmental state thesis is the dominant perspective in explaining the 'underdevelopment' of East Asian welfare states, and its idiosyncratic characteristics by linking it to its particular, state-led developmental pattern, known as 'the developmental state' (Y. J. Lee & Ku, 2003; K.-L. Tang, 2000). Johnson (1982) proposed the concept of the developmental state to describe Japan's state-led developmental pattern. Owing to late development, Japan had to rely, according to Johnson, on state interventions to combat Western imperialism and ensure national survival. Elite state bureaucracy is required to determine the national goal, to coordinate the developmental strategy, and to channel the financial resource to strategic industries, such as the Ministry of International Trade and Industry in Japan, the Economic Planning Boarding in Korea, and the Council for Economic Planning and Development in Taiwan (Amsden, 1989; Johnson, 1982; Wade, 2004; Woo-Cumings, 1999). Motivated by these nation-building objectives, the state therefore had to manipulate national support for its economic goals, deflecting public pressure for social welfare development (Goodman & Peng, 1996, p. 211). That is, the state must be productivist-oriented, and in this sense, routinely concentrates resources on economic development and productive social policies- such as education and health- essentially for economic growth and political legitimation (Holliday, 2005, p. 148). Protective social policies, such as pensions, would be limited to a particular category of workers who were politically significant, such as state officials, military, and public school teachers. Social policy is subordinated to economic objectives, a feature distinctive to East Asia. Consequently, East Asia is labelled as ‘the developmental welfare state’ (Kwon, 2005b; Y. J. Lee & Ku, 2007).

By linking the concept of the developmental state to social policy, Holliday (2000) posed a question: “is there a distinctive East Asian welfare state regime?” He contended that aside from three indicators– decommodification, stratification, and the relationship between the state, market and family– a fourth indicator should be added. This would be ‘the subordination of social policy to other policy objectives’. That is, social policy is designed to serve the overriding policy objects of economic growth in East Asia. Thus, Holliday labels East Asia as ‘Productivist Welfare Capitalism’, and characterised “with minimum social rights with extensions linked to productive activity, reinforcement of the position of productive elements in society, and state-market-family relationship directed towards growth” (p. 708). The ideology of ‘growth-first’ is central to East Asian welfare states.

In order to explain the underdevelopment of East Asian welfare states, Tang (2000) links the developmental state to social policy, arguing that “under this survival orientation, social policies played a subsidiary role to the overarching economic objectives” (p. 81). Thus, in order to pursue political survival and economic development, the state needs to channel financial resources to strategic industries, repressing labour power in turn. That is, the presence of the developmental state in ‘the tigers’ created social impediments of state welfare.

The developmental state thesis helps to dissect the distinctive feature of East Asian welfare states, when compared with European welfare states, but encounters three challenges for analysis of pension variations in East Asia. As stated, the main aim of the developmental state thesis is model construction of the East Asian welfare states regime, rather than social policy variations within East Asia. This is because the state-led developmental pattern, in the developmental state thesis, is considered as a uniform pattern in East Asia. However, the state's interventions differed depending on the national business structure. For example, Taiwan tended to use tax-credit to benefit export-oriented SMEs, while Japan and Korea used policy loans to enable business conglomerates to compete in the world market (T. J. Cheng, 1990). These differences in economic strategies would, in turn, lead to different welfare state arrangements.

Furthermore, by linking the state-led developmental pattern and social policy development, the developmental state thesis, as a regime approach, aims to look for similarities in social policy arrangements. However, despite the developmental state thesis arguing for the significance of private welfare in East Asia, due to the feature of productivism, it does not scrutinise private welfare. East Asia's national variations in private pension, however, are significant. Japan and Korea have relatively well-developed corporate pensions, but Taiwan does not.

Finally, the developmental state thesis is too static to study recent welfare state transformations in East Asia, particularly, their variations. East Asian welfare states are unstable and immature- in Japan, the public pension system has been retrenched since the mid-1980s; in Taiwan, public pensions were significantly expanded; in Korea, however, a dual transformation in the public pension system, expansion in coverage, and the retrenchment of benefit level can be witnessed. Hudson and Kühner (2011) also demonstrated, by analysing protective-productive welfare arrangements, that East Asian welfare states are unstable.

In short, the developmental state thesis demonstrates how critical the role played by the state in structuring capitalist production and social protection in the process of economic catch-up, for economic and political survival. The fundamental challenge facing the developmental state thesis is that East Asia is considered as a 'unit of analysis' in the identification of a distinctive East Asian welfare state regime. By linking the concept of the developmental state to social policy development, efforts were devoted to look for similarities in social policy arrangements in East Asia, and cross-national variations are therefore neglected of social policy variations. This is because that we simply assume that three East Asian national capitalist structures are identical. The varieties of capitalism allowing the difference in national capitalist structure in East Asia to be noticed.

2.5 The Varieties of Capitalism Perspective

Institutional complementarity between social protection and capitalist production can explain the cross-national variations in welfare state arrangements, this being the theoretical assumption of the varieties of capitalism perspective (Ebbinghaus & Manow, 2001; Hall & Soskice, 2001; Schröder, 2013). The varieties of capitalism argues that in order to maintain comparative institutional advantages, the firm, as the core political-economic actor, will strategically choose particular institutions that are beneficially complemented to the existing institutions coherence. Thereby, different logics of economic coordination would be developed, in turn determining its national capitalist structure (Hall & Soskice, 2001). By analysing four institutional spheres: (1) skill formation system; (2) industrial-relations system; (3) system of inter-firms relations; and (4) financial systems, two logics of economic coordination can be recognised: market-coordination, or non-market coordination. These institutional areas are institutionally complementary. According to different logics of economic coordination, two models of production regime can be distinguished: the Liberal Market Economies (LMEs) and the Coordinated Market Economies (CMEs).

In LMEs, governments prefer a more hands-off approach in economic coordination, to ensure the processes, associated with business operations, are more likely to be subject to individual negotiations between the immediate parties. In such environments, therefore, corporate culture, rather than cooperation, is more cut-throat, and businesses tend to negotiate the best deal within relatively unregulated environments. Companies in LMEs tend to prefer a short-term credit system, which encourages short-term return, low-skill equilibrium, high labour market volatility, lower employer coordination and lower labour costs (Hall & Soskice, 2001, p. 7). CMEs tend to find a more cooperative way to bring labour and business interests together in order to negotiate beneficial production strategies. Such non-market coordination entails more extensive relational, or incomplete contracting, network monitoring based on the exchange of information. Consequently, the development of long-term economic coordination is more likely. For example, the financial system is structured on a long-term basis to support longer-term investment projects, and both the employer and employee have interests to invest in high-specific skills to increase productivity, underpinned by high quality product strategies. Thus, comparative institutional advantage is gained through the long-termist institutional arrangements, based on high-quality product strategies, and high-skill equilibrium within high-tech industries (ibid, p. 8). These two different models of capitalist production once set and firm. Other actors then have significant preferences, either to defend or preserve it in order to protect complementary institutions of value to them (ibid, p. 64).

The varieties of capitalism argues that the welfare state would be designed to be complemented to the production regime, according to different logics of economic coordination. It can be argued that LMEs would be complemented, therefore, with a liberal welfare state. CMEs, meanwhile, would be inter-embedded with either a conservative, or a social democratic welfare state (Huber & Stephens, 2001; Iversen & Stephens, 2008; Schröder, 2013). In LMEs, comparative institutional advantage rests on the basis of effective market mechanism, and the advantages of lower labour costs and liberal regulations, to compete in the international market. It exerts downward pressure on social welfare, so the welfare models in LMEs tend to be targeting, means testing, and low replacement rates, which underpin flexible, relative low-cost labour markets. By contrast, social protection in CMEs underpins the basis of long-term relationship between actors, for example, wage restraints can be a policy instrument for the exchange of more job opportunities, created by employers. In this sense, welfare models in CMEs are constructed more cooperatively. This is due to employers and employees tending to have common interests in social protection being designed to deal with the problem of economic coordination. The formation of social protection rests on the basis of cross-class coalition.

The varieties of capitalism perspective has two critical contributions. First, employers' social policy preferences are redefined, and second, the institutional design of the welfare state can be explained by national capitalist structure. The varieties of capitalism perspective sees the firm as the core actor in economic coordination, thus employers were not always antagonistic to social policy (as argued by the power resource theory), but determined by institutional settings (Hall & Soskice, 2001; Swenson, 2002). Swenson (1991, 2002) provides a sophisticated historical comparative analysis that demonstrates the role of the employer in the formation of the wage bargaining system, and the welfare state is more supportive than the power resource theory assumed. Swenson (2002) demonstrates that employers' preferences about the formation of labour market and welfare state in the U.S., and Sweden, differ. In the late 19th century, the strategy of decentralisation was desired in order to regain managerial control for freer, and more profitable introduction of new technology, and as such, 'segmentalism' is central to the formation of the U.S. labour market and welfare state. This decentralisation forced employers, in order to achieve employee loyalty, reduce turnover costs, reward firm-specific skill acquisition and secure flexibility and efficiencies in the labour process, to use high wages (including company welfare). Swedish employers, by contrast, preferred the more cooperative method of 'solidarism' to achieve economic coordination. In this institutional context, the capitalist class tended to collectively manage to keep wages below the market clearing levels, for the reason of maintaining low prices, and creating more jobs. This approach only works, however, if others voluntarily abstain, or can be prevented, from following suit. Social policies, therefore, were designed to enable employers to manage the labour market on a solidaristic basis, that is, by individual employers, too eager to offer concessions, having pressure from below reduced.

Also, Mares (2003) argues: “social policies can be regarded as institutional solutions to a ‘prior game’ between firms and employees over investment in skills” (p. 24). Employers’ social policy preferences, however, such as the coverage and finance of social insurance, are varied, and determined by size, skill intensity and the risk profile of firm. A firm size determines its financial capacity to finance social protection- large firms have higher market power and greater capacity to bear additional labour costs, therefore prefer private social policies by which employers can own higher authority over administration. Meanwhile, smaller employers have greater interest in socialising the financial burden of social policies. Tax-financed social policies, are thereby preferred. The skill intensity of a firm determines its preference for the various social insurance types. Target benefits, such as occupational social insurance or private social policies, will be favoured by firms that rely on skilled workers, in order to play an institutional guarantee to encourage workers to invest in industry- and firm-skills. In the case of lower skill intensity, employers tend to prefer universalistic social policies, due to occupational social insurances, exhibiting narrow levels of coverage, being too costly and unattractive. The risk profile of a firm determines its preference of the coverage of social insurance. With their lesser effects of redistribution among occupations, Mares expects employers in low-risk industries to prefer occupational social policies, or contributory policies based on actuarial consideration. In contrast, high-risk producers will favour social policies featuring a high redistribution of risk, such as universalistic social policies.

Mares demonstrated that large firms supported either private or contributory social insurances so that more authority over the administration of social insurances was retained. This is because those firms had more skilled workers, and so social policies, with earning-related benefits, could play a role in the management of human resources, such as through recruitment of new workers, in turn maintaining a long-term relation with their workers (Mares, 2003, pp. 252-259). Social policies, in this respect, can be seen as a crucial policy instrument that complements the employment practices of firms. Small firms, however, showed more concern about the cost of social policies, preferring universalistic social policies, through which costs can be socialised. Further, it was demonstrated that the introduction of social policies was based on political support from cross-class alliances, comprising both trade unions and representatives of business, and the political composition of strategic alliances shaped the institutional design of social policies (Mares, 2003, pp. 259-263).

These two works demonstrate that social policy is not only for decommodification, but also a part of the national capitalist structure, helping to resolve the problems of economic coordination. Thus, “the historical development of the welfare state was not a class struggle between the working class movement and employers” (Iversen & Stephens, 2008, p. 606), but of cross-class coalition of employers and labour. The concept of ‘politics against markets’ of the power resource theory should be revised to the concept of ‘politics of markets’, to denote the fact that the welfare state functions to cope, not only with market vagaries, but also to facilitate the operation of the capitalist production (Ebbinghaus, 2006; Iversen, 2005).

The varieties of capitalism also contribute, thanks to the concept of institutional complementarity, the ability to explain cross-national variations in welfare state arrangements, by dissection of the national capitalist structure. Institutions complementarity is defined as: “two institutions can be said to be complementary if the presence (or efficiency) of one increases the returns form (or efficiency of) the other” (Hall & Soskice, 2001, p. 17). That is, national market economies feature a particular ‘systemic logic’ of economic action, derived from distinctive institutional configurations (Jackson & Deeg, 2006). Therefore, once institutional complementarity was formed under a particular systemic logic, institutions will become an essential part of institutional totality, forming an increasing return mechanism that enhances, over time, the inter-linkages among institutional arrangement. Accordingly, the relationship between social protection and capitalist production is functionally interdependent (Ebbinghaus & Manow, 2001).

Estévez-Abe et al. (2001) provided a good example of this through dissection of the relationship between skill formation, and social and employment protection. Initially, they argued that “employment and income protection can be seen as efforts to increase worker’s dependence on particular employers, as well as their exposure to labour market risks. Moreover, social protection often stems from the strength rather than the weakness of employers” (Estévez-Abe et al., 2001, p. 181). In LMEs, based on mass production, low-skills would be prevalent when this production work is broken into a narrow range of standardised tasks. The resultant relationship between the actors is short-termist, and the labour market is likely to be flexible. With general skills, the workers can be transferred between industries easier than those with high-specific skills in the labour market. Social protection is, therefore, limited to firms, when a flexible labour market can be seen as a way of absorbing the risks of economic volatility. Consequently, social protection in LEMs is limited, while, in

CMEs, employers have a strong will to support the formation of social insurance schemes that help to develop firm- or industry-specific skills. This allows the adoption of a quality-based product market strategy (Estévez-Abe et al., 2001).

It can be argued, then, that due to DB pensions with final-pay formulas being useful for economies relying on industrial- or company-specific skills, strong incentives for workers to invest in low-portability skill types exist. Further, their efforts to achieve high career-end salaries are sustainable. By contrast, in countries where general skill formation prevails, employers have insufficient incentives to extract the loyalty of employees with replaceable skills. A DC pension scheme, therefore, is often used, being effectively able to reduce the costs of corporate pension schemes by shifting the risk to employees (Dulebohn et al., 2009, p. 89).

Institutional complementarity between the financial and pension systems can also be observed (Estévez-Abe, 2001; Jackson & Vitols, 2001). Jackson and Vitols (2001) contend that policy choice and institutional design affect the supply side of national savings, while the regulations of private pensions shape the manner in which financial capital can be channelled into capital markets. Pension funds are often used as one of the essential sources of working capital, for both the government and private companies (Estévez-Abe, 2001; Manow, 2001a; Vitols, 2001). In Japan, for example, public and private pension funds were redirected to strategic industries (Estévez-Abe, 2001, 2008). A strong linkage exists between pension policy (financial system) and industrial development. Likewise, pension funds were re-channelled to heavy and chemical industries in the 1970s in Korea (D.-M. Shin, 2003; Woo, 2004).

The varieties of capitalism perspective offers a sophisticated theoretical framework to explain cross-national variations in the public-private pension mix in East Asia, through dissection of the institutional linkage between the pension and capitalist structure. It, however, ignores the diversity of East Asian capitalism, preferring to view East Asia simply as the state-led capitalism (Amable, 2003). It can therefore be concluded that institutional arrangements of the East Asian welfare state are similar, like the developmental state thesis. However, recent studies have shown that the diversity of East Asian capitalisms is much more significant than first believed (Fields, 1995; Walter & Zhang, 2012b; Whitley, 1992; Witt & Redding, 2013)– though this number is very few (Y. J. Choi, 2008, 2009, 2013; S.-Y. Lee, 2011). This represents the focus of this study.

More importantly, the varieties of capitalism perspective ignores the role of the state on institutional coordination. The state, in the varieties of capitalism perspective, is regarded as “a reflection of the existing mode of coordination” (Hancké et al., 2007). This feature of ‘statelessness’ is problematic when dissecting East Asian welfare states. In the newly industrialising countries, the firm cannot be at the main coordinator of economic coordination, due to their limited capacities in the initial stage of industrialisation. Consequently, the state must be the coordinator- for example, in the Asian tigers, the state, rather than the firm, coordinated the supply and demand of skill in order to facilitate economic growth in the early industrialisation period (Ashton et al., 1999). The significance of the state, in coordinating national capitalist structure, should not be neglected, even when the varieties of capitalism perspective is adopted to analyse institutional linkage of social protection and capitalist production.

Conclusion and Discussion

In this chapter, five explanations of welfare state development were reviewed. To start with, the logic of industrialism argues that the emergence of the welfare state is to address the social risks that originated from industrialisation. However, in East Asia, social policy was evident before industrialisation, and designed to facilitate industrialisation (Holliday, 2000). Then, the power resource theory argues that a labour-leftist political coalition could effectively play a proactive role in the construction of the welfare state. Thus, the less-developed East Asian welfare states could be ascribed to a weaker labour power. However, the power resource theory fails to offer a satisfactory explanation to elucidate why labour, in East Asia, is weak. Next, democratisation is a critical variable in explaining the expansion of social policy in East Asia, in particular across the last 20-30 years in Korea and Taiwan (Aspalter, 2002; Wong, 2004). The theoretical challenges facing the democratisation thesis, however, are that it only focuses on public welfare, overestimating the influence of democratisation in welfare state development. For example, it is seen that enterprise-level pensions are critical in the authoritarian Japan and Korea, but not in Taiwan. It is also interesting so look at why the expansion and retrenchment of social policy in Korea is seen over during the last 30 years, but not in Taiwan, despite democratisation being established simultaneously in Korea and Taiwan.

The developmental state thesis is widely accepted to be the convincing perspective in explaining the development (or lack thereof) of the East Asian welfare state. It does this through emphasis of the active role of the state on creation of a friendly environment for industrialisation. In order for economic catch-up to occur, East Asian countries had to subordinate social policy to economic development, thereby repressing labour power and avoiding labour disputes, concentrating resources on productive social policies such as education and health. The logic of social policy in East Asia is ‘commodification of labour’ rather than decommodification (C. Pierson, 2005). Social policies such as pension, and unemployment insurance, aiming for decommodification, were ignored or repressed in East Asia and thus, ‘productivism’ or ‘developmentalism’ is central to the East Asian welfare state regime.

The developmental state thesis aims for model construction of the East Asian welfare regime through identification of its distinctive feature, rather than by illustrating cross-variations in social policy arrangements. Furthermore, although it endeavours to explain East Asian welfare state development by linking it to its particular state-led developmental pattern, it simply assumes that the state-led developmental pattern is identical in East Asia (Holliday, 2000; Y. J. Lee & Ku, 2003; Woo, 2004). Recent studies demonstrated that the diversity of capitalist production within East Asia is significant (Fields, 1995, 2012; Orrù et al., 1997; Walter & Zhang, 2012b; Whitley, 1992, 1999; Witt & Redding, 2013). It would, therefore, be paradoxical for national capitalist structure to determine the nature and shape of national social policy regime, as argued by the developmental state thesis, if we expect there to be a homogenous East Asian welfare model, given the significance of diversity in East Asian capitalisms. Accordingly, attention should be paid to the diversity of East Asian capitalisms, on the assumption that social policy and economic structure are inter-embedded.

The varieties of capitalism enables analysis of the ways in which capitalist production and social protection are inter-connected. By dissecting the diversity of national capitalist structures, cross-national variations in East Asian social policy arrangements can be explained. However, the varieties of capitalism overrates the capacity of the firm in economic coordination, when their focus is in advanced countries (Amable, 2003; Hall & Soskice, 2001; Hancké et al., 2007). In developing countries, the firms do not have sufficient capacity to resolve coordination and market failures, and compete in the world market without state intervention (Aoki et al., 1996). Instead, the varieties of capitalism perspective tend to see the state as an institutional structure, providing a legal infrastructure for economic coordination that reflect the interests of business (Aoki et al., 1996; Hancké et al., 2007). The varieties of capitalism ignores the significance of the state in economic coordination (Hancké et al., 2007; Schmidt, 2009).

Consequently, the synthesis of the developmental state thesis and the varieties of capitalism will help to elucidate the variations in pension policy and politics in East Asia. The synthesis develops the role of the state to modify the theoretical weaknesses of the varieties of capitalism: the neglect of the role of the state; and the varieties of capitalism helps dissect the diversity of East Asian capitalisms. In this way, similarities and variations in pension policy and politics in East Asia can be simultaneously analysed. Cross-national variations in the public-private pension mix, and pension politics between Japan, Korea and Taiwan, may be explained by differences in the national capitalist structure. Several issues can then be investigated: the differences in the structure of capitalist production in East Asia; how the structures of capitalist production were structured; the importance of the state; how the institutional linkage between capitalist production and social protection may be dissected; and the co-evolution of social protection, and capitalist structure. By investigating these focuses, I will elaborate a theoretical framework in the next chapter.

Chapter 3 – Towards an Integrated Political-Economic Explanation

In the previous chapter, five perspectives were reviewed, and were shown to be insufficient to explain pension variations in East Asia. Thus, an integrated political economic explanation, combining the developmental state thesis and the varieties of capitalism, is required for predictions to be drawn. It would be helpful to emphasise on similarities (the role of the state) and variations (the diversity of capitalist production) simultaneously. Synthesising these two perspectives, three issues must be discussed: the role of the state, the diversity of capitalist production, and state-business relations.

The role of the state is critical in the developing countries when the private economic agents have insufficient capacities for economic coordination (Amsden, 1989; Wade, 2004). The role the state should play needs establishment. The market-enhancing view will be adopted to view the role of the state as the institutional coordinator (Aoki et al., 1996). In this view, the role of the state is not to replace market mechanism, but to complement to the private sector, so that coordination and market failures are resolved (Aoki et al., 1996, pp. 8-9). In the first section, I will reinterpret the role of the state in East Asia, and show how the government, as institutional coordinator, coordinates institutions and redistribution of resources to achieve political stability, and create a social structure of capital accumulation.

Then, the diversity of capitalist production will be discussed. Walter and Zhang's (2012a) approach, to focus on the 'business system', the 'financial system', and the 'labour market regime', will be adopted, and I will illustrate how these components are inter-connected. National capitalist structure are shown to shape political actors' social preferences (Hall and Soskice, 2001; Swenson, 2002). As such, this comparison of East Asian capitalisms can lay the foundation for analysis of the differences, between East Asian welfare states, of political actors' social policy.

Attention will then be concentrated on state-business relations, the formation of national-specific political economies being mediated by a political process of cross-coalition and political struggle (Thelen, 2004). Through study of state-business relations, how the pension system and the national capitalist production are political mediated may be understood. That is, institutional complementarities were the outcome of a strategic choice of actors, rather than the functional needs of systems (Hancké et al., 2007, pp. 16-23). Finally, the analytic framework will be elaborated and explained, in order to show how the developmental state thesis and varieties of capitalism are synthesised. Through this, prediction may be drawn.

3.1 State as Institutional Coordinator

The essential need of less developed countries is to minimise the ‘external division between developed and developing countries’ rather than to eliminate internal ‘class, inequality and privilege’ (Rudra, 2008, pp. 82-83). Thus, it is widely accepted that a special institution is needed to coordinate this transition, to help the private economic agents to compete in the global market (Aoki et al., 1996; Gerschenkron, 1962). This is due to private economic agents in developing countries not having sufficient capacity to resolve coordination failure in the early stages of industrialisation. The developmental state thesis thereby argues that market mechanism has to be substituted for government interventions, to be the resolution of prevalent market failure (Amsden, 1989; Johnson, 1982; Wade, 2004). It should not be overrated, though, since in contemporary capitalism, economic activities are usually carried out by private economic agents- even if their capacities are limited. The state should not be an omnipotent, neutral substitute for the market (Aoki et al., 1996, p. 34), but instead act to enhance market efficiency. In this sense, the state should be considered as an institutional coordinator, where its role is to collude with the capitalists in the creation, and coordination, of institutions to overcome market and coordination failure. It is not to substitute for the private economic agents or market mechanism, nor to be a legal infrastructure for market transaction (Aoki et al., 1996, p. 9).

The state has two roles in the process of industrialisation (or modernisation): to resolve coordination and market failures; and to maintain political legitimacy (Castells, 1992; Gough, 1979; Woo-Cumings, 1999). The primary task for all contemporary capitalist economies is to create an efficient capital structure, but unlike advanced societies, centralised coordination is needed for systematic economic development in developing countries (H.-J. Chang, 1999). In East Asia, the state acts, therefore, as the institutional coordinator in shaping a social structure of capital accumulation, conducive to a specific mode of institutional coordination (Aoki et al., 1996). For example, the East Asian governments used industrial policy to mobilise resources to strategic industries that were selected by rational bureaucracies, according to the international political-economic environment, and division of labour (Castells, 1992; Cumings, 1984; Johnson, 1982). In Korea and Japan, the governments channelled financial resources to strategic industries through policy loans, setting up protectionist measures that prevented international competition from the world market (Amsden, 1989; Johnson, 1982). Ashton et al. (1999) demonstrated that to assist the strategic industries, the states centralised control over the education systems, coordinating with firms to develop their skill formation systems.

Particularly important to the East Asian developmental welfare states is political legitimacy, since it is the prerequisite to successful economic development (Johnson, 1987; Woo-Cumings, 1999). Capitalist accumulation, and political legitimacy, are two facets of the same subject in the East Asian developmental state. Castells (1992, p. 56) argues that "a state is developmental when it establishes 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." That is, the East Asian governments saw economic development as a source of political legitimacy, since they were reluctant to introduce universalistic social policy (P. H. Kim, 2009; K.-L. Tang, 2000). Instead, East Asian countries would utilise industrial policy to achieve full employment, then minimise income inequality (Estévez-Abe, 2008; K.-L. Tang, 2000). This characteristic signifies that East Asian governments are production-oriented (Castells, 1992; Holliday, 2000; K.-L. Tang, 2000).

As a result, non-state social policy was preferred in East Asia, since the state was reluctant to bear financial burdens (P. H. Kim, 2010). East Asian governments introduced land reforms, for example, that addressed the rural-urban dualism to gain political support from small-holding farmers (Francks et al., 1999; P. H. Kim, 2009). Enterprise welfare was equally important– the Japanese and Korean governments encouraged, or prompted, private firms to introduce corporate, rather than public, pensions. In East Asian welfare states, it is important for two reasons. It helps to externalise the cost to enterprises and resolve problems of economic coordination (Estévez-Abe, 2008; Iversen, 2005; Mares, 2003). For instance, the state will encourage firms that rely on firm-specific skills to initiate corporate pension schemes that both facilitate long-term employment relations, and act as incentives for workers to invest in firm-specific skills, such as in Japan (Estévez-Abe, 2008; Manow, 2001b; Shinkawa & Pempel, 1996). Furthermore, corporate pensions are also one source of internal capital for Japanese keiretsu (Estévez-Abe, 2001, 2008; Manow, 2001b; Shinkawa, 2005a; Shinkawa & Pempel, 1996).

In East Asia, as newly industrialising countries, the state must play a critical role in resolving the problems of capital accumulation and political legitimacy in order for economic catch-up. This is done by coordination of institutional complementarities between capitalist production and social protection. Aside from the developmental state thesis, the state takes on the role as strategic coordinator in order to design a pension system that is beneficial to capital accumulation, through being a provider or regulator. Considering this is only achieved through a series of attempts, rather than a ‘big bang reform’, the way that the state strategically coordinates the pension and capitalist production vary according to the structure of capitalist production, and this issue needs focus.

3.2 The Diversity of Capitalist Production

The aim of the developmental state thesis, as discussed, is regime construction through emphasis of the significance of the state. Cross-national variations within East Asia, thereby, are neglected. Strategic choices of institutional coordination, however, vary according to the structure of capitalist production and institutional legacies of social policy (Hancké et al., 2007). Thus, pension variations in East Asia can only be elucidated once the structure of capitalist production is synthesising into analysis.

A critical task, when studying the diversity of capitalist production, is to identify which institutional spheres need analysis. Though the diversity of East Asian capitalist economies have been widely analysed (Boyer et al., 2012; Fields, 1995; Orrù, et al., 1997; Walter & Zhang, 2012b; Whitley, 1992, 1999), widely accepted theoretical criteria to identify key institutional spheres, that characterise political economies, are still lacking (Walter & Zhang, 2012a, p. 9).[2] For two reasons, Walter and Zhang’s (2012a) theoretical criteria will be adopted for focusing on the ‘business system’, the ‘financial system’ and the ‘labour market’. First, their focus is East Asia, and their theoretical criteria have been adopted to analyse East Asian capitalisms (Witt & Redding, 2013). Secondly, these institutional spheres are relevant to pension policy.

Although these institutional spheres will be separately discussed, they are interconnected (Hall & Soskice, 2001; Walter & Zhang, 2012a; Witt & Redding, 2013). The business system is critical for structuring the logic of operation of capitalist production (Mares, 2003; Whitley, 1992, 1999). Its structure determines or (at least) shapes the interests and preferences of political-economic actors, moulding other key institutions, such as corporate governance and the financial system, in order to create and maintain comparative institutional advantages (Hall & Soskice, 2001). For example, the size of a firm determines the preferences of employers in skill formation (Mares, 2003). Here, I will focus on the business system, before focusing on the financial system and the labour market.

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[2] A more detail discussion can be found in Witt and Redding (2013).

3.2.1 The Business System

For the business system, firm size and inter-firm relations are two critical aspects for analysis of pension policy. This is because those factors directly determine employers' social policy preferences and financial capacities (Mares, 2003; Swenson, 2002), thus the modes of economic coordination (Whitley, 1992, 1999). The business system is defined as: "Differences in the scope and intensity of connections between firms are related to differences in the sorts of activities they coordinate and their competitive strategies…. The nature of firms as authoritative coordinators of economic activities, then, is interdependent with the ways in which they are organised as 'industries' and are embedded in reciprocal obligation networks which vary across institutional environments" (Whitley, 1992, p. 9). The business system not only represents a way of economic coordination, but also shapes other institutional spheres, such as the financial system and the labour market regime. By discerning the business system, we can understand how economic coordination is organised.

To understand employers' social policy preferences and their financing capacities, the size of the firm is important (Mares, 2003). Mares (2003) demonstrated that SMEs employers tend to prefer a tax-financed pension scheme in order to socialise the cost to the state, due to their limited financial capacity. Conversely, larger employers are incentivised to use corporate pensions as a policy tool of human resource management, for example, to encourage people to invest in firm, or industry-specific skills (Busemeyer, 2009; Estévez-Abe et al., 2001; Mares, 2003) or encourage early retirement (Ebbinghaus, 2006). For them, the authority over human resource management is more important than financial consideration.

The inter-firm relation is not directly relevant to pension policy, but signifies the mode of economic coordination. It shapes how the financial system and labour market are structured. "Inter-firm relations include alliance or network between firms from different industries and may foster long-term and reciprocal business partnerships and develop functional competencies" (Walter & Zhang, 2012a, p. 10). By dissecting these two aspects, it can be shown that business systems in East Asia are very different to each other.

In post-war Japan, the dominant power in resource control and economic coordination is the large, industrially specialised corporations, or keiretsu. Unlike American firms, Japanese keiretsu do not include all the production and allied processes necessary to manufacture products into the managerial hierarchy.
Instead they focus on a single industrial sector, and diversify within it (Whitley, 1992, p. 25). Thanks to its bank-based financial system, inter-firm relations in Japan are based on long-termism. In Korea, the large family-owned and controlled business

conglomerates, known as chaebol, dominated its capitalist structure. They were seen as a key institution that defined the Korean catching-up system “under the strongly directive and coordinating influence of the authoritarian state” (J. S. Shin & Chang, 2003; Whitley, 1999, p. 141). However, inter-firm relations in Korea are not organised around long-term, mutual obligations, but short-term, single-transaction relations. The large size and self-sufficiency of the Korean chaebols refer to low interdependence with suppliers and customers, and are able to dominate SMEs. Furthermore, inter-chaebol relations are adversarial, and exhibit a reluctance to cooperate over joint projects (Wade, 2004, pp. 315-316). Cooperation does, nevertheless, occur between firms underpinned on direct personal ties between chief executives (Whitley, 1999, pp. 144-145).

The business system in Taiwan is that of a dualism. Large companies, such as state and party-owned enterprises, dominated the domestic-oriented industries, while SMEs are the core of export-oriented industries. This dual structure resulted in an extremely flexible, but relatively independent private sector (Fields, 1997, p. 141). Taiwanese inter-firm relations are short-lived, relying on flexibly ‘cooperative production network’ to minimise market risks, and thus, systematic and stable alliance and long-term partnerships between firms is limited (Whitley, 1999, pp. 149-151).

By dissecting the diversity of business system in East Asia, it is expected, theoretically, that financial systems and labour market regimes are structured to complement their distinctive business systems, with employers’ preference over pension policy being different as well.

3.2.2 The Financial System

According to the varieties of capitalism perspective, the financial system would be complemented to the business system, directly influencing the institutional design of the pension system and the operation of pension funds (Hall & Soskice, 2001; Jackson & Vitols, 2001). Generally, two models of financial system can be identified: bank-based, and market-based (Hall & Soskice, 2001; Jackson & Vitols, 2001; Vitols, 2001). In the bank-based financial system, capital is mediated through the banking system, which takes deposits from households, channelling these savings into loans made directly to companies. In the market-based financial system, however, households directly, or indirectly, invest in securities issued by companies (Jackson & Vitols, 2001, p. 172). The main difference between these two financial systems is the degree of pressure levied on pursuing short-term profits.

The bank-based system is arguably designed to prevent the emergence of a ‘market for control’, to emphasise the long-term relationship and profits, rather than short-term profits (Estévez-Abe, 2001; Jackson & Vitols, 2001; Vitols, 2001). Consequently, a stable long-term finance (patient capital) can be provided to the corporate sector, in turn enabling firms to establish long-term commitment to employees and other firms, and further, aiding development of industry, or firm, specific skills. Hence, the bank-based financial system is often found in the CMEs, where an extensive network of cross-shareholding is established on long-term inter-firm commitments, such as Japan and Germany, and to a lesser extent, Korea. Within this financial system, pension funds are regularly redirected to facilitate economic development, or to be patient capital through banks (Estévez-Abe, 2001; Jackson & Vitols, 2001; Manow, 2001b). In Japan, in order to establish long-termist economic coordination, the keiretsu-centred business system relies on the bank-based financial system Japanese firms, thereby, have considerable autonomy from property rights holders, and the ‘market for corporate control’. In short, Japanese firms have more autonomy in corporate governance, and less pressures for short-term financial results. As expected, pensions are often utilised as industrial, or patient internal, capital. The Korean financial system, to a lesser extent, is closed to the bank-based system, but state-led. The Korean authoritarian government channelled massive foreign capital into strategies industries, such as policy loans. This is in accordance to its developmental aim of directing and governing business activities, when the chaebols’ financial capacity was limited in the early stage of industrialisation (Y. J. Choi, 2009; Johnson, 1987). Put simply, Korean firms could prevent the emergence of ‘market for control’, but their autonomy was constrained by the developmental plans of the state.

Conversely, in the market-based financial system, the stock market is one such financial market that provides capital to the corporations, and within which, short-term relationship and profits are emphasised. Consequently, employers tend to focus on the short-term profits requested by stockholders. The market-based financial system is usually found in the LMEs, where flexibility and radical innovations are emphasised, such as in the United States and Taiwan. In these countries, pensions would be managed by financial institutions, and used to stimulate the capital and stock market, but rarely managed as industrial capital for industrialisation. In Taiwan, the dominant unit of economic coordination and control in Taiwan is family ownership and control. Enterprises are often seen as part of the family property, rather than as separate administrative entities (Whitley, 1992, p. 54). Moreover, compared to the Japanese keiretsu and the Korean chaebol, SMEs have less demand for capital formation. Instead of through banking, or the stock market, these small family businesses are often financed by informal financial systems, such as family members, close friends, or revolving credit associations (Y. J. Choi, 2009; Whitley, 1992).[3] As a result, the SME-dominated business system has no need for funded-type corporate pension schemes.

3.2.3 The Labour Market Regime

In the labour market regime, two key components should be dissected: employment relations[4] and skill formation. Employment relation and skill formation both shape the institutional design of the pension system. In the power resource theory, labour power is the key to explaining social policy variations in European welfare states (Esping-Andersen, 1985, 1990; Korpi, 1983, 1989), while East Asian labour power is widely accepted to be weak, since it lacks a European style, collective bargaining system at national level (Deyo, 1989; Pempel, 2002). However, this view did not note the difference in employment relations in East Asia.

At enterprise level, rather than at national level, in Japan and Korea, labour power is relatively strong. This is because core workers in the larger firms are often organised and unionised. Thus, enterprise unionism is prevalent in Japan (D. Y. Jeong & Aguilera, 2008) and Korea (J.-Y. Jeong, 1995, 2007) and had great impacts on their social policy developments. Enterprise unions prefer social policies, such as fragmented social insurance programmes, and enterprise welfare, that are designed for their members- that is, the core workers (P. H. Kim, 2010; Pempel, 2002; Song, 2012b; J.-J. Yang, 2013). Enterprise welfare is important for three reasons in Japan and Korea. First, it helps employers to deal with labour disputes and to create economic cooperation; second, it provides incentives for people to invest industry, or firm, specific skills; third, the state can externalise the financial cost of social policy to enterprise, concentrating financial resources on productive activities. In Japan and Korea, enterprises become the community of risk-sharing, or social solidarity.

Labour in Taiwan, by contrast, is, due to its SME-dominated business systems, and authoritarian regime, weak at both national and enterprise level. At national-level, labour unions were controlled by the authoritarian government in the post-war period so that a productivist-oriented environment could be created (Y.-J. Lee, 1999; Wang & Fang, 1992). At enterprise level, labour power is weak because, according to law,

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[3] Wade (2004, p. 264) points out the government's overriding concern: "the bank have not been encouraged to take an interest in the well-being of their borrowers… Banks have not developed a capacity to analyse company finances, industry structure, or the commercial feasibility of projects."
[4] In this study, I tend to use the term 'employment relation' rather than 'industrial relation'. This is due to labour in East Asia never becoming a critical actor at national level, but labour being strong at enterprise level in Japan and Korea. Therefore, 'employment relation' is more appropriate to highlight this feature.

the minimum number of employees required for a labour union to be organised at firm level is 30. However, the SME-dominated labour system of Taiwan was atomised, with 97.63% of firms (in 2011) being SMEs.[5] The Taiwanese labour power, unlike in Japan and Korea, was uninterested in enterprise welfare, therefore.

In analysing employers' social policy preferences, the skill formation system is particularly important (Estévez-Abe et al., 2001; Iversen, 2005). The East Asian skill formation system was reduced to the developmental state model, within which the state played a crucial role in coordinating the supply and demand of skills that serve the broad goal of nation-building and economic development (Ashton et al., 1999). However, its variations are rarely scrutinised.

According to the varieties of capitalism perspective, three types of skill formation are developed to fit its product market strategies: firm-specific, industry-specific, and general skills (Estévez-Abe et al., 2001, pp. 148-149). Mass production is often complemented to general skills, it not requiring a highly trained workforce. Firm-specific skills are, however, required by a variant of mass production, known as diversified mass production. This product market strategy requires workers to perform a wide range of tasks in order to solve production line problems. These workers are requested to own high levels of knowledge bounded to their company products. Such industry-specific skills are stronger in the countries where a high-quality niche market strategy exists. Craft-intensive workshops are often at the core of this product market strategy. To encourage people to invest in particular skill types, different social protections are required by the various skill formation systems.

The development of a firm-specific skill formation system must resolve the problem of the 'prisoner dilemma' between the employer and employee. Since firm-specific skills cannot be used by other firms, employers must, to guarantee their investment in firm-specific skills can be rewarded, provide employment protection and generous employee benefits as incentive schemes (Estévez-Abe et al., 2001; Iversen, 2005). Japanese firms greatly rely on internal training, promoting managers with detailed knowledge of, and experience in, one industry or firm (Aoki, 1988; Koike, 1995). The degree of skill specificity is high in Japan (appendix 6), and in order to encourage people to invest in firm-specific skills, Japanese firms used a permanent employment system, and generous enterprise welfare. This enabled establishment of a strong employment commitment to workers for investment in firm-specific skills.

In Korea, employers also rely on firm-specific skills (Ashton et al., 1999; S.-Y.

[5] Source: http://www.moeasmea.gov.tw/dl.asp?filename=253017242771.pdf.

Lee, 2011). Having started industrialisation, based on the Fordist mass production notion, Korea diversified being unable to develop a vocational training system of craft-intensive workshops. Therefore, the Korean chaebols prefer to pre-empt high-educated workers, protecting their employment and providing them with incentives, such as enterprise welfare, to acquire industry, or firm-specific skills (Chung, 2008; S.-Y. Lee, 2011) (appendix 5). Compared to Japan, and due to the absence of institutional mechanism for avoidance of ‘skill patching’, the employer-employee relationship is relatively limited (Song, 2012b; Whitley, 1999) (appendix 6). Korean employers endeavoured to establish an employer association, known to resolve the problem of skill poaching, but due to the chaebols having to compete for skilled workers from the external labour market, during early industrialisation, it failed (Song, 2012b).

By contrast, employers in the general skill formation system prefer to search for skilled workers in the external, rather than internal, labour market. Therefore, a short-term relationship is prevalent. Those with general skills can re-enter the labour market as soon as their skills can be utilised by other industries or firms. Consequently, employment protection, unemployment protection, and pension insurance are relatively meagre (Estévez-Abe et al., 2001; Iversen, 2005). In Taiwan, export-oriented SMEs rely far more on general skills to create a flexible labour market that competes in the world market (appendix 6) (Hu & Schive, 1998). Thus, SMEs have no incentive to commit high employment protection, or generous enterprises welfare,[6] instead relying on public education and training systems to find workers from the external labour market.

Three institutional spheres- the business system, the financial system, and the labour market- have been discussed. With the varieties of capitalism argued (Hall and Soskice, 2001; Mares 2003), analysing the diversity of East Asian capitalisms helps to understand how political actors’ social policy preferences are varied in, and shaped by, national capitalist structure. Based on this, we are able also to explain how the strategically institutional complementarity is forged. With this institutional complementarity not functionally interdependent, or created in a single ‘big bang’, the different institutional components are forged during different historical periods (Thelen, 2004). The dynamic of the formation of institutional complementarities involves the political-economic coalition formation, and the way these coalitions

[6] In fact, long-term commitment and seniority-based promotion practices do exist in Taiwan, but only for those workers with strong personal ties to the owner. While previously unknown staff, hired through impersonal channels neither expect, nor receive, such commitments. Therefore, the scope and length of employer-employee commitments in Taiwanese business, particularly, small and medium enterprises that are owned by the family, is limited (Whitley, 1999, p. 151).

strategically coordinate institutions (Mares, 2003; Mares & Carnes, 2009).

3.3 Cross-class Coalition – State-Business Relations

The nature of cross-class coalitions is the key to illustrating cross-national variations in social policy arrangements that exist in welfare state theories (Esping-Andersen, 1990; Mares, 2003; Mares & Carnes, 2009; Swenson, 1991, 2002). In East Asia, the developmental state thesis emphasised the state-business coalition as a prerequisite of the state-led developmental model (Hundt, 2009; Johnson, 1982, 1987). However, the state-business coalition was ignored, since social policy is naturally subordinated to economic development when the state is developmental, by the studies of East Asian welfare state regime. By analysing state-business coalitions, the formation of strategically institutional complementarities between social protection, and capitalist production within a historical dynamic framework, can be elucidated.

As mentioned, the state in East Asia acted as the institutional coordinator, given the firm's incapability to resolve economic coordination in the initial stage of industrialisation. However, it should not be simply assumed that employers are completely controlled by, or subordinated to, the state. The influences of the firm should not be neglected, particularly when the state is productive-oriented (Farnsworth, 2004; Gough & Farnsworth, 2000). The capitalists exercise considerable discretion over the acquisition, use and disposition of human and material resources in the capitalist economies and thus, the productive-oriented state tends to divert resources to business activities, enhancing their coordination capacities (Schneider & Maxfield, 1997; Whitley, 1992). The state does not dominate society, but negotiates with the business sector and the state-business developmental alliance is, therefore, key to economic success (Hundt, 2009).

Johnson (1999, p. 60) writes: "the concept 'developmental state' means that each side uses the other in a mutually beneficial relationship to achieve developmental goals and enterprises viability… The state is a 'catalytic agency'… and the managers are responding to incentives and disincentives that the state established." Thus, state-business relation is not a unilateral domination, but a reciprocal relationship (Hundt, 2009; Schneider & Maxfield, 1997). Even in the authoritarian Korea and Taiwan, the states cannot act alone, and their success in economic development and transformation is dependent in a large way on how they colluded with businesses through the dense network (Fields, 1997). Amsden (1989, pp. 150-151) argues that Korea's economic success should be attributed to the dynamic between two key institutions: "the reciprocity between big business and the state" and "the internal and external behaviour of the diversified business group". Evans (1995) also proposes a similar view, arguing that 'embedded autonomy', an underlying structural basis for successful state involvement in industrial transformation, is conditioned by two factors: the internal network of bureaucratic coherence, and the external network connecting with the state and large private agents. He concludes that "Mutual reinforcement… lies at the core of the developmental state's success. A robust and coherent state apparatus facilitates the organisation of industrial capital; and organised class of industrialists facilitates a joint project of industrialisation, which in turn legitimates both the state and industrialists" (Evans, 1995, p. 228). Lim (1998) elucidates that a mutually dependent relationship, in particular, between the government and big businesses, is the prerequisite for economic development. This was done by raising the case of the Korean economic miracle in the context of treating power in a structural manner. In Hundt's study on the Korean developmental state, the state had to collaborate or collude with big business (chaebol) to implement strategic industrial projects. This is not the only case in Korea, and in fact, it can be shown that the state-business alliance was (is) also key to the Japanese and Taiwanese developmental state (Johnson, 1987; Wade, 2004). These arguments imply that the "government should be regarded as an endogenous player interacting with the economic system as a coherent cluster of institutions rather than a neutral, omnipotent agent exogenously attached to the economic system with the mission of resolving its coordination failures" (Aoki et al., 1996, p. 2).

The developmental state thesis, and the varieties of capitalism, both argue that social policy development is inter-embedded with the national capitalist structure and its development (Hall & Soskice, 2001; Holliday, 2000). How institutional coherence between the welfare state and the national capitalist structure is forged is not well-scrutinised, but theoretically assumed. For example, it is simply assumed that East Asia tended to put more efforts on productive social policies (education and health policy) and the creation of a flexible labour market in order to implement export-oriented industrialisation (Deyo, 1989; Wibbels & Ahlquist, 2011). Recent studies demonstrated, however, how the formation institutional complementarity between the welfare and production regimes is the result of strategic interaction of political-economic actors (Mares, 2003; Mares & Carnes, 2009; Swenson, 1991, 2002). This is a political process- institutional coherence would not be forged by a single big bang according to institutional logic (Thelen, 2004). Instead, political-economic actors would forge a cross-class coalition to strategically coordinate institutional linkage. For example, Haggard and Kaufman (2008) demonstrate that the ruling coalition is the inter-mediated factor, linking developmental strategy and social policy to explain social policy variations in East Asia, Latin America, and Eastern Europe. They argue that, the East Asian governments weakened organised labour, the left, and rural political movement to form the conservative state-developmental alliances for the adaptation of export-oriented industrialisation. This led the East Asian governments to emphasised productive social policies. Conversely, Latin America, featuring import-substitution industrialisation, tended to create a ruling coalition comprised of reformist leaders from the military, middle and urban working classes, since these actors are the core of the domestic market. The states must create a large domestic market, and gain political support from these actors to support the implementation of import-substitution developmental strategy. An employment-related social insurance system is favoured, in order to maintain a large domestic market and gain political support. Simply put, the inter-embeddedness of capitalist production (the developmental strategy) and social protection is politically mediated.

Analysis of the state-business developmental alliance helps to go beyond structural functionalism. Structural functionalism tends to look for ‘causal correlation’ between the dependent and exploratory variables. However, this study aims to explain how the pension policy was strategically inter-embedded with the national capitalist structure to explain cross-national variations in the public-private pension mix and politics in Japan, Korea and Taiwan. Thus, the focus is not to search for a ‘causal correlation’, but a ‘causal mechanism’, based on configurational thinking.

Structured by national capitalist structure, the modes of the state-business developmental alliance in Japan, Korea and Taiwan vary (Evans, 1995; Fields, 1995, 1997, 2012). Fields (1997, p. 141) argues that political leaders’ anti-large business bias, and ethnic suspicion of the Taiwanese majority, led the KMT government to structure a ‘more distance and less dense’ relationship of coordination between the public and private sectors of Taiwan. Instead, the KMT government tended to politically incorporate employers and labour into its ruling regime in order to forge the state-dominated developmental alliance. Thus, pension politics dominated the state. Conversely, state-business relations in Japan and Korea were much closer. In Korea, state elites fostered a close relationship of quasi-internal collaboration with industrial chaebols. Through massive financial subsidies and other incentives, the state gained the compliance of the chosen chaebols, and these nascent, industrial chaebols were unilaterally guided by the government before becoming their fully-fledged, symbiotic partners (Fields, 1997, p. 124). In Japan, state-business relations were symbiotic, and reciprocal. The state protected the keiretsu from any legal or financial challenges made by outsiders, as well as the domestic market from international competition. The state, moreover, actively promoted private sectors, through such means as tax breaks, government-supervised investment coordination, and government-guaranteed financing. Hence, the private sectors (keiretsu) could enjoy a more stable, cooperative environment. The private sector, however, offered the state a much greater degree of social goal-setting, and influence over private decisions (Johnson, 1982, p. 311).

The symbiotic and reciprocal relationship between the state and large businesses reduced the state's autonomy in policy making in Japan and Korea. The influences of employers are significant, but rather than being static, cross-class coalition is dynamic when preferences of political actors, and their power balances, are contingent on political-economic structures. For example, Johnson (1982, 1999) pointed out that during 1931-1940 the state tended to delegate control to private agents (mainly, cartels) for each industry. The state directly established, however, control associations to displace private cartels, private ownership, private labour organisations, and private management from 1940-1952 in order for war mobilisation. After 1952, state-business relations were cooperative and symbiotic. In Korea, the state-business developmental alliance was dynamic, and the influences of employers contingent on political-economic transformations (E.-M. Kim, 1988, 1997). For example, democratisation in the mid-1980s, the two oil crises in the early 1970s and 1980s, and the Asian Financial Crisis in 1997, weakened the influences of the chaebols, shifting the power balance of political actors (D.-J. Chang, Kim, & Park, 2012; Mo & Moon, 2003).

Further, the cases of Japan and Korea remind us that social policy preferences of political actors changed along with the transformation of developmental strategies. In Korea's period of labour-intensive, export-oriented industrialisation, for example, employers did not want to bear the cost of skill formation and social insurance. When, in the 1970s, the development strategy was shifted to capital and skill-intensive, heavy and chemical industrialisation, however, they tended to be in favour of the company-based skill formation system and corporate welfare (Song, 2012b; Woo, 2004). It is clear that political actors' social policy preferences are not fixed, but dynamic.

The diversity of state-business relations in the three East Asian welfare states provides evidence that the configurations of political-actors are different, and is determined by institutional structures. Additionally, with the power balance and preferences of political actors being determined by institutional structures, the state-business developmental alliance is dynamic. Accordingly, pension politics can be expected to vary across three East Asian welfare states, with the causal mechanism connecting capitalist production and social protection also differing.

Conclusion: The Analytic Framework and Theoretical Assumptions

Figure 3.1 is the analytic framework of this study, showing how the developmental state thesis and the varieties of capitalism perspective are synthesised to analyse similarities, and variations, in the public-private pension mix in Japan, Korea and Taiwan. To start with, this framework must be understood in the context of less developed countries, meaning that the state (or other special institution) has to actively intervene with the capitalist economy. This is does to enhance market efficiencies, and create stability, and in order for economic catch-up, the state must be productivist-oriented or developmental.

Then, the varieties of capitalism perspective's concept, that capitalist production and social protection are inter-embedded was accepted. In the sphere of capitalist production, three institution were included and inter-embedded: the business system, the financial system and the labour market regime. It was preferred to define the business system as the size of the business and inter-firms relations, having a great influence on how the financial system and labour market (which are also inter-embedded) are structured. This inter-embedding allows the forging of different national capitalist structures in Japan, Korea, and Taiwan. The national capitalist structure then shapes the political actors' preferences and strategy in coordinating the pension system and capitalist production, also determining how cross-class coalition is forged. The state, rather than the firms, is the main institutional coordinator in this framework, unlike the varieties of capitalism.

I then accepted the developmental state thesis's argument that the state has to play a role in strategically coordinating institutional coherence between the pension and national capitalist structure. Yet, unlike the developmental state thesis, this study sees the state as institutional coordinator rather than an omnipotent actor. It argues that the state must collaborate, or collude, with the capitalists in order to achieve its developmental goals (economic catch-up) and to enhance the private agents' coordination capabilities. Further, analysing the state as the institutional coordinator enables avoidance of the varieties of capitalism's static analysis (Schmidt, 2009). The analysis of how the state and other political actors, typically the capitalists, cooperated will help to understand how the pension system is designed to be embedded into national structure. Nevertheless, this state-business, developmental alliance is dynamic, not static. Political actors have their preferences and strategies shaped by institutional structure, but also want to take advantages of institutional structure to alter, or maintain it. Therefore, this analytic framework has to be analysed historically.

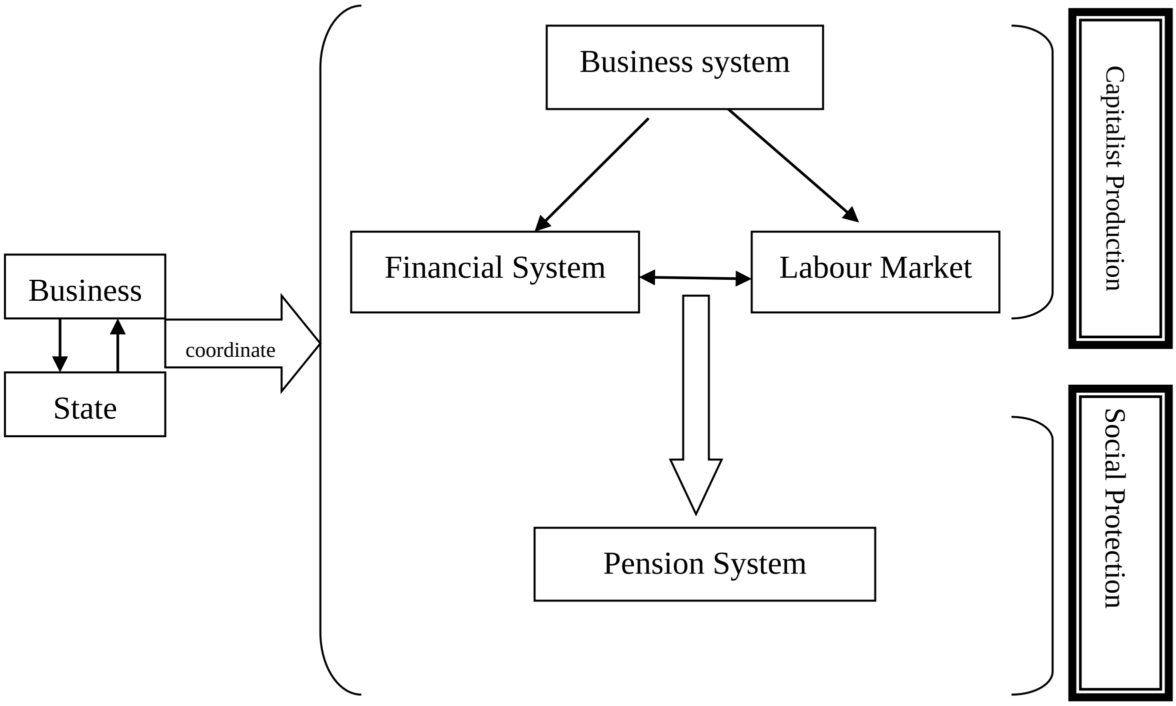

Figure 3. 1 The Analytical Framework

Accordingly, I have argued that cross-national variations in the public-private pension mix in East Asia are the result of the diversity of national capitalist structures. In Japan, the keiretsu-centred business system is complemented by the bank-based financial system, and the firm-specific skill formation system. In the keiretsu-centred capitalist structure, political actors' pension preferences would be structured to favour the utilisation of pensions that support its industrialisation, and resolve economic coordination problems. It is assumed, in the case of Japan, that its public pensions would be designed as a policy instrument of capital formation, in order to facilitate industrialisation through financially supporting the keiretsu. In the face of economic coordination problems, additionally, corporate pensions would be considered as a resource that can help employers to resolve economic coordination problems, in skill and capital formation. It helps, for instance, to encourage workers to develop both firm-specific skills, and internal capital for firms. Thus, we can expect Japan to develop a hybrid pension system, within which public pensions are relatively less generous, but corporate pensions are well-developed. In the keiretsu-centred capitalist structure, the state can be expected to collaborate with the keiretsu to coordinate the institutional linkage between pension system, and national capitalist structure. This is due to its reliance on keiretsu to facilitate economic development. Labour would be divided by the keiretsu-centred capitalist structure, with employers likely to develop some management practices, such as corporate pensions and welfare. Further, the permanent employment and seniority-based systems would be expected to develop firm-specific skills, thus, core workers with firms-specific skills would become ‘growth-minded’, and incorporated into the state-keiretsu developmental alliance.

In Taiwan’s SMEs-dominated capitalist structure, SMEs typically need to rely on informal financial channels and a general skill formation system which in turn results in a flexible labour market system to exploit flexibility- its comparative institutional advantage. This feature is expected to weaken the incentives of employers to develop corporate pensions and welfare, the preference being to exploit cheap labour and flexibility. Thus, corporate pensions are assumed to be under-developed in Taiwan. Shaped by the SMEs-dominated capitalist structure, public pensions would not be mobilised as industrial capital. Instead, the state tends to use fiscal incentive schemes to encourage export-oriented SMEs. Within this SMEs-dominated capitalist structure, political power of employers and labour was expected to be weak due to the problem of collective action. We expect that the role of business in pension politics is not explicitly significant in Taiwan, instead, welfare and pension politics is dominated by the state. Taiwan, therefore, would develop a statist pension system, within which the state is not only a direct pension provider but also a pension policymaker.

In Korea, the chaebol-dominated business system would be inter-embedded with the state-dominated, bank-based financial system, and high-specific skills. Thus, it would be expected that, shaped by this chaebol-dominated capitalist structure, political actors would utilise the pension system to facilitate industrialisation and resolve economic coordination problems in skill and capital formation. Employers are expected to be in favour of corporate pensions and welfare to resolve economic coordination problems in skill and capital formation by avoiding skill poaching. Public pensions would be favoured as a policy instrument of capital mobilisation to support the state’s developmental strategy. In the chaebol-dominated capitalist structure, we can expect that nascent chaebols would gradually grow to become the symbiotic partner of the state. Thus, a state-chaebol developmental alliance could be observed. As in Japan, however, chaebol workers would be, expectantly, politically, and economically incorporated into the state-chaebol developmental alliance when they must rely on chaebols’ growth to secure their welfare and job security. It can therefore be assumed that Korea would develop a hybrid pension system, with relatively less generous public pensions, but relatively well-developed corporate pensions.

Chapter 4 – Research Design

This study aims to understand and explain the cross-national variations in the public-private pension mix of Japan, Korea, and Taiwan. A comparative study will be a suitable research method since its typical goal is to study ‘diversity’: “to unravel the different causal conditions connected to different outcomes” (Ragin, 1994, p. 108). I will adopt two methods.

Firstly, comparative institutional analysis will be used to dissect the diversity of East Asian capitalisms; secondly, comparative historical analysis will elucidate how the pension system was designed to complement national capitalist structure. In the first part of this chapter, the reasons for the case selection will be explained. Based on the logic of the most similar system method, Japan, Korea and Taiwan will be selected to control some systematically independent variables, enabling the researcher to focus on the ‘differences’. The two methods – comparative institutional analysis, and comparative historical analysis – will then be introduced.

4.1 Case selection – Japan, Korea and Taiwan

In East Asian welfare state studies, four tigers (Korea, Taiwan, Hong-Kong and Singapore) and Japan are often compared, both for geographical reasons and their experience of economic development (Aspalter, 2001; Deyo, 1989; Holliday & Wilding, 2003c; Ramesh, 2004; K.-L. Tang, 2000). Nevertheless, this thesis attempts to focus on three northeast Asian welfare states – Japan, Taiwan and (South) Korea. China, Hong-Kong and Singapore, due to their political regime, and -economic developmental model being different to Japan, Korea and Taiwan, will be excluded (Haggard, 1990; Pempel, 2002; Ramesh, 2004).

By selecting only Japan, Korea and Taiwan, some variables commonly shared by these countries can be controlled (such as Confucianism, conservative-dominated politics, weak labour power, state-led developmental pattern, and similar experiences of democratic transition). Principally, the comparative study “attempts to develop explanations by the systematic manipulation of parameters and operative variables” (Smelser, 1976, p. 158). By selecting substantial cases, variables can be controlled (Goertz & Mahoney, 2012; Przeworski & Teune, 1970). Thus, this study is designed, by selecting only Japan, Korea and Taiwan, to be the ‘most similar systems method’.

The ‘most similar system method’ is based on the assumption that “systems as similar as possible with respect to as many features as possible constitute the optimal samples for comparative inquiry (Przeworski & Teune, 1970, p. 32). By comparing the most similar systems, common systematic features are perceived as ‘controlled for’, and inter-systematic differences are regarded as ‘explanatory variables’ (Przeworski & Teune, 1970, pp. 33-34). That is, the number of independent variables can be minimised, and the differences emphasised. By eliminating potential explanatory factors, one can evaluate different, potential explanations to eliminate rival explanations (Mahoney, 1999, pp. 1158-1160).

4.2 Research Methods

It should be noted that the concern of this research is not ‘variables’, but configuration. The focus is on how to elucidate institutional complementarities between the capitalist structure and pension systems of Japan, Korea and Taiwan. Hence, it may be impossible to identify a set of clear-cut variables in order to delineate the significant independent variable to explain the change in dependent variable. Comparative institutional analysis will, therefore, be a suitable method in dissecting the diversity of East Asian capitalisms. Through this, we can understand how sub-institutions are inter-embedded to forge an institutional totality. This comparative institutional analysis of East Asian capitalisms will be the theoretical foundation for understanding how the pension system was designed for embedding into national capitalist structure. As mentioned in the previous chapter, the national capitalist structure shapes political actors’ pension preferences, and the nature of cross-class coalition. Elucidating these factors will enhance understanding of the causal mechanism of institutional inter-embeddedness. Therefore, I will incorporate comparative historical analysis to establish how the different interactions between actors and actors’ preferences are shaped and constrained by the given institutional contexts. This will enable understanding of the causal mechanism of the pension system and national capitalist structure. The combination of comparative institutional analysis and comparative historical analysis helps to employ the controlled comparison on the one hand, and to deal with some methodological problems raised from the controlled comparison on the other (George & Bennett, 2005: Ch. 8).

4.2.1 Comparative Institutional Analysis

This study is comparative. Comparative institutional analysis studies how institutions shape forms of economic organisation, and the consequence of this on performance outcomes (Morgan et al., 2010, p. 5). It departs from the perspective of defining an institution as a monolithic entity. Instead, comparative institutional analysis tends to recognise that institutions are composed of interrelated, but distinct components. These manifest themselves as an organisational configuration (Crouch, 2005; Hall & Soskice, 2001).

A feature of comparative institutional analysis is that it considers institutions to be interrelated, and inter-embedded. Leading to an equilibrium in which the structure, constituted by these institutions, influences political-economic actors' behaviours, these behavioural responses in turn reproducing the institutions (Greif, 2006, pp. 14-15). It is a holistic, or configurational thinking. Thus, the interaction between institutions and actors is a reciprocal process: on the one hand, institutions shape and constrain actors' preferences, and their strategic action; on the other, actors' strategic action and preferences reproduce institutions that are beneficial to them (P. Pierson, 2004). As shown in figure 3.1, three inter-embedded institutional spheres will be compared: the business system, the financial system, and the labour market. Chapter 5 will compare three East Asian capitalisms, and to show how these institutional are inter-embedded.

4.2.2 Comparative Historical Analysis: "Process-Tracing Analysis"

This study is historical. As argued, institutional complementarity cannot be forged by a single 'big bang' reform, but coordinated at different historical junctures through actions of political coalitions. Thus, institutional complementarity should be studied within a longitudinal period. "There is no reason to think that the various 'pieces' will necessarily fit together into a coherent, self-reinforcing, let alone functional, whole" (Thelen, 2004, p. 285). Thelen (2004, pp. 286-287) insists, therefore, that a more political version, focusing on political-economic actors' preferences, actions and strategic choices, is the key to understand historical and political dynamic of the institutional complementarities.

The process of interaction between institutions and actors should be studied as a historical process. Through analysis of how the pension system was designed to be embedded into the national capitalist structure, configurational thinking is required. This study set outs not to identify correlations between independent variables and outcomes, but to trace causal mechanism between the pension system and the national capitalist structure. Causal mechanism is defined as "a complex system, which produces an outcome by the interaction of a number of parts" (Beach & Pedersen, 2013, p. 1). Thus, "it assumes that the activation of a mechanism actually generates an outcome in the sense that the mechanism is sufficient to produce the outcome of interest; that is, if the mechanism actually operates, it will always produce the outcome of interest" (Mahoney, 2001, p. 580).

In order to study causal mechanism, systematic process-tracing analysis is needed to dissect the theory-based mechanism that actually links causal factors to outcomes (George & Bennett, 2005; Goertz & Mahoney, 2012). It attempts to "identify the intervening causal process – the casual chain and causal mechanism – between an independent variable (or variables) and the outcome of the dependent variable" (George & Bennett, 2005, p. 206). Systematic process-tracing analysis is used to assess and/or highlight the causal mechanism between explanatory variables (or factors) and outcome. Also, to enrich theoretical debates by emphasising the intervening variables, and the detail of causal mechanisms connecting explanatory variables and outcome (George & Bennett, 2005, p. 182).

The point of departure of systematic process-tracing analysis is that "observations bearing on a theory's predictions about the process, whereby an outcome is caused, provide as relevant a test of that theory as predictions about the correspondence between a small number of casual variables and the outcomes they are said to produce" (Hall, 2003, p. 393). The key, therefore, is to study a process, since the explanatory power or causal inference is predominantly derived from how a process is studied. In short, "systematic process-tracing analysis examines the process unfolding in the cases at hand, as well as the outcomes in those cases". Hall (2003, 2008) points out that systematic process-tracing analysis should include four steps:

(1) Theory formation: The investigator must formulate a set of theories that identify those potential casual variables thought to have great impacts on the outcome. Further, these theories help to understand how causal mechanism is operated (Hall, 2008, pp. 309-310). This part has been shown in chapter 2, within which five potential explanations were discussed.

(2) Deriving predictions: After different theories have been discussed, the investigator derives predictions, through observation, to establish whether the theoretical assumptions are valid or false (Hall, 2008, p. 310). This was shown in the previous chapter.

(3) Making observations: in systematic process-tracing analysis, observations from empirical cases cannot be explained through a clear-cut causal correlation between independent and dependent variables, but through the 'process' linking these variables to the outcomes (Hall, 2003, p. 394). Thus, the point is to analyse which independent variables are linked, and how, to explain the outcome through process-tracing. In this study, through this process-tracing analysis, we can understand how actors coordinate institutions by a series of attempts.

In this regard, chapter 5's comparative institutional analysis of East Asian capitalisms will offer a theoretical foundation to elucidate how political actors were shaped, and the nature of cross-class coalitions were determined by national capitalist structure. Chapters 6, 7 and 8 will then focus on each country to show political actors' pension preferences, and how they interacted within each national capitalist structure. This will be done in order to elucidate the casual mechanism of institutional linkage between the pension system and national capitalist structure. In each chapter, two periods will be analysed- the post-war period (1945 to mid-1980s), and mid-1980s to the present day. Under pressure from the U.S., the mid-1980s was a turning point for East Asian welfare states, which gradually liberalised the financial and labour markets (Haggard, 1990; Vogel, 2006). Simultaneously, Korea and Taiwan underwent political liberalisation (Haggard & Kaufman, 2008). Political and economic liberalisation not only changed the 'rules of the game' but also the preferences of political actors, in turn shaping pension policy and politics.

(4) Drawing conclusions: The final step of systematic process-tracing analysis is to make judgement about the relative merits of each theory (on the basis of congruence between the prediction of each theory and their observations) (Hall, 2003, p. 394; 2008, p. 311). Though I have argued that the combination of the developmental state thesis and the varieties of capitalism perspective is key to understanding the similarities and variations in East Asian welfare states, other theories will be assessed simultaneously. Chapter 9 will draw conclusion, first, by comparing the three countries, then by reviewing and comparing the five explanations with the integrated political-economic explanation. This will allow establishment of which is better in explaining the public-private pension mix of East Asia.

Finally, with regard to data source, this study uses secondary data. As argued, this study aims not to find correlations between variables, but to use configurational thinking to dissect how institutions (capitalist production and pension) are strategically complemented. In turn, this should explain the cross-variations in pension policy and politics in Japan, Korea and Taiwan. Secondary quantitative and qualitative data are needed. Quantitative data will be collected from international organisations, such as the OECD and the International Monetary Fund, and national statistical bureaus, with some being recalculated. Quantitative data, further, may help sketch an overall picture of the three East Asian welfare states. Qualitative data will be collected mainly from historical documents, such as newspapers, government documents and literature. This will be to understand how actors (in particular, state and business) collude to utilise the pension system to deal with the contradiction of the welfare state: capital accumulation (such as the problem of prisoner dilemma in skill formation) and political legitimacy. With respect to the Korean case, however, I will rely on English references, to a large extent, because of language problems. The combination of quantitative and qualitative data helps to understand national variations in the structure of capitalist production and pension, as well as to discern how these institutions co-evolve.

Chapter 5 – The Diversity of East Asian Capitalisms

East Asia is often defined as the state-led capitalism, due to the state's deep involvement in guiding economic development (Amable, 2003). When we take a closer look, however, and examine the three institutional spheres of national capitalist structure – business system, financial system and labour market regime – through comparative institutional analysis, the diversity of East Asian capitalisms will be highlighted, providing the focus of this chapter. Examining business systems in East Asia, it is evident that Taiwan is a SMEs-dominated capitalism, while Japan and Korea are dominated by business-conglomerates. This difference not only results in different inter-firm relationships but different financial systems and labour market regimes too. Further analysis of comparative business systems has shown that financial systems in East Asia also differ. The financial systems of Japan and Korea are both bank-based, but differences can be found. In Taiwan, SMEs tend to look for capital from informal channels rather than banks. Thirdly, skill formation systems in Japan and Korea are characterised with firm-specific skills while Taiwan's SMEs rely on general skills. This difference mirrors those in employment relations. Labour is weak at national and firm level in Taiwan but in Japan and Korea, enterprise unionism prevails. These institutional spheres are institutionally complementary, though as I argued in the previous chapter, the institutional linkages of these spheres are not naturally forged, but intentionally, through the state's intervention. This chapter will lay a foundation for the comparative historical analysis of the public-private pension mix in Japan, Korea and Taiwan.

5.1 Business Systems in East Asia

Business systems are very different across East Asia (Whitley, 1992, 1999; Witt & Redding, 2013). In Japan and Korea, business-conglomerates dominate their economy; whereas SMEs dominate Taiwan's export-oriented sector, while public enterprises and large private firms control domestic-oriented sectors.

5.1.1 The Keiretsu-dominated Capitalist Production in Japan

Japan's production regime is dominated by 'keiretsu', business groups, defined as "clusters of firms, linked through overlapping ties of shareholding, debt, interlocking directors, and dispatch of personnel at other levels, shared history, membership in groupwide clubs and councils, and often, shared brands" (Ahmadjian, 2006, p. 30). The origin of Japanese business groups can be dated back to the period of the Meiji Restoration (since 1868). Due to late development, the Meiji government established state-owned enterprises in a wide range of capital-intensive industries. These include railroads, mining, shipbuilding and steel, which were associated with high risks in the initial stage of industrialisation, based on the consideration of national security (Gerlach, 1992; Johnson, 1982). These state-owned enterprises were privatised to political merchants with close ties to state officials and politicians, at relatively low prices in the late 19th century, and became "zaibatsu" (financial cliques)[7] (Carney, 2008, pp. 66-73; Sasada, 2013, pp. 23-24; Wright, 1996, p. 120). These zaibatsu grew and prospered before the Second World War.

After the war, zaibatsu were dissolved by the American military occupation, due to the commitment of the 'demilitarisation and democratisation' of Japan (Wright, 1996).[8] However, the policy goal of the Allied government fundamentally changed after 1948-49, due to changes in US domestic politics, the beginning of the Cold War, the Chinese Revolution, and the outbreak of the Korean War. This 'reverse course' ended the anti-zaibatsu programmes, forging a conservative regime that included conservative parties, big business, and financial institutions (Shinkawa, 2005b). Since the 1950s, the Japanese government started to encourage the reorganisation of former zaibatsu. For example, the Ministry of International Trade and Industry discriminated against SMEs by preventing their entry into strategic industries, favouring large private firms (Gao, 2001). Japanese companies endeavoured to cooperate in the form of either joint ventures, or further development of business groups to form a new type of business network, known as 'keiretsu' (Carney, 2008; Gao, 2001). Within the keiretsu, economic power and managerial authority are fragmented into the hands of professional managers of operating companies, rather than controlled by holding companies or interlocking directorship (Carney, 2008; Wright, 1996).[9]

During the post-war period, keiretsu adopted the strategy of diversification to grow (Schaede, 2008). For the state, the growth of keiretsu could help maintain political stability. The reorganisation and rationalisation of the economy inevitably came with social dislocations and political instability, and therefore, a series of state interventions were used to support big corporations. This was done in order to help private firms institutionalise a permanent employment system to accommodate

[7] Zaibatsu can be defined as "a group of diversified business owned exclusively by a single family or an extended family" (Carney, 2008, p. 63). During the pre-war period, the big four zaibatsu were Mitsubishi, Mitsui, Sumitomo, and Yasuda.

[8] For example, in 1947, the Antimonopoly Law was introduced to prohibit any type of joint action. During the Occupation, Mitsui and Mitsubishi, the two largest zaibatsus, were each dissolved into more than 130 companies (Gao, 2001, p. 83).

[9] In fact, compared to other Asian countries, Japan has the lowest levels of large, family-owned enterprises, this pattern persisting (Carney, 2008, pp. 80-81).

interests of the incumbent sectors and industries (Gao, 2001, p. 43). The keiretsu saw these state interventions as opportunities which could be exploited to diversify their business. Through the strategy of diversification, the keiretsu could reduce the risk of corporate failure and institutionalise cross-shareholding, and the main bank system. These features, due to the main bank being more interested in stable growth through a regular increase in sales revenues, furthered the demand of the keiretsu on the strategy of diversification. The increase in sales revenues enabled the keiretsu to maintain a permanent employment system and other managerial practices. Institutions increasing returns to one another restricted, and limited, the capacity of the keiretsu to adopt breaks from previous activities (Kushida & Shimizu, 2013; Whitley, 1992). Thus, the dominant role of the keiretsu in post-war Japan could be witnessed, and is still evident today, although the strategy of keiretsu has shifted to put more emphasis on short-term profit (Schaede, 2008).

The Inter-firms Network of the Keiretsu

One of the features of the Japanese keiretsu is that they tended to restrict their major economic activities to a single industrial sector, diversifying within it through a subcontracting network (Whitley, 1992). Thus, the keiretsu should be understood as a production (or subcontracting) network (Gerlach, 1992; Wright, 1996).

The formation of keiretsu was organised around long-term commitment between particular firms, ranging across a variety of exchanges. Within the keiretsu, the general trading company (sogo shosha) played an intermediary between suppliers and customers, matching different clients' inputs and outputs, and coordinate materials and information flows (Whitley, 1992). Whitley (1992, p. 31) argues, therefore, that they function as a 'system integrator on a quasi-contractual basis'. For the general trading company of the keiretsu, it is particularly important to establish a production network based on long-termism, enlarging the scope of the production network, in order to reduce transaction costs.

Additionally, the relationship between the main city bank and the keiretsu is mediated by the general trading company. By borrowing from the main banks, credits and project finance are channelled to SMEs in the production network. More importantly, through this main bank system, cross-shareholding can be institutionalised, and prevails to reinforce economic coordination within the keiretsu (Gao, 2001; Whitley, 1992).

This cooperative inter-firms network, organised on long-termism, has some benefits. To begin with, and thanks to long-term economic coordination, uncertainty and transaction costs can be significantly reduced through less negotiation between firms when information and technology are exchanged within the network (Witt, 2006, p. 89). Then, it helps to ensure the production network of the keiretsu can react to contingencies quickly, with consistently high quality and 'just-in-time' delivery (ibid). Through the establishment of this coordinated production network, which for outsiders would be extremely difficult to enter, competitive pressures can be minimised. The keiretsu are then able to develop a firm-specific skill formation system (Whitley, 1992). Finally, this cooperative network enables Japanese firms to combine (internal) flexibility with firm-specific skills (see below) (Aoki, 1988; Koike, 1997; Miura, 2012).

5.1.2 Chaebol as the Heart of the Korean Capitalist Production

Following the Second World War and the Korean War (1950-53), the Korean government sold the factories, production equipment, and inventory of the Japanese colonial government to 'individuals'[10] with the closest relationship to officials. These developed into chaebols which dominated the post-war Korean economy. Chaebol originally meant 'financial clique' and was used to refer to "a group with a vast fortune" (S.-J. Chang, 2003, p. 9). During the 1950s, American aids were channelled into chaebols for the implementation of import-substitution industrialisation. The chaebols (for example, Hanwha, Doosan, Samsung and Hyundai) with closer political connections could gain preferential access to government-controlled resources and other government favours (Fields, 1995, p. 34). Under the protective conditions of import substitution, these chaebols could gain windfall profits through rent-seeking behaviours that expand the business activities to create a financial base for the future.

Since the 1960s, these chaebols have rapidly developed. In order to establish and consolidate his military ruing regime, the General Park Chong-Hee needed to select 'friendly and capable' entrepreneurs, channelling resources to them for implementation of export-oriented industrialisation (Fields, 1995, p. 34). This selective strategy gradually nourished the chaebols, increasing their industrial concentration (T. J. Cheng, 1990; Kang, 1996; D.-M. Shin, 2003; Woo, 2004). The growth of the chaebols was reinforced during the 1970s when capital-intensive heavy and chemical industrialisation was implemented. During the period of the Park regime (1961-79), the expansion of chaebols was significant, table 5.1.1 demonstrating that sales of the top ten chaebols reached 15.1% of GNP, before increasing to 48.1% in 1980. Since then, Korea's economy was dominated by the chaebol.

[10] These assets accounted for 30% of the Korean economy (S.-J. Chang, 2003, p. 46)

Table 5.1.1 Combined sales of top ten chaebols, as a percentage of GNP[a]

Groups	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
1	4.9	4.3	4.7	7.9	6.9	8.3	8.3	10.5	10.4	11.8	12.0
2	7.2	7.5	8.1	12.5	12.9	12.8	16.3	19.1	19.0	21.2	24.0
3	9.0	9.8	11.3	16.0	16.9	17.6	23.9	27.6	27.4	3.5	35.8
4	10.3	11.4	12.9	18.2	20.7	22.1	30.1	35.2	35.6	38.7	44.3
5	11.6	12.8	14.5	19.8	22.9	24.6	35.0	41.3	42.2	46.7	52.4
6	12.7	14.1	16.1	21.3	24.7	26.6	38.2	44.9	46.0	51.0	56.2
7	13.5	15.3	17.5	22.8	26.4	28.5	41.0	48.0	49.2	54.2	59.4
8	14.3	16.2	18.4	24.0	27.7	30.3	43.6	50.9	52.2	57.1	62.1
9	14.7	16.7	19.3	25.2	28.9	31.6	46.0	53.3	55.1	59.8	64.8
10	15.1	17.1	19.8	26.0	30.1	32.8	48.1	55.7	57.6	62.4	67.4

[a] (Aggregate net sales of the largest ten business groups/GNP) * 100 for each year

Source: adopted from Amsden (1989, p. 116)

The Inter-firms Network of the Chaebol

Generally, chaebol is defined as “any group of two or more legally independent firms producing goods and/or services within various product sectors of the Korean Economy” (Fields, 1995, p. 32). Practically, some common features among chaebols existed.

The chaebols were usually family-owned, their management thus underpinned on filial piety to forge an authoritarian hierarchy, and establish close inter-firms relations (E.-M. Kim, 1997, p. 63). The strongly centralised authority allowed chaebols to be efficient in decision making and information transferral (E.-M. Kim, 1997, p. 65). The state played an active role in enhancing it (E.-M. Kim, 1997, p. 65): providing low-interest policy loans for chaebols to help the founder’s family retain the ownership of their businesses; the inherent law enabling businesses to be transferred to other family members without tax burdens.

The chaebol, organised by different member’s companies and owned and managed by one or two families, have great ‘internal flexibility’ in mobilising and exchanging capital and technology among member’s companies. The chaebol, therefore, usually mobilise capital, or transfer technology, within its network (Fields, 1995; E.-M. Kim, 1997).

The Korean chaebols tended to develop, for three reasons, by horizontal diversification into unrelated sectors. For one thing, it helped chaebols, who had to diversify its business to unrelated but strategic sectors (believing their loss would eventually be covered by the state), to grasp the state’s financial supports (S.-J. Chang, 2003; B.-K. Kim, 2012; E.-M. Kim, 1997). Next, the diversification of businesses helped the chaebols to socialise business risks. Through diversification, the affiliate subsidiaries could be provided to each other through cross-shareholding or even circular shareholding, relieving the need to seek equity capital (B.-K. Kim, 2012, pp. 37-38; E.-M. Kim, 1997). It minimised the risks of hostile takeovers, thereby being able to grow and protect family ownership and management. Lastly, in the circumstance of lacking institutionalised market coordination, diversification of business helped the chaebols to establish non-market coordination through an internal exchange within the chaebols, increasing its comparative advantage in lower sectors (E.-M. Kim, 1997, p. 77).

5.1.3 Taiwan: The Dual Business System

The Taiwanese business system is dualist: SMEs dominated the export-oriented sectors, while public enterprises and large private firms were domestic-oriented (C.-H. Chen, 1994; Fields, 1995). This dual business system was intentionally coordinated by the state (Fields, 1995). In contrast to Korea, the KMT government took over firms of the Japanese colonial rule following the war. For the KMT government, after the retreat from the mainland China in 1949, the main challenge was to ‘retain its hegemony in a capitalist system’ (T. J. Cheng, 1990, p. 143). The control of the KMT over these domestic-oriented enterprises became the prerequisite for the implementation of import-substitution industrialisation, and political legitimacy to support its war economy (T. J. Cheng, 1990; Z. R. Lee & Chen, 2011). In the 1950s, the KMT government channelled American aids to domestic-oriented enterprises to strengthen the state’s control over the economic system (Haggard, 1990). In 1951, over half of the total industrial production were out of state-owned enterprises (Haggard, 1990, p. 86). The significance of large companies is limited in Taiwan, when compared to Japan and Korea (table 5.1.2). In 1980, the largest 5 firms and chaebols contributed 5.52% and 18.4% of GNP, respectively, in Taiwan and Korea.

Table 5.1.2 Contribution to Gross National Product by Firm Size in Taiwan (in percentages)

Numbers of Firms	1980	1981	1982	1983
5 largest	5.52	4.90	5.02	5.45
10 largest	8.70	7.91	7.69	8.23
20 largest	12.66	11.73	10.96	11.85

Source: Diao (1983), adopted from Hamilton and Biggart (1997, p. 120).

Following the end of American Aids in the 1960s, the KMT endeavoured to transform import-substitution industrialisation to export-oriented industrialisation, and so the significance of domestic-oriented enterprises declined (Haggard, 1990; K. D. Lee, 2005). This transition resulted in the growth of export-oriented SMEs, although the foundation had been laid before it. The Japanese colonial government (1895-1945) and the KMT government restricted indigenous Taiwanese to small-scale industries, businesses and land development (Haggard, 1990, pp. 78-79), and further prevented the centralisation of the economic power of Taiwanese to challenge the ruling KMT government (C. H. Huang, 2010; Ku, 1997; G. C. Liu, 2001).

The KMT government launched the 'Statute for the Encouragement of Investment' to nourish export-oriented SMEs through tax exemption (K. D. Lee, 2005, p. 278). Table 5.1.3 shows that the significance of SMEs had been increasing since the 1960s, though Shieh (1997) and C.-H. Chen (1994) highlighted that in order to reducing labour cost, families were often used as invisible factories (subcontracting points) and female workers within were self-exploited (L. Cheng & Hsiung, 1992). That is, the significance of SMEs was higher than shown by official data.

Table 5.1.3 Firm size and the percentage of employees in manufacture sector (%)

Firm size	1966	1971	1976	1981	1986
less 10 (employees)	71.6	68.7	68.7	69.6	63.3
10-19	13.6	13.3	12.8	12.2	--
20-49	9.1	9.7	10.0	9.9	27.9
50-99	2.7	3.7	4.3	4.2	4.8
100-499	2.5	3.8	4.1	3.7	3.6
500-	0.5	0.8	0.6	0.5	0.4

Source: C.-H. Chen (1994, p. 31)

Inter-Firm Relations – 'Cooperative Production Network'

Inter-firm relations in Taiwan are based on neither long-term commitments like Japan, Korea or other CMEs, nor a short-term market mechanism. Rather, a 'cooperative production network' is developed to reduce labour cost, decentralise business risks and increase flexibility (C.-H. Chen, 1994; Pan & Chang, 2001). SMEs are very sensitive to production costs in Taiwan, being labour-intensive industries (Wang, 2010a); and having flexibility of adaption of new technologies and skills (Hu & Schive, 1998). Consequently, the essential issue is how a production network may be developed in order to reduce production cost and enhance flexibility.

A cooperative production network is defined to be: "horizontally integrated, made up of primary small and medium-sized companies that provide intermediated goods and services for export-producing firms" (Hamilton, 1996, p. 23).[11] In general, the capacities of an independent firm should include skills, management, capital, a marketing network, and so on, and for SMEs to own all of the production factors is impossible. Thus, through subcontracting, a cooperative production network can be forged to include large firms in the upstream sectors with a marketing network, and small companies in the downstream sectors with skills and medium enterprises in the intermediate sectors (C.-H. Chen, 1994; Fields, 1995; Whitley, 1992, 1999). In other words, a cooperative production network is a unit of production (Pan & Chang, 2001).

A cooperative production network has two advantages. One is flexibility, and although an owner's personal ties are crucial in a cooperative production network (C.-H. Chen, 1994), a competitive nature exists (Pan & Chang, 2001). In a cooperative production network, a subcontractor can always be replaced by other subcontractors if difficulties are evident, and through competition, 'risks' in the process of production can be decentralised. Then, through a cooperative production network, SMEs can effectively reduce production costs (C.-H. Chen, 1994; Pan & Chang, 2001). Fixed production cost can be distributed into the cooperative production network and increase profits by cooperation. Essentially, the formation of a cooperative production network is the result of 'the pressure of maximising profits and development' (C.-H. Chen, 1994, p. 35).

In short, Japan, Korea and Taiwan, though quite often described as the state-led capitalism, have different business systems and inter-firm relations. The differences in business systems results in different financial systems and labour market regimes.

5.2 Financial Systems in East Asia

In East Asia, a common feature of financial systems is the role that the state played as coordinator in guiding financial resources to strategic industries. Thus, the East Asian financial system would easily fit into the bank-based system (Witt & Redding, 2013).[12] If examined carefully, however, differences between them would be highlighted.

[11] Fields (1995) describes this cooperative production network as 'quanxiqiye' (related enterprise). Although the definitions of cooperative production network and quanxiqiye are not consistent, they are common in describing the feature of Taiwan's inter-firms relations.
[12] Witt & Redding (2013) argue that the financial systems in Japan, Korea and Taiwan could be fitted into the bank-based financial system. But this perspective, based on official data, ignores the significance of informal financial institutions, particularly in Taiwan.

5.2.1 The Main Bank System in Japan

The financial system of Japan is bank-based (Vitols, 2001; Witt & Redding, 2013). Initially, the Meiji government adopted a laissez-faire financial system in order to abolish the old system. But financial crises of the late 1920s led state elites to construct a regulated bank-based financial system.[13] This helped the state actively steer war mobilisation and industrialisation in the pre-war period (Vitols, 2001). In the post-war period, though the Allied government endeavoured to export the U.S.-style market-based financial system to Japan to dissolve the zaibatsu (Whitley, 1992, p. 146),[14] conflict of interests between the Japanese government and the Allied government saw its failure (G. Park, 2011). To support its economic reconstruction, the Japanese government wanted to use expansionary fiscal policy, and its 'priority production' was implemented in 1946. This was aimed at channelling financial resources to basic industries, particularly, the energy sector. The state-run Reconstruction Finance Bank was therefore established in order to provide long-term credit for investment when the private sector lacked capital.[15] Since significant inflation was caused by the Reconstruction Finance Bank during the late 1940s, the Allied government prioritised the control of inflation.[16] They believed that this would weaken Japan's capacity in war mobilisation. The bank-based financial system was still maintained in the post-war period.

Principally, two distinctive features of Japan's bank-based system can be observed. Firstly, the degree of its state involvement was high due to late development and war mobilisation (Vitols, 2001; Whitley, 1992). During the post-war period, the Japanese government played two more systematic roles in regulating the financial system. The indirect method of controlling banks' behaviour was by the Bank of Japan providing 'administrative' or 'window' guidance.[17] By allocating loans

[13] In Japan, the Banking Act of 1927 was passed in response to the banking crisis of 1927, endowing the state with regulatory power.

[14] In 1948, the Securities and Exchange Act was introduced to create an independent securities regulatory commission based on the model of the U.S. Securities and Exchange Commission (Vitols, 2001, p. 188). It was soon abolished, in 1952, and its function was taken over by the Ministry of Finance.

[15] 72 % of all capital investment in 1947 came from the Reconstruction Finance Bank, and 65% in 1948 (G. Park, 2011, p. 58).

[16] The Reconstruction Finance Bank was financed through the issuance of bonds, the majority of which were purchased by the Bank of Japan. In 1946, the Bank of Japan purchased 94% of all Reconstruction Finance Bank bonds, and 76% and 64% in the following two years (G. Park, 2011, p. 58). This financial mechanism led to the increase in wage and retail prices. In 1949, wages and retail prices were 168 and 220 times of the pre-war base between 1934 and 1936 (ibid). This was known as "RFB inflation".

[17] Windows guidance is a policy used by the Bank of Japan to quantitatively adjust the total loans made by private banks. By this, the Bank of Japan can use it to control the distribution of capital for the priority production, and as a tool of macroeconomic policy. To resolve the dilemma faced by the

to banks that followed the state’s wishes, state guidance could help the central bank to restrict credit growth (Whitley, 1992). More directly, the Japanese government controlled financial resources through state-controlled specialist banks: the Industrial Bank of Japan, the Export-Import Bank, and the Japan Development Bank. More importantly, the Ministry of Finance established the Fiscal Investment and Loan Programme in 1952, which mobilised and allocated savings in the form of investment and loans to serve policy purposes (G. Park, 2011).[18] It is known, therefore, as Japan’s ‘second budget’.

The Fiscal Investment and Loan Programme included three parts, as shown in figure 5.2.1. The financial sources include postal savings and public pension funds, Postal Life Insurance and Annuity, and state-owned enterprises dividends and so on (Calder, 1990; G. Park, 2011). These funds are then collected, managed and transferred, to support economic development through the intermediaries, chief being the Trust Fund Bureau (introduced in 1951) which endowed the Ministry of Finance with great authority to manage the investment of these financial funds (Calder, 1990, p. 42). These intermediaries decided how these funds were channelled to support economic development and for political purposes, and are therefore often influenced by politicians (G. Park, 2004). Finally, Fiscal Investment and Loan Programme funds were directed to local governments, and a range of governmental, and quasi-governmental entities. Local governments borrow funds from the Fiscal Investment and Loan Programme to finance their debts; otherwise, other financial institutions may channel these funds to key strategic industries and public infrastructures. Through the Fiscal Investment and Loan Programme, the Japanese government could “keep taxes low and budgets balanced, all without having to restrain public spending” (G. Park, 2011, p. 1). Public pensions could then be mobilised as long-term industrial capital (Calder, 1990; G. Park, 2011).

Japanese government: by supplying industrial capital to support economic development and to discipline the private banks’ lending behaviour (Gao, 2001, pp. 78-79).

[18] The Fiscal Investment and Loan Programme in fact is the product of the U.S. Occupation. In order to deal with inflation, the U.S. sent a banker, Joseph Dodge, to Japan, and the Allied government implemented a nine-point stabilisation package to bring down inflation. The Reconstruction Finance Bank were prohibited to sell its bonds, and was eventually abolished in 1949. This marked the end of the priority production. However, simultaneously, these deflation measures resulted in economic hardship in the early 1950s. The U.S. provided new financial aid to Japan, asking the Japanese government to create the Counterpart Account under the authority of the Ministry of Finance to manage these new funds. In order to respond to the budget restrictions imposed by the U.S., after the end of the Allied government, the Japanese government introduced the Fiscal Investment and Loan Programme (G. Park, 2011).

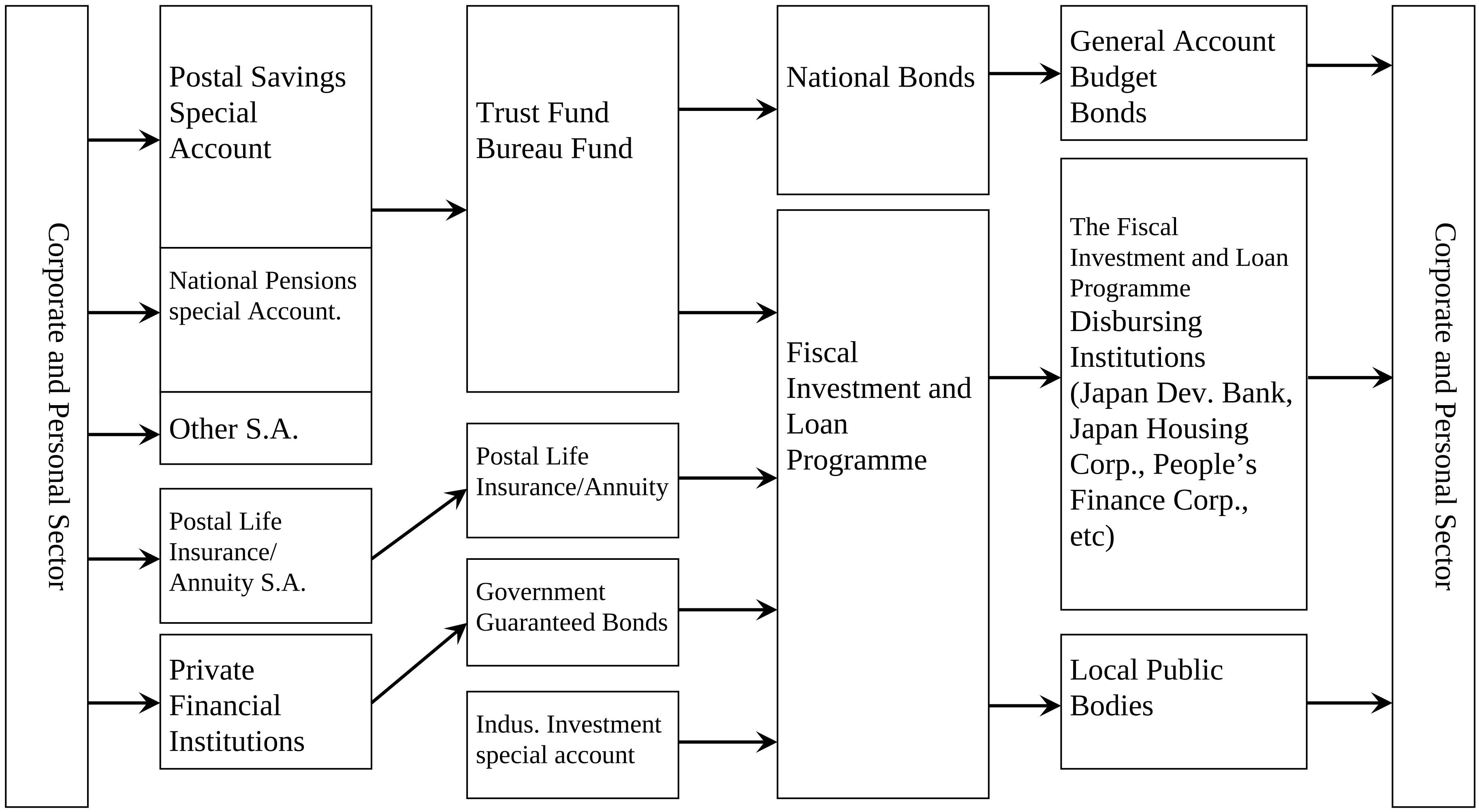

Figure 5.2.1 the Fiscal Investment and Loan Program

Source: Calder (1990, p. 34)

Japan's bank-based system is centred on long-term commitment between the main city bank and firms, and is thus known as the main bank system. Before the war, the holding company of zaibatsu played a central role in capital allocation, but its function was dominated by the large city banks (Gerlach, 1992). In the main bank system, a main bank provides the largest share of loans to a firm with other lenders in turn not monitoring the company, but relying on the judgement of the main bank (Gao, 2001). This system helps keiretsu to strengthen coordination through cross-shareholding (Gao, 2001). In the 1950s, cross-shareholding was a strategy to maintain close relationships with banks in order to secure capital; in the 1960s, it was reinforced in order to avoid hostile takeovers (Gao, 2001). Principally, cross-shareholding is grounded on agreements to hold stock on a 'long-term friend' basis (Sheard, 1994, p. 311). Thus, it helps to avoid hostile takeovers and promote information sharing within the keiretsu (Aoki, 1988; Gao, 2001; Gerlach, 1992). Through this, transaction costs can be minimised, and the main bank can have a better position in risk assessment (Odagiri, 1992). More importantly, it effectively reduces the pressures of pursuing short-term profits from shareholders, instead pursuing the collective survival of all employees, and developing long-term commitments to institutionalise the employment system (firm-specific skill formation and seniority wage and the permanent employment system) (Sheard, 1994, pp. 322-325).

In short, Japan's financial system helped mobilise pension funds as industrial and patient capital: public pension funds through the Fiscal Investment and Loan Programme, and private pensions through the main bank system and cross-shareholding (Estévez-Abe, 2008; G. Park, 2004, 2011). Additionally, the bank-based financial system helped develop firm-specific skills through long-term credit loans, with the institutional linkage of pension system and capitalist production established.

5.2.2 Korea: The State-Dominated Financial System

In Korea, the state was a crucial, institutional coordinator in channelling financial resources to the selected chaebols, facilitating the strategically chosen industries (B.-S. Choi, 1993; B.-K. Kim, 2012; E.-M. Kim, 1997). During the period of the Rhee government, under the pressures of the U.S., the former Japanese commercial banks were privatised (Fields, 1995, p. 95). Thus, the state could not effectively guild banks' behaviours, instead relying on American Aids (B.-S. Choi, 1993). After Park Chong-Hee seized power in 1961, he controlled the financial system by nationalising private commercial banks in order to implement export-oriented industrialisation (Fields, 1995, p. 94). "It provided the state with the means for assuring chaebol compliance with state goals" (Fields, 1995, p. 96).

The Park regime authorised the borrowing of foreign funds by the Korea Development Bank, guaranteeing foreign commercial loans due to the decline of American Aids (B.-S. Choi, 1993). The Park regime, because of his economic nationalism, tended to rely on foreign loans, rather than foreign direct investment (D.-M. Shin, 2003). The Park regime used low interest rate policy loans to facilitate strategically selective industries- at first, labour-intensive light industries in the 1960s, and then, capital-intensive heavy and chemical industries in the 1970s (Fields, 1995). Through this, the Park regime not only empowered its state autonomy and authority over the private agents (chaebols), but more importantly, coordinated a strong linkage between the financial system and industrial policy.

Table 5.2.1 Source of Funds for the Corporate Sector (% of total)

Source	1963-65	1966-71	1972-76	1977-81	1982-86	1987-91
Internal Funds	47.7	25.4	32.9	23.3	33.5	26.4
External Funds	52.3	74.6	67.1	67.1	66.5	73.6
Total	100	100	100	100	100	100
External Fund						
Borrowing from						
Monetary						
Institutions	48.4	41.8	51.1	53.7	41.8	36.0
Banks	33.5	32.8	34.3	32.6	22.6	17.0
Nonbanks	15.0	9.0	16.8	21.1	19.2	19.0
Securities (direct finance)	27.6	14.3	21.8	24.8	27.5	37.4
Debts	1.2	0.7	2.5	4.2	11.0	14.5
Stocks	21.4	11.8	18.1	14.4	16.5[a]	22.9[a]
Capital paid in	5.0	2.7	1.3	1.9	--	--
Corporate bills	--	--	1.8	5.5	3.9	3.3
Government and curb market loans	8.5	7.8	-0.3	0.8	24.9[b]	20.2[b]
Borrowing from abroad	15.4	36.2	26.6	15.2	1.9	3.1

Source: adopted from Fields (1995, p. 106). [a] stocks and capital paid in; [b] other included.

A heavy reliance on bank loans and foreign borrowing was, therefore, the feature of the financial structure of the chaebols. During the first half of the 1960s, Korean firms greatly relied on internal funding (47.7%) with the remainder coming, mostly, from monetary institutions and banks (Table 5.2.1). Bank and foreign loans became the dominant source of corporate financing after the Park regime had established a system of bank guarantees for foreign loans in 1963, and introduced interest rate reforms in 1965. From 1966 to 1971, internal sources dropped to 25.4%, while external funds rose to 74.6%. In the 1970s, Korea's firms continued to rely on indirect external financing, the financial system being banking-based. This heavy reliance on the bank’s loans and foreign borrowing from the state’s credit, as patient capital, enabled the chaebols to establish long-term relationship with banks, then to devote financial resources in skill-upgrading and innovation (Wang, 2010a).

This institutional linkage led, however, to a moral hazard for the chaebols- in order to attract the private agents needed to enter newly strategic industries, the state guaranteed the loss of banks’ loans. Thus, the banks failed to take the evaluation of economic and financial feasibility of the projects seriously. The chaebols, as rent seekers, exploited this by diversification of their businesses (B.-S. Choi, 1993, p. 28). A heavy reliance on bank and foreign loans for corporate financing resulted in the chaebols being more vulnerable to changing international economic situations, and is often suggested to be one of the main causes of the Asian Financial Crisis of 1997 (D. J. Chang et al., 2012; S.-J. Chang, 2003; J. S. Shin & Chang, 2003).

In short, having great reliance on chaebols as the drive of economic development led the Korean state to endeavour to mobilise public pensions or other financial sources to support its chaebol-dominated capitalist structure.

5.2.3 Taiwan: The Dualist Financial System

The Taiwanese dualist financial system is complemented to its dual-business structure (domestic-oriented public enterprises, and large private firms and export-oriented SMEs). Unlike Japan and Korea, long-term cross-shareholding is not prevalent in Taiwan, and the role of the state is much more directly involved with the control of Taiwanese financial resources and institutions (T. J. Cheng, 1993; Haggard, 1990). Initially, the KMT government almost completely controlled the financial system (Z. R. Lee & Chen, 2011, p. 72). For indigenous Taiwanese, the KMT government was seen as an ‘alien’ regime, controlled by a minority of Chinese mainlanders. The KMT government needed, for its political stability, to control the financial system to prevent the rise of large private capital, controlled by indigenous capitalists (T. J. Cheng, 1993, pp. 58-59). Consequently, Taiwan’s financial system is relatively undeveloped, and controlled by the KMT government (Haggard, 1990, p. 93). Ten banks were either state, or province-owned, with private commercial banks essentially controlled, or managed, by state and party-owned enterprises (Z. R. Lee & Chen, 2011, p. 72).

This state-controlled financial system was significant in the channelling of financial resources (included American aids) to public enterprises and large private firms. In the 1950s, 60% of all loans were made by the leading bank, the Bank of Taiwan, but of these, more than 80% were made to state-owned enterprises, or the military (Z. R. Lee & Chen, 2011, p. 72). This was due to conservative monetary policy, which constrained the credit of banks- a measure that helped maintain price stability and prevent the concentration of indigenous Taiwanese-controlled private capital (T. J. Cheng, 1993, pp. 57-58). Therefore, in the period of import-substitution industrialisation, the Taiwanese financial system was a state-dominated system that could mobilise resources to public enterprises and strategic industries, instead of entrepreneurs of capital and credit (Z. R. Lee & Chen, 2011, p. 72). The KMT, however, did not facilitate industrial concentration.

With export-oriented SMEs relying more on informal sectors (friends, family, Rotating Credit) than formal financial institutions, although the KMT government controlled the financial system, the link between the financial system and industrial policy was not established (T. J. Cheng, 1993, p. 57).[19] SMEs could not receive financial credit from state-controlled banks (C.-H. Chen, 1994, p. 86). To begin with, SMEs were predominantly family-owned, and had sufficient capital only to enter labour, rather than capital, intensive industries (p. 86). Then, the owners usually saw bank loans as liabilities for firms (p.86-87). Alongside this, the Taiwanese state-owned banks were too conservative to be the source of entrepreneurial capital and developmental capital for SMEs (p.87-89). Lastly, the KMT government wanted to restrain the growth of private capital due to its political calculation (T. J. Cheng, 1990, p. 57). It was for these reasons that SMEs relied more on informal financial channels for entrepreneurial capital than formal financial institutions (C.-H. Chen, 1994).

This dualist financial system has two consequences. SMEs didn't need to collect capital as large firms did, but had to establish a cooperative production network for reduction of cost and increase of profits (C.-H. Chen, 1994, pp. 102-107). The establishment of cooperative production network can be seen as the demand of this particular dual financial system (C.-H. Chen, 1994). Also, SMEs in Taiwan are, in the majority, not capital-intensive industries and are consequently, sensitive to labour costs (Wang, 2010a); small employers are reluctant to introduce corporate pensions for employees and are unwilling to rely on it for capital collection.

5.3 Labour Market Regimes in East Asia

Complemented with business and financial systems, Japan, Korea and Taiwan developed different labour market regimes. In Taiwan, general skills are adopted by

[19] In the 1980s, the KMT government authorised strategic industry loans to accelerate industrial upgrading. However, it only accounted for 4.3% of total loans from state-owned banks in 1988 (T. J. Cheng, 1993, p. 57).

SMEs, but labour is also decentralised; while in Japan and Korea, both adopted the firm-specific skill formation system and established enterprise unionism.

5.3.1 Japan

Three main pillars of labour market regime in Japan are the permanent employment system, the seniority-based system (the nenko system), and company welfare, which were developed for the institutionalisation of the firm-specific skill formation system (Levine & Kawada, 1980; Thelen, 2004). Enterprise unionism emerged as the result of such a system, and these pillars, together with enterprise unionism, constitute so-called 'welfare corporatism' (Weiss, 1993).

The Firm-specific Skill Formation System

Japan's firm-specific skill formation system is rooted in the Meiji period (Nishiguchi, 1994; Thelen, 2004). The Meiji government launched a broad liberalisation policy that aimed to abolish all barriers to labour mobility with the traditional privileges of the artisanal sectors undermined (Thelen, 2004, p. 151). In the face of a shortage of skilled labour, the Meiji government, firstly, sent Japanese students to foreign countries and recruited foreign engineers (ibid, p. 153). Secondly, the state attempted to develop more skilled workers through the establishment of factory-based technical schools (ibid, p. 154). These public enterprises became not only the model of skill formation, but also the main source of skilled workers for private firms (Levine & Kawada, 1980, p. 151).

Conversely, larger private firms recruited traditional artisans (oyakata) for apprentice training, through 'continuous skill teaching', in order to adapt traditional skills to new tasks (particularly following the First World War) (Suzuki & Kubo, 2012; Thelen, 2004, p. 155). Large, Japanese manufacturers introduced more in-plant training, devising firm-specific job classifications, breaking away from the traditional, handcraft mode of production (Nishiguchi, 1994, p. 23). Skill formation in either public enterprises or private firms was plant-based, relying on the traditional master-apprentice relationship. Through this system, "firms could minimise the costs associated with finding appropriate skills, and overcome the problems of imperfect information (for example, about a worker's skill level) in the absence of any kind of formal certification or standard" (Thelen, 2004, p. 155).

To dampen labour mobility through consolidation of the company-based training system, several measures were adopted (Levine & Kawada, 1980, p. 130; Thelen, 2004, pp. 158-162). Core workers could receive ongoing, broad but firm-specific, training, devised to enable flexible deployment in response to the firm's needs (Thelen, 2004, p. 164). The permanent employment and the seniority-based wage system, and retirement severance payments were introduced to core skilled workers in large companies (Gordon, 1985; Levine & Kawada, 1980; Thelen, 2004). Most importantly, employers established collective economic coordination to avoid skill poaching (Thelen, 2004, p. 161; Weiss, 1993, p. 335). Employer associations in some industries, for example, established regulations ensuring the exclusive right to re-contract former employees under sanction of heavy fines (Weiss, 1993, p. 335). Thanks to these strategies, the labour turnover rates in large-scale manufacturing sectors decreased dramatically since the 1920s (Nishiguchi, 1994, pp. 21-22). Meanwhile, the haphazard practice of recruiting skilled workers from the labour market resulted in a shift towards the periodic recruitment of elementary school leavers as apprentices (ibid, pp. 23-24).

In post-war Japan, public education failed to achieve an essential influence on skill formation, where the overriding goal of education reforms of the Allied government was to eliminate ultra-nationalism and establish a democratic outlook (Levine & Kawada, 1980, pp. 103-105). It was insufficient for industrialisation and as a result, private enterprises continued maintaining, and expanding, their own training programmes. In the post-war period, larger firms commonly recruited graduates of general education courses, offering on, and off-the-job job training programmes to these new employees. The off-the-job training begins with two entry courses. The first is a one-year, full-time course,[20] the other as short as one week long. While off-the-job training attempts to offer skills for typical work, the primary means of skill formation in Japan is through on-the-job training (Brown, Green, & Lauder, 2001; Busemeyer, 2009; Koike, 1987), a system of learning-by-doing. It is, therefore, informal, and inseparable from work itself. Through on-the-job training, employees can reduce the rigidity of job specialisation by learning how to cope with local emergencies (Aoki, 1988; Koike, 1987). This must be achieved through a wide range of job experiences, and thus, job rotation plays a critical role in Japan's skill formation. The job rotation system has three crucial implications. It helps employees to gain firm-specific skills (so-called intellectual skills) to cope with unusual work (Aoki, 1988; Koike, 1987); employees can gain an overall picture of the production process, promoting internal coordination (Brown et al., 2001); and it also facilitates knowledge sharing, helping to enhance workers' capacities to process information relevant to shop floor efficiency (Aoki, 1988, pp. 15-16).

[20] Originally, this full time course was for three years. The expansion of secondary education led private enterprises to shorten it to one year however (Koike, 1987, p. 297).

The versatility of workers and flexibility in job demarcation enables Japanese firms to gain internal flexibility and comparative institutional advantage (Aoki, 1988; Busemeyer, 2009; Miura, 2012). This firm-specific skill formation system, however, relies on the long-term relationship between employers and employees (Busemeyer, 2009; Estévez-Abe, 2008), the incentive system making employees' investment in firm-specific skills particularly critical. It includes the hierarchical ranking system, seniority-base wage system, and generous company welfare benefits. The 1950s and 1960s witnessed the institutionalisation of these incentive schemes, such as the expansion of the Retirement Allowance, and other corporate pension schemes. Simultaneously, it is complemented by enterprise unionism (Busemeyer, 2009; Koike, 1987).

The Evolution of Enterprise Unionism in Japan

The core feature of employment relations in Japan is 'enterprise unionism' (D. Y. Jeong & Aguilera, 2008; Kawanishi, 1992) which was forged in the 1950s, and consolidated and incorporated into the conservative coalition in the 1960s and 1970s (D. Y. Jeong & Aguilera, 2008). Pre-war, labour was limited, or even prohibited or subordinated to, and was considered as a part of the company for military mobilisation (Weiss, 1993). In the process of the institutionalisation of the Japanese employment system, the foundation of enterprise unionism was laid down.

After the war, the Allied government empowered labour with three labour laws (Kume, 1998).[21] The Densan (Conference of Electricity Unions) invited a new wage demand formula to address post-war hyperinflation: "a fixed minimum wage based on the cost of living, adjusted to reflect regional variation, additional pay to reward ability, seniority, and attendance, the elimination of imbalances based on rank on educational background, and a commitment to adjust wages in the future to reflect price change" (Gordon, 1985, p. 352). This principle was quickly reflected by most industries, and accepted by employers. Closely linked to "objective characteristics of age and seniority that were likely to rise with need" (ibid, p. 356), it was described as a 'livelihood wage' that guaranteed a sufficient wage for workers. Additionally, secure employment within the enterprise in uncertain economic situation was demanded by the workforce (ibid, p. 365). Principally, these requirements were accepted by most employers and the notion of enterprise as a community was enhanced by these

21 In December 1945, 509 labour unions were formed and covered 0.38 million members; two years later, the number of labour unions had increased to 28,000, covering 6.27 million members. In 1949, union density hit a historical record- 55%, compared to 7.9% in 1931 (Shinkawa, 2005b, p. 49).

practices. Factories or enterprises became the basic 'unit' of union organisation (Kume, 1998).

This political opportunity for establishing corporatist institutions was not seized by labour, and the extremely favourable environment for labour unions did not last long. Although labour endeavoured to establish national corporatist institution, their confrontational attitudes led to the break of corporatist consensus (Gordon, 1998; Kume, 1998; Shinkawa, 2005b). In addition, the Allied government shifted its policy goal from democratisation to reconstructing Japan as a fortress against communism (Kume, 1998; Shinkawa, 2005b). The conservative coalition was forged in the 1950s from conservative parties, big business, the agricultural sector, and to a lesser extent, small business, to emphasise on 'production first' (Gordon, 1998; Shinkawa, 2005b). Therefore, the Japanese and Allied government, and Nikkeiren (Japan Federation of Employer's Association) worked together to dissolve industrial unionism (Gordon, 1998). Employers did not adopt an antagonist attitude towards labour, rather made compromises with labour to stabilise labour-management relations. These were done, though, within enterprises through the creation of second unions and provision of financial resources (D. Y. Jeong & Aguilera, 2008, p. 119; Gordon, 1998). Since firm-specific skills could be mobilised, within firms, as a potential political power by the enterprise unions, management is made to depend on skilled workers (Koike, 1987; Kume, 1998). Enterprise unionism, therefore, was forged in the 1950s.

In the 1960s, enterprise unionism was consolidated, with large enterprise unions withdrawing from the Sohyo (General Council of Trade Union), and the Churitsu Roren (Federation of Independent Unions of Japan), in order to establish a loose federation of private sector enterprise unions- the International Metalworkers Federation-Japan Council, in 1964 (D. Y. Jeong & Aguilera, 2008). It, from 1965, dominated the 'shunto' (spring offensive) (Kume, 1998). This 'pushed' the Japanese labour movement towards a more cooperative way. In the 1970s, the unfavourable economic conditions led labour to legitimise enterprise unionism to secure job security for core workers. The Rengo (Japanese Trade Union Confederation) even endorsed the principles of enterprise unionism.

Although Japan's labour relations are characterised with enterprise unionism, national-level wage negotiations were developed as well. Since 1951, employers and labour both endeavoured to establish a new wage bargaining system that could response the rationalisation, and reorganisation, of Japanese industries. It did not reach a compromise until 1954, labour declaring that labour unions should limit their goals to: "protect workers' economic interests and should refrain from political activities" (Kume, 1998, p. 81). The new wage bargaining system, known as 'shunto' was established in 1954 and implemented in March 1955. The aims of shunto were (1) “to cooperate with management in raising productivity” and (2) “to seek an enlargement of their own share through negotiations with management which would focus on the ‘base-up’” (Kawanishi, 1992). Principally, shunto is designed to be coordinated by five major industrial federations. This strengthened the functions of the federations, allowing the weakness of enterprise unionism to be overcome (by coordinating wages once annually, and by standardising wage increases across industries) (Kawanishi, 1992; Kume, 1998).

The formation and consolidation of enterprise unionism resulted in labour divide- core versus non-regular workers. Core workers of enterprise unionism have great interests in defending their welfare and employment status, with higher organisational capacities; but non-regular workers are less organised and enjoy less welfare and employment security, therefore prefer public welfare.

5.3.2 Korea

In Korea, the company-based skill formation was established in the 1960s, and gradually consolidated in the 1970s and 1980s, after its developmental strategy shifted towards heavy and chemical industrialisation. Along with the formation of the company-based skill formation system, enterprise unionism was developed. However, the enterprise union system was implemented directly by the state, using force, and reinforcing it by law.

The Company-Based Skill formation

In Korea, the state played an active role in resolving the market failure of skill formation through the control of demand and supply sides of skills, establishing the company-based skill formation system (Ashton et al., 1999; S.-Y. Park, 2012; Yoon & Lee, 2010). Initially, the Rhee regime aimed to provide primary education for children, and literary for adults, but failed to coordinate the social demands for education and economic needs. This resulted in high unemployment amongst college graduates (Ashton et al., 1999; S.-Y. Park, 2012).

Since the 1960s, a set of policies were adopted to promote vocational training, and create prerequisites for the labour-intensive, export-oriented industrialisation. For example, the state established public and private vocational training systems in 1964, devoting substantial public funds to secondary vocational schools. It also established 13 company-based training facilities (Yi, 2007; Yi & Lee, 2005). In 1967, the Park regime introduced the Vocational Training Law, hoping to establish a vocational training system, and to conform to a second five-year economic plan. However, with employers reluctant to develop company-based training systems, under labour-intensive export-oriented industrialisation, the in-plant vocational training system was not expanded (S.-Y. Park, 2012; Yi, 2007, p. 94).

The Park regime furthered company-based skill formation in the 1970s when its developmental strategy was shifted towards heavy and chemical industrialisation, achieved through the responsibility of vocational training being transferred to employers. The 'Special Measure Act for Vocational Training' was introduced in 1974, although it was postponed following the first oil crisis (Yi & Lee, 2005, p. 151). The 'Basic Law for Vocational Training' was then introduced in 1976 to resume its vocational training policy. Under the Basic Law, employers with more than 300 employees were encouraged to establish a company-based training system to train a proportion of their employees. Failing to would see a training levy applied. The law significantly increased in-plant training schemes in the private sector (table 5.3.1). This result could be, partly, attributed to the consistence in the interests of the state and chaebols. Chaebols, requiring a skilled workforce for the new industries (Yoon & Lee, 2010, p. 171), were encouraged by the state to invest in heavy and chemical industrialisation through policy loan. Economic liberalisation in the 1980s, however, resulted in a weakened company-based training system.

Table 5.3.1 Training of craftsmen by training authority in Korea (numbers of individuals)

	1972-1976	1977-1981	1982-1986
Government training	81,294 (25.99%)	120,117 (24.23%)	121,044 (44.31%)
In-plant training	177,388 (56.72%)	337,388 (68.06%)	114,773 (42.02%)
Authorised training	54,092 (17.29%)	38,234 (7.71%)	37,334 (13.67%)
Total	312,736 (100%)	495,739 (100%)	273,151 (100%)

Source: Lee (1990, p. 96); adopted from Ashton et al. (1999, p. 72)

In Korea, however, two leading business associations- the Federation of Korean Industries and the Korea Employer Federation- failed to establish a coordinating mechanism on the issue of skill poaching. The tenure rate in Korea was thus higher than in Japan (appendix 6). In the absence of a skill poaching coordination mechanism, employers developed a set of interdependent labour market institutions, which included permanent employment practices, seniority-based wage systems, and corporate welfare (Song, 2012b, pp. 241-243). From the mid-80s, with the lifting of the state's labour control policy, these institutions consolidated the company-based skill formation system, particularly stabilising labour mobility. This lifting of policy was due to political democratisation, which endowed organised chaebols unions with greater political power in the fight for improvement of working conditions and corporate welfare (E.-H. Jung, 1993; Song, 2012b; Yi, 2007).

Enterprise Unionism in Korea

In Korea, labour is militant but organised at enterprise level (Y.-K. Lee, 2011). The state politically demobilised labour in the authoritarian period, by decentralising labour into the enterprise level (J.-Y. Jeong, 2007). During the Korean War, the shortage of workforce increased the relative power of labour, weakening state autonomy (Yi, 2007, p. 62). In response, the Rhee regime launched four critical labour legislations in 1953: the Labour Standard Act, the Trade Union Act, the Labour Council Act, and the Labour Dispute Arbitration Act. The latter three guaranteed a worker's rights to association and collective action, but, to maintain Rhee's legitimacy. These laws essentially endowed the state with higher authority over labour unions. The Trade Union Act gave the government the authority to investigate and audit the financial operation of unions, and to decline any decisions made. Moreover, it confined bargaining activities to enterprise level (Yi, 2007). These laws aimed to force labour unions to act as "the labour arm of the ruling party in maintaining labour peace and encouraging productivity" (Deyo, 1989, p. 120).

When Park came to power in 1961, labour was repressed to maintain Park's political legitimacy, and to create a business-friendly environment for labour-intensive export-oriented industrialisation (Deyo, 1989; Y.-K. Lee, 2011). The Park regime reorganised labour unions, striving to focus on economic and social benefits (instead of focusing on class issues at enterprise level) by de-politicising labour unions (Y.-K. Lee, 2011; Song, 2012b; Woo, 2004). To begin with, the Federation of Korean Trade Unions was established, a national-level labour union. It was initially a government-sponsored, centralised union, structured along industrial lines, and consisting of 16 industrial unions (Deyo, 1989, p. 121). The government, however, controlled the selection and decision of leader of the Federation of Korean Trade Unions. Furthermore, the Park regime revised labour laws to prohibit unions from participating in political activities in 1963 (Y.-K. Lee, 2011; Song, 2012b; Yi, 2007).[22] The goal of planting the idea that the functions of labour unions should be classless,

[22] According to the laws, labour unions had to obtain authorisation from the government to acquire legal status, and the government could also cancel the licence of a labour union. Furthermore, these laws introduced a closed-shop system to replace the union-shop system, prohibiting the involvement of a third party in the collective bargaining of the enterprise (Yi, 2007, p. 98).

and cooperative, into the Federation of Korean Trade Unions was successfully achieved. The result was the further disempowering of the Federation of Korean Trade Unions, and its functions, restricted to narrowly defining economic interests at firm level (Y.-K. Lee, 2011; Song, 2012b; Yi, 2007). The state's labour control policy failed to change in the 1970s, but was reinforced with the establishment of a hard authoritarian regime, the Yushin regime (Y.-K. Lee, 2011). Table 5.3.2 shows some indicators of labour power in Korea. Keeping in mind, unionised workers are chaebol workers, empowered after political democratisation (D. I. Kim, 2006).

Table 5.3.2 Indicators of Labour Unions in Korea from 1970 to 2007

Year	Size of unionised workforce (thousands)	Number of unions	Unionisation (%)	Numbers of labour disputes	Size of workforce involved (thousands)
1970	473	3,500	12.6	4	1
1975	750	4,091	15.8	52	10
1980	948	2,635	14.7	206	49
1985	1,004.3	2,534	12.4	265	28.7
1986	1,035.8	2,658	12.3	276	46.9
1987	1,267.4	4,086	13.8	3,749	1262.2
1988	1,707.4	6,124	17.8	1,827	293.4
1989	1,932.4	7,861	18.6	1,616	409.1
1990	1,886.8	7,676	17.2	322	135.9
1995	1,615	6,606	12.5	88	50
2000	1,527	5,698	11.4	250	178
2005	1,506	5,971	9.9	287	118
2006	1,559	5,889	10.0	138	131
2007	1,688	5,099	10.6	115	93

Source: B.-H. Lee (2012, p. 302) and D.-M. Shin (2003, p. 109)

Political alienation and incorporation of core workers into the state-cahebol developmental alliance made core workers more growth-minded. Unlike Japan, the state played a more critical role in not only actively encouraging chaebol workers to focus on non-political issues, but also aggressively repressing labour movement. This resulted in a social cleavage between chaebol and non-chaebol workers and, in turn shaped their preferences in pension policies.

5.3.3 Taiwan

Compared to Japan and Korea, Taiwan's labour market more relies more on general skills, and labour was disempowered at national and firm level due to its SMEs-dominated capitalist structure.

Skill formation

The role of the state was significant in skill formation for political legitimacy and economic development (Ashton et al., 1999; Ku, 1997). During the 1950s, the provision of primary education (six years compulsory education) was treated as the priority in order to upgrade the quality of the people, legitimating the KMT's authoritarian regime. The emphasis of the education system was on population control, rather than a statutory vocational system (Ashton et al., 1999; Wade, 2004).

As export-oriented industrialisation was adopted in the 1960s, however, the state argued that the education system should be designed to harmonise with the needs of economic development (Ashton et al., 1999, p. 91; C. F. Chang & Tsay, 2006, p. 72). The KMT government devoted financial resources to the provision of vocational education, rather than lengthening the period of compulsory education (although it was extended to nine years). The share of vocational education increased significantly, but did not play a critical role in skill formation, since skills learning from vocational schools could not be used in the rapidly changing labour market (C. F. Chang & Tsay, 2006, pp. 73-75). The export-oriented sector in Taiwan was dominated by SMEs, and these were both reluctant, and unable, to develop highly specific skills. However, they could exploit advantages through quick adaption of new technologies and skills, relying on cheap labour and flexibility as comparative advantages (Hu & Schive, 1998). This 'fast follower' model results in SMEs relying on general skills (Wang, 2010a).

Ashton et al. (1999, pp. 83-84) concluded that skill formation in Taiwan has three distinctive features. The education system in Taiwan has extremely high demands for academic education. Thanks to government commitment to education, public education spending is relatively high (appendix 2). Finally, Taiwan's skill formation lacked in-plant training system in the majority of private firms.

Employment Relation

Employment relations in Taiwan is asymmetric, favouring the capitalists, and it was enhanced after democratisation due to the KMT's political strategy and the developmental strategy (Y.-J. Lee, 1999). Politically, labour was incorporated into the KMT's authoritarian regime (H.-Y. Peng, 2006; Wang & Fang, 1992), while economically, the implementation of export-oriented industrialisation needed disciplined skilled labour force (Deyo, 1987, 1989; Haggard & Kaufman, 2008).

The KMT adopted the strategy of 'include in order to exclude' to control labour (Wang & Fang, 1992). The authoritarian KMT government particularly encouraged the establishment of trade unions in public enterprises and large private firms, however, incorporated them into the KMT ruling regime and intervened internal affairs of labour union (such as finance and the elections of union leaders) (Y.-J. Lee, 1999; Shieh, 1997). It helped consolidate the political loyalty of the KMT's constituencies and weaken labour mobilisation (Y.-J. Lee, 1999; H.-Y. Peng, 2006). Under the Labour Union Act and martial law, the right of strike was restricted with labour consequently weakened further (Wang & Fang, 1992, p. 14). This strategy provided a political base for labour discipline at the outset of export-oriented industrialisation (Y.-J. Lee, 1999, pp. 89-90, 127; Wang & Fang, 1992, p. 13).

As discussed, the KMT as a minority, émigré regime, pre-empted the empowerment of local Taiwanese by limiting them in small businesses. As Stephens (1979) argues, one of the prerequisites of the concentration of labour power is the concentration of capital. Consequently, the SMEs-dominated capitalist structure impeded the concentration of labour power in Taiwan. The working class consciousness is weak in Taiwan. Taiwan's SMEs did not develop long-term employment relations in order to enhance 'flexibility' (Y.-J. Lee, 1999), and the widespread consciousness of 'opportunistic diversification' (everyone wants to, and has opportunities to become boss) furthered these short-term employment relations (Shieh, 1997; Whitley, 1992). The nurturing of workers' hopes of rising to management being helped them to be voluntarily subordinated to this unequal employment relation (Shieh, 1997). Also, export-oriented SMEs were often labour-intensive industries and consequently, workers could be easily replaced, their skill level lower, relatively. The staff turnover rate in Taiwan is quite high (appendix 6), and in this situation, the bargaining power of labour is very weak (Y.-J. Lee, 1999).

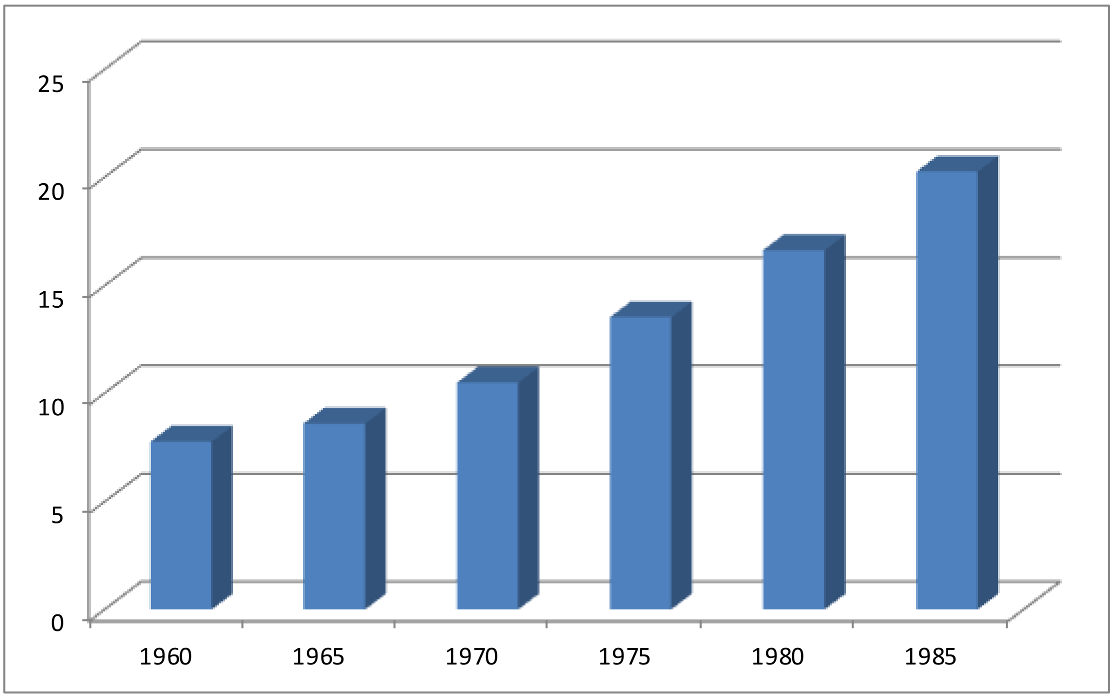

Figure 5.3.1 Union density in Taiwan from 1960-85 (the number of union members/ the size of the labour force) (unit: %)
Source: Y.-J. Lee (1999, p. 59); http://www.cla.gov.tw/; and my own calculation.

Employment relations in Taiwan were coordinated by the state to serve the interests of the KMT. This facilitated the adaption of developmental strategy, conditioned by its decentralised SMEs-dominated capitalist structure. Employment relations in Taiwan can be described as 'paternalist authoritarianism' (Y.-J. Lee, 1999, p. 101), leading to a paradoxical phenomenon in Taiwan. Union density in Taiwan is relatively high (figure 5.3.1 and appendix 5),[23] but labour power in Taiwan is relatively weak, not even changing after democratisation. Overall, in Taiwan, labour was organised, but paradoxically, not mobilised. In the case study chapter of Taiwan, we will witness that labour did not have influence in pension politics.

Conclusion

This chapter compared three East Asian capitalisms by focusing on three aspects: the business system, the financial system and the labour market regime. Their features are summarised in table 5.4.1. In Japan and Korea, the state intentionally assisted business-conglomerates to develop a national champion, and these business-conglomerates eventually became the core of the national capitalist structure; however,

[23] In fact, this value is underestimated due to the problem of lacking data. According to official data, the union density at national level in 1989 is 38.1% and then increased to 49.5% in 1993, but declined gradually to 34.9% in 2012 (source: http://statdb.cla.gov.tw/statis/).

SMEs in Taiwan dominated the export-oriented sector, when the state tended to use tax-exemptions to facilitate exports. Inter-firm relations in Japan and Korea underpinned on “vertically-integrated, tightly-controlled sets of firms” (Fields, 1995, p. 67); but Taiwan’s inter-firms relations can be described as “agglomerations of different-sized firms, mostly small, in different economic sectors” (ibid). Japan and Korea develop the bank-based financial system, based on long-term relationships, but this was not the case in Taiwan.

Financial systems in Japan and Korea are both bank-based systems. In Japan, the state channelled public pension funds, and other financial funds, into industrial capital through the Fiscal Investment and Loan Programme; further, the main bank system helped Japanese firms to use corporate pension funds as patient capital. In Korea, the state controlled banks, using policy loans to guide chaebols to support its developmental strategies. The linkage between banks and chaebols was therefore established. Unlike Japan, however, Korea attempted to mobilise public pension funds as industrial capital, in order to reduce its heavy reliance on foreign loans- it was not institutionalised. In Taiwan, public enterprises and large private firms could be financed through banks, but SMEs had to rely on informal financial channels, such as family. Public pension funds were not used as industrial capital.

By relying on the bank-based financial system, Japanese and Korean firms could be protected from the pressures of short-term profits, developing long-term commitments to employees to nurture firm-specific skills. Enterprise unionism could be established in Japan and Korea since the state intentionally dissolved industrial unionism so that a cooperative, and production-oriented business environment, could be created. In Taiwan, SMEs rely on general skills in order to maximise its comparative institutional advantage- flexibility, rather than the development of long-term commitments is important. As an émigré regime, the KMT repressed labour power, politically incorporating labour into its ruling regime. Labour is thereby weak at national and firm level, and appendix 5 and 6 shows indicators of labour power, and skill profiles.

The diversity of East Asian capitalisms has been highlighted in this chapter. With the varieties of capitalism argued, shaped by national capitalist structure, the interaction between political actors and the nature of cross-class coalition, as well as the social policy preferences of political actors, should be different in Japan, Korea and Taiwan (Amable, 2003; Hall & Soskice, 2001; Swenson, 2002). In the following three chapters, process-tracing analysis would be used to attest this theoretical argument, and to explain the variations in the public-private pension mix in Japan and Korea and Taiwan.

Compared to Japan and Korea, Taiwan's pension system is distinctive. First, corporate pension is negligible; second, the state was/is dominant in pension policy, the coordinating of pensions, and national capitalist structure. This chapter argues that the SMEs-dominated capitalist structure that relies on 'flexibility' as its main comparative institutional advantage, constrained the state's capacity for adopting corporate pensions. This led employers to put more emphasis on short-term profits, given their reluctance to bear high labour costs, eventually leading to a statist pension system.

Table 5.4.1 The Diversity of National Capitalist Structure in post-war Japan, Korea and Taiwan

	Japan	**Korea**	**Taiwan**
Business systems			
Business structure	Horizontally and vertically integrated conglomerate-style business structure, known as "keiretsu".	Hugely diversified and family-run conglomerates, known as "chaebol".	1. State-owned enterprises (SOEs) and party-owned enterprises (POEs) (KMT-owned): domestic-oriented. 2. Small and medium scale enterprises (SMEs): export-oriented.
Inter-firms relations	Long-term, based on trust; Vertically-integrated, tightly-controlled sets of firms	Based on family or personal relationship with less important formal procedures.	Vertical integration is weak, but with a highly interdependent subcontracting networks. Inter-firms relation is short-lived if without informal and personal ties.
Financial systems			
Finance	The main bank system: long-term formal financial system, based on coordination between bank and firm. Finance is mainly from 1. postal saving system (state) 2. bank (private sector) 3. pension fund	Foreign capital: Massive long-term loans from abroad with very low interest rates	1. SOEs and POEs: preferential treatment from financial institutions 2. SMEs: family, equity and informal curb market loans. *Monetary policies, such as tax breaks and high-depreciation allowances, are

			preferred by the Taiwanese government to encourage investment in particular sectors.
Labour Market Regime			
Skill Formation	The developmental model of skill formation		
	Firm-specific skills	Firm-specific skills	General Skills
Employment relations	Labour is weak in the state-level, but strong in the enterprise-level with formal wage-negotiation institutions	Labour is weak in the state-level, but strong in the enterprise-level.	Very weak, and state-dominated.
The organisation of work	Life-long employment for the regular workers	Based on authoritarian management style, with company welfares, but do not develop long-term commitment as Japan	Flexible, except for public employees in public sector and public enterprises.

Sources: Amsden (1989); Ashton et al. (1999); Y. J. Choi (2009); Fields (1995); Johnson (1982); S.-Y. Lee (2011); Wade (2004); Whitley (1992, 1999).

Chapter 6 – Japan

As shown in the previous chapter, Japan's national capitalist structure is characterised by the keiretsu-dominated business system, the main bank system, and the firm-specific labour market regime (firm-specific skills and enterprise unionism). This chapter will show how the keiretsu-centred capitalist structure shaped political actors' pension preferences, and their interaction and cooperation. To begin with, the focus will concentrate on the origins and development of Japan's public-private pension mix. It will show how the state actively, and intentionally, designed a pension system that could resolve economic coordination of skill and capital formation in the early industrialisation period. The focus will be shifted to explain how financial liberalisation, and non-regularisation of the labour market (although not fundamentally differing Japan's capitalist structure) forces Japanese firms to adopt a dualist strategy to cope with the pressure of pursuing short-term profits: to reduce labour costs through the employment of more non-regular workers with low-general skills and externalising their pension costs to the state, while maintaining core workers with firm-specific skills. After the 1980s, pension reforms were principally introduced to fit this dualist strategy- the universalisation of public pensions, and the introduction of DC corporate pensions- for the increasing non-regular workers, though core workers still enjoyed generous public and private pensions.

6.1 The Origins of the Japanese Pension System (1945-1980)

Japan's public pension system is traceable to the late-19th century, when several pension schemes were initiated, as the role model for private firms to resolve the problems of skill formation, for state officials, military, public enterprises workers. These pension schemes were reformed as the 'Mutual Pension Schemes', with the Employees' Pension Insurance and the National Pension Insurance introduced for private workers, and functioning as a means of capital mobilisation for the state. Corporate pensions (the Retirement Allowance) were developed in the late 19th century, growing in the 1920s to facilitate firm-specific skill formation and to dampen labour mobility. In the post-war period, two main corporate pensions then institutionalised the coherence between the national capitalist structure and corporate pensions, as an incentive system for employees to invest in firm-specific skills, and as another means of capital mobilisation for firms.

6.1.1 Public Pension Schemes: Towards "Pension for All"

From 1875-94, the Meiji government launched various pension schemes for military and state officials, and public school teachers. Unified in 1923 (Chiu, 2009; Shinkawa, 2005a), these schemes constituted the largest proportion of social spending in the 1920s (Anderson, 1993). Aside from these, the Employees' Pension Insurance and the National Pension Insurance are particularly important.

The Employees' Pension Insurance

At first, the Japanese government opposed the introduction of pension schemes for private workers, due to concerns, shared with employers, that it would contribute to unionisation across the firms (Shinkawa, 2005a, p. 162). The Second World War was a turning point (Kasza, 2006; Weiss, 1993), with, in 1939, the Sailor's Pension Plan being introduced to secure the manpower necessary for marine transport during the wartime (Kasza, 2006; Shinkawa, 2005a). The Ministry of Welfare, in 1941, then introduced the Workers' Pension Act for muscle workers that work in workplaces of more than ten workers. As a funding pension scheme, its primary aim was to mobilise financial resources to support military mobilisation, and public infrastructure (Shinkawa, 2005a, p. 162). Nearly all contributions were collected for the war (Kasza, 2006, p. 40). Thus, this act was for military mobilisation and economic goal, rather than purposes of welfare. In 1944, the Workers' Pension Act was renamed as the 'Employees' Pension Insurance', extending the coverage to other private workers (such as white-collar, and female workers) in firms with more than five employees.[24]

In 1952, the Ministry of Welfare proposed a draft to improve the benefit level of the Employees' Pension Insurance to address hyperinflation and change its structure to the combination of earning-related[25], and flat-rate components (Chiu, 2009, p. 96). Initially, employers opposed this draft, with Nikkeiren (the peak-level federation of employers' associations) arguing that the earning-related pension benefits should be at the discretion of firms, since most of them had corporate pensions. As such, public pensions should only offer meagre, flat-rate benefits, especially in the face of wage rises caused by labour mobilisation[26] (Campbell, 1992, pp. 58-59; Estévez-Abe, 2008, pp. 121-122; Kume, 1998, pp. 78-79). This is because the immediate post-war period (1945-48) saw employers wanting to use corporate pensions to regain management

[24] The coverage was greatly extended from 3.46 million to 8.44 million from1942-44 (Kasza, 2006, p. 40).
[25] The Minister of Welfare considered the part of earning-related benefit as a critical institutional design in attracting support from core male workers (Estévez-Abe, 2008, p. 120).
[26] See chapter 5, where it has been mentioned in the discussion of the formation of enterprise unionism.

authority (see section 6.1.2, this chapter). For employers, corporate pensions had higher discretion than public pensions in corporate governance and human resource management.

In the face of capital shortage, however, the state wanted to maintain the pre-funding financial mechanism in order for capital mobilisation, and its fiscal capacity, particularly, was severely constrained by the Allied government's conservative fiscal policy (Gao, 2001; G. Park, 2011). Thus, a prefunding public pension was particularly important for the Japanese government, in terms of capital formation. Further, the Korean War resulted in a significant increase in economic demands, in turn hiking the demand for capital (Nishinarita, 2009, pp. 283-286), which led employers to request access to the reserves (Campbell, 1992, pp. 58-59; Estévez-Abe, 2008, pp. 120-122). In the exchange of accessing reserves, and the demands of the state's financial assistance, employers reluctantly accepted the government's proposal. This reform could, therefore, be argued as collusion between the state and employers, though the state had higher authority in dominating its institutional design.

On the other hand, labour was disempowered after 1948, due to the reverse course,[27] despite its power in the immediate post-war period (1945-48) (Kume, 1998; Shinkawa, 2005b). Following the reverse course, the Japanese and Allied governments began intentionally repressing labour power to avoid its negative impacts on economic development, and the development of the Communist (Kawanichi, 1992; Kume, 1998). Although labour asked that coverage should be extended to firms with less than 5 employees, resisting the increase in the retirement age, they were both rejected (Campbell, 1992, p. 59; Chiu, 2009, p. 96).

A revision of the Employees' Pension Insurance was passed in 1954, including a shift from full to partial funding of the financial mechanism; the improvement of benefit level;[28] and the combination of flat-rate and earning-related benefits. In short, the 1954 reform could be argued to be economical and social simultaneously, since it not only aimed at improving the benefit level of the Employees' Pension Insurance, but also wanted to use it for capital mobilisation. Since this reform, the Employees' Pension Insurance was not fundamentally changed until 1985 (Campbell, 1992; Shinkawa, 2005a, 2005b).

[27] Initially, the Allied government aimed to dissolve the old Japanese political and economic system through political and economic liberalisation. But the Allied government changed their attitude due to the civil war of China and the Korean War to favour conservative parties and big businesses. This is so-called the 'reverse course' (Kume, 1998; Shinkawa, 2005b).

[28] It included ¥2,400 a month as a flat-rate portion, and an earning-related portion that would bring the total to about ¥3,500 a month for an average couple (Campbell, 1992, p. 60).

The National Pension Insurance

Unlike the Employees' Pension Insurance, the National Pension Insurance was a result of party competition, and employers played no role in the policy discussion. In the early post-war period, the Japanese government attempted to introduce a universalistic pension scheme that covered all citizens, but this was vetoed by the Allied government. Following revision of the Employees' Pension Insurance in 1954, the state began thinking about extending the coverage of the pension system to the entire population. The LDP (Liberal Democratic Party) proposed the idea of 'Pension for All', which soon became a guideline under the Kishi cabinet (Shinkawa, 2005b). This is because the realisation of a comprehensive welfare state was a part of the LDP's statist agenda, and a strategy for uniting and consolidating the conservative regime, weakening political influence of the communist, and promoting national integration and national mobilisation for economic growth (Miura, 2012, pp. 49-50).

In 1955, the conservative regime was forged, underpinned by the coalition between the conservative ruling party (the Liberal Democratic Party), and employers (mainly keiretsu) (Pempel, 1998; Shinkawa, 2005b). The formation of the state-keiretsu developmental alliance was due to the state having to rely on big businesses to promote economic development, and then to maintain political legitimacy (Gao, 2001). Through the state's financial supports and administrative guidance, the keiretsu could promote industrialisation, create jobs and offer employment and economic security to their employees (through the permanent employment system, the seniority-based system, and generous corporate welfare). Through this strategy, the state could gain, and maintain, its political legitimacy and supports. The keiretsu, meanwhile, also required state assistance, their capacities being very limited in the early industrialisation period.

The conservative state-keiretsu developmental still faced great competition from the left (Anderson, 1993; Campbell, 1992), however, with the process of industrialisation widening the gap between agricultural and industrial sectors. The Japan Socialist Party, established in 1955, thus criticised the LDP's pro-business stance in order to mobilise rural voters and workers in small firms (Estévez-Abe, 2008). In 1955, the Japan Socialist Party proposed the idea of establishing a new comprehensive pension scheme that attracts peasants (Campbell, 1992; Estévez-Abe, 2008). In 1956, the LDP reacted, promising to establish a universalistic pension scheme in the Upper House elections (Shinkawa, 2005b). This issue did not receive attention after the elections until the Lower House election in 1958.

This issue resurfaced again, due to the Japan Socialist Party announcing a draft of national pension bill in late 1957. The LDP, thereby, announced that "the most notable aspect of our platform this time is the establishment of the National Pension" in the 1958 election campaign (Campbell, 1992). Initially, the LDP called for the unification of the existing, fragmented public pension schemes, with the Ministry of Welfare initially supporting the idea of universalism. They tended to expand the coverage of the Employees' Pension Insurance, rather than introducing a new non-contributory pension scheme (Estévez-Abe, 2008, p. 144). This was resisted by the Japan Socialist Party, and labour unions. Shaped by enterprise unionism, labour unions of large firms were reluctant to share risks with peasants and the self-employed (Campbell, 1992, p. 72). These core workers had been well-protected by generous corporate welfare and the Employees' Pension Insurance. Thus, in the consideration of practicality, the state saw a fragmented national pension plan as a more realistic option.

The Japanese government, likewise, wanted to use the National Pension Insurance as a source of capital mobilisation. The LDP saw the welfare state as a part of national integration and mobilisation for economic growth (Miura, 2012). It is, in a large part, because the state required financial resources to promote the growth of keiretsu, and in turn to create jobs and employment, and economic security, to maintain its political legitimacy (Gao, 2001). To start with, however, the LDP and the Japan Socialist Party were both proponents of a non-contributory pension scheme, since it would maximise political benefits. This idea was rejected by the Ministry of Finance, however, who argued that the National Pension Insurance should be financed by contributions to minimise the budgetary cost, and collect capital for investment (Campbell, 1992, pp. 74-81). This was due to the conservative fiscal policy, which was posed by the Allied government to control inflation (Gao, 2001; G. Park, 2011). Thus, in order to gain the support of the Ministry of Finance, the Ministry of Welfare agreed to adopt the social insurance principle, but a one-third subsidy came from general revenues, with the Ministry of Finance's Fiscal and Investment Loan Programme able to gain funds.

The National Pension Insurance was legislated in April 1959 and implemented in 1961. All those not enrolled in other pension schemes were compulsorily enrolled, and this was financed by flat-rate contributions, and subsidies from general revenues. Its benefits were flat-rate, and it was a funded scheme also. The fragmented public pension system had settled down, not having a structural change until 1985. During the 1960s and 1970s, Japan's public pensions were not fundamentally reformed, but some benefit levels were improved due to rapid economic growth.[29]

Due to the conservative fiscal policy of the Allied government and its keiretsu-centred capitalist structure, the Japanese state had, in the face of capital shortage, great interest in mobilising public pension funds to support its industrialisation (Estévez-Abe, 2008; Gao, 2001; G. Park, 2004, 2011). This is particularly important. In the keiretsu-centred capitalist structure, the state and employers had to rely on continuous growth to maintain political legitimacy, and employment practices, respectively (Gao, 2001; Nomura, 1998; Schaede, 2008). By devoting financial resources to industrialisation, the state could create more new jobs, favouring the oligopolies in its competition policy, in turn enabling keiretsu to institutionalise the employment practices. This strategy not only facilitated the growth of the keiretsu but also ensured employment security for keiretsu employees. In the post-war period, however, the Japanese government faced a dilemma: making a small government compatible with industrialisation and social welfare expansion (G. Park, 2011). Thus, the state's mobilisation of financial resources, to support its industrialisation ambitions, was required. The answer, the Fiscal Investment and Loan Programme, was introduced in 1952, and helped the state to mobilise post-savings and public pension funds as industrial capital. The mechanism has been explained by figure 5.2.1. It collected capital from different sources, as shown in table 6.1.1. Since the 1960s, postal savings were the most crucial financial source of the Programme, with public and Postal Pensions also playing a critical role in its financing.

The allocation of the funds of the Programme for different goals is shown in Table 6.1.2. When Japan focused on capital-intensive industries, industry/technology was initially the core policy area of the Programme. The funds of the Programme were then channelled to housing and living environment, due to issues of environmental pollution (Shinkawa, 2005b). SMEs also received a significant portion, mainly because the LDP, as an inclusive conservative party, wanted to vie for their political support when they were the main target of rationalisation, and reorganisation of industries, in the 1950s and 1960s (Gao, 2001; G. Park, 2011; Pempel, 1998). Thus, the Programme played as a buffer in industrial rationalisation. In short, the Fiscal and Investment Loan Programme established an institutional linkage of how the state mobilise public pension funds as industrial capital.

[29] For example, in the 1960s, the LDP government initiated the Income Doubling Plan, which was considered as a way to minimise the need for formal welfare policies (G. Park, 2011). This led to the Japanese government improving benefit levels of public pensions.

Table 6.1.1 The Sources of Fiscal and Investment Loan Programme Funds, 1960-1999 (unit: %)

	1960	1965	1970	1975	1980	1985	1990	1995	1999
Postal Savings	24	26	37	44	43	30	12	31	9
National and Postal Pension	15	21	27	19	21	18	18	15	10
Postal Life Insurance	19	6	11	9	8	9	16	14	14
Industrial Investment Special Account	6	2	3	1	0	0	0	0	0
Bonds and Bond Guarantees	19	25	13	4	7	11	5	6	6
Reabsorbed Funds	17	20	9	23	20	33	49	35	61

Source: Adopted from G. Park (2011, p. 27)

Table 6.1.2 the Fiscal Investment and Loan Programme Plan Allocation by Policy Area, 1953-2000 (unit: %)

	1953	1955	1960	1965	1970	1975	1980	1985	1990	1995	2000
Housing	5.2	13.8	12.8	13.9	18.1	21.4	26.2	25.4	30.3	35.3	34.1
Living Environment	7.8	7.7	9.3	12.4	11.7	16.7	14.1	15.7	15.3	16.4	17.8
Social Welfare	1.6	2.1	1.8	3.6	2.7	3.4	3.5	2.8	3.1	4	4.2
Education	4.5	4.5	3.5	3.1	2	2.9	4.4	3.6	2	2	2.3
Small and Medium Enterprises	7.9	8.1	12.7	12.6	17.2	15.6	18.7	18	15.7	15.3	16.7
Agriculture, Forestry, and Fisheries	11.2	8.9	7.1	7.2	4.7	4.1	4.9	4.3	3.2	2.9	2.4
National Land Preservation and Disaster Reconstruction	14	7.7	6.5	3.1	1.5	1.2	1.7	2.3	1.2	1.3	1.9
Road Construction	3.7	3.7	3.6	7.9	8.1	8	5.7	8.8	9.8	7.8	9.3
Transportation/ Communication	11.3	12.2	14.1	13.9	13.4	12.7	9.6	8.4	8.3	4.6	1.8
Regional Development	3.7	8.5	7.1	7	4.1	3.3	2.6	2.4	2.5	2.6	2.9
Industry/technology	29.1	15.8	13.6	7.8	5.8	3	3	2.9	2.9	3.1	1.8
Trade/Economic Cooperation	0	7	7.9	7.5	10.7	7.7	5.6	5.4	5.8	4.7	4.9

Source: Adopted from G. Park (2011, p. 35)

6.1.2 Corporate Pension Schemes

Corporate pensions were introduced in the late 19th century. Not only a role model but also a regulator, played by the state in stimulating the development of corporate pensions, in order to facilitate firm-specific skill formation and dampen labour mobility. In the post-war period, the Retirement Allowance was included as a part of labour contract, proliferating another two corporate pension schemes- the Employees' Pension Funds (1964), and the Tax-Qualified Pension Schemes (1962). These were incentive schemes, and a means of capital mobilisation, enhancing the institutional coherence between the corporate pension system, and the Keiretsu-centred capitalist structure. They were the three main corporate pension schemes in post-war Japan.

The Retirement Allowance

The first corporate pension scheme, the Retirement Allowance, was adopted much earlier than its public counterpart, and has a history of over 100 years (Nishinarita, 2009). First reported at firm level in 1905,[30] it was followed by nationwide legislation in 1936, and merged into the Employees' Pension Insurance in 1944 (Kimura, 1997, p. 200). Initially, the Meiji government liberalised the labour market in order to destroy feudal institutions, resulting in an unregulated labour market (Thelen, 2004). In order to address it, the state acted as a role model in developing private pensions and management practices (Manow, 2001b, p. 100). At first, public enterprises consolidated the in-plant training system, and launched a series of strategies- such as life-time employment, the 'nenko principle' (seniority-based payment and advancement) and retirement bonus (the Retirement Allowance) to develop and secure skilled workers. These management practices were then diffused to large private companies (Gordon, 1985, pp. 54, 138; Manow, 2001b, pp. 102-103; Nishiguchi, 1994, pp. 24-25). These strategies "offset the reluctance of workers to invest in such company-specific training" (Thelen, 2004, p. 164). Thus, it can be concluded that these management practices were "made instrumental for the expansion of the market" (Manow, 2001b, p. 101).

The Retirement Allowance was a 'book reserves' scheme, providing a lump-sum payment to workers who left the firm for retirement, or other reasons. It effectively functioned, therefore, as a retirement bonus, and unemployment insurance, and so in the absence of national unemployment insurance, there was significant attraction to the Retirement Allowance for workers. The labour turnover rate in the four main zaibatsus declined from around 35-50% to less than 10%, from 1919 to 1930 (Nishiguchi, 1994, p. 21-24). However, it was volunteerism, with the benefits and entitlements varying (Gordon, 1985, pp. 200-201). It was institutionalised in 1936

[30] It was said that Kanebo introduced the first corporate pension plan in 1905. The employees had to contribute 3% of wages; meanwhile the employer contributed more than half of the total contributions. This type did not spread until 1914, when Mitsui & Co. introduced a similar corporate pension plan (Katsumata, 2004).

through the Retirement Fund Law, introduced as an alternative to national unemployment insurance in coping with economic crises in the 1920s and 1930s (Krämer, 2013; Nishinarita, 2009; Yamazaki, 1988). Before the War, its coverage was limited (table 6.1.3), with only around 20% of employees covered. Even in larger firms, only 31.5% of employees could be covered.

Table 6.1.3 the Timing of the Introduction of the Retirement Allowance by Industries and Firm Size

	Total	Before WWII	1945-50	1951-52	1953-54	1955-56 (September)
Total	21,759	21.1%	34.5%	17.2%	14.8%	11.3%
Industries						
Mining	711	36.6%	29.7%	17.2%	8.2%	8.4%
Manufacturing	11,395	8.3%	39.9%	19.2%	17.5%	13.7%
Retailing	3,154	10.5%	40.1%	16.8%	17.9%	12.7%
Financial, Insurance and Real Estate	3,399	52.9%	20.0%	14.2%	7.8%	4.2%
Transportation, Communication and Non-Profits	3,100	40.4%	26.7%	13.3%	10.9%	9.2%
Constructions	1,080	21.2%	36.7%	15.5%	13.3%	11.1%
Firm Size						
500 and more	1,353	31.5%	38.9%	12.7%	6.4%	10.0%
100-499	6,353	23.3%	36.7%	16.4%	13.6%	9.0%
30-99	14,053	19.1%	33.1%	17.9%	16.1%	12.4%

Source: Yamazaki (1988, p. 46).

After the Second World War, labour, empowered by the Allied government, began negotiating working conditions with employers, when the ‘Production Control’ strikes were adopted since the fall of 1945 (Tsutsui, 1998). Labour argued that the Retirement Allowance should be included as a part of working conditions, since it should be seen as a deferred wage, rather than as a bonus from employers (Nishinarita, 2009; Yamazaki, 1988).[31] Thereby, the Retirement Allowance was expanded in the early post-war period. Thus, some argue that labour played a critical role in the expansion of enterprise welfare in the early post-war period (Cho, 1996; Gordon, 1998). Bearing in mind these ‘Production Control’ strikes had negatively impacted the Japanese economy and society, the Allied government were thus, since the winter of

[31] The Densan (electrical) unions insisted, in the face of economic difficulties, that the Retirement Allowance should be seen as a part of working conditions, and used to cope with unemployment and retirement in the 1946 labour dispute (Yamazaki, 1988, pp. 51-52). This idea was widely accepted in other industries and the Retirement Allowance, as a deferred wage, was accepted.

1946, led to suppress labour movement (Gordon, 1998). In other words, labour had been weakened. Hence the expansion of corporate welfare could not be completely attributed to labour movements.

On the employers' side, and following defeat, the Japanese government was too weak to address labour questions, and employers had to establish a cooperative way of restoring management autonomy, and to stabilise capitalist economy (Gordon, 1998; Tsutsui, 1998). In the absence of the state, for employers, these labour contracts were seen as a strategy for establishing cooperative employment relations, and restoring management autonomy.[32] Since 1945, a significant expansion in the Retirement Allowance could thus be witnessed, though most were in large firms (Table 6.1.3). The pre-war Retirement Allowance was based on volunteerism, and employers' discretion, and as such was preferred over a bonus from employers; the post-war Retirement Allowance however, was based on labour contract, thus a part of working conditions and social rights (Yamazaki, 1988).

Based on these labour contracts, the Japanese management practices- the permanent employment system, the seniority-based system and generous corporate welfare- were retained. Simultaneously, it meant that employees became very growth-minded, having had to rely on cooperative employment relations, and firms' continuous growth for job and economic securities (Aoki, 1998; Gao, 2001; Nomura, 1998). As a result, cooperative and growth-minded enterprise unions were effectively incorporated into the state-keiretsu developmental alliance.

In the early 1950s, with the Korean War increasing the demands of heavy and chemical industries, employers asked for tax revisions for the Retirement Allowance to mobilise capital and reduce labour costs (Nishinarita, 2009). Employers, particularly, claimed that an increase in life expectancy, and the wide adaptation of permanent employment, resulted in hiking expenses for the Retirement Allowance, and so, in 1951, called for tax deductions to reduce labour costs and resolve capital and labour shortages (Yamazaki, 1988). The 1951 revision applied separate taxation on the Retirement Allowance, as retirement income. Employers were thereby permitted to maintain up to 50% of all the Retirement Allowance they were required to pay. The revision of 1952, meanwhile, raised corporate income tax from 35% to 42%, and the state decided to provide tax deduction on the Retirement Allowance to help employers to introduce the internal reserve fund. In 1954, employers demanded tenure-rated income tax deductions, on the receipt of the Retirement Allowance, to

[32] Nikkeiren pointed out that 30 working years was the basic condition for the entitlement of the Retirement Allowance (Yamazaki, 1988, p. 73). This rule encouraged employees to stay in the same company, and was complemented with other management practices.

offer, with lower cost, more payments to their loyal workers. Furthermore, employers were encouraged to create internal saving accounts for their employees through tax provisions. Employees could receive higher interest rates, while employers could borrow from their workers with lower interest rates (Estévez-Abe, 2008, p. 122). Put another way, the payment of the Retirement Allowance acted as an effective legal means of reducing taxes (Katsumata, 2004, p. 60).

In the face of capital shortage, and the constraints of conservative fiscal policy, the Japanese government's ability of maintaining political legitimacy by expanding public welfare was severely constrained (Gao, 200; G. Park 2011). As such, the Japanese government hoped to reduce the demand of public welfare by encouraging the keiretsu to develop corporate welfare and employment security. These tax advantages not only eased the capital shortage of large companies in the 1950s (helping employers to use it as a part of an incentive system for skill formation, through reduced labour costs) (Estévez-Abe, 2008; Koike, 1994; Nishinarita, 2009; Yamazaki, 1988), but also helped the state to externalise the cost of public welfare to employers, reducing its financial burdens and maintaining political legitimacy (Gao, 2001). Consequently, the Retirement Allowance has, since the 1950s, been widely introduced in larger companies as part of management practices, in the face of the shortage of skilled workers and capital.

The Tax-Qualified Pension Schemes

The Tax-Qualified Pension schemes were one of three main corporate pension schemes in post-war Japan, particularly for smaller firms. Although, since the 1950s, some tax revisions were introduced to encourage the development of corporate pensions, they did not significantly benefit firms. Principally, tax deductions only went to those with an entitlement of annuities (20 years working career in the same company). Most retirement reserves could not, therefore, be non-taxable. Nikkeiren, consequently, requested further tax deduction for corporate pensions in 1956. In 1957, Nikkeiren and the Life Insurance Association both proposed that (1) tax-qualified pension should be introduced; (2) retirement reserves should be counted as business expenses for tax deductions; and (3) the profits of pension funds should be non-taxable (Nishinarita, 2009, p. 303). Initially, however, the Ministry of Finance adopted a passive attitude, arguing that tax deductions for corporate pensions would only benefit large firms (Chiu, 2009, p. 152).

Following the introduction of the National Pension Insurance in 1959, life insurance companies started to devote more efforts to this issue, thinking the introduction of tax-qualified pensions would enhance the development of life insurance industries (Nishinarita, 2009, pp. 303-304). Thus, the Life Insurance Association, together with the Trust Association and Nikkeiren, asked for further tax deductions for corporate pensions in 1960 and 1961. Nikkeiren, particularly, suggested that internal and external retirement funds should be counted as business expenses, and made non-taxable (ibid). At the end of 1961, the Ministry of Finance accepted it, and in1962, Tax-Qualified Pension Schemes were introduced through the revision of tax law, rather than new legislation. This was partly because the Japanese government wanted to use expansionary monetary policy to promote economic growth. The keiretsu-centred capitalist structure, as argued, strongly needed 'continuous growth' to maintain its employment practices (Schaede, 2008). Conservative fiscal policy, however, severely constrained the state's financial capacities. Thus, the Japanese government had to adopt expansionary monetary policy to promote continuous growth. They thought the development of non-bank financial institutions, and the encouragement of long-term loans, would help to achieve this goal (Gao, 2001).

The Tax-Qualified Pension Schemes allowed firms with more than 500 employees to set up corporate pension funds, their contributions to the fund and capital gains both enjoying tax exemptions. Thus it was popular for smaller enterprises (table 6.1.4). Pension funds had to be managed by either insurance companies or trust banks. The size of funds, and the numbers of Tax-Qualified Pension Schemes, was small in 1965, it was increased to around ¥130 billion, and 51,264 schemes in 1969. By 1981, the total assets of the Tax-Qualified Pension Schemes had reached around ¥ 3,052 billion.

Table 6.1.4 the Trend of the Tax-Qualified Pension Schemes

	The Numbers of Tax-Qualified Pension Schemes		The number of enrolees (thousands)	Total Assets of the Tax-Qualified Pension Schemes (¥ billion)
	Numbers	Cases with more than 1000 employees		
1965	2,472	66	452	--
1969	51,264	180	2,770	130
1973	60,147	245	4,031	481
1977	57,011	292	4,636	1,315
1981	61,437	488	5,837	3,052

Source: Yamazaki (1988, p. 161)

The Employees' Pension Funds

The Employees' Pension Funds was another critical corporate pension scheme in Japan, but mainly for larger firms. The revision of the Employees' Pension Insurance in 1954 greatly improved its level of benefits. As such, employers began to ask for adjustment of the coordination of public and private pensions, in order to reduce financial burdens on firms (Yamazaki, 1988, p. 149). In 1961, employers, together with insurance companies and trust banks, called for the introduction of an opt-out pension scheme to contract out of the Employees' Pension Insurance. They further argued that the coordination of public and private pensions was necessary, and unless considered, would see opposition to the revision of the Employees' Pension Insurance (Chiu, 2009, p. 99).

However, the inconsistency in labour's interests weakened labour power's ability to resist the introduction of an opt-out corporate pension scheme. This is because, as shown, keiretsu workers were covered by Japanese management practices, becoming growth-minded, and were incorporated into the state-keiretsu developmental alliance. The inconsistency between radical, and cooperative enterprise, unions, therefore, emerged. The General Council of Trade Unions of Japan, for instance, announced in 1962 that they were against the introduction of an opt-out pension scheme since social protection should be the duty of the state, and the level of benefits should see significant improvement (Yamazaki, 1988, pp. 151-152). The International Metalworkers' Federation-Japan Council united big business unions in the metal and machine industries, under the banner of enterprises unionism, together with the Japanese Confederation of Labour (Domei)[33] focused on the importance of the coordination of the public-private pension mix in labour management, and retirement income security (Chiu, 2009, p. 100). The resultant 1963 discussion of the upcoming Fiscal review of public pensions was not agreed on by employers and labour.

The state subsequently adopted a conciliatory attitude, adding conditions to the employers' plan, such as worker's approval being needed; benefits needing to be at least 30% higher than under the Employees' Pension Insurance; and funds needing to be managed by either insurance companies or trust banks (Campbell, 1992, pp. 90-91). In 1965, the amendments of the Employees' Pension Insurance were passed, to introduce the Employees' Pension Funds.

[33] Domei, the Japanese Confederation of Labour, consisted of private-sector enterprise unions, since the electric power industry labour unions, being the core of enterprise unionism in post-war Japan, were affiliated with Domei. Its position was more conservative, and it tended to go along with management's plans (Kawanich, 1992).

The Employees' Pension Funds were implemented in 1966, and was also known as the Adjustment Pension due to its intention to adjust for the increasing burden on firms, from the Employees' Pension Insurance and the Retirement Allowance (but only for firms with above 1000 employees).[34] The establishment of the Employees' Pension Funds was based on the agreement of labour and employers, and on condition it could offer better benefits (at least 30% more than possible by staying in the Employees' Pension Insurance). Under this scheme, employers were allowed to contract-out of a certain portion of the earning-related component of the Employees' Pension Insurance to the Employees' Pension Funds. This partial contract-out portion had two critical implications. First, the non-contract-out portion was still covered by the state, ensuring the right to benefits from the Employees' Pension Insurance, in the case of ensured employees' pension fund going bankrupt. It also avoided the deepening dualisation of the labour market- a full contract-out pension scheme being adopted would see large firms tend to contract out of the Employees' Pension Insurance to the Employees' Pension Funds, with the Employees' Pension Insurance only covering workers in smaller businesses.

In 1966, 142 companies or consortia established funds covering about 500,000 employees. By 1970, the number of funds had increased five times, covering around 3.9 million employees- some 17.6% of the Employees' Pension Insurance's insured joined the Employees' Pension Funds. This gradually increased to over 1,200 funds, almost 8 million workers, and over ¥17 trillion ($94 billon) by the early 1980s (Campbell, 1992, p. 91).

Table 6.1.5 the Trend of the Employees' Pension Funds

	The numbers of funds	The numbers of enrolees.	
		The numbers of enrolees (thousands)	The ratio to the number of the Employees' Pension Insurance's insured (%)
1966	142	500	2.6
1970	713	3,908	17.6
1974	917	5,331	22.5
1978	957	5,578	23.0
1980	991	5,971	23.7

Source: Yamazaki (1988, p. 162)

[34] The number of employees was reduced, however, to 700 employees in 1986; and then to 500 employees in 1989.

Table 6.1.6 summarises three main corporate pension schemes. Principally, the Tax-Qualified Pension Schemes, and the Employees' Pension Funds, were rooted in the Retirement Allowance which aimed to reduce financial burdens on employers (Katsumata, 2004, p. 59). Japan's corporate pensions were designed to resolve economic coordination in skill, and capital formation, through the state-keiretsu developmental alliance. Firstly, Japan's firm-specific skill formation must rely on long-term commitments. In the pre-war period (particularly, from 1910-1930), and in order to establish long-term commitments with employees to reduce labour turnover rate, employers launched schemes such as the permanent employment system, the seniority system, and corporate welfare and pensions, as incentives to secure their jobs, and economic security (Estévez-Abe, 2008; Koike, 1994, 1997). In the pre-war period, the state acted as a role model to facilitate these management practices, which were retained following the war, as employers attempted to regain management authority. This was because the Japanese government could not help employers, at the start, to coordinate it. Thus, the institutional design of these corporate pensions was essentially unfavourable for young, and mid-career, workers who left employment voluntarily.[35] It aimed to avoid the loss of the cost of hiring and training, and, simply put, these management practices were designed for firm-specific skill formation (Aoki, 1988; Busemeyer, 2009; Koike, 1997). In the post-war period, the role of the state was more a facilitator that helped employers reduce their labour costs, when these management practices had been included as a part of the Japanese capitalist structure.

[35] If the amount of Retirement Allowance paid to workers who voluntary left was 100, and compared to laid-off workers with the same tenure, the ratios were: 200 for three years of tenure, 165 for five years, 138 for ten years, 128 for fifteen years and 109 for thirty years. It demonstrates that the institutional design of the Retirement Allowance tended to suppress turnover rates of young, and mid-career, workers (Estévez-Abe, 2008, p. 173). Likewise, the TQPSs and the EPFs were both designed as non-portable pensions in favour of long tenure.

Table 6.1.6 the Features of Three Major Corporate Pension Schemes

Type of plan or fund	Year started	Plan characteristics
The Retirement Allowance	1952	●Traditional way of providing severance payment to departing workers ●Benefit in the form of a lump sum ●Unfunded pay-as-you-go method financed by employers alone ●Earmarked reserves as a liability on the company balance sheet ●Loss of tax-deductible status beginning in 2002
The Tax-Qualified Pension Schemes	1962	●Based on U.S. Defined Benefit model ●Plan must be externally funded, and assets managed by contract with life insurance companies and trust banks ●Employer's contributions are 100% tax deductible, as a business expense ●Plan must contain a provision for annuities, although a lump-sum option is provided ●No tax on investment earnings ●Used primarily by small and medium-sized firms with more than 15 employees ●Regulated by the Ministry of Finance
The Employees' Pension Funds	1966	●Defined Benefit plan contracted out from social security ●Must be established as a legal entity, independent to the employer ●In return for a lower social security contribution, firms must provide benefits equivalent to the earnings-related portion of social security, and a supplementary benefit (lump sum or annuity), financed by the employer ●Plan must be funded and assets held outside the firm in a trust fund or in an insurance contract ●Life annuities must be provided ●Tax treatment virtually the same as TQPP ●Used by large companies and by multiemployer groups ●Regulated by the Ministry of Health, Labour and Welfare

Source: Adopted from Rajnes (2007, p. 91)

The implementation of these management practices was underpinned by the bank-based financial system, which helped prevent firms from the pressures of pursuing short-term profits, especially as employers faced a problem of capital shortage in the post-war period (Aoki, 1988). Corporate pension funds could be mobilised as patient capital, either through internal retirement reserves, or external pension funds by cross-shareholding (Estévez-Abe, 2001, 2008; Jackson & Vitols, 2001; G. Park, 2004). As mentioned, employers collaborated with life insurance companies and trust banks who should be allowed to manage corporate pensions, in order for employers to access to corporate pension funds. These financial institutions were either the centre, or part of the keiretsu. Thus, corporate pension funds could be rechanneled to the core company of keiretsu through cross-shareholding. This was particularly encouraged by the state's preferential policy- partly as the conservative fiscal policy prompted the Japanese government to adopt an expansionary monetary policy, through encouragement of financial institutions to offer more long-term loans to companies, thus ensuring keiretsus' continuous growth. This, in turn, helped the state to maintain, and vie for, political supports. In the 1960s, the state encouraged life insurance companies and trust banks to invest in key strategic industries. The significance of the life insurance industry on cross-shareholding increased from 7.19% to 13.28% between 1961 and 1986 (table 6.1.7), which helped Japanese companies to avoid market pressure, particularly, when facing financial liberalisation in the 1960s.

In short, Japan's pension system was developed to help skill and capital formation. Public pensions, firstly, were mobilised as industrial capital to support the state's developmental strategy. This was through the Fiscal and Investment Loan Programmes, and corporate pension funds. These could, in the face of capital shortage and conservative fiscal policy during the post-war period, be mobilised as patient capital through the state's tax and preferential policies. Second, corporate pensions, together with other management practices, were designed to develop long-term commitments with employees, so that firm-specific skills could be developed. Corporate pension funds could be mobilised as patient capital, through cross-shareholding, to prevent firms from market pressures. By developing these management practices and firm-specific skills, the core workers became more growth-minded, and were incorporated into the state-keiretsu developmental alliance in order to secure their job, and economic, security. Figure 6.1.1 shows Japan's pension system in the early 1980s. The National Pension Insurance and the Employees' Pension Insurance both offered flat-rate benefits to the retired, with the latter also providing earning-related benefits to beneficiaries. There were three corporate pension schemes- the Retirement Allowance, the Tax-Qualified Pension Schemes, and the Employees' Pension Funds. A certain portion of the earning-related portion could be contracted out to the Employees' Pension Funds.

Table 6.1.7 Distribution of Shareholding (by Shareholder Type)

		Financial Institutions											
	Government	Total	Bank & Trust	Investment Trust	Pension Funds	Life Insurance	Non-life insurance	Securities Financial Companies	Others	Securities companies	Nonfinancial corporations	Individuals & others	Foreigners
1961	0.20	29.97	8.91	9.94	-	7.19	3.53	3.40		2.79	18.70	46.68	1.66
1962	0.21	30.73	8.98	11.03	-	7.29	7.29	3.94		2.45	17.68	47.13	1.80
1963	0.25	30.85	9.23	11.17	-	7.58	7.58	3.55		2.24	17.89	46.68	2.10
1964	0.21	29.50	9.32	8.89	-	7.88	7.88	3.27		4.45	18.38	45.55	1.91
1965	0.20	28.95	9.86	6.54	-	8.73	8.73	4.09		5.81	18.43	44.79	1.82
1966	0.25	29.83	10.85	4.29	-	10.91	10.91	3.91		5.39	18.61	44.10	1.82
1967	0.26	30.56	12.75	2.43	-	10.24	10.24	1.61		4.43	20.54	42.36	1.85
1968	0.27	32.01	13.50	1.67	-	10.80	10.80	2.33		2.09	21.42	41.92	2.30
1969	0.26	31.91	13.84	1.19	-	11.02	11.02	-	1.93	1.39	22.05	41.11	3.29
1970	0.24	32.34	13.99	1.38	-	11.11	11.11	-	1.83	1.19	23.09	39.93	3.22
1971	0.25	33.91	15.05	1.30	-	11.26	11.26	0.88	1.01	1.45	23.63	37.19	3.58
1972	0.23	35.13	15.71	1.27	-	11.29	11.29	1.08	1.18	1.82	26.58	32.71	3.52
1973	0.24	35.08	16.20	1.25	-	11.12	11.12	0.88	1.06	1.48	27.53	32.71	2.96
1974	0.22	35.46	16.29	1.59	-	11.17	11.17	0.80	0.10	1.28	27.12	33.45	2.47
1975	0.23	36.04	16.42	1.58	-	11.47	11.47	0.82	1.06	1.43	26.28	33.46	2.56
1976	0.22	36.50	16.76	1.40	-	11.84	11.84	0.74	1.01	1.36	26.45	32.92	2.55
1977	0.20	37.83	16.93	1.97	-	12.15	12.15	0.87	1.12	1.51	26.17	32.02	2.27
1978	0.21	38.79	17.38	2.16	-	12.38	12.38	2.00		1.76	26.29	30.81	2.14
1979	0.22	38.85	17.15	1.92	0.48	12.33	12.33	2.10		2.01	26.11	30.36	2.45
1980	0.22	38.85	17.31	1.52	0.40	12.48	12.48	2.23		1.73	25.96	29.21	4.03
1981	0.21	38.65	17.29	1.32	0.41	12.58	12.58	2.15		1.72	26.33	28.45	4.65
1982	0.21	38.90	17.59	1.22	0.37	12.66	12.66	2.16		1.79	25.98	28.04	5.09
1983	0.20	38.98	17.92	1.01	0.43	12.70	12.70	2.07		1.91	25.88	26.78	6.25
1984	0.20	39.62	18.35	1.08	0.51	12.72	12.72	2.19		1.90	25.94	26.29	6.05
1985	0.75	42.22	19.57	1.34	0.71	13.51	13.51	2.59		1.96	24.11	25.22	5.73
1986	0.91	43.50	20.50	1.86	0.92	13.28	13.28	2.57		2.51	24.46	23.87	4.75

Source: adopted from Estévez-Abe (2008, p.161)

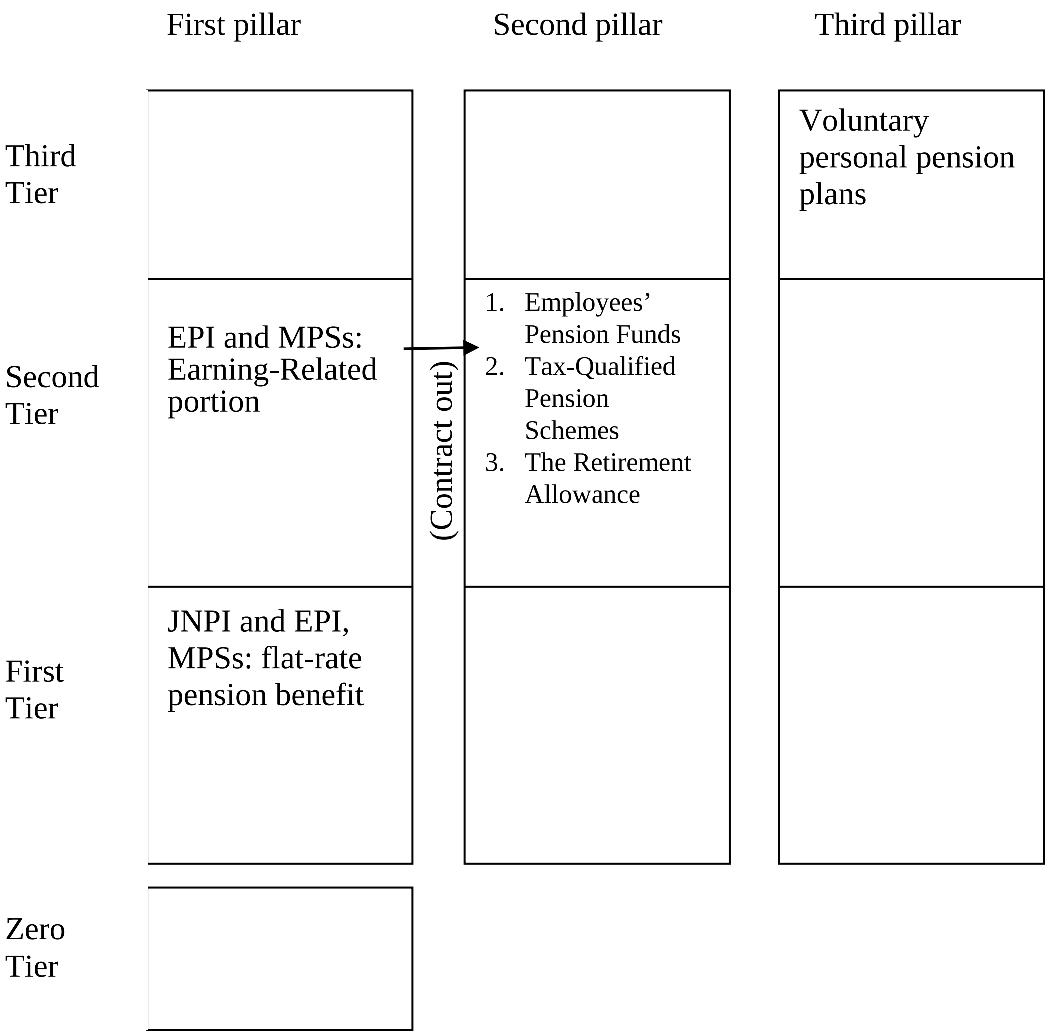

Figure 6.1.1 Pension structure in Japan, 1980s

6.2 The Dualisation of the Pension System since the 1980s

The Japanese keiretsu-centred capitalist structure was underpinned by rapid economic growth that maintained its long-term commitments in inter-firm, and employment, relations (Gao, 2001; Schaede, 2008). Since the 1980s when its economy was under the pressures of economic liberalisation, mainly caused by America, it has been challenged. Financial liberalisation forced the Japanese firms to put more emphasis on short-term profits. But instead of an overall, neo-liberal economic liberalisation, Japan adopted a dualist strategy. This is because the Japanese keiretsu-centred capitalist structure weakened the system's capacity to fundamentally restructure its capitalist structure. The labour market had been deregulating, allowing employers to externalise the cost of economic liberalisation to non-regular workers, and increasing labour market flexibility- putting more emphasis on short-term profits. Conversely, a certain portion of core workers with firm-specific skills were preserved to maintain its comparative institutional advantages. Along with this dualist strategy, public pensions were gradually universalised to absorb the cost of economic liberalisation, and corporate pensions were reformed to allow employers to introduce DC pensions for non-regular workers, though DB pensions were still dominant for core workers.

6.2.1 Public Pension: Towards Universalism?

The 1985 Pension Reform

Since 1975, the financial sustainability of public pensions was challenged due to the first oil crisis and increasing budget deficits (Campbell, 1992). The beneficiaries/contributors ratio of public pension schemes, particularly the National Pension Insurance, had been deteriorating since the 1970s.[36] Owing to the transformation of industrial structure, the agricultural population shrank from 13.65% of the total economically active adults in 1960, to 5.56% in 1980 (appendix 1). The number of enrolees of the National Pension Insurance, thereby, significantly declined to 25.7 million in 1983 from 27.9 million in 1979, but the beneficiaries increased to 6.2 million in 1983 (Chiu, 2009, p. 121).

In order to address this, the LDP government established the Second Provisional Council for Administrative Reform in 1981, which pushed Japan's overall fiscal problem to the top of the national agenda, pension reform thus included by Administrative Reform. The focus of the pension reform was concentrated on the unification of the existing public pension schemes and financial problems. The bureaucracies argued that the financial problems of the National Pension Insurance could be resolved through inter-fund borrowing of public pension funds. This pension reform did not encounter serious resistance, thanks to its incorporation as a part of the Administrative Reform (Shinkawa, 2005b). In 1984, a draft of it was sent to the Diet, and soon passed.

The 1985 pension reform included two critical measures. First, a basic pension introduced through integration of the flat-rate components of public pensions. This measure not only established a basic pension for all citizens but also relieve financial pressure on the National Pension Insurance by means of financial interflow between public pension schemes. Second, the relationship between contributions and benefits were further tightened, considered as the first step of pension retrenchment (Shinkawa,

[36] According to official statistics, the beneficiaries/contributors ratio of the public pension system was 15.9%, which increased to 23.8% by1985 (Chiu, 2009, p. 121).

2005b). The 1985 pension reform established the basis of the universalisation of the Japanese public pension system, but also triggered the first step of pension retrenchment. Further measures of pension retrenchment were adopted over the last two decades, through raising of the statuary retirement age (the 1994 pension reform) and benefit cuts (the 2000 and 2004 pension reforms).

The 2000 and 2004 Pension Reforms

Since the 1990s, financial liberalisation, and the collapse of the bubble economy, resulted in the increase in non-regular workers with low-general skills, changing actors' preferences over the pension system. As mentioned, Japan's main bank financial system enabled its firms to avoid the pressure of short-term profits (Aoki, 1988; Sheard, 1994). Since the 1980s, with financial liberalisation, Japanese firms were gradually forced to face more pressure from shareholders (Schaede, 2008; Vogel, 2006). However, "the reorientation and reorganisation of the economy inevitably entails social dislocations and political conflicts" (Zysman, 1983, p. 53). Deeply constrained by its national capitalist structure, Japan adopted the dualist strategy to avoid social dislocations and political conflicts, endeavouring to keep everyone in business (Gao, 2001; Song, 2012c). Employers still treasured core workers with (firm-) specific skills to enable them to compete on the world market, through quality-based production strategy; despite this, an increasing move to the new practice of replacing low-general skills full-time workers with non-regular workers, such as temporary and part-time workers, was seen, to increase labour market flexibility, and enabling them to adjust to economic liberalisation (Ito, 2013; Miura, 2012; Song, 2012a). This dualist strategy could be witnessed in Nikkeiren's report, entitled 'the Japanese-style Management in the New Era', published in 1995. In the report, Nikkeiren (1995) argued that workers should be classified into three groups: (1) workers with long-term accumulated ability; (2) workers with highly professional ability; and (3) workers with flexible employment. The traditional employment practices (the permanent employment system, the seniority-based system, and generous corporate welfare) should only be provided for those workers with long-term accumulated ability, or, according to Fleckenstein et al.'s concept of skill categories (2011), specific skills which should be trained through the firm-specific skill formation system; professional and flexible-type workers, owning either high- or low-general skills, however, should be supplied by the external labour market, and should rely on public welfare. Especially, low-general skills occupations should be non-regularised in order to reduce labour cost. This dualist strategy had two implications- it avoided fundamental system restructuring in order to maintain the state's political legitimacy, while preserving its comparative institutional advantages of the keiretsu-centred capitalist structure; and employers wanted to externalise the cost of labour market deregulation to the state.

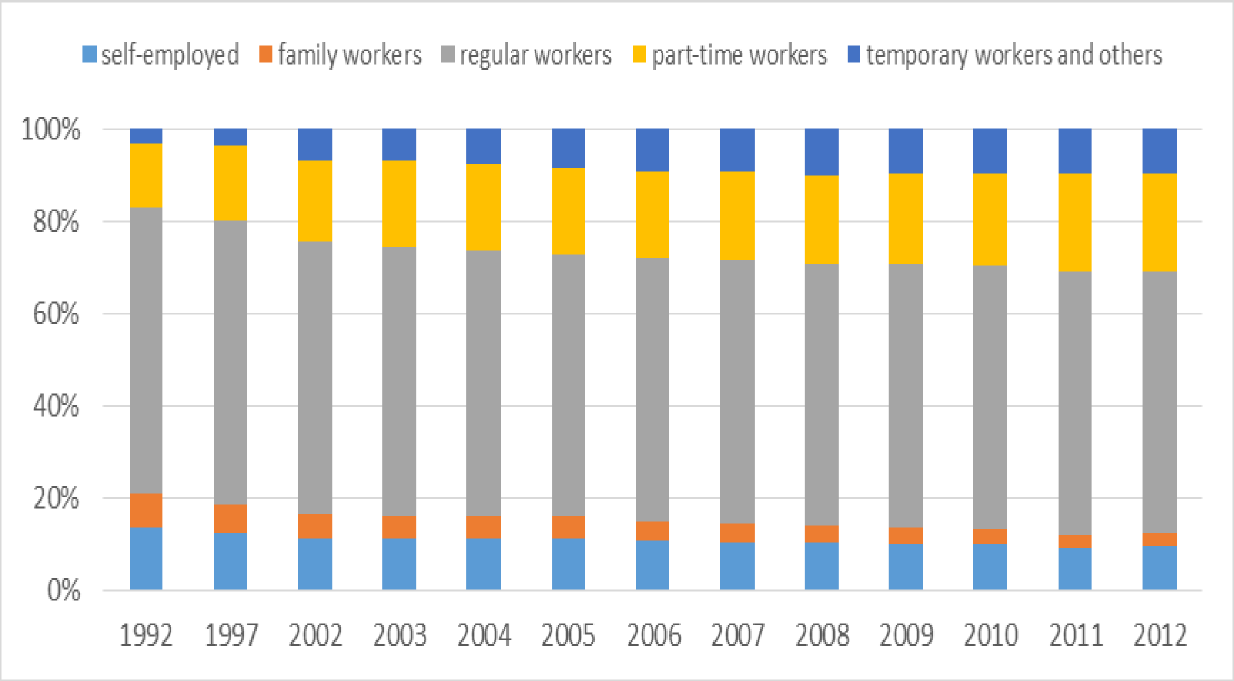

Figure 6.2.1 the Trend of the composition of Employment Status in Japan (1992-2012)
Source: http://www.works-i.com/surveys/yearly.html

According to Nikkeiren's report (1995), employers wished to reduce ratio of the regular workers to the total workforce from 80% to 70% (Miura, 2012, p. 94). Over the following years, the state therefore increased labour market flexibility by liberalising rules and regulations for non-regular workers (Ito, 2013; Miura, 2012; Song, 2014).[37] Consequently, the numbers of non-regular workers with low-general skills (part-time and temporary workers and others) has been increasing from 1990, reaching one-third of total employment since 2007 (figure 6.2.1, also see appendix 5). Furthermore, these non-regular workers, in large part, are those low-general skill workers, such as clericals, sales workers and so on (appendix 6), which could be provided through the external labour market. Therefore, they are often excluded from corporate welfare. In Japan's 'welfare through work' system, the institutional dualisation[38] of welfare is a clear feature, although it was minimised in the period of

[37] Labour resisted the deregulation of the labour market, but did not show their determination to resist it (Zendocho, 2012).
[38] The concept of dualisation does not have a clear-cut definition, but is multifaceted (Häusermann & Schwander, 2012). Häusermann & Schwander (2012) and Rueda (2007) argue that the concept of dualisation should be analysed through insider-outsider divides. Rueda (2007) defines insiders as those

rapid economic growth. But this institutional dualisation has been widening and becoming significant since the 1990s. Labour market outsiders, including self-employed, family workers, part-time workers and temporary workers and others, are excluded from formal employment-related welfare benefits.

The main problem with the non-regularisation of employment is that the labour market outsiders experience financial difficulty in paying social insurance contributions (Keidanren, 2002; Mainichi news, 26/10/2013). The consensus was that a more universalistic pension, therefore, was required to address it. In 1996, to begin with, employers argued that the Basic Pension should be funded 'completely' by general revenue, and that the benefit level of the earning-related component should take into account other (macroeconomic) factors (Keidanren, 1996). In 1998, an even more radical idea was proposed by employers, who felt the earning-related component should be completely privatised to corporate pensions (Keidanren, 1998a). These proposals demonstrated that employers were reluctant to share risks with labour market outsiders, wishing for the cost to be externalised to the state, when they began using more and more non-regular workers with low-general skills who were not the core source of comparative institutional advantage.

Likewise, the preferences of labour were inconsistent, with growth-minded core workers with (firm-) specific skills also supporting the employers' suggestions of avoiding risk sharing with non-regular workers of low-general skills. As reported, the National Pension Insurance suffered from collection problems, with around 40% of those insured failing to pay their contribution in 2000 (Keidanren, 2002). Inevitably, this would increase the contribution rate of public pensions. For these growth-minded core workers, such as in the automobile and electrical industries, job security was more important in the face of economic difficulty (Song, 2014). Some private-sector enterprise unions thus asked for the dismantling of the earnings-related tier of public pensions (Estévez-Abe, 2008, p. 278). The Rengo, the peak-level labour federation, preferred to maintain the current earning-related contributory pension scheme, however (ibid, pp. 278-279).

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who are those workers with highly protected jobs and employment-related welfare, since their specific skills and behaviour of unions contribute to high level of employment and social protection that characterise 'insiderness' (p. 14-15). In contrast, outsiders are those either unemployed or hold jobs characterised with low level of employment and social protection and lower wages. Thus, involuntary fixed-term workers and part-time workers can be categorised as outsiders. However, self-employed and family workers are defined as outsiders because they are also excluded from formal employment-related welfare system in Japan and Korea, even they have relatively stabe working careers, in contrast to part-time and temporary workers. Thus, dualisation can be defined as 'a process that is characterised by the differential treatment of insiders and outsiders and that can take the form of newly created institutional dualisms or the deepening of existing institutional dualisms' (Emmenegger et al., 2012, p. 10).

Given it could maximise political benefits with the increase in non-regular workers, the two political parties- the LDP and the main opposition party (the Democratic Party of Japan)- both supported a tax-financed basic pension scheme. Furthermore, to avoid major reform, the welfare bureaucracies favoured benefit cuts, although this was also resisted by labour (Estévez-Abe, 2008, p. 279). As mentioned, labour's interests were inconsistent, and as such, the main debate between actors concentrated the level of benefit that should be cut, and whether the earning-related component should be completely privatised or not. A consensus was soon reached in the Diet, with the amendment passed in 2000 (Shinkawa, 2005b). This amendment introduced various measures for cutting benefits, promising to increase, from a third to one half, the level of state subsidies of the total cost of the Basic Pension. Simply, this amendment could be seen the result of a compromise between actors (mainly between the state and employers)- the state (welfare bureaucracies) avoided a major reform, but accepted the employers' suggestion of reducing benefits, and increasing subsidies to restrict the increase in contribution rate of public pensions.

Further pension reform was soon initiated, however. According to fiscal calculation, the 2000 reform 'successfully' reduced the 2025 contribution from 34.3% to 27.8% (Shinkawa, 2005b, p. 317).[39] In 2002, the Ministry of Health, Labour and Welfare listed ideas for further pension reform, such as the state financing a reduced cost of the Basic Pension; the contribution rate being increased; benefit cuts; and most importantly, macroeconomic factors should be added to the benefit formula (Chiu, 2009, p. 268).

An employers' main preference in the new round of pension reforms was to externalise the pension costs of non-regular workers to the state. In 2002, keidanren[40] argued that the public pension system should be overhauled (Keidanren, 2002). First, the Basic Pension should be financed by indirect tax, in the context of the ageing society; second, the contribution of the Employees' Pension Insurance should be reduced. These ideas were repeated in 2003 (Keidanren, 2003; Keidanren, 9/12/2003 and 15/12/2003), and in 2004, the Japan Association Corporate Executives (Doyukai), a more radical employer association, recommended that a new basic pension should be introduced to provide ¥70,000 to the retired, and be completely financed by the consumption tax (Doyukai, 2003).

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[39] In 1999, the contribution rate of the Employee's Pension Insurance was 17.35%.
[40] Keidanren is another peak-level employer federation in post-war Japan, and mainly focused on economic and financial policies. Conversely, Nikkeiren, as a peak-level employer federation, was mainly represented by big businesses, focusing on labour relations and policies. In 2002, these two employer federations were unified as the main employer federation, but still named as 'Keidanren'.

Although a tax-financed basic pension was widely suggested to address the problem of non-regularisation of employment, the LDP government faced a dilemma: a tax-financed basic pension (and other universalistic, welfare policies) was required; conversely, it would be difficult to increase tax given its negative impact on elections (Estévez-Abe, 2008). The LDP, therefore, favoured the rise of contribution and benefit cuts being constrained, while the Democratic Party of Japan tended to maintain the current benefit levels (Yoshida et al., 2006).

In the 2004 election, the LDP and its partner (New Komeito) gained the majority of votes, forming the LDP-coalition government, and dominating the pension reform. The Democratic Party of Japan and the Rengo opposed the LDP-coalition government's plan, and proposed a radical plan (Rengo, 9/4/2004, 26/4/2004, 15/7/2004 and 28/9/2004; the Democratic Party of Japan, 2004). When it was rejected in 2004, the LDP-coalition government's plan was instead passed. This reform would increase the contribution rate of the Employees' Pension Insurance from 13.58% to 18.3% in 2017 by 0.354% per year; adding macroeconomic factors (the decline in the number of participants and the increase in life expectancy) into the benefit formula to cut benefits. These two measures changed Japan's public pension system from a policy of expenditure-oriented revenue, to a revenue-oriented expenditure policy (Hinrichs & Kangas, 2003).

In short, Japan launched, since the late 1970s, a series of pension reforms that addressed the fiscal pressure of public pensions, and the consequences of economic liberalisation. In the face of economic difficulty and economic liberalisation, Japanese employers, constrained by its national capitalist structure, adopted a dualist strategy to increase labour market flexibility by increasing non-regular workers. It also maintained a certain portion of the core workers for preservation of its comparative, institutional advantage, based on firm-specific skills. Employers were reluctant to share risks with non-regular workers of low-general skills due to their relatively weak capacity of paying social insurance contributions that would increase the contribution rate of public pensions (as well as other social insurance programmes), thus wanted to externalise it to the state by asking it to completely finance the Basic Pension (or at least increase subsidies, through general revenues). Overall, employers' pension preferences were clearly to ask that the state bears more financial burden of the Basic Pension, and to overhaul the earning-related component of the Employee's Pension Insurance. Labour's interests were inconsistent, however, and pension retrenchments could not be resisted. Growth-minded core workers with (firm-) specific skills presented more concern about job security than public pensions, while the Rengo, the peak-level labour union, tended to resist employers, and the LDP's plans, in order to protect non-regular workers with low-general skills. Japan's public pension system was thereby directed towards universalism through the establishment of the Basic Pension, and, to address the non-regularisation of labour market, increasing the state's subsidies to fund the Basic Pension (from one-third to a half). Finally, the 2004 pension reform changed the nature of Japan's public pension system policy, from one of expenditure-oriented revenue, to a revenue-oriented expenditure policy. Simply put, although slowly, these public pension reforms changed the Japanese public pension system to fit employers' dualist strategy, which also affected corporate pension reforms.

6.2.2 Private Pension: The Modernisation of Corporate Pensions

Japan's corporate pension system, prior to 2001, was not fundamentally reformed. The establishment of the National Pension Fund, in 1989, which was mainly for those without second-tier pensions, was one exception. The number of those insured by the National Pension Fund was negligible (figure 6.2.2), and in 2001, it was replaced by a new corporate pension scheme. As such, it would not be discussed. As mentioned, corporate pensions allowed Japanese employers to develop firm-specific skills, and a long-termist financial system. From the late 1980s, economic difficulties and liberalisation led employer to both the adoption of the dualist strategy to reform the labour market, but also the dissolving of corporate pensions. Employers began, therefore, to ask for an overhaul of the corporate pension system in order to adapt to the dualist strategy, and address the dissolution of corporate pensions from the mid-1990s. Two corporate pension laws, introduced in 2001, are the focus of this section.

The Introduction of New Corporate Pensions in 2001

Since the 1980s, the state and employers began to stress the need for the deregulation of labour and financial markets, due to the changing international, political economic environment. Particularly important, following the Plaza Accord in 1985,[41] was the significant appreciation of the Japanese yen, which in turn weakened the international competitiveness of Japanese companies (Pempel, 1998; Vogel, 2006). The bubble economy was broken, and the arrival of the lost decade (the 1990s) hastened the path of the deregulation of the labour, and financial markets in the 1990s. In 1995, Japan and the U.S. forged an agreement for an open pension market for

[41] In 22nd September 1985, the G5 (France, Wset Germany, the UK, the USA and Japan) reached an agreement to depreciate the US dollar in relation to Japanese yen and the Germen Deutsche Mark in order to address the unfavourable balance of trade of the USA at the Plaza Hotel in New York.

foreign managers, easing restrictions on securities transactions and cross-border financial services (Vogel, 2006, p. 84). In 1996, a Big Bang reform was launched, which included, among other things, a series of financial market reforms, such as the openness of foreign exchange markets, the liberalisation of mutual funds, pension and trust markets. These reforms deregulated the financial market, prompting employers to adopt a dualist strategy that pursued short-term profits through the increase of non-regular workers. This enabled higher labour market flexibility, and preservation of its comparative institutional advantages by retaining a certain portion of its core workers.

As mentioned, Japanese firms were able to develop, in the banking-based financial system, firm-specific skills based on long-term cooperative relationships, that enabled avoidance of the pressures of short-term profits, and stockholders' interests (Estévez-Abe, 2008; Schaede, 2008). Since they began to rely more on direct financing, and less on bank borrowing,[42] they had to face the pressure of stockholders to pursue short-term profits. This meant that traditional Japanese employment practices, relying on long-term cooperative employment relations, had to be reformed, even if not fundamentally (Isogai, 2012; Yamada & Hirano, 2012). First, the permanent employment system has been dissolving, or is at least being restructured (Conrad & Heindorf, 2006; Keizer, 2010; Nishinarita, 2009). Figure 6.2.1 shows that non-regularisation of the labour market has accelerated since the early 1990s. Second, the seniority-based system gradually shifted towards the performance-based system, especially for white-collar workers (Keizer, 2010; Nishinarita, 2009). It has not been completely dismantled, however, with Japanese companies tending instead to adopt a mixed system, combining the performance, and seniority-based, systems (Conrad, 2009). Both changes aimed to 'soften' (deregulate) the labour market, before reducing labour costs (Conrad & Heindorf, 2006; Nishinarita, 2009).

These factors, together with economic difficulties, dissolved the Tax-Qualified Pension Schemes (whose number fell, from a peak of 92,467 in 1993, to 73,582 in 2001 (Table 6.2.1)) and the Employees' Pension Funds in the 1990s. Worse still, due to Tax-Qualified Pension Schemes being, essentially, a corporate pension scheme with tax advantages but no legal status, employers could dissolve it, and fail to maintain a minimum level of funding, without legal sanction. Thus, the pension rights of beneficiaries in the Tax-Qualified Pension Schemes were unprotected. Further, as mentioned, the Tax-Qualified Pension Schemes were designed to help employers develop long-term relationships with employees. As such, few Tax-Qualified Pension

[42] According to official data, the Japanese companies have shifted, placing more emphasis on direct financing, and a reduction of their reliance on bank borrowing. In 1960, the debt-to-asset ratio was around 30%, but declined to around in 2008; while the capital-to-asset ratio increased from around 25% to more than 42% in the same period (Isogai, 2012, pp. 37-38).

Schemes provided portability, though the changes in employment practices led to it being outdated.

Officially, the Employees' Pension Funds required 5.5% of its return on investment funds. According to official data, however, the average return on assets managed was just 2% in nominal terms, in the period from 1989-2003 (Conrad, 2011). The state lowered the guaranteed rate to 4.5%, reduced the amount of fund reserves that an Employees Pension Fund was required to hold, and allowed an employer to contribute stock and other securities to his fund to make up shortfalls in the Employees' Pension Funds. Despite this, these measures only had modest effects, ameliorating the financial difficulties of the Employees' Pension Funds. That is, despite the Employees' Pension Funds being principally prohibited, by law, from being dissolved (except for in special circumstances, such as the bankruptcy of sponsor companies), its number began to decrease following the peak of 1,883 in 1997, reducing to 1,737 in 2001 (Table 6.2.1). Consequently, the total number of employees covered by corporate pension schemes (Tax-Qualified Pension Schemes and Employees' Pension Funds) reduced from 22.76 million to 20.04 million between 1996 and 2001 (figure 6.2.2). Therefore, employers began requesting a return of the 'contract-out' component of the Employees' Pension Insurance to the state in the 1990s (Keidanren, 1997).

Table 6.2.1 the Number of Plans of the Corporate Pensions

	Employees' Pension Funds	Tax-Qualified Pension Schemes	Contract-type DB plan	Fund-type DB plan	Corporate DC plan	Individual DC plan
1968	305	34,737	--	--	--	--
1973	853	60,244	--	--	--	--
1978	945	57,001	--	--	--	--
1983	1,025	64,008	--	--	--	--
1988	1,194	74,423	--	--	--	--
1993	1,735	92,467	--	--	--	--
1994	1,804	92,355	--	--	--	--
1995	1,842	91,465	--	--	--	--
1996	1,878	90,239	--	--	--	--
1997	1,883	88,312	--	--	--	--
1998	1,858	85,047	--	--	--	--
1999	1,832	81,605	--	--	--	--
2000	1,801	77,555	--	--	--	--
2001	1,737	73,582	--	--	70	153
2002	1,656	66,741	15	0	361	7,481
2003	1,357	59,162	168	148	845	13,672
2004	838	52,761	484	508	1,402	21,737
2005	687	45,090	834	596	1,866	32,234
2006	658	38,885	1,335	605	2,313	42,178
2007	626	32,826	2,479	619	2,710	50,561
2008	617	25,441	4,395	611	3,043	57,279
2009	608	17,184	6,797	610	3,301	65,340
2010	588	8,051	9,436	608	3,705	74,752
2011	577	--	14,377	612	4,135	85,159

Source: Pension Fund Association (http://www.pfa.or.jp/jigyo/tokei/index.html).

Based on these considerations, the Ministry of Health, Labour and Welfare proposed a report to discuss the introduction of the DC corporate pension in 1996 (Nishinarita, 2009, p. 329). Employers then began asking for not only the deregulation of financial market (Keidanren, 1995), but also tax revisions for corporate pensions and the introduction of DC corporate pension in the mid-1990s (Keidanren, 1996). In 1997, Keidanren argued that to address the problems of the limits of pension fund management, the coordination of public-private pensions, institutional inequality between Tax-Qualified Pension Schemes and Employees' Pension Funds, and the lack of portability, new DB and DC corporate pensions should be introduced. Also, the contract-out component of the Employees' Pension Insurance could be allowed to return to the state (Keidanren, 1997). In 1998, demand for the introduction of a DC corporate pension was proposed again, based on a need for the deregulation of the labour market to be addressed (Keidanren, 1998). In 1999, the return of the contract-out component of the Employees' Pension Insurance to the state was also proposed again, in order to gain more freedom in pension fund management (Keidanren, 1999). Principally, employers' preferences about the reform of corporate pensions came along with its dualist strategy, and aimed to create a more flexible corporate pension system. To begin with, it reduced the cost of the traditional DB corporate pension by introducing a new one, and returning the contract-out component of the Employees' Pension Insurance. That being said, it was to externalise the cost and risks to non-regular workers with low-general skills through new DC corporate pensions.

Comparatively, labour's preferences on corporate pension reforms, between the peak-level Japanese Trade Union Confederation (Rengo) and some individual enterprise unions, were inconsistent. Growth-minded core workers with (firm-) specific skills showed more concerns about job security in the period of economic difficulties. This compromised the issue of corporate pension reform, with employers in exchange for job security and the legal framework, to ensure any transfer from the old DB pensions to the new DC pensions should be agreed by labour (Conrad, 2011, pp. 3059-3060). The Rengo suggested, however, that the benefit level of corporate pensions should be maintained; pension rights of the corporate pension should be protected (Chiu, 2009, p. 208). Further, the Rengo, in principle, took a negative stance towards the introduction of DC pensions, whereas, in some sectors, such as the electric power industrial unions, it was not completely resisted, but seen as a supplementary pension scheme (Chiu, 2009, pp. 231-232). Overall, labour did not concentrate their effort on the issue of the corporate pension reform, in some sectors, even cooperating with employers, agreeing to the partial introduction of DC pensions.

A particularly important reason for the introduction of the new corporate pension laws was that the Ministry of Finance aimed to introduce the International Accounting System from April 2001. Prior its implementation, the obligation of corporate pensions could be dealt with as off-balance-sheet. Under the new system, it would be included into the balance-sheet as 'Projected Benefit Obligation'. Employers, believing it would harm the evaluation of corporate performance, became more willing to shifting to DC corporate pensions (Katsumata, 2004). This accelerated the introduction of new corporate pension laws.

In January 2000, the draft of the Defined-Contribution Pension Law (the DC Law) was sent to the Diet, though was discarded. In September 2000, four employer associations announced that new corporate pensions should be legislated as soon as possible (Keidanren, 2000). Thus, the politicians of the Liberal Democratic Party establish the ‘Council of the Introduction of the DC Law’ to speed up its introduction (Nishinarita, 2009, pp.329-330). It was legislated in June 2001, under the majority of the Liberal Democratic Party and its partners. Simultaneously, the draft of the Defined-Benefit Corporate Pension Law (the DB Law) was sent to the Diet, also legislated in June 2001. Two corporate pension laws will be introduced later, and I will show that a mixed corporate pension system is emerging, alongside the dualist strategy.

The Implementation of New Corporate Pension Laws

The DB law predominantly aims to modernise the old DB corporate pensions to reduce pension costs, and to protect the pension rights of employees, and to return the contracted-out component of the Employees’ Pension Funds to the state. Thus, it allows firms to remove large pension liabilities from balance-sheets, and promote the transition from book-reserve schemes to external reserve funds (employees’ pension rights would then be protected, even in the face of company bankruptcy). According to the DB law, two new types of pension plans exist- the contract-type, and the fund-type. A third choice is possible, being a hybrid/cash-balance plan. The contract-type plan is mainly provided for SMEs, with no minimum number of member requirement. As such, it is very similar to the Tax-Qualified Pension Schemes, which it replaced in 2012. The fund-type pension plan is aimed at replacing the Employees’ Pension Funds, and requires at least 300 employees. Generally, the risks and responsibilities of pension management are solely borne by employers, but it can be designed so that employers and employees share these through the hybrid/cash-balance plan. In this plan, each employee has a notional account, into which the employer credits a fixed percentage of the basic salary, and an annual interest payment. Following the DB law’s introduction, significant decline has been seen in the number of plans and members of the Employees’ Pension Funds, and Tax-Qualified Pension Schemes, since 2002 (table 6.2.1 and figure 6.2.2).

The DC law, known as the Japanese-style 401k plan, attempts to reduce labour costs and externalise financial risks to individuals, and includes two pension plans: the corporate-type, and the individual-type. The individual-type pension was designed for those insured under category No.1 (self-employed), and, under the Employees’ Pension Insurance, aged less than 60 years, with no other corporate pension plans. The corporate-type pension is provided for those insured under category No. 2, mainly covered by the Employees’ Pension Insurance but with contributions paid by the employers. Both must be managed by either a qualified bank or insurance firm, but in any case, financial risk has been shifted to individuals. Following its introduction, the number of plans and members in the corporate DC pension has increased (table 6.2.1 and figure 6.2.2).

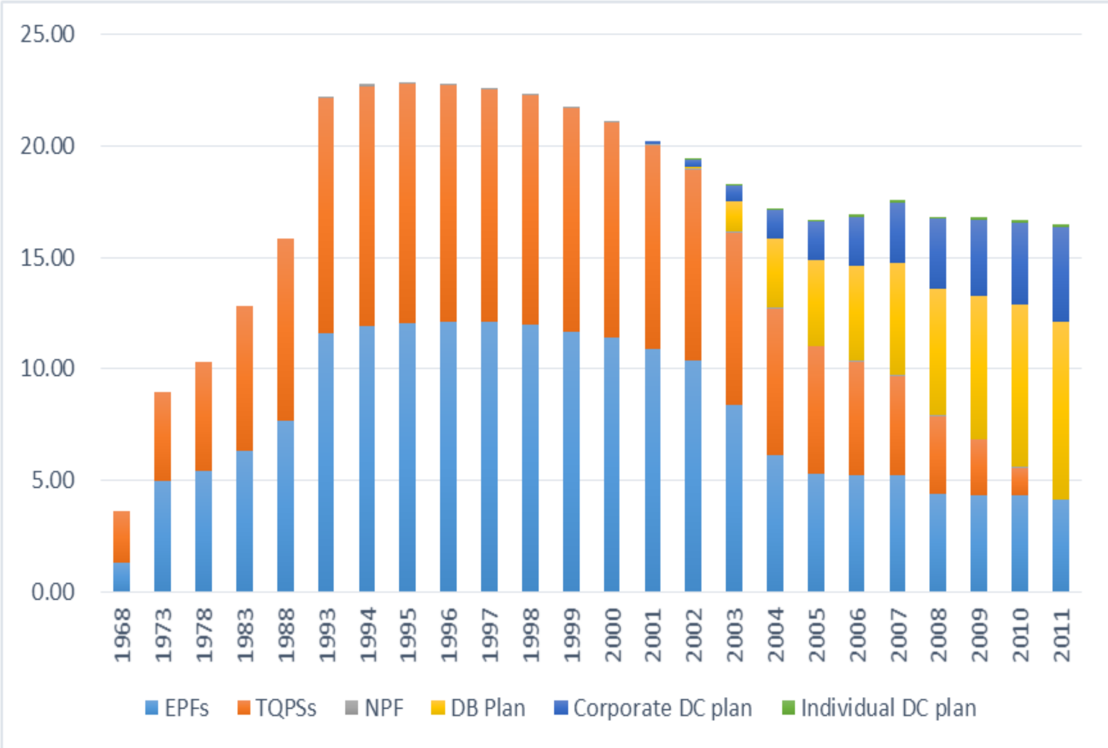

Figure 6.2.2 The Number of Members by Different Corporate Pensions (millions)
Source: http://www.pfa.or.jp/jigyo/tokei/index.html.

The Japanese corporate pension system is transforming in line with the dualist strategy, rather than towards the neo-liberal pension model. As mentioned, the dualist strategy was adopted to increase labour market flexibility by increasing non-regular workers, and the preservation of a certain portion of core workers to maintain its comparative institutional advantages. Although the new corporate pension system allows employers to introduce DC pensions for their workers, the significance of DB corporate pensions, offered to core workers with firm-specific skills, is still conspicuous. Figure 6.2.2 demonstrates that the DB corporate pensions still cover more than two-thirds of the total employees, but also shows that the number of DC corporate pension members are increasing. In other words, though employers wanted a flexible corporate pension system, and DC pensions are allowed, they do not fundamentally dismantle the system.

Consequently, a new mixed corporate pension system is emerging along with the dualist strategy, this fact is demonstrated in table 6.2.2. Overall, around a third of companies simultaneously offered DB and DC corporate pensions in 2012. Smaller firms (less than 100 employees) tended to adopt DC corporate pensions solely (74.4%), which could help firms reduce labour costs. Meanwhile more than two-thirds of larger firms (over 1,000 employees) (68.14%) offered employees other corporate pensions in addition to DC corporate pensions. This fact fits to Mares' (2003) theoretical assumption that the firm size determined firms' financial capacity, and their pension preferences. More importantly, larger firms adopted a mixed corporate pension system to fit its dualist strategy. DB corporate pension plans are used to maintain its core regular workers with firm-specific skills, but conversely, DC corporate pension plans are offered to non-regular workers with general skills in order to increase labour market flexibility, and to reduce labour costs.

Table 6.2.2 Corporate Pension Plans offered in Addition to DC Plans in 2012 (in number)

	Total	Less than 100 employees	100-299 employees	300-999 employees	Over 1,000 employees
Employees' Pension Funds	2,576	1,297	859	343	77
DB Plan	2,669	827	611	666	565
Tax-Qualified Pension Schemes	388	139	110	94	45
Mutual Aid Fund for school Teachers	10	3	4	2	1
Employees' Pension Funds/ DB plan	239	50	57	88	44
Employees' Pension Funds/Tax-Qualified Pension Schemes	105	33	32	28	12
DB plan/Tax-Qualified Pension Schemes	34	9	4	10	11
None	10,419 (63.38%)	6,854 (74.4%)	2,213 (56.89%)	999 (47.8%)	353 (31.86%)
Total	16,440	9,212	3,890	2,230	1108

Source: Pension Fund Association (2012, p. 200)

In short, economic liberalisation and difficulties since the 1980s did not fundamentally transform the Japanese capitalist structure, rather changing political actors' preferences, forcing them to put more emphasis on short-term profits (due to financial liberalisation). Constrained by the keiretsu-centred capitalist strategy, Japan chose the dualist strategy to avoid social dislocations and political conflicts, and maintain its comparative institutional advantages. Non-regular workers with low-general skills have been increasing, to increase labour market flexibility and reduce labour costs but simultaneously, a portion of core workers with firm-specific skills were preserved to maintain its comparative institutional advantage, based on quality-based production strategy. Along with this dualist strategy, public pensions were universalised to cover the absorption of non-regular workers' pension costs, since they are not the core source of comparative institutional advantage. The corporate pension system was modernised to fit this dualist strategy as well, with a new, mixed corporate pension system emerging. Larger employers tended to adopt DC pensions for non-regular workers with low-general skills, and DB pensions for core workers with specific skills. Likewise, the state-keiretsu (employers and core workers) developmental alliance dominated pension reforms over the past three decades. Labour's interests over pension reforms were inconsistent, with core workers of enterprise unions tending to maintain their job and economic security. However, the peak-level labour union (Rengo) tended to vie for economic security for non-regular workers, through the universalisation of public pensions. Thus, labour had no great influence on pension reforms.

The structure of the Japanese pension system is illustrated in Figure 6.2.3. The first-tier public pension scheme is the Basic Pension, which includes the National Pension Insurance and the portion of the flat-rate pension of other public pensions. The Basic Pension includes three types of insurants, all treated differently particularly in terms of contribution payments. Thus, it is an amalgamation of different schemes, not a single, unified scheme (Shinkawa, 2005a, p. 159). The second-tier pension did not change (thought the unification of the earning-related component of public pensions is hotly debated). The third-tier of the state pillar includes the National Pension Fund, and the individual-type DC pension. In the second pillar, various corporate pensions are included. The old corporate pensions, such the Employees' Pension Funds and the Retirement Allowance, and the new DB pension plans (contract- and fund-type) are grouped into the second tier as their benefits are earnings-related. After 2012, the Tax-Qualified Pension Schemes were replaced by the contract-type DB pension, with the corporate-type DC pension attributed to the third tier.

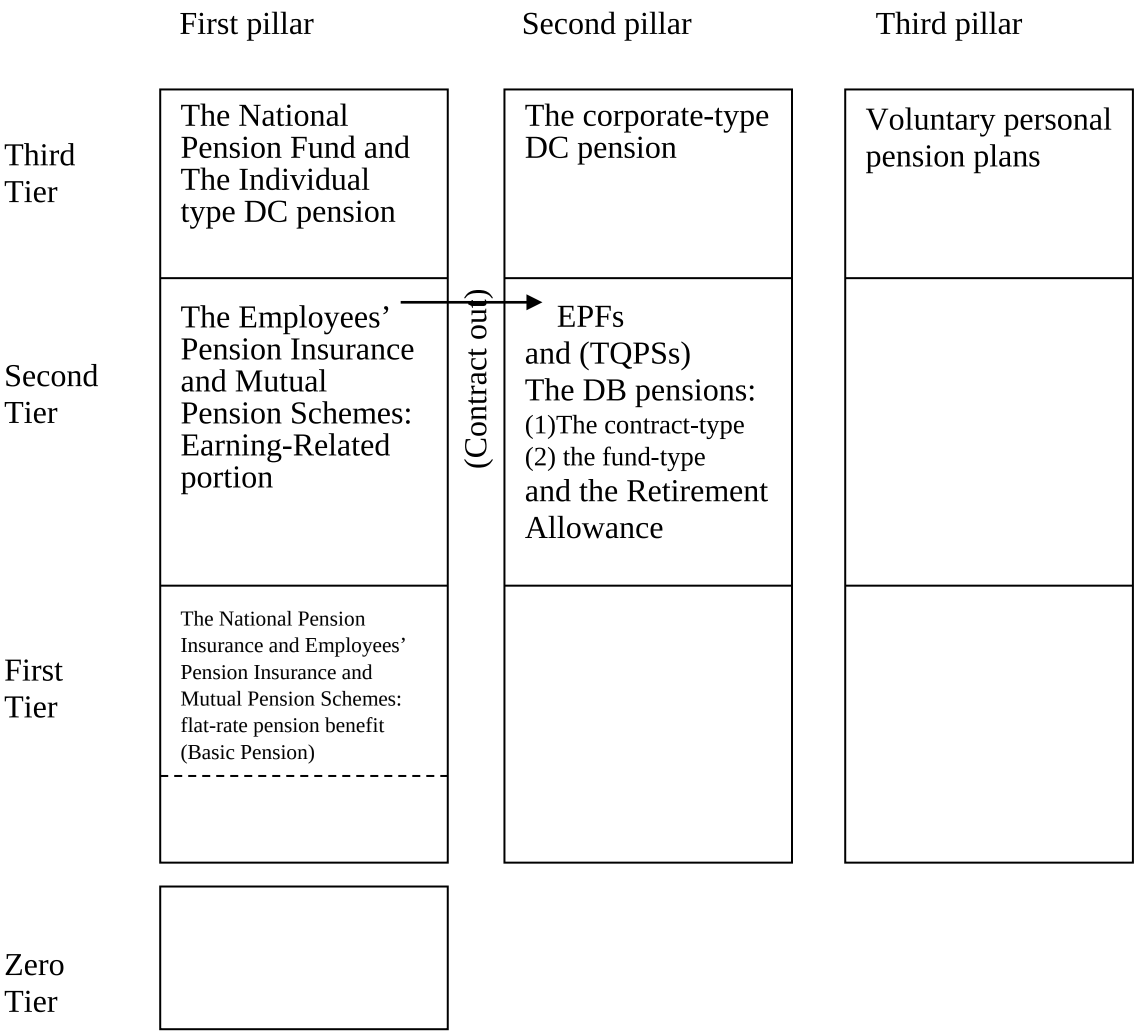

Figure 6.2.3 Pension structure in Japan, 2012

Conclusion

Shaped by the keiretsu-centred capitalist structure, political actors' (the state and employers) preferences were directed to favour a hybrid pension system. This was in order to resolve economic coordination of skill and capital formation, with the state tending to collude with the keiretsu, to forge a state-keiretsu developmental alliance. Labour was intentionally divided, however, by politically and economically incorporating core workers into the state-keiretsu developmental alliance, as they became growth-minded. In the pre-war period, the state, as the role model, introduced corporate pensions, together with other management practices, as incentive schemes. These were aimed at establishing long-term commitments with employees, in order to reduce turnover rate, and develop firm-specific skills. These management practices were diffused into large private firms, and from the 1920s, widely adopted. In the post-war period, this institutional coherence between pension and capitalist structure shaped political actors' preferences and the nature of cross-class coalition.

Public pensions were initially introduced for public workers, for political stability in the Meiji period, with the Employees' Pension Insurance for core workers launched during wartime for capital mobilisation, and to ensure manpower resource. However, the state and employers, and core workers of large private firms, resisted extending the coverage of the Employees' Pension Insurance to all citizens. The introduction of a universalistic national pension was also resisted in order to avoid sharing risks with the marginalised labour market, and outsiders. Instead, employers and core workers of large firms put more emphasis on the coordination of public-private pensions. The goal of a 'Pension for All' was achieved following the introduction of the National Pension Insurance in 1959. Public Pensions were mobilised by the Fiscal Investment and Loan Programme, as industrial capital, to support Japan's developmental strategy.

In post-war Japan, the development of corporate pensions was based on labour contracts. Employers utilised it to restore their management authority when the Japanese government was weak (in the immediate post-war period from 1945-48). These established management practices, including the permanent employment system, the seniority-based system, and generous corporate welfare, made core workers more growth-minded, both economically and politically. In the 1950s and 1960s, in the face of a shortage of capital and skilled workers, employers requested tax revisions, and the introduction of the Tax-Qualified Pension Schemes and Employees' Pension Funds, to reduce corporate pension costs as well as to mobilise corporate pension funds as patient capital. This was partly due to the Japanese government wanting to use expansionary monetary policy to facilitate economic growth. As well as enabling the Japanese firms to establish long-term commitments to inter-firm, and employment, relations (in turn avoiding the pressure of short-term profit pursuance), it also developed a quality-based production strategy, underpinned on firm-specific skills. Further, continuous growth, through continual, long-term loans from financial institutions (particularly from the main banks), could be achieved.

Since the 1980s, the Japanese model has been challenged, however. Economic liberalisation did not fundamentally transform the Japanese capitalist structure, but forced employers to put more emphasis on short-term profits. Employers thus adopted the dualist strategy that maintained its comparative institutional advantage through preservation of a portion of core workers with firm-specific skills, while increasing its flexibility and reduce labour costs by replacing low-general skills workers with non-regular workers. As such, employers wished to externalise the cost of the basic pension to the state, when non-regular workers with low-general skills were employed to reduce production costs, and the old corporate pensions overhauled in order to reduce financial burdens. Although gradual, Japan's public pension system is changing towards a more universalistic system that combines a flat-rate basic pension (half financed by the state) and merger earning-related pensions. Simultaneously, alongside the dualist strategy, Japan's corporate pension system was modernised rather than privatised. The 2001 corporate pension reform allowed employers to provide DC pensions for employees (though, non-regular workers), but DB pensions were dominant for core workers. The institutional logic of the Japanese capitalist structure persisted.

Chapter 7 – Korea

This chapter focuses, firstly, on how the Korean state, as the coordinator, has encouraged corporate pensions in the post-war period, and then, how and why, since the 1980s, public pensions were developed and transformed when Korea underwent democratisation and globalisation. In the post-war period, under the pressures of the U.S, the Korean government opted to privatise the enterprises of the Japanese colonial government, the predecessor of the chaebols. The state actively controlled the financial system and established the company-based skill formation system, but a dual labour market was forged as well. In the 1950s, the Korean government encouraged corporate, rather than public, pensions and welfare, which were volunteerism-based. In the 1970s, the Park government shifted its developmental strategy to heavy and chemical industrialisation and encouraged corporate pensions and welfare that allowed financial resources to be concentrated on strategic industries. Employers in this period started using corporate pensions and welfare to resolve economic coordination of skill and capital formation. Although the Park government endeavoured to introduce the National Welfare Pension in the post-war period, to reduce the reliance on foreign loans and to support heavy and chemical industrialisation, it was eventually postponed.

From the 1980s, Korea underwent democratisation and economic liberalisation. Under the pressure of democratisation, in 1988, the National Pension Insurance was implemented. The dual transformation fundamentally changed the Korean pension system into a multi-pillar pension model. Democratisation and economic liberalisation (accelerated by the Asian Financial Crisis in 1997) resulted in a deepening dualisation of labour market, by the adaption of the dualist strategy. The chaebols and their regular workers typically acted as a welfare defender (to defend the existing employment-related welfare) and were reluctant to share risks with non-regular workers of low-general skills, and SMEs employers, through universalistic social policies. Initially, and gradually, the conservative government extended the coverage of the National Pension Insurance to peasants and the self-employed, but simultaneously cut its benefit level from 70% to 40%. Eventually, 2007 saw the introduction of a nearly universalistic, non-contributory pension scheme by the progressive government.

7.1 The Origins of the Korean Pension System (1945-1980)

In Korea, the chaebol-dominated capitalist structure allowed the state to use corporate pensions to maintain its political legitimacy in the face of limited financial capacity after the Korean War. Although the transformation of the developmental strategy towards heavy and chemical industrialisation led the Park regime to introduce the National Welfare Pension as a policy tool of capital mobilisation, it was postponed due to the first Oil Crisis. As a result, corporate pensions are significant, but public pension for private workers, until the introduction of the National Pension Insurance in 1988, was lacking.

7.1.1 Public Pensions

After the Second World War, Korea was forcefully divided into North Korea (Democratic People's Republic of Korea) and South Korea (Republic of Korea), along the 38th parallel line in 1948. Rhee Syngman elected as the first president of South Korea. The Korean War (1950-53) destroyed more than two-thirds of all production facilities, however, (D.-M. Shin, 2003, p. 47). The goals of the Rhee regime, in post-war Korea, were simply (political and economic) survival and reconstruction. This meant the Rhee were greatly reliant on American Aid,[43] and had to adhere to Import-substitution Industrialisation. The Rhee regime thus introduced a number of social and labour legislations to address problems resulting from the Korean War.

The Korean government introduced a public pension for public workers, to consolidate the political base and capital mobilisation. The ‘Government Employee Pension Scheme’ was introduced for three reasons in 1960 (Yi, 2007, pp. 69-70). First, the Act on Civil Servants’ Status and Compensation stipulated that retired public workers should receive pension benefits, the scheme’s establishment of which was the scheduled policy task, the Rhee government arguing that this pension would be a pilot for other social insurance and welfare programmes (p. 69). Second, this pension scheme could arguably be utilised as industrial capital (National Assembly Secretariat, 1959, pp. 45-46; cited from Yi, 2007, pp. 69-70). Finally, the Rhee regime wanted civil servants that could work for President Rhee’s re-election campaign in the presidential election of March 1960 (p. 70). Though the oppositions argued that issues of the implementation of the Labour Standard Act, and unemployment, should first be dealt with, the Rhee government (who collapsed in late 1960) introduced it in January 1960.

In July 1960, Chang Myun was elected Prime Minister. Although a short-lived

[43] American Aids financed nearly 70% of total imports between 1953 and 1962, and equalled 75% of total fixed capital formation (Haggard, 1990, p. 55).

regime, the Chang government set ‘Economic Growth First’ as the goal that influenced the following social policy and economic developments (Yi, 2007, p. 71). Soon, Park Chung-Hee gained political power through military revolution. The Park regime shifted from import-substitution industrialisation, to labour-intensive export-oriented industrialisation, when American aids were terminated in the early 1960s, in order to gain political legitimacy through economic development (Fields, 1995; D.-M. Shin, 2003; Yi, 2007). Developmentalism was, from the 1960s, thus embedded into the Korean chaebol-dominated capitalist structure. When, in the 1960s, the state wanted to concentrate financial resources on economic development, public pensions were ignored- apart from the Military Personnel Pension Scheme, which was introduced to enhance the Park regime’s political bases in 1963 (M.-K. Chung, 2010).

In the early 1970s, Park shifted the developmental strategy to capital-intensive heavy and chemical industrialisation. Like Japan, Korea adopted, in the chaebol-dominated capitalist structure, a discretionary method that favoured leading chaebols to facilitate heavy and chemical industrialisation. These included targeted credit subsidies, selective protection, and entry regulations, those facilitated the development of national champions (Haggard, 1990; Hwang, 2006; E.-M. Kim, 1997; D.-M. Shin, 2003). Though the Park regime relied on chaebols in the promotion of economic development, this method increased the demand of capital mobilisation. Funding social insurance programmes thus became a primary policy instrument for capital mobilisation. In 1972, the president of the Korea Development Institute met Park, and suggested that a national pension might provide retirement income security and capital (Kwon, 1999, p. 56). Park accepted this idea, claiming that:

> “the National Welfare Pension system builds up and maintains reserves and is this a source of savings. The accumulation of substantial reserve funds in excess of current requirement for benefit payments would enable Korea to use its NWP system as a means of increasing saving in the economy” (Park, 1975, p. 80; cited from Hwang, 2006, p. 59).

This idea was central to the institutional design of the National Welfare Pension. Soon after Park’s announcement, Park asked that an inter-agency task committee be formed, composed of several bureaucrats from the Economic Planning Boards, the Korea Developmental Institute, and the Ministry of Health and Social Affairs. Economic (the Economic Planning Boards and the Korea Developmental Institute), and social (the Ministry of Health and Social Affairs) technocrats both submitted drafts of the National Welfare Pension. The differences between them resulted from different perspectives on the pension plan's purposes- For instance, the economic technocrats' proposal estimated that the rate of capital accumulation was over six times higher than the estimate of the social technocrats (Hwang, 2006, p. 58). The social technocrats did not see the pension as a means of capital mobilisation, rather, a means of establishment of a well-organised income security system (S. Kim, 2006, p. 77). Then, the social technocrats' proposal was designed to cover the entire population, aged 20-60. The economic technocrats' proposal covered wage earners, but excluded those on low incomes, and in small businesses (Hwang, 2006, p. 58; S. Kim, 2006, pp. 77-78). Third, economic technocrats proposed that the National Tax Service should levy the contribution, while social technocrats tended to establish the Bureau of Welfare Pensions to manage pension funds, in order to be more responsive to welfare needs (Hwang, 2006, p. 58).

The final version of the National Welfare Pension appeared closer to the economic technocrats' draft in scope (only wage earners), and in the operation of the fund, since the national goals were set to give priority to economic development (Hwang, 2006; S. Kim, 2006, p. 78). The National Welfare Pension was solely financed by the contributions that was equally shared by employers and employees, and designed as a funding scheme for capital mobilisation. The National Investment Fund was established to manage the pension fund, mobilising domestic financial resources to support heavy and chemical industrialisation (Haggard, 1990; Yi, 2007).[44]

The Park regime passed the National Welfare Pension in 1973. However, just four days later, Park announced that the implementation of the National Welfare Pension would be postponed due to the first oil crisis, under employers' pressure (Hwang, 2006; S. Kim, 2006; D.-M. Shin, 2003; Yi, 2007). During this period, the chaebols had grown to be a symbiotic partner of the Park regime (Fields, 1995; Hundt, 2009; E.-M. Kim, 1997), although "confined to working on the government's term" (Ringen et al., 2011, p. 29). Consequently, employers did not resist the introduction of the National Welfare Pension, instead showing a preference for the modification of the institutional design of the National Welfare Pension (Y. J. Choi, 2009; H. J. Kwon, 1999). Park clearly perceived that implementation of heavy and chemical industrialisation needed the cooperation of the chaebol, however, so the employers'

[44] Nam Duck-woo, the Minister of Finance, said: "I created the NIF (National Investment Fund) to finance petrochemical industries– we pooled funds from various sources of a public nature. Government employees' pension fund, other similar funds, plus some contributions from the commercial banks. I knew very well that tapping resources by mandate is against the rules of the market economy, but I had to do it, because President Park wouldn't give it up" (Clifford, 1994, p. 106; cited from D.-M. Shin, 2003, p. 95).

preferences could not be ignored. In the face of a deteriorating international economic situation, the Federation of Korean Industries showed their concern over the additional financial burdens that resulted from the introduction of the National Welfare Pension (the Ministry of Health and Social Affairs, 1974; cited from D.-M. Shin, 2003, p. 96). Consequently, the National Welfare Pension was postponed, though the Park regime's focus had been shifted to corporate welfare and pensions.

In short, the public pension for private workers in Korea was absent before 1988, although the Park regime endeavoured to introduce the National Welfare Pension for capital mobilisation. With the absence of a public pension, the corporate pension became significant in Korea.

7.1.2 Private Pension – the Retirement Allowance

During the Korean War, the Korean state's capacity was undermined, and the use of military power to suppress labour power was not a feasible option- it potentially leading to widespread demonstrations. Labour, particularly, demonstrated its great influence in the constitutional reform (1951-52). Thus, after the War, the Korean government introduced a series of social and labour legislations to vie for labour's political support (Yi, 2007, pp. 62-64): the Military Aid and Protection Law in 1951, and the Policy Aid and Protection Law in 1951; the National Insurance Law and the Postal Pension Law came in 1952, with the Labour Standard Act, the Trade Union Act, the Labour Council Act, and the Labour Dispute Arbitration Act in 1953.

According to the Labour Standard Act, the Retirement Allowance (theoretically, as a 'compulsory' company-based DB pension scheme) was introduced to provide a lump-sum payment to employees in firms of more than 30 employees who leave due to retirement, or unemployment, and other reasons. Thus, it was more like a severance payment than a 'retirement benefit', and actually functioned as a quasi-social safety programme- both as an unemployment benefit, and a retirement benefit- particularly in the case of the underdevelopment of other public social security programmes prior to the 1980s (Phang, 2010). The contribution of funding was entirely from employers (at least 8.3% (1/12) of annual salary), or otherwise, it was legally mandatory, but privately financed.

Korea launched the Retirement Allowance for private workers, rather than the public pension, at the initial stage of industrialisation. As mentioned, in the immediate period following the war, public enterprises of the Japanese colonial government were privatised to individuals with close relationships to state officials (T. J. Cheng, 1990).

In order to facilitate industrialisation (but in the face of capital shortage), the Korean government preferred the corporate pension to shift the cost of political legitimacy to chaebols, and to concentrate financial resources on national-building and other economic and military goals (P. H. Kim, 2009, 2010). After the Korean War, its government's financial capacity for launching public pensions was limited. Also, the chaebols could not resist it, since they had to rely on the government's subsidies and interventions during the early period of industrialisation (Fields, 1995; Hundt, 2009).

In the 1950s, however, the nascent chaebols could not, and were reluctant to, bear additional financial burdens resulting from labour protection laws. The Korean government also perceived that the implementation of labour regulations was unrealistic. This was because great financial burden would be borne out of these labour regulations, which, added to the chaebols, would hurt its economic development. Thus the Korean government 'turned a blind eye' to it, particularly for those chaebols with closer relationships with governments (Yi, 2007, pp. 64-69). That is, the Labour Standard Act in this period was essentially volunteerism, though legally compulsory. The coverage of the Retirement Allowance was consequently very limited, due to the government's weak regulation and supervision (Table 7.1.1, below).

Since the 1960s, the idea of developmentalism was accented, firstly by the Chang regime, then by the Park regime, to serve the implementation of labour-intensive export-oriented industrialisation (Rudra, 2008; D.-M. Shin, 2003; Woo, 2004; Yi, 2007). With new emphasis in American Aids being to achieve 'self-sufficiency', American Aids thus declining (Haggard, 1990, pp.61-62), the transition from the import-substitution to export-oriented industrialisation was consequently necessary, and inevitable. Labour-intensive export-oriented industrialisation was implemented through exploitation of the abundant, cheap and educated labour, rather than highly skilled labour (Deyo, 1989; Haggard & Kaufman, 2008; Wibbels & Ahlquist, 2011). As such, employers did not show a strong preference for investment in the company-based skills formation (Bai & Cho, 1994; Yi & Lee, 2005). Some employment practices for developing long-term commitment with employees (such as the seniority-based system and life-time employment) were not developed significantly during this period (D.-O. Kim and Bae, 2004). As a result, employers, including the Federation of Korean Industries and the Korea Chamber of Commerce and Industry, fiercely resisted the clauses improving working conditions and occupational welfare. The Korea Chamber of Commerce and Industry suggested that a regulation on the reduction of the Retirement Allowance should be established (Yi, 2007), while the Federation of Korea Trade Union, through mass demonstration, strongly resisted it. In the early 1960s, however, the main political demand of the Park regime was to increase its political base and so the Park regime adopted a hostile attitude against the capitalist class, in order to vie for political supports- consequently, employers' suggestions were rejected. The amendment of the Labour Standard Act was passed in 1961, mandating employers to offer the Retirement Allowance to their workers. However, the Retirement Allowance covered only 5.4% of total employees in 1966 and 9.7% in 1970.

It did increase significantly in the 1970s. First, the postponement of the National Welfare Pension led the Park regime to encourage corporate pension and welfare (Yi, 2007). Second, chaebol employers' social policy preferences were changed, due to the state externalising public training system to the chaebols in order to reduce the state's financial burdens and prompt the chaebols to develop a company-based training system for heavy and chemical industrialisation. The emphasis on heavy and chemical industrialisation shifted the Korean economic base of comparative advantage, from cheap but educated labour, to skilled workers and economies of scale, as stated by the state (ibid). The number of workers with specific skills significantly increased in the 1070s (see appendix 6). The chaebols, thereby, began changing their social policy preferences to emphasise the importance of corporate welfare for the resolution of economic coordination in the development of heavy and chemical industries. In the absence, particularly, of a coordination mechanism between chaebols for the prevention of skill poaching, though Korea's employers endeavoured to establish it. The retirement allowance and corporate welfare were critical to help reduce high labour mobility, and to encourage workers and employers to invest in long-term human capital (M.-K. Chung, 2008, 2010; S.-Y. Lee, 2011; J. Song, 2012b).

The state actively promoted corporate pension and welfare. First, Park issued Presidential Emergency Measure No. 3 labelled the 'Emergency Measure for the Stabilisation of the People's Livelihood'. This Emergency Measure had two important elements. First, it aimed to use fiscal, rather than public, welfare to bring about an equitable distribution of the imported inflation burden, caused by the oil crisis.[45] It also reinforced the role the state played in mandating employers to provide corporate welfare to workers (Yi, 2007, p. 113). This signalled a change in policy direction of the Park regime (from public to occupational welfare). Second, the Labour Standard Act was revised in 1974, extending the coverage of the Retirement Allowance to firms with more than 15 employees. Third, the 'Workers' Saving Scheme for Asset Building' was introduced in 1976, which Park announced as 'the Year of All-out

[45] This Emergency Measure included some important measures: (1) the reduction of the burden of oil-price increases on low-income groups; (2) the imposition of heavy taxes on the high-income group, and consumption tax on luxury goods; (3) the postponement of public welfare, such as the National Welfare Pension (Yi, 2007, p.113).

National Saving'. This scheme was considered to be another method of mobilising financial resources, as well as increasing people's well-being (ibid, pp. 127-128). Lastly, the Park regime launched the 'New Community Movement' to encourage employers to offer occupational welfare to their workers for reinforcement of the spirit of independence, self-help, and cooperation (M.-K. Chung, 2010). This argued that "in order to achieve the goals of the Factory New Community Movement, employers should provide welfare benefits to employees and employees should do factory work like their own business. Factories should participate in the Factory New Community Movement and employers should do their best to enhance the welfare of workers" (The Ministry of Home Affairs, 1980b, p. 465; cited from Yi, 2007, pp. 117-118). In this Movement, the idea of 'firm-as-family' was stressed under the slogan of "treat employee family, (do) factory work like one's own personal work" (The Ministry of Home Affairs, 1980a, p. 239; cited from Yi, 2007, p. 122).

The chaebols needed to follow the state's initiates- because as well as employers relying on the state's financial assistance, employers' social policy preferences had also been changed. The Koran Chamber of Commerce and Industry was advised by the Park government to place emphasis on the creation of harmonious industrial relations (Yi, 2007, pp. 121-122). Korean employers thus began perceiving occupational welfare as a critical method for encouraging workers' industriousness. This established a tighter relationship between employers and employees, that created harmonious industrial relations (labour control), and developed and secured highly-skilled workers (M.-K. Chung, 2010; D.-O. Kim and Bae, 2004; Yi, 2007). A survey of the Korea Employers Federation showed that nearly 90% believed the company should be the major welfare provider (Yi, 2007, p. 133). Likewise, Taeyang Metal Industrial Co. Ltd argued that "employers should take care of employees as family members, and consider the company as their own venture, and both employer s and employees should make the factory like home" (The Ministry of Home Affairs, 1980b, p. 184; cited from Yi, 2007, p. 122). The change in employers' social policy preferences resulted in the expansion of corporate welfare, and significant expansion in the number of workers covered by the Retirement Allowance. Further, employment practices for development of long-term employee commitments were made widespread, with wages increased during the 1970s (D.-O. Kim and Bae, 2004; S.-H. Kim, 2005). [46]

By encouraging corporate pension and welfare, and other employment practices, the result was the dualisation of the labour market. Chaebol, but not non-chaebol,

[46] For example, the seniority-based pay system had begun to be adopted in the 1970s. In 1979, 72.4% of companies adopted it for white-collar employees (D.-O. Kim and Bae, 2004, p. 144).

workers were well-protected by corporate pension and welfare. Further, as with Japan, the provision of corporate pension and welfare to core workers, and the development of company-based skill formation system and other employment practices, resulted in these chaebol workers becoming more growth-minded, with greater interests in job and economic securities (Song, 2012b; J.-J. Yang, 2006, 2013). The Park regime reinforced this, having banned and supressed national-level labour movements in order to force labour (particularly enterprise unions of chaebols) to concentrate efforts on non-political issues, such as corporate welfare, and to collaborate with the government for economic development (Yi, 2007). For the New Community Movement to be carried out, the government amended the Trade Union Act, forcing the companies with labour unions to establish a Labour Management Council to deal with issues such as skill training, working conditions, and corporate welfare in order to prevent labour disputes. The Park regime's intention was for this measure to create business-friendly employees' representational organisations that replace labour unions, and to confine the demands of labour to a definite institutional framework (Yi, 2007, p. 124). In other words, the Park regime wanted to make labour unions of chaebol workers more cooperative, and obedient to the management. From the mid-1970s, this strategy resulted in an emerging internal labour market for white-workers of large chaebols (J.-Y. Jeong, 2007; D.-O. Kim and Bae, 2004; S.-H. Kim, 2005; Y.-K. Lee, 2011; J.-J. Yang, 2013).

Table 7.1.1 the History of Extension of the Retirement Allowance Scheme

Year	Mandatory application to firms with	Number of workers covered	Ratio to the total employees (%)
1966	30 or more workers	452,951	5.4
1970	30 or more workers	945675	9.7
1975	16 or more workers	1,448,099	12.2
1980	10 or more workers	2,841,317	20.7
1985	10 or more worker	3,583,457	23.9
1990	5 or more workers	5,366,000	29.8
1991	5 or more workers	5,118,915	27.5
1993	5 or more workers	5,380,284	27.9
1994	5 or more workers	5,695,912	28.7
1995	5 or more workers	6,192,130	30.3
1998	5 or more workers	5,786,000	30.1

Source: Moon (2002, p. 19) and Phang (2010, p. 100)

Table 7.1.1 shows the Retirement Allowance's extension history, in Korea, from 1966. In 1961, its coverage was extended from workplaces of 30 or more workers to those with 16 or more in 1975. Further, in 1966, only 5.4% of total employees were included, but in 1970, this had increased to 9.7%, and doubled during the 1970s.

Following the war, the Korean government attempted integration of the pension system into its developmental strategy. Public pensions were only introduced for public workers to consolidate the political base of the authoritarian ruling regime. In the early 1970s, the Park regime wished to introduce the National Welfare Pension as a policy tool of capital formation, so that its capital-intensive heavy and chemical industrialisation could be supported. This was postponed, however, by employers' resistance, and the first oil crisis. After the Korean War, the chaebol-dominated capitalist structure, and the chaebols' great reliance on the government, allowed the Korean government to externalise the cost of political legitimacy to the chaebols. This was through introduction of a corporate pension, and other labour laws, in the face of limited financial capacity to launch public welfare. In the early stage of industrialisation, employers, shaped by the developmental strategy (import-substitution industrialisation, then labour-intensive export-oriented industrialisation) and constrained by limited financial capacities, were reluctant to bear financial burdens caused by corporate pension and welfare. This changed in the 1970s, employers changing their social policy preferences, with heavy and chemical industrialisation adopted and the increase in the number of workers with specific skills, and the National Welfare Pension postponed. Additionally, the state encouraged corporate welfare and pensions, and developed the company-based skill formation system. Corporate pensions and welfare were thus developed to resolve economic coordination of skill formation, particularly in the case of the absence of an economic coordination mechanism to avoid skill poaching. Consequently, the corporate pension was significant in Korea.

In the early post-war period (1950s and 1960s) in Korea, it was seen that the authoritarian state tended to act a dominant actor. Since the 1970s with growth of the chaebols, the state-chaebol developmental alliance, through exploitation of state assistance to become a symbiotic partner, was forged. The chaebols required financial assistance of the state, but were needed by the state to implement its development strategy (heavy and chemical industrialisation in the 1970s). Labour was intentionally supressed and divided, and chaebol workers were politically and economically incorporated into the state-chaebol developmental alliance through corporate pension and welfare, the company-based skill formation system, and state interventions. As with Japan, by 'welfare through work' practices, chaebol workers became more growth-minded. This simultaneously created a dual labour market, gradually consolidating social cleavages between chaebols and SMEs, as well as chaebol core and SMEs non-regular workers. These social cleavages were deeply sharpened, shaping pension reforms and politics during the democratic period.

Figure 7.1.1 shows the pension structure in 1980s Korea, prior to the introduction of the National Pension Insurance. With regard institutional structure, three public pension programmes were launched for different groups, the National Welfare Pension, though postponed, being for private workers. Meanwhile, corporate pensions (the Retirement Allowance) played a critical role in Korea.

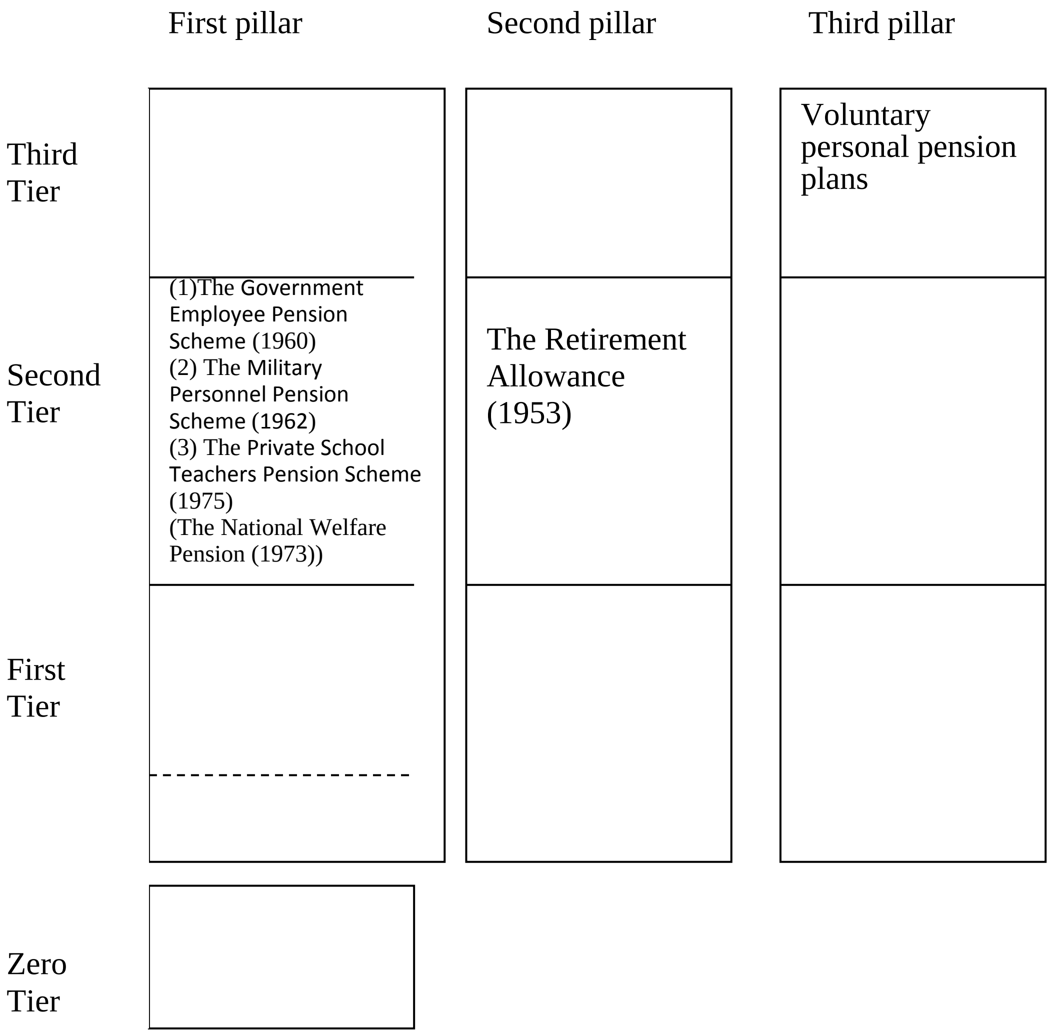

Figure 7.1.1 Pension Structure in Korea, 1987

7.2 The Dualisation of the Korean Pension System since the 1980s

Korea underwent democratisation and economic liberalisation from the 1980s. This dual transformation added universalism into the Korean pension system. Democratisation and economic liberalisation (accelerated by the Asian Financial Crisis in 1997) resulted in a deepening dualisation of labour market. A dualist strategy, in the face of economic liberalisation, as in Japan, was adopted to externalise the cost of economic liberalisation to SMEs and non-regular workers with low-general skills. Conversely, it consolidated chaebol workers with specific skills, to maintain its comparative institutional advantage. The chaebols and their regular workers tended to act as a defender of the existing employment-related welfare, and were reluctant to share risks with non-regular workers, or SMEs employers, through universalistic social policies. The state, at first, gradually extended the coverage of the National Pension Insurance to peasants and the self-employed, but simultaneously cut its benefit level from 70% to 40%. Eventually, in 2007, a nearly universalistic, non-contributory pension scheme was introduced by the progressive government. In line with the dualist strategy, its corporate pension system was modernised, allowing employers to provide DC pensions for non-regular workers, in turn, reducing labour cost, though DB pension are still dominant.

7.2.1 Public Pension: Towards Universalism

Public Pension reforms in Korea could be roughly divided into two stages in this period. First, prior to 1997, democratisation was critical in the implementation of the National Pension Insurance. Second, after the Asian Financial Crisis, Korea not only reformed its capitalist structure, but also overhauled public pensions, modernising corporate pensions. Two public pension reforms of 1999 and 2007 changed the Korean pension system to the multi-pillar pension model.

Pension Reforms during the period between 1980 and 1997

In the early 1980s, although the Chun government endeavoured to legitimate its militaristic authoritarian regime through the ‘creation of a welfare state’ (Yi, 2007, p. 152), a public pension was not the focus, in the face of economic difficulties. Instead, more efforts were devoted to encouraging occupational welfare, to achieve its goal (Hwang, 2006; D.-M. Shin, 2003; Yi, 2007). The transformation of political regime and employers’ social policy preferences in the mid-1980s changed the context.

Since the 1950s, and as mentioned earlier, the Korean government tended, by encouraging corporate welfare and pensions, to externalise the cost of political legitimacy to the chaebols, in the situation of weak financial capacity. This was particularly significant during the late 1970s and early 1980s. This strategy, however, reached its limits due to a decline of employers' support, and democratic breakthrough. It led the Chun government to emphasise public welfare as a policy instrument of political legitimacy.

Thanks to economic recovery, less reliance on the state, since 1984, encouraged employers to show their concerns about financial burdens of the corporate welfare. Employers suggested that a 'Korea Social Welfare Model' should be established- the state being the main provider, with employers playing a supplemental role on welfare provision (Yi, 2007, p. 164). From the late 1970s, the institutionalisation of employment practices and corporate welfare, together with wage increases, levied great financial burden on employers. This forced the state to shift the focus from occupational welfare to public welfare, to politically legitimise its authoritarian regime. Second, and more critically, in 1985, the minjung-democracy alliance formed the New Korea Democratic Party so that the ruling Democratic Justice Party could be challenged in the 1985 National Assembly election. In the election, the ruling party, though it still controlled the National Assembly, received only 35.3% of votes (D.-M. Shin, 2003, p. 108). Following this, several members of the Democratic Justice Party admitted that welfare policies should be introduced to vie for electoral supports in the next National Assembly in 1988 (S. Kim, 2006, p. 79). Thus, in 1986, Chun announced that three welfare policies would be implemented: (1) the universalisation and unification of the National Health Insurance to all citizens; (2) the implementation of the National Pension Insurance; (3) a minimum wage law. It was considered as a political instrument for the 1987 presidential election, and the 1988 National Assembly election (Hwang, 2006; S. Kim, 2006; Y.-M. Kim & Kim, 2005).

Although this issue was raised by democratisation, the institutional design of the National Pension Insurance was economic-oriented. The Economic Planning Board took a leading, and coordinating role in the institutional design, but conflicts between economic (the Economic Planning Board) and social (the Ministry of Health and Social Affairs) technocrats were significant (Hwang, 2006, pp. 64-65). The chairman of the National Pension Fund Operation Committee was debated firstly: the Economic Planning Board preferred its Minister, but social technocrats favoured the Premier. It is critical for the operation of a pension fund, and the Minister of the Economic Planning Board was appointed as the chairman of this Committee (ibid, p. 64). Next, the use of the National Pensions Fund was debated as well. Social technocrats tended to reserve it through real capital investment.[47] Economic technocrats, however, preferred to divert it through financial investments, such as stock exchange securities. The latter was adopted, though in practice, the government used both (ibid, p. 64-65).

After the 1985 election, labour (the Federation of Korean Trade Unions) and employers (the Korea Employers' Association) were allowed to join the Preparation Committee of the National Pension Insurance at the early stage of policy making (S. Kim, 2006, p. 79). Labour argued that marginal workers, such as the self-employed with a certain income level should be covered; the level of pension benefit should be set at 45% of a worker's last three years' average income; and pension benefits should also be adjusted, such as market prices or income increases (ibid). Employers focused, however, on the financial burden, arguing that as well as employers and employees, the state should also subsidy it, and the contribution rate should be minimised (ibid). A more critical conflict between labour and business was whether the Retirement Allowance should remain intact (Hwang, 2006, pp. 65-66; S. Kim, 2006, pp. 79-80; Woo, 2004, pp. 80-82; Yi, 2007, p. 182). Labour insisted that it should be separated from the National Pension Insurance, while employers argued the introduction of the National Pension Insurance would result in a double burden on employers. Therefore, the Retirement Allowance should be seen partly as a form of social security and a reward for meritorious services. The employers' idea was accepted, and it was decreed that a portion of the pension funds of the Retirement Allowance should be transferred to the pension fund of the National Pension Insurance. Put simply, the Korean government did not see the relationship between public social insurance pension schemes, and occupational pension schemes, being complementary, but substituted (Yi, 2007, p. 182). Its implementation was postponed until 1993 as such, and in order to reach compromise between labour and business, the government extended the coverage of the Retirement Allowance again to firms with 5 or more employees (Woo, 2004, pp. 80-81).

In November 1986, the bill was passed. The National Pension Insurance is a contributory pension scheme. Initially, the contribution was equally shared by employers and employees, each contributing 1.5% of the insured's person wage until 1992. This increased to 6% in 1993, but was equally shared between employers and employees, and the pension funds of the Retirement Allowance (2% each), while 1998 saw a split of 9% (3% by each). Pension benefits consisted of two parts: a basic amount, and an additional amount. The basic amount is decided by the average monthly wage of all insured persons, and the average amount of the monthly standard

[47] Through this, the state could borrow capital from the Fund at an interest rate of 3 or 4% lower than those in the financial market, to invest in government projects such as infrastructures.

wages of insured individuals. The replacement rate will achieve 70% for a retired person paying at least 40 years contributions.

The institutional design of the National Pension Insurance mirrored the interaction of two critical factors: democratisation and developmentalism. The National Pension Insurance, designed to vie for political supports, could be seen as the result of democratisation, thus its benefit level was high. In consideration of labour cost, however, its contribution was low. This low contribution rate/high replacement rate caused a problem of financial unsustainability (Y.-M. Kim & Kim, 2005; D.-M. Shin, 2003). The National Pension Insurance also excluded marginalised workers, such as peasants, fisherman and self-employed. The following pension reforms, thereby, aimed to address these problems. Following its implementation, the Korean government quickly extended its coverage, in 1992, to workers in firms of five or more employees, and in 1995, to the self-employed in rural areas. The expansion of coverage was to increase its financial bases (more contributors) to address its financial unsustainability, caused by the low contribution rate/high replacement rate (Hwang, 2006, pp. 67-68), and this reflected Korea's conservative character. It did not, however, solve the financial problem, worsened by the Asian Financial Crisis. Consequently, two more radical pension reforms were launched in 1998 and 2007.

Public Pension Reforms after the Asian Financial Crisis

The 1999 Pension Reform

Since the 1980s, the Chun regime endeavoured to process a series of economic liberalisation reforms, including dissolving the chaebols, in the face of the changing international economic environment, but failed due to employers' resistances (D.-M. Shin, 2003; Woo, 2004). In order to join the OECD, the Kim Young-Sam government (1993-98) sped up the path of economic liberalisation, particularly the financial and labour markets, to fit its standards (D.-M. Shin, 2003). The financial issue of the National Pension Insurance, therefore, had to be understood in the context of economic liberalisation (Y.-M. Kim & Kim, 2005, p. 215).

In 1996, the government attempted overhaul the National Pension Insurance, but economic and social technocrats had opposite views (Hwang, 2006, pp. 68-69). The National Pension Reform Board, which comprised 21 members, including bureaucracies and interest representatives such as the Federation of Korean Trade Unions, the Korea Employers Federation, policy experts and so on, was established to mediate the contending views (Hwang, 2006; Y.-M. Kim & Kim, 2005). The first camp, supported by the Presidential Office, economic technocrats, experts and employers, proposed a bi-pillar system that reflected the World Bank's idea. It consisted of a basic pension and an earning-related pension which could be contracted-out. Social technocrats, social policy experts, and labour insisted that the current mono-pillar structure should be maintained, and that expansion of coverage should be prioritised. Unsurprisingly, the bi-pillar plan was selected (Y.-M. Kim & Kim, 2005, p. 216).

The Asian Financial Crisis, unfortunately, severely attacked the Korean economy, with the conservative developmental alliance ended by the progressive leader, Kim Dae-Jung, during the presidency, in December 1997. The Crisis deteriorated the financial stability of the National Pension Insurance (Chosun, 30/12/1997). This power shift not only altered the composition of political coalition, but also the idea of the welfare state. With regard to pension reform, Kim clearly announced: "Built around the middle and working classes…I will actively seek to implement constructive social welfare measures…national pension system will be built up in order to develop a comprehensive social welfare system" (Chosun Ilbo, 24 January 1998; cited from S. Kim, 2006). Simultaneously, the conservative actors were weakened, through the establishment of the Tripartite Committee that included two nation-level labour organisations (the Federation of Korean Trade Unions and the Korean Confederation of Trade Unions[48]) (Y. M. Kim, 2008; J.-J. Yang, 2004).

Consequently, the Ministry of Health and Welfare came to the fore, to resist the bi-pillar plan, stating that it would destroy solidarity, and reduce the redistributive effect of the National Pension Insurance. Further, the significant reduction in pension benefits would provoke political opposition (S. Kim, 2006; Y.-M. Kim & Kim, 2005). The Kim Dae-Jung government eventually accepted its suggestion to maintain the current, unified pension scheme, and to reduce the replacement rate to 55% instead of 40% (Y.-M. Kim & Kim, 2005, p. 217).

[48] The Korean Confederation of Trade Unions was rooted in the 'democratic union movement' in the mid-1980s. Its establishment was due to democratic unionists wanting to establish an alternative labour movement, outside of that of the Federation of Korean Trade Unions. This was viewed as completely co-opted, and controlled either by management or authoritarian regimes. In 1990, democratic and independent unions formed the National Congress of Trade Unions; and then, in 1995, it was expanded, and changed into the Korea Confederation of Trade Unions. During the Crisis, the Kim Dae-Jung government invited the Korea Confederation of Trade Unions to join the Tripartite Committee. This was the first time the government recognised the Korea Confederation of Trade Unions. The actual legalisation of the Korea Confederation of Trade Unions, however, was not granted until 2000, due to the revision of labour laws. For the Korea Confederation of Trade Unions, therefore, the most important task was to gain legal status before 2000 (Y.-K. Lee, 2011).

However, this mono-pillar plan was criticised by business and chaebol workers, with employers strongly reluctant to expand its coverage to the urban informal sector, under a unified pension system. They argued that it would deteriorate financial stability due to under-reported income of the self-employed, especially, the ratio of self-employed was high (see figure 7.2.1) (Y.-M. Kim & Kim, 2005, p. 217; Woo, 2004, pp. 111-112). This would eventually lead to an increase in labour costs, in turn weakening their economic competitiveness. Chaebol workers also favoured the bi-pillar plan, arguing that the self-employed should be separated in order to avoid income redistribution between the waged middle class, and the self-employed (S. Kim, 2006, p. 82). After democratisation, these organised unions of chaebol workers could, comparatively, effectively exert their mobilisation strength to maximise company-level gains (such as corporate welfare and wages). As such, in the face of economic liberalisation, organised chaebols workers (with specific skills) showed more interest in employment security (Y.-K. Lee, 2011; Song, 2012c). However, peak-level labour unions, and civil society groups, were unsatisfied due to the reduction in pension benefit to 55% (from 70%) (Y.-M. Kim & Kim, 2005, p. 217).

In the face of strong opposition from labour and civil society groups (Chosun, 12/2/1999), the Kim Dae-Jung government decided to limit the reduction in the replacement rate to 60% instead of 55%. The bill was approved by the National Assembly in December 1998: (1) the mono-pillar pension structure would be maintained; (2) the coverage would be extended to the urban inform sector in April 1999; (3) the replacement rate would be reduced to 60%; and (4) the contribution rate of 9% would be equally shared by employers and employees (4.5% each) - the pension funds of the Retirement Allowance would not be devoted to the National Pension Insurance. This reform increased the financial burden placed on employers, with the contribution rate of the Retirement Allowance remaining intact at 8.3% (Y.-M. Kim & Kim, 2005, p. 218). The 1990s pension reforms witnessed a dual movement: the expansion in coverage, but the retrenchment of benefits.

The 2007 Pension Reform

In the face of the Asian Financial Crisis, however, Korea received two structural adjustment loans from the World Bank and the International Monetary Fund. One of the conditions was to undertake structural pension reform (C. L. Jung & Walker, 2009; Y.-M. Kim & Kim, 2005). Particularly, the World Bank critically reviewed the Korean pension system, suggesting that it should be transferred to a multi-pillar pension system (World Bank, 2000). The Ministry of Health and Welfare adopted a lukewarm attitude to the World Bank's suggestion, however, when the economy had been recovering from the recession (S.-K. Kim & Lee, 2004; Y.-M. Kim & Kim, 2005), though the neo-liberal idea had been shaping Korea's capitalist structure and welfare state.

Since the 1980s, thanks to economic liberalisation and the rise of low-general skill service workers (appendix 6), the dualisation of labour market has been gradually consolidating. Particularly, after 1997, the dualisation of the labour market was further deepened through the structural reform (figure 7.2.1 and table 7.2.1) (I. Peng, 2012; Song, 2012a; J.-J. Yang, 2006). In the face of the Crisis, the progressive Kim government comprehensively liberalised the labour market to allow employers to adopt a more radical way (such as laying off staff) of corporate restructuring through political incorporation of labour unions into the Tripartite Committee (Y.-K. Lee, 2011; Woo, 2004). However, constrained by its chaebol-dominated capitalist structure, chaebol employers had to adopt a dualist strategy. As with Japan, chaebol workers with specific skills, in the face of economic difficulty, tended to prioritise the securing of possible buffers against the risks of labour market deregulation, rather than seeking solidarity at the national level, maintaining their benefits and jobs (Y.-K. Lee, 2011; Song, 2012c; J.-J. Yang, 2006, 2013). Chaebol workers tended to resist a comprehensive labour market deregulation, but accepted wage restrains[49] because, since the 1970s, organised chaebol workers became more growth-minded by the consolidation of employment practices and wage increases.[50] On the other hand, chaebol employers did not want to fundamentally dismantle the system, in order to maintain its comparative institutional advantages, established in the 1970s and consolidated after the 1980s. Following the Crisis, and as a result, employers did not choose more drastic measures that were open to them for workforce adjustment (such as layoff and replacing regular worker with non-regular workers), but a dualist strategy- chaebol employers and workers endeavoured to externalise the cost of economic liberalisation to SMEs and non-regular workers with low-general skills, through the subcontracting networks, but to maintain a portion of core workers with specific skills for their comparative institutional advantages to be protected (Y.-K. Lee, 2011; Song, 2012a, 2012c). For example, around two-thirds of employers tended to use the wage adjustment (around 40%) and working hour adjustment (nearly 20%), even though mass layoff is possible (Yun, 2008, p: 228-229). Rather, the cost of labour market restructuring or deregulation was externalised to low-general skill

[49] For example, the labour union of General Motors Daewoo accepted, in 2003, wage restraints in exchange for job security (Kong, 2012).
[50] For example, the ratio of wage increase between firms with fewer than 30 employees and firms with more than 500 employees was 100:111 in 1986, widening to 100:171 in 2004 (Y.-K. Lee, 2011, p. 113).

workers by replacing them with non-regular workers, since they are not considered as the source of comparative institutional advantages. Consequently, the number of non-regular workers has been increasing since 1990 (figure7.2.1). As a result, a huge cleavage having occurred between workers in organised chaebols and SMEs.

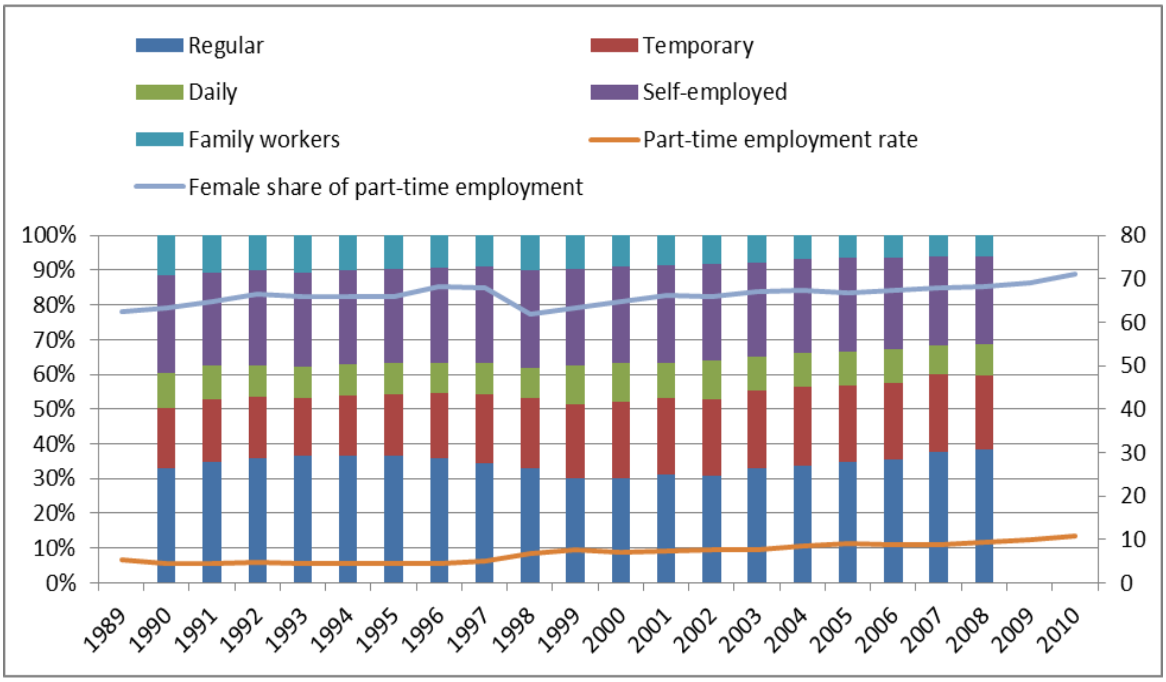

Figure 7.2.1 Proportion of Total Workers by Employment Status and Ratio of Part-Time Employment Rate

Source: Rowsley, Yoo, and Kim (2011, p. 70); and OECD Labour Force Statistics, various years

The deepening dualisation of the labour market, a cleavage between chaebol workers and labour market outsiders, is reinforced by the Korean 'welfare through work' system. In the 'welfare through work' system, welfare benefits are mainly obtained through regular employment. Therefore, labour market outsiders are excluded from the 'welfare through work' system, if not totally, such as self-employed, family workers and non-regular workers. Although self-employed and family workers have different social policy preferences due to low risk of unemployment (Rueda, 2007), in the past two decades, the proportion of family workers and self-employed has been declining in line with increasing non-regular workers (figure 7.2.1). Table 7.2.1 and 7.2.6 and 7.2.7 show that the increase in non-regular workers with low-general skills was concentrated on SMEs, and these SMEs workers were less protected, and enjoy less corporate welfare. The workers with low-general skills are not seen as the source of its comparative institutional advantages, and could be easily replaced and supplied through the external labour market. Thus, these non-regular workers with low-general skills are less covered by corporate welfare. Like Japan, in Korean 'welfare through work' system, labour market insiders (mainly, chaebol regular workers with specific skills) are well-protected, but outsiders (such as part-time workers, temporary workers, family workers and self-employed) are less covered by social insurance programmes, and enjoy fewer fringe benefits, such as a corporate pension.

Table 7.2.1 Distribution of Non-Regular Workers by Firm Size (2011)

(Unit: thousands, %)

Firm size	All non-regular workers		Contingent workers		Part-time workers		Atypical workers	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
1-4	1,546	25.8	572	16.6	739	43.4	745	30.7
5-9	1,156	19.3	573	16.7	337	19.8	532	21.9
10-29	1,483	24.7	922	26.8	349	20.5	631	26.0
30-99	1,097	18.3	773	22.5	175	10.3	396	16.3
100-299	375	6.3	296	8.6	46	2.7	89	3.7
300 or more	337	5.6	307	8.9	56	3.3	32	1.3
Total	5,995	100	3442	100	1,702	100	2,427	100

Source: Statistic Korea, Economically Active Population Survey Supplementary Survey by Employment Type, August 2011; adopted from Kum and Yi (2012, p. 6)

The issue of pension reform was therefore shifted from financial sustainability to the creation of a broader pension scheme for non-regular workers and labour market outsiders (H.-W. Chung, 2010, p. 140). In 2006, the Ministry of Health and Welfare proposed a new idea- the introduction of a non-contributory, basic old-age pension scheme. For this reason, Yoo Si-Min, who insisted a basic pension scheme should be introduced, was appointed Minister (Joo, 2010, p. 201). This idea aimed to address the problem of contribution non-payment caused by the increase in non-regular workers (Chosun, 23/2/1999, 20/2/2006).[51]

The different plans proposed only varied in terms of their coverage (from 60%, to all elder citizens) and benefit level (from 4.6% of the average income of those insured by the National Pension Insurance, to 20%). Simply because its plan was more generous, labour and civil society groups tended to support the opposition conservative parties- even though they may not have fully understood the plans (Joo, 2010, p. 200). The Grand National Party, alongside other opposition parties, submitted

[51] According to the 2009 official annual report, 27.13% of those insured by the National Pension Insurance were exempted from contribution payment, these people mostly non-regular workers, and labour market outsiders (National Pension Service, 2009).

the joint revised bill in April 2007, which covered 80% of the aged, offering a flat-rate benefit at 10% of the average income of those insured by the National Pension Insurance. The old-age benefit of the National Pension Insurance would be reduced to 40% (Chosun, 29/1/2007). The main intention of this proposal was to vie for electoral support in the 2007 presidential election through the more generous plan. This bill was rejected.

The ruling party and the opposition parties, however, soon reached a compromise, with the Basic Old-Age Pension Act introduced at the end of 2007. The 'Basic Old-Age Pension Scheme' is a nearly universalistic, tax-financed basic state pension scheme. It initially covered 60% of the elderly, with the benefit level 5% of the average income of those insured by the National Pension Insurance (Chosun, 10/4/2007). However, it was amended before its implementation in July 2007, with the coverage increased from 60% in 2008, to 70% in 2009, while the level of benefit also increased to 10%. The replacement rate of the National Pension Insurance, however, was reduced by 0.5% annually, from 60% down to 40% by 2028, with the contribution rate increasing from 9% to 12.8%.

During this period, the National Pension Insurance was introduced due to democratisation in the late 1980s. In the face of economic liberalisation in the 1990s and 2000s, the Korean public pension system underwent a dual transformation (retrenchment in benefit and expansion in coverage). This was to address financial unsustainability, and labour market dualism, caused by economic liberalisation, institutional legacies and the dualist strategy. The Asian Financial Crisis pushed the issue of pension reform to the centre, bringing the progressive leader into the presidency. The 1999 pension reform was signalled as a neo-liberal turn in the pension system. The 2007 pension reform, by universalism being embedded into the Korean public pension system, after a non-contributory basic pension scheme was introduced, was the result of the dualist strategy. Chaebols employers and workers with specific skills preferred to maintain the existing system, but externalise the cost of labour market deregulation, to non-regular workers and the state, through a universalistic non-contributory pension scheme. Simply put, public pension reforms in Korea in the 1990s and 2000s were the product of the way the Korean chaebol-dominated capitalist structure adjusted to economic liberalisation, as well as corporate pensions.

7.2.2 Private Pension: The Modernisation of Corporate Pension

The Introduction of the 'Employee Retirement Income Security Act'

The Retirement Allowance was introduced in 1952, and its coverage, particularly after the 1980s, was gradually expanded[52] as employers began to develop long-term commitments with employees through generous corporate welfare (Y.-K. Lee, 2011; Yang 2013). First, however, its social function was eroded after the National Pension Insurance and the Unemployment Insurance were introduced in 1988 and 1995 respectively (Phang, 2010, p. 99). Second, economic liberalisation since the 1980s, forced the chaebols to rely on other financing schemes, when the policy loans were significantly reduced. The significance of direct finance, and nonbank financial institutions, as demonstrated by table 7.2.2, increased (although they were severely hit by the Crisis after 1997). Thus, chaebol employers asked the government to create a more flexible corporate pension system that would flexibly mobilise pension funds of the Retirement Allowance (Chosun, 11/2/2001; Chosun, 26/2/2002; Moon, 2002).[53] Third, although there is no legal requirement that stipulates employers must record the liability of the Retirement Allowance on their balance sheet, many employers tend to take advantage of favourable tax treatments, by according these liabilities into book reserve (World Bank, 2000, p. 16). But, it lacked regulations and supervisions (Hahm, 2003; World Bank, 2000). Thus, the debt-equity ratio of the chaebols deteriorated. Confronted by the Crisis, a financial problem of the Retirement Allowance was established- it was possible to relinquish the responsibility of making the mandated payment due to insolvency and bankruptcy. (Chosun, 23/8/2004; M. J. Park, 2014; World Bank, 2000).[54]

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[52] It was revised to a mandatory scheme in 1961 for employees in firms of more than 30 employees, before being gradually extended: to those with 15 or more employees in 1975, to those of 10 or more in 1980, to firms of more than 5 in 1988, and finally, to *all* firms in 2010.

[53] In 1997, the amendment of the Labour Standard Act allowed employers to convert the retirement allowances to annuities; and life insurance companies were allowed to offer annuity schemes in 1999.

[54] Thus, the government established the 'Wage Guarantee Fund' in July 1998, to pay benefit (3 months of wage) to the unemployed, since their companies could not pay the Retirement Allowance during the Crisis.

Table 7.2.2 Structure of Corporate Financing (inflow, %)

	1985	1988	1990	1995	1997	1998	1999	2000	2003	2006
Indirect Finance	56.2	27.4	40.9	31.8	28	-7.3	4.1	17.9	38.8	35.8
From Banks	35.4	19.4	16.8	14.9	14	0.9	29.3	35.4	42.5	31.8
From NBFIs	20.8	8	24.1	17	13.9	-59.8	-25	-17.6	-3.8	3.9
Direct Finance	30.3	59.5	45.2	48.1	47.2	178.9	46.8	26.2	35.1	42.1
Commercial Papers	0.4	6.1	4	16.1	17.5	42.2	-30.4	-7.2	-5.7	7.8
Corporate Bonds	16.1	7.5	23	15.3	17.9	165.9	-5.3	-3.1	-2.5	13.4
Stocks	13	40.6	14.2	14.4	10.9	48.9	77.6	31.6	35.9	20.5
Foreign Borrowing	0.8	6.4	6.8	8.4	10.4	-35.5	24.1	25.6	15.2	3.1
Others*	12.7	6.7	7.1	11.7	14.4	13.9	25	30.4	10.9	19.0

Source: adopted from H. J. Jung (2012, p. 168 and 188).

* Includes among others commercial trade credits, borrowing from government, bill payables, reserves for retirement allowance.

Consequently, the issue of the Retirement Allowance's modernisation was brought to the table of the Tripartite Committee and scheduled for discussion in 1998. This did not happen until 2000, however. Facing the Crisis, labour were predominantly concerned with job security and the financial stability of the programme, preferring the DB pension plan. Employers, however, wished to minimise financial burdens, through the introduction of a DC pension plan for a more flexible labour market. Table 7.2.3 summarises the arguments from three sides. The negotiation ended without concrete agreement, but a consensus of transforming the Retirement Allowance to corporate pensions, so that employers' financial burden could be relieved in the face of the crisis, was achieved (Y. J. Choi, 2006, pp. 238-239; S.-W. Kim, 2007).

Table 7.2.3 the Debates on the Institutional Design of the Corporate Pensions

	Labour	Employer	State
Functional Focus	● Provide Stable Income for workers after retirement ● Do not use DC scheme ● Limit investment to share capital market ● Put management of funds under negotiation of both labour and management	● Minimise companies burden ● Abolish retirement pay ● Make contribution in connection with the National Pension Insurance to reduce burden on employers	● Guarantee livelihood for worker after retirement ● Facilitate economic growth through the development of the financial market
Range of Application	Expand coverage to firms with less than 5 employees	Opposed to expand coverage firm with less than 5 employees	Pursue to expanded coverage to firms of less than 5 employees in 2008-2010, but would consider the financial capacity of small enterprises
Types of Benefits	DB Benefit only	Preferred DC pension	Autonomous choice between DB and DC through negotiation between employers and workers.

Source: cited and revised from M. J. Park (2014, p. 92, table 6.5)

The state thereby decided to introduce a new corporate pension scheme to replace the old Retirement Allowance (Chosun, 11/2/2001). The Korean Labour Institute, funded by the Ministry of Labour, proposed three alternatives (Phang, 2004, pp. 21-24): (1) System transition model: this aims to replace the Retirement Allowance through (initially) voluntary corporate pension schemes and favourable tax treatment, which ultimately turn it to a mandatory pension plan that completely replaces the Retirement Allowance; (2) Intern-generational model: this aims to replace the Retirement Allowance through a compulsory corporate pension scheme at one point in time, or gradually through contribution conversion; and (3) Contract-out of public pension: this attempts to reduce the burden of the National Pension Insurance by gradually increasing the role of the corporate pension.

In 2002, the Federation of Korean Industries simultaneously, and fiercely, asked for the conversion of the Retirement Allowance into the corporate pensions again, listing several principles: minimal governmental intervention; an optimal, but not high, contribution rate; transferable pensions; incentives for enterprises; and professional supervision of the government over pension funds (Y. J. Choi, 2006, p. 239). In contrast to public pensions, the chaebols showed more concerns about corporate pensions, since they could gain more management authorities from corporate over public pensions (J.-J. Yang, 2013).

In 2004, the Ministry of Labour drafted an act, known as the ‘Employee Retirement Income Security Act’, according to the system transition model. Passed in 2005, it was implemented in 2006 to replace the Retirement Allowance, on a voluntary basis initially. Essentially, the principles suggested by employers were accepted (Y. J. Choi, 2006, p. 239). According to the Employee Retirement Income Security Act, new corporate pensions could either be DB or DC pensions, or the Individual Retirement Account plan. At first, employers could choose either the Retirement Allowance or new corporate pension schemes (DC or DB plan), and the choice of pension type depends on the negotiation between employers and employees. Irrespective of the type adopted, the final benefit level should be no less than that of the Retirement Allowance.

The Implementation of the ‘Employee Retirement Income Security Act’

The Employee Retirement Income Security Act includes three types of corporate pension. The DB plan is not a traditionally defined-benefit pension, but acts as a kind of external vehicle for unfunded retirement allowance liabilities. The minimum level of funding is based on the negotiation between the employer and employees, through consideration of the company’s business condition. In the DB plan, a clear statement of benefit entitlement should be included in the plan contract, but the level of benefit should not be less than the final payment of the Retirement Allowance. The DC plan shifts the risk of fund management from the employer to employees, though legislation sets a guaranteed income certificate. Under the DC plan, employers must contribute no less than 8.3% of the payroll expenditure to the funds that should be funded, and managed, by either an insurance or trust contract to protect the benefit rights of workers in the event of employer bankruptcy. According to the Act, coverage of corporate pension schemes has been extended to all firms, though those with less than 10 employees can introduce the Individual Retirement Account plan from 2007. The Individual Retirement Account plan is a transitional, or terminal, savings account where workers can deposit the lump-sum payment from their last employer’s corporate pension scheme, including the Retirement Allowance, DB, or DC plan. Principally, the Individual Retirement Account plan is regulated as the DC plan, yet, the Individual Retirement Account plan is an individual saving account, detached from any specific employer’s plan. Table 7.2.4 summarises the features of four corporate pension schemes.

Table 7.2.4 the Features of the Retirement Allowance, DB and DC and Individual Retirement Account plans

	The Retirement Allowance	DB Plan	DC Plan	Individual Retirement Account Plan
Minimum benefit (if lump-sum)	Average of Final 3 Months' Salaries * years of service	Average of Final 3 months' Salaries * years of service	Account balance	Account balance
Funding	Internal and/or external	External funding, but the minimum level of funding must be negotiated between employer and employees.	Fully external, and must be funded and managed by insurance or trust	Employees choose financial institutions to invest and manage individual account
Funding basis	Employer's discretion, but no less than 8.3%	Actuarial determination	8.3 % of salary each year (minimum)	1/24 (for 2007-2008), 1/20 (for 2009-2010), and 1/16 (for 2011-2012)
Withdrawals before retirement or termination	Advanced payments are allowed	● No advance payments ● Loans up to 50% of accrued benefit	● No advance payments ● Loans up to 50% of accrued balance ● Hardship withdrawals	Like DC Plan
Benefit form	Lump-sum	Lump-sum/ annuity	Lump-sum/ annuity	Lump-sum/ annuity

Source: Beram (2005, p. 35) and M. J. Park (2014, p. 87); and my revision.

Following the introduction of the Employee Retirement Income Security Act, the importance of new corporate pensions increased conspicuously (table 7.2.5). The number of workers covered by new corporate pensions increased threefold between 2008 and 2011. In 2011, 69.3% were covered by the DB plan, while 28.3% had DC plans, so as in Japan, the DB plan is still dominant, even in the face of economic liberalisation. With economic liberalisation and the Crisis, and constrained by its chaebol-dominated capitalist structure, chaebol employers tend to adopt the dualist strategy. This is due to the resistance of chaebol workers to the deregulation of the comprehensive labour market, and the need for maintaining of comparative institutional advantages. This increases the number of non-regular workers with low-general skills, enhancing labour market flexibility, and enabling them to adjust to changing business environments, while still strongly maintaining job security for core workers with specific skills to preserve its comparative institutional advantage (Song, 2012a; 2012b). The cost of labour market deregulation is thus externalised to less organised, non-regular workers of SMEs (Song, 2012b; J.-J. Yang, 2013). This strategy, and social cleavage between organised chaebol workers and less organised SMEs workers, also resulted in the dualisation of corporate pension between the chaebol and SME workers.

Table 7.2.5 the Number of Workers Covered by Corporate Pension Plans

(Unit: Numbers of workers, %)

	Total	**DB plan**	**DC plan**	**Individual Retirement Account Plan**
2008	787,000 (100)	428,000 (54.4)	295,000 (37.6)	64,000 (8.0)
2011	3,283,608 (100)	2,275,753 (69.3)	930,026 (28.3)	77,829 (2.4)

Source: Ministry of Employment and Labour (http://www.moel.go.kr/view.jsp?cate=7&sec=4&smenu=2&mode=view&seq=1328575388075&page=1&state=A&bbs_cd=105); and Phang (2010, p. 104)

Table 7.2.6 and table 7.2.7 demonstrate this. Table 7.2.6 demonstrates that in 2008, 20.7% of firms with over 500 employees introduced new corporate pensions for their workers. This compares to just 2% of firms with less than 10 employees, and 11.2% of firms with 30-99 employees. In 2011, though an increasing number of firms introduced new corporate pensions for their employees, the gap between large chaebols and SMEs was more significant- only 6.2% of firms with fewer than 10 employees introduced corporate pensions for their workers, compared to 84.6% of firms with above 500 employees. In other words, the ratio increases in tandem with firm size.

Table 7.2.6 the Number of Workplaces Adopting Corporate Pensions by Firm Size

(Unit: Number of workplace, %)

	Under10	**10~29**	**30~99**	**100~299**	**300~499**	**500+**	**Total**
2008							
(A) Workplaces introducing corporate pensions	24,441	11,156	5,053	1,085	170	200	42,105
(B) Total Workplaces	1,189,714	156,304	45,083	8,700	1,018	965	1,4101,784
A/B (%)	2.0	7.1	11.2	12.5	16.7	20.7	**3.0**
2011							
(A) Workplaces introducing corporate pensions	79,039	37,648	16,313	4,467	737	947	139,151
(B) Total Workplaces	1,277,326	167,033	50,007	10,309	1,363	1,120	1,507,158
A/B (%)	6.2	22.5	32.6	43.3	54.1	84.6	**9.2**

Source: Ministry of Employment and Labour (http://www.moel.go.kr/view.jsp?cate=7&sec=4&smenu=2&mode=view&seq=1328575388075&page=1&state=A&bbs_cd=105); and Phang (2010, p. 104)

Firm size determines not only the ratio, but also the types, of corporate pensions being adopted by workplaces. Table 7.2.7 shows that larger firms were likely to introduce the DB plan, with smaller firms preferring the DC plans. Since the 1970s, Korean chaebols begun to institutionalise company-based skill formation through establishment of long-term commitments with employees, through generous corporate welfare. Chaebol workers, thus, have a strong preference for the DB plan in order to protect their specific skills (M. J. Park, 2014; Phang, 2010; J.-J. Yang, 2013). Furthermore, following democratisation (the mid-1980s), these organised chaebol workers have, when compared to less organised SMEs workers, more power to fight for company-level gains and job security (Y.-K. Lee, 2011). The types of corporate pensions adopted is determined by the co-determination of employers and employees, and consequently, the DB pension is prevalent in large firms of more than 500 employees. Table 7.2.7 shows that around two-thirds of those firms adopted DB pension for their workers, compared to 29.1% of firms with less than 10 employees. Under economic liberalisation, non-regular workers of SMEs must bear the cost of economic liberalisation (Song, 2012a, 2012b; J.-J. Yang, 2013), and firms with less than 10 employees tend to introduce either the DC pension (36.7%) or the Individual Retirement Account plan for their employees (33.4%). This deepening dualisation between large and small firms is the result of the dualist strategy, adopted to address economic difficulty.

Table 7.2.7 the Distribution of Corporate Pension Plans by Firm Size (2011)

(Unit: Number of workplace, %)

Firm size (number of employees)	**Only DB**	**Both DB, DC**	**Only DC**	**Individual Retirement Account Plan**	**Total**
Under 10	23,035 *(29.1)*	518 *(0.7)*	29,038 *(36.7)*	26,448 *(33.4)*	79,039 *(100.0)*
10~29	17,269 *(45.9)*	892 *(2.4)*	19,487 *(51.8)*	n.a	37,648 *(100.0)*
30~99	9,023 *(55.3)*	743 *(4.6)*	6,547 *(40.1)*	n.a	16,313 *(100.0)*
100~299	2,904 *(65.0)*	399 *(8.9)*	1,164 *(26.1)*	n.a	4,467 *(100.0)*
300~499	507 *(68.8)*	92 *(12.5)*	138 *(18.7)*	n.a	737 *(100.0)*
500 +	613 *(64.7)*	232 *(24.5)*	102 *(10.8)*	n.a	947 *(100.0)*
Total	53,351 *(38.3)*	2,876 *(2.1)*	56,476 *(40.6)*	26,448 *(19.0)*	139,151 *(100.0)*

Source: Ministry of Employment and Labour (http://www.moel.go.kr/view.jsp?cate=7&sec=4&smenu=2&mode=view&seq=1328575388075&page=1&state=A&bbs_cd=105)

In short, since the mid-1980s, the dualisation of the labour market has deepened, as the chaebols, and their highly unionised workers, defended their dominant political and economic position while externalising the cost of economic liberalisation to SMEs and non-regular workers. With economic liberalisation and the Crisis, chaebol employers tended to adopt, to increase the number of non-regular workers, the dualist strategy. This facilitates the gaining of more labour market flexibility, while maintaining employment protection for core workers, and sustaining competitiveness. Pension reforms in the 1990s and 2000s reflected this dualist strategy.

The National Pension Insurance was introduced in 1988 thanks to democratisation, with its coverage extended in the 1990s. Under the economic liberalisation and Crisis, the dualist strategy led the Korean government to cut benefits, and absorb the cost of the increase in non-regular workers through the gradual extension in the coverage of the National Pension Insurance and the introduction of the Basic Old-Age Pension scheme. Corporate pensions was similarly reformed, along with this dualist strategy, by introducing the Employee Retirement Income Security Act to gradually replace the old Retirement Allowance. Chaebol workers were mainly covered by the DB pension in order to maintain cooperative labour relations, and the company-based skill formation system to sustain its comparative institutional advantage. Non-regular workers with low-general skills, meanwhile, must bear the cost of economic liberalisation through the subcontracting networks, are mainly covered by DC pensions. The number of DC pensions are increasing, generally speaking, DB corporate pension is still dominant in Korea.

Korea’s pension structure since 2008 is shown in figure 7.2.2. The Basic Old-

Age Pension was introduced in 2007, and functioned as the zero-tier (of the first-pillar), non-contributory pension scheme that covered 70% of the aged. The earning-related state pensions included the National Pension Insurance- which predominantly covered private workers (included self-employed and peasants), and others such as housewives (who could join it voluntarily- and three pension schemes for civil servants, military servicemen, and private school teachers. There are four corporate pensions: the Retirement Allowance, DB and DC, and Individual Retirement Account pension plans.

	First pillar	Second pillar	Third pillar
Third Tier		(1)The DC corporate Pension plans (2005) (2)The Individual Retirement Account plan (2005)	Voluntary personal pension plans
Second Tier	(1)Government Employee Pension Scheme (1960) (2) Military Personnel Pension Scheme (1962) (3) Private School Teachers Pension Scheme (1975) (4) National Pension Insurance	(1) The DB corporate Pension plans (2005) (2) The Retirement Allowance (1953)	
First Tier	Basic Old-Age Pension (2007)		
Zero Tier			

Figure 7.2.2 Pension Structure in Korea, 2012

Conclusion

In Korea, its pension system was designed to be embedded into the chaebol-dominated capitalist structure. Political actors' social policy preferences, and the nature of cross-class coalition, were shaped by the chaebol-dominated capitalist structure. Employers' social policy preferences, however, were not fixed, and varied in tandem with the interaction between the developmental strategy and the national capitalist structure. To begin with, in the early post-war period, the Korean government privatised the public enterprises of the Japanese colonial government, these public enterprises becoming chaebols. Instead of public pensions, the Korean government opted to introduce the Retirement Allowance through the Labour Standard Act, a strategy that aimed to externalise the cost of political legitimacy to the chaebols, when the state faced financial difficulties following the Korean War. During the 1950s, employers' attitudes towards social policies and labour protection laws were hostile- mainly because nascent chaebols could not bear the financial burden. This attitude did not change during the 1960s, since labour-intensive export-oriented industrialisation was underpinned by the exploitation of abundant, cheap and educated labours. Employers were reluctant to develop company-based skills and corporate welfare, although the state was keen to introduce the company-based skill formation system, and corporate pensions and welfare. Although labour was empowered by the Korean War, it had been politically alienated since the 1950s, even repressed in the 1960s by the Park regime.

Employers' preferences changed, however, as heavy and chemical industrialisation was adopted during the 1970s. In order to implement heavy and chemical industrialisation, the state encouraged, even forced, the chaebols to institutionalise the company-based skill formation, and corporate pensions and welfare, particularly after the state failed to introduce the National Welfare Pension. Employers began changing their attitudes in favour of corporate pensions and welfare. In the early 1970s, the National Welfare Pension was attempted, to be introduced as a policy tool of capital formation to reduce the great reliance on foreign capital (loans). However, it failed due to the first Oil Crisis, and employers' resistance. In the 1970s, the chaebols had grown to become a symbiotic partner of the state through exploitation of its financial assistance, allowing diversifying of their businesses. The state-chaebols developmental alliance was forged to facilitate the development of corporate welfare and pension. Moreover, through the institutionalisation of corporate pension and welfare, and the formation of the company-based skill formation system, enterprise unionism was enhanced, chaebol workers turned to be more growth-minded. That is, these unionised chaebol workers had been politically, and economically, incorporated into the state-chaebol developmental alliance, and a dual labour market was being forged.

Since the 1980s, Korea underwent democratisation and economic liberalisation however. Under the pressure of democratisation, the old state-chaebol developmental alliance was challenged in the mid-1980s, and forced to introduce the National

Pension Insurance in 1988. Employers resisted it as it would increase labour costs, however, the state wanted to use it as a policy tool of political legitimacy, in the face of democratisation. Employers argued that the Retirement Allowance funds should be used to pay contributions of the National Pension Insurance, in order to reduce financial burdens, but the state-chaebol developmental alliance was shortly consolidated by the grand conservative regime, in the early 1990s.

Since the 1980s, organised chaebol workers with specific skills began to ask for the consolidation of the existing ‘welfare through work’ system, and to fight for job security. This led chaebol employers to adopt the dualist strategy that treasured its core workers with specific skills, while externalising the cost of economic liberalisation to non-regular workers with low-general skills of SMEs. Pension Reforms in the 1990s and 2000s were in tandem with this dualist strategy, and the Korean public pension system was reformed. This allowed it to address the dualisation of the labour market, caused by institutional legacies of its dualist, and chaebol-dominated capitalist, strategies, by cutting benefits and embedding universalism into its public pension system. Simultaneously, the corporate pension system was modernised in 2005, along with the dualist strategy. Chaebol workers, with firm-specific skills, were protected by the DB pension to maintain Korea’s comparative institutional advantages, though DC pensions are provided for non-regular, SMEs workers.

Finally, universalism in the Korean public pension system will likely be reinforced. President Park Geun-Hye, daughter of Park Chong-Hee, is attempting to turn the Basic Old-Age Pension scheme into a real universalistic, non-contributory pension scheme that covers all of the elderly in her presidency. Once passed (in fact, possibly very soon), universalism will be consolidated in the Korean public pension system.

Chapter 8 – Taiwan

Compared to Japan and Korea, Taiwan's pension system is distinctive. First, corporate pension is negligible; second, the state was/is dominant in pension policy, the coordinating of pensions, and national capitalist structure. This chapter argues that the SMEs-dominated capitalist structure that relies on 'flexibility' as its main comparative institutional advantage, constrained the state's capacity for adopting corporate pensions. This led employers to put more emphasis on short-term profits, given their reluctance to bear high labour costs, eventually leading to a statist pension system.

The institutional origins of the statist pension system can be attributed to Taiwan's SMEs-dominated capitalist production. The KMT government adopted a dualist strategy in the post-war period. In the 1950s, the social insurance system was created to, politically, vie for political loyalty from its main constituencies. It consisted of mainland Chinese, workers in the state and party-owned enterprises, civil servants and military; economically, it helped to externalise, to society, the cost of buying political loyalty, maintaining aggregate demand that guaranteed an autonomic, countercyclical demand boost, in turn stabilising domestic demand. This is the strategy of 'political clientelism'. Conversely, since the early 1960s, the implementation of export-oriented industrialisation led the KMT government to create a flexible labour market, and to minimise non-wage labour costs to maximise its comparative institutional advantages to facilitate export-oriented SMEs. This production-oriented strategy is known as 'productivism'. Accordingly, unlike in Japan and Korea, the SMEs-dominated capitalist structure constrained the state's capacity in introducing corporate pensions.

Also, political-economic liberalisation did not change Taiwan's pension system and capitalist structure, but consolidated its 'statism'. Due to party competition in the early 1990s, the issue of pension reform surfaced. It was, however, still subordinated to broad economic goals, the economic technocrats dominating the process of institutional design of the National Pension Insurance. Labour and employers were not influential. Although democratisation triggered the discussion of pension reform, it resulted in the consolidation of a fragmented pension system. Further, the corporate pension was still negligible, even though reformed from DB to DC scheme. The statist pension system was consolidated.

8.1 The Origins of the Statist Pension System in Taiwan (1945-1990)

In Taiwan, "the political necessities of a transplanted minority regime" led the KMT government to coordinate an institutional coherence, different to those of Japan and Korea. Throughout this period, the origins of the Taiwanese statist pension system have to be understood by the interaction between authoritarian politics, and the development of developmental strategy, thus two principles are critical – political clientelism and economic developmentalism.

8.1.1 The Institutionalisation of Public Pension Insurances

The Rise of Political Clientelism in the Period of Import-substitution Industrialisation

In the 1950s, the KMT government faced two challenges: the external threat from the Communists, and, thought as outsiders to the indigenous Taiwanese, an internal challenge (Tsai, 2010; Wang, 2010b). During this period, the broad goal of the KMT government was to control the state apparatus in order to create a social structure of capital accumulation, and to deal with the issue of political legitimacy resulting from ethnic division (between mainland Chinese and indigenous Taiwanese) (K.-L. Tang, 2000, p. 66). The KMT government, specifically, had to implement import-substitution industrialisation to support its war regime (Tsai, 2010, p. 83) and to consolidate its core constituencies for the foundation of political legitimacy (Ku, 1997; Wang, 2010b). In this manner, pension policy in the early post-war period was designed to vie for political loyalty (to construct political clientelism) and to maintain aggregate demand. This was so that implementation of import-substitution industrialisation could be supported, since social insurance benefits being able to ensure workers' income, to guarantee an autonomic countercyclical demand boost and stabilise domestic demand (Haggard & Kaufman, 2008; Ku, 1997; K.-L. Tang, 2000; Wibbels & Ahlquist, 2011).

As a result, public social insurance programmes were introduced, in the early stage of industrialisation, for different occupational categories to consolidate the KMT's constituencies. In the social structure of the war economy, or import-substitution industrialisation, military and government officials were seen as the core constituencies- not because they were the core of state apparatus alone, but also because they were constituted by the mainland Chinese (C. H. Huang, 2010; Tsai, 2010). Thus, in 1950 the 'Military Servicemen's Insurance Scheme' was enforced, legislated as the 'Military Servicemen's Insurance Law' in 1953; in 1958, the

‘Government Employees Insurance’ was introduced for civil servants (Aspalter, 2001; Haggard & Kaufman, 2008; Ku, 1997). These social insurance schemes were an ‘integrated’ social insurance, that is, a number of kinds of benefit (such as pension, health, death, childbirth subsidy) were provided. This institutional design was considered as a policy instrument of social control by the KMT, in order to consolidate its core constituencies (Fu, 1993).

Conversely, private employees did not enjoy generous social benefits; the only social insurance programme for private employees was the ‘Labour Insurance’. In 1950, the ‘Labour Insurance’ was introduced, but as a temporary programme. In 1951, a social insurance programme was initiated for private workers without specific employers, while the ‘Fishermen Insurance’ was introduced in 1953. The ‘Sugar Farmer Insurance’, was introduced in 1956. These four social insurance programmes were integrated into a single, social insurance scheme in 1958, known as the ‘Labour Insurance’. It was the first nationwide social insurance scheme for private workers, and the cornerstone of the Taiwanese pension system. The Labour Insurance was an ‘integrated’ social insurance scheme as well. This ‘package of benefits’ characterised the Taiwanese social protection system. However, it was dissolved in the 1990s, while the health component was extracted by the introduction of the National Health Insurance. This integrated the health benefits of different social insurance schemes into one universalistic health insurance scheme in 1995. For the old-age benefit, the Labour Insurance provided a lump-sum benefit until 2009. The average replacement rate of the lump-sum retirement benefit was 17% for men, and 13% for women (F.-L. Chen & Chung, 2008, p. 88).

As with other social insurance states in Europe and East Asia, the Labour Insurance was launched to deal with the ‘labour question’ (Baldwin, 1990; Gough, 2004), due to the failed labour policy of the KMT government in mainland China. Goodman and Peng (1996, p. 205) argued that the Labour Insurance was “an appeasement measure to avoid potential worker revolt”. Initially, the coverage of the Labour Insurance was very limited, predominantly for workers in state and party-owned enterprises, and large private firms of 100 or more employees. This was soon reduced to those with 20 or more however (Ku, 1997, p. 158). These public enterprises and private large corporations were critically prominent in the implementation of import-substitution industrialisation and state machinery (Ku, 1997, p. 158). Thus, as with other social insurance programmes, the Labour Insurance functioned to buy the political loyalty of workers in these domestically oriented enterprises, to consolidate KMT’s ruling base.

Unlike Japan and Korea, Taiwan did not develop comprehensive corporate welfare. As discussed, the KMT government took over the large public enterprises of the Japanese colonial government in the early post-war period. Controlling these domestic-oriented public enterprises, and large private firms, was a political and economic necessity for supporting the KMT's political legitimacy, and war economic regime (C. H. Huang, 2010; Tsai, 2010). Thus, the KMT was an employer. Additionally, the KMT was a Leninist party, that dominated the state (T. J. Cheng, 1990; T.-H. Huang, 2004). Thus, in the party-state structure, the KMT, as the employer, preferred public social insurance programmes to consolidate its core constituencies, since corporate pension would increase financial burdens on the KMT. Through this, the employers of large private firms would be politically incorporated into the KMT ruling regime (see chapter 5 for details). The KMT could finance these social insurance programmes through state subsidies[55] to minimise the cost of the consolidation of its political base.

The Labour Insurance, furthermore, was a partial funding contributory system, as were the other social insurance programmes. In Taiwan, however, pension funds were (and are) not mobilised as industrial capital- for one thing, the KMT government had strong power over the financial system, determining the flow of financial resources towards domestic-oriented public enterprises, and large private firms (T. J. Cheng, 1990; Fields, 1995). Then, since the 1960s, the heart of the Taiwanese capitalist production shifted towards export-oriented SMEs. These SMEs have less financial needs as large companies, and thus tended to rely on informal financial systems (C.-H. Chen, 1994; Y. J. Choi, 2009; S.-Y. Lee, 2011; Whitley, 1992, 1999). Thus, unlike in Japan and Korea, pension funds were/are not widely mobilised as industrial capital in Taiwan.

The Taiwanese welfare state, in short, was founded during the period of import-substitution industrialisation. Social insurance programmes were instituted in the initiative of the KMT government, in implementing import-substitution industrialisation and, simultaneously, buying political loyalty of core constituencies in the public sectors, domestic-oriented public enterprises, and large private firms. That is, rather than the result of industrialisation and class struggle, social policy was used to support the KMT's war economic regime. 'Political clientelism' was central to the development of the Taiwanese pension system in the period of import-substitution industrialisation.

[55] Thus, during the 1950s, 20% of the contribution of the Labour Insurance was from the state. Employers had to pay 60%, while labour had to bear another 20%.

The Period of Export-oriented Industrialisation: Economic Developmentalism

American aids were terminated in 1965, and the developmental strategy had to be shifted towards export-oriented industrialisation due to the small size of the domestic market, and poor natural resources (Haggard, 1990; C. H. Huang, 2010; Tsai, 2010; Wibbels & Ahlquist, 2011). Taiwan reoriented its economy to the world market for light industrial goods, and in contrast to Japan and Korea (where export-oriented sectors were dominated by business-conglomerates), these sectors were dominated by SMEs. The KMT government, therefore, tended to use tax incentives (rather than policy loans as in Japan and Korea) to promote exports, given its ability to universally benefit SMEs (K.-D. Lee, 2005). The result was a lower level of industrial concentration, and an increase in significance of SMEs in Taiwan (Haggard, 1990, p. 96).

During the transition, the focus of the Taiwanese capitalist production shifted towards labour-intensive industries, and Taiwan's economy was gradually integrated into the world market. This transition prompted the KMT government to place more emphasis on productive social policy so that a flexible labour market could be coordinated, and more educated workers for the labour-intensive manufacturing sectors, created (Deyo, 1989; Haggard & Kaufman, 2008). 'Productivism' or 'Developmentalism', therefore, dominated the Taiwanese welfare state development: social policy had to be subordinated to economic development (Holliday, 2000). In particular, the KMT perceived that economic development could consolidate its political legitimacy: "Economic development is the chosen measure of national welfare and thus a crucial basis for political legitimacy" (Deyo, 1989, p. 102). In the early 1970s, the KMT government even announced that "All for Economy, All for Export" (C. H. Huang, 2010, p. 157). This determined the destination of the Taiwanese welfare state.

In Taiwan, as stated, the export-oriented sectors are dominated by SMEs (C.-H. Chen, 1994) and their comparative advantage is 'flexibility' (quick response to the changing world market, and adoption of new technologies and skills) (Castells, 2010; C.-H. Chen, 1994; Hu & Schive, 1998). Thus, they could not bear high, non-wage labour costs. Consequently, from the 1960s to the 1980s, social policy development in Taiwan stagnated (Kwon, 1998, p. 44). To facilitate labour commodification, financial resources were channelled, mainly, to education and economic development (Appendix 2). There was no big change in the Labour Insurance until the 2000s, with some exceptions in the gradual extension of coverage,[56] used by the KMT government to extend its political bases and vie for electoral supports, when some local elections had been allowed (K.-M. Lin 2003).

Table 8.1.1 shows the coverage of Labour Insurance from 1951 to 1980, when the coverage of the Labour Insurance was extremely limited. In 1951, only 2.7% of the population were allowed to join the Labour Insurance, while 1958, the year of the Labour Insurance being legislated, saw its coverage remain at less than 5% of the total population. Though it increased gradually, it remained lower than 20% of the total population pre-1980. Essentially, the foundation of the Taiwanese pension system was laid before industrialisation.

Table 8.1.1 the coverage of the Labour Insurance, 1951-1980[57]

Year	Number of Insured Persons	Percentage of Total Population
1951	163,341	2.07%
1955	311,342	3.42%
1958	460,408	4.58%
1960	528,980	4.90%
1965	632,940	5.01%
1970	938,421	6.39%
1971	1,030,191	6.87%
1972	1,144,454	7.48%
1973	1,380,885	8.87%
1974	1,441,317	9.09%
1975	1,565,639	9.69%
1976	1,728,640	10.47%
1977	1,885,730	11.21%
1978	2,073,451	12.10%
1979	2,296,283	13.13%
1980	2,549,300	14.31%

Source: G. H. S. Chan (1985, p. 333).

The gradual expansion in coverage of Labour Insurance reflects the productivist character of the Taiwanese welfare state. The state endeavoured to minimise, to SME employers, labour costs in order to facilitate exports, but the expansion in coverage inevitably increased non-wage labour costs, weakening their comparative advantage.

[56] In 1968, the coverage had been extended to white-collar workers, and workers in firms with more than 10 employees; in 1979, the coverage of the Labour Insurance was expanded again to include workers in firms with more than 5 employees. Non-standard workers, such as those self-employed without specific employers, could also join the Labour Insurance through occupational unions.

[57] Because the problem of available data, the coverage of Labour Insurance is calculated as the number of insured persons/ total population in table 7.2.1, but in appendix 3 it is calculated as the number of insured persons/ total 15-64 population.

Thus, the level of contribution was kept as low as possible since its introduction (K.-M. Lin, 2003). The government subsidised contribution of the Labour Insurance before the 1960s, but these were limited (Ku, 1997). In other words, the Labour Insurance was a production, and political-oriented, social insurance scheme, rather than a socially-oriented, social insurance scheme.

In short, two critical principles in public pensions, political clientelism and economic developmentalism, were the result of Taiwan's dual business structure. The KMT introduced generous social insurance programmes to cover the workers of domestic-oriented public enterprises and large private firms, mainly constituted by mainland Chinese, in order to consolidate its political bases. In contrast, the SME workers, constituted by indigenous Taiwanese, were covered by the Labour Insurance, and were expected to be productivist-oriented. The divide paralleled its dual business structure, and ethnic division was, therefore, reinforced. This opened a window of opportunity for pension reform in the early 1990s.

8.1.2 Private Pension – The Missing Part of the Taiwanese Welfare State

As argued by the existing East Asian welfare state studies, non-state welfare and pension provisions are critically prominent in East Asia (Aspalter, 2006; Deyo, 1989, 1992; Holliday, 2000; Holliday & Wilding, 2003c; P. H. Kim, 2010; Kwon, 2005b; Ramesh, 2004). The Taiwanese situation, however, contradicts this argument. In contrast to Japan and Korea, Taiwan's large public and private enterprises could extract financial resources through the state-controlled financial system; whereas, the SMEs must rely on informal financial channels (C.-H. Chen, 1994). Private pensions are not used as a policy instrument of capital formation in Taiwan. Also, Taiwan's labour market is dominated by general skills, and therefore relatively decentralised and flexible (C.-H. Chen, 1994; Shieh, 1997). As a result, the private pension is considered as a financial burden rather than a resource. Additionally, the Taiwanese labour power is weak at national and enterprises level, while Japan and Korea have, relatively, stronger enterprise unionism (D. Y. Jeong & Aguilera, 2008; J.-Y. Jeong, 1995, 2007). Private pension is, as such, underdeveloped in Taiwan.

Although negligible, Taiwan did develop private pension schemes in the early post-war period. Two corporate pension schemes were introduced in 1951: 'The Regulation of Retirement for Workers in Factories', and 'The Rule of Retirement of Miners'. They attempted to 'encourage' employers to offer a severance payment to retired workers, but no information about its coverage exists. It is assumed, due to the deterioration of the economic situation in the first half of the 1950s, that the coverage of these corporate pension schemes was very low (Chan & Lin, 2002; Wu, 1999). In the 1960s and 1970s, the KMT government encouraged corporate pensions through tax revisions and other measures, but the coverage of corporate pensions was still limited[58] for three reasons (Wu, 1999, p. 139). First, these measures were not mandatory, but voluntary; next, private employers relying on cheaper labour to compete in the world market, were reluctant to provide a corporate pension for employees, due to the implementation of labour-intensive export-oriented industrialisation; lastly, the structure of the Taiwanese labour force was still 'young' in the 1960s and 1970s (ibid). Simply put, in this period, Taiwan's occupational pension system was underpinned on volunteerism.

This situation did not change, even after the introduction of the Labour Standard Act in 1984, which was the result of the interaction of internal and external challenges (C.-L. Chen, 2010; Y.-J. Lee, 1999; Wu, 1999). From the late 1970s, export-oriented industrialisation was challenged, due to the oil crises and labour shortage (Gold, 1986, pp. 97-98). The oil crises sped up the increase in price of commodities, necessary to Taiwan's survival (ibid, p.98). Also, the labour shortage and wage rise between 1976 and 1980 forced up the price of Taiwan's exports (ibid, p. 98). Furthermore, the rise of less developed countries, such as China, Vietnam and Thailand in South and Southeast Asia, with cheaper labour had challenged Taiwan's economic position in the world market (Y.-J. Lee, 1999, p. 139). These factors endangered the foundation of the Taiwanese capitalist production and then the ruling base of the KMT government. Industrial upgrading, therefore, became the main need. Labour-intensive industries should be transformed into capital-intensive or high technology industries. In 1982, Sun Yun-Suan, the former premier, announced the idea of 'Factories as Home, Factories as School', to promote industrial development, and facilitate industrial upgrading; Yu Kao-Hua, another former premier, announced that the improvement of working condition would help industrial upgrading (Y.-J. Lee, 1999, p. 139). As such, the introduction of the Labour Standard Act could have been seen as a part of industrial upgrading. Furthermore, the pressure of its introduction was reinforced by America, given the unfavourable balance of trade (C.-L. Chen, 2010; Y.-J. Lee, 1999). America argued that this was the result of 'the exploitation of export', that is, Taiwan increased exports through exploitation of labour (Y.-J. Lee, 1999). The U.S. prompted the Taiwanese government to improve working conditions (C.-L. Chen, 2010; Ho &

[58] Due to its volunteerism, the data regarding the coverage of corporate pension in Taiwan was lacking. According to an official report entitled 'The Survey of Labour's Working Condition in Taiwan' in 1984, only 23% of total employees were covered by corporate pension, most of them in state and party-owned enterprises; more than 74.4% of the total employees were excluded (Chan & Lin, 2002).

Hsiao, 2006; Tsai, 2001).

The KMT government used the ‘Factories Act’ as the blueprint for drafting the ‘Labour Standard Act’ in 1974, but its legislation encountered resistances (K. D. Lee, 2005, pp. 334-336). First, the economic bureaucracies argued that the improvement of working conditions would have had a negative impact on economic growth (Y.-J. Lee, 1999). For example, Chao Yao-Dong, the minister of Economic Affairs, argued that due to Taiwan’s SMEs-dominated capitalist structure, it would be impossible to facilitate industrial upgrading by improving working conditions and increase wage through the legislation of the Labour Standard Act (The Legislative Yuan Gazette, 71(67)). Second, employers resisted it for similar reason (Council of Labour Affairs, 2011). Wang Yung-ching (1985), the founder of the Formosa Group, one of large private firms in Taiwan, argued that Taiwan’s SMEs could not bear high labour costs once the Labour Standard Act was introduced. In 1978, Chiang Ching-Kuo, however, promised to legislate it as soon as possible. In fact, it was still strongly resisted by employers and economic officials (Council of Labour Affairs, 2011). Under the authority of the KMT government, it was finally legislated in 1984.

According to the Labour Standard Act, employers must contribute to the pension fund of the Labour Retirement Benefit, for their employees. This is known as the old Labour Retirement Benefit. It was a define-benefit scheme, and fully funded by the employer’s contributions (from 2% - 15%). The entitlement of the Labour Retirement Benefit was very restrictive: either 25 working years at the same company, or 15 working years at the same company with the employee having reached 55 years of age. The Labour Retirement Benefit was, consequently, very negligible in Taiwan. Figure 8.1.1 demonstrates that the number of beneficiaries of the Labour Retirement Benefit was very limited. Most of those private workers who were actually covered could not receive retirement payments from this scheme. Importantly, this is largely due to the KMT government ‘turning a blind eye’ to the implementation of the Labour Standard Act, due to employers’ resistances (Ho & Hsiao, 2006, pp. 66-67).

This reflects a fact that in the SMEs-dominated capital structure, employers would be very reluctant to, and could not bear the cost of, a corporate pension. This is because their comparative institutional advantage is not underpinned by long-term employment relations and high-specific skills, but flexibility. A year after the implementation of the Labour Standard Act, employers asked the state to cancel the Labour Retirement Benefit. Wang Yung-ching (1985) suggested that the Labour Retirement Benefit should be integrated into the Labour Insurance to reduce labour costs, by arguing that Taiwan’s SMEs tending to focus on short-tem profits (pp. 177-

189). This suggestion denotes that (large) employers wanted to externalise pension costs to the state. But it was resisted by SMEs employers, due to it still resulting in increased labour costs to them (Hsu, 2005). In 1989, Wang Yung-ching and other important capitalists asked for revision (Wang, 1993).

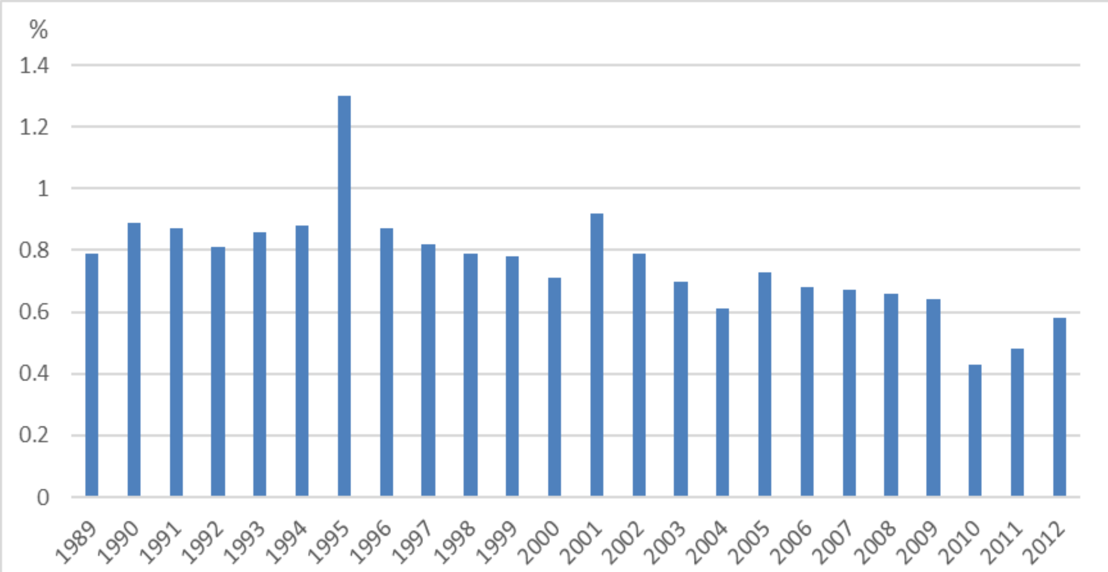

Figure 8.1.1 the Ratio of the Number of Private Workers were Covered / the Number of Beneficiaries of the old Labour Retirement Benefit
Source: http://www.cla.gov.tw/; and, http://www.lpsc.gov.tw/; and my own calculation

The institutional misfit between the Labour Retirement Benefit, and the SMEs-dominated capitalist structure, was obvious. The Labour Retirement Benefit was theoretically underpinned by the illusion of 'stable firms and permanent employment' (C.-L. Chen, 2010), while Taiwan's SMEs-dominated capitalist structure was based on flexible employment relations, and inter-firm relations. This led private firms, particularly SMEs not really offering corporate pension to their employees despite this being mandatory. Thus, a further revision was required soon after the 5 years in order to resolve this institutional misfit.

Following introduction of the Labour Retirement Benefit, the structure of the Taiwanese pension system is shown as figure 8.1.2. As in Japan and Korea, the Taiwanese pension system can also be considered as Bismarckian, though corporate pensions are negligible. Three social insurance programmes are state-dominated contributory pension schemes. The only occupational pension scheme was the Labour Retirement Benefit, which was a state-regulated pension scheme, but funded by employers, and should, consequently, be included in the second pillar. Its benefit is earning-related, thus, it belongs to that tier.

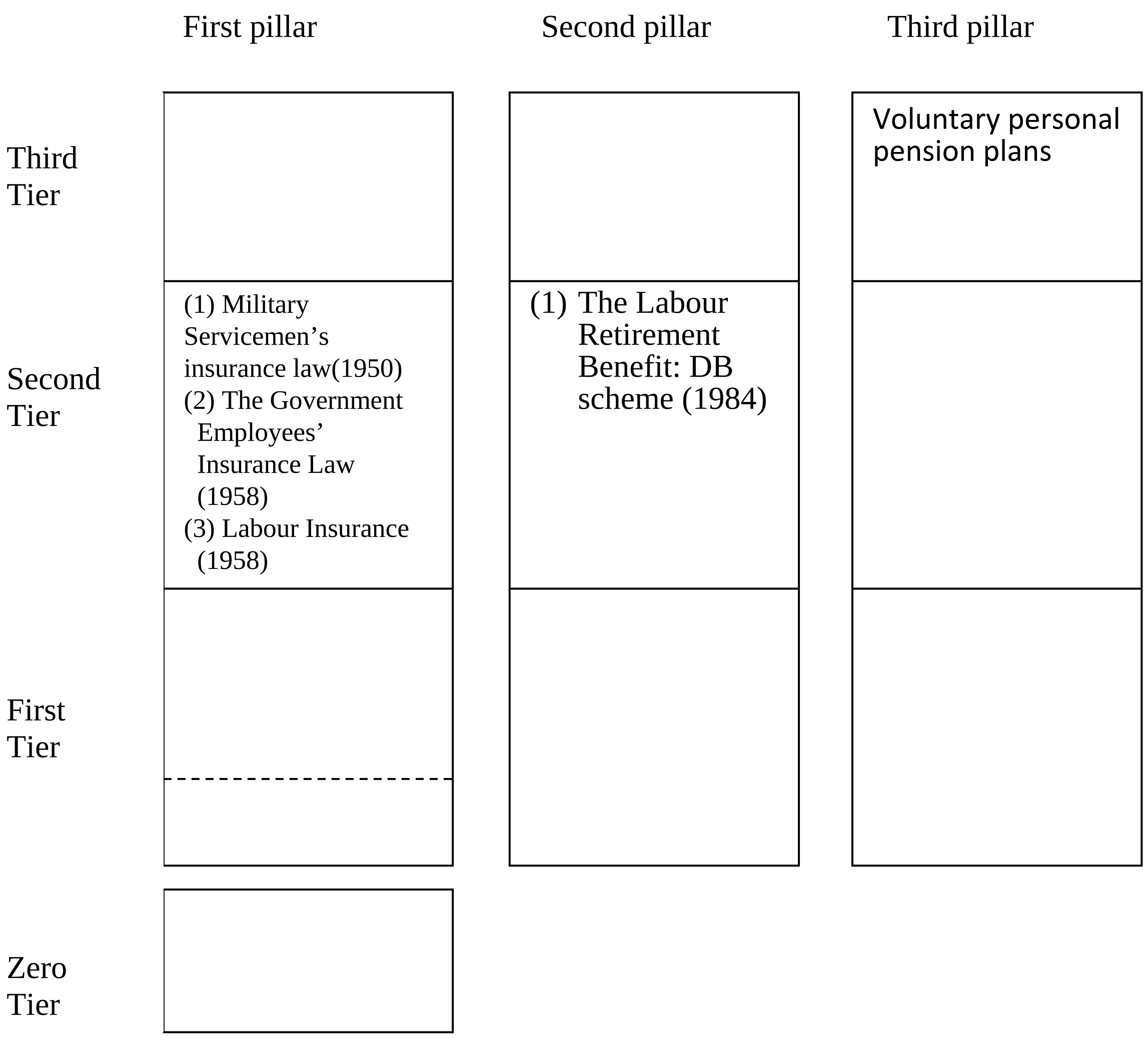

Figure 8.1.2 Pension Structure in Taiwan, 1980s

In short, two principles dominated the development of the pension system in this period. Political clientelism was central to public social insurance programmes, while economic developmentalism constrained further expansion into public and private pensions. These two dominating principles, however, reinforced the ethnic division between the mainland Chinese and indigenous Taiwanese. The institutional linkage between the pension system and capitalist production is relatively loose in Taiwan. Pensions were not used as industrial capital or a policy instrument for economic coordination and industrialisation. The corporate pension in Taiwan was very limited, with even the state endeavouring to use it for industrial upgrading. It failed, leading to an institutional misfit. The SMEs-dominated capitalist structure deeply shaped the institutional design and development of the public-private pension mix. Likewise, the state, as a coordinator between the economic and pension policies, was significant, but more dominant in its pension provision, comparatively.

8.2 *'Pension for All' in the Era of Democratic Regime*

Since the mid-1980s, Taiwan has undergone economic liberalisation and political democratisation. This did not trigger a paradigm change in either the capitalist structure, or the pension system. The fragmented structure of the pension system was maintained, and the state still played a dominant role in the pension policy-making processes. During this period, pension politics and institutional designs were strongly shaped by historical legacies, and capitalist structure. The statist, but fragmented, pension system was consolidated in the era of democratisation.

8.2.1 Public Pension Reforms

The public pension reforms in Taiwan can be divided into roughly two periods– 1990- 2000, and post-2000. In the 1990s, the Democratic Progress Party (DPP) started a 15-year discussion of the National Pension Insurance, by exploiting ethnic division in order to vie for political supports from indigenous Taiwanese. Democratisation resulted in the expansion of public pensions, but reinforced its fragmentation. Although a universalistic, national pension scheme was proposed initially, the fragmented national pension insurance scheme replaced it once economic bureaucracies dominated the pension policymaking, after 1997. The result was the consolidation of the statist, fragmented, pension system, due to the interaction of democratisation, and the SMEs-dominated capitalist structure.

1. Opportunity for Public Pension Reforms in the 1990s

In the late 1980s, political democratisation triggered new social demands, changing the context of policy-making and offering an opportunity for the expansion, and universalisation of social protection (C. W. Lin, 2005; I. Peng & Wong, 2008; Wong, 2004). The KMT government is considered as a mainlander, Chinese government for the indigenous (Wong, 2004). Thus, the issue of ethnic division was central to Taiwan's society (D. D. Yang, 2007). In particular, the KMT created a dual system along ethnic division in order to consolidate its political bases. Domestic-oriented, large enterprises were either directly controlled (such as public enterprises usually managed by mainland Chinese) or indirectly incorporated into the KMT authoritarian regime (such as large private firms, managed by indigenous Taiwanese economic elites) (W.-W. Chu, 2011; Y.-H. Chu, 1994; T.-H. Huang, 2004; Wang, 1993). They were well-protected by generous social insurance programmes (Fu, 1993; Ku, 1997). Under the restrictions of the KMT government, indigenous Taiwanese were concentrated in the export-oriented SMEs, and agricultural sectors, without generous retirement benefits (C.-H. Chen, 1994; Fields, 1995, 2012; Fu, 1993; G. C. Liu, 2001). This politically-produced economic ethnic division offered a political opportunity for political mobilisation, particularly in social policy (Fu, 2000; C. W. Lin, 2005; Wong, 2004). As will be seen, however, it reinforced the fragmentation of the pension system.

The Democratic Progress Party, the main opposition party,[59] was established in 1985 and martial law was lifted in 1986. Following this, the DPP endeavoured to bring the issue of social policy into politics, but achieved no significant success until 1992. In the Legislative Yuan election of 1992, a DPP candidate of Tainan County, Su Huahn-Dj, made, as his campaign theme, old-age economic security through exploitation of the ethnic division. For Su, the matter of old-age economic security was not only an issue of social security, but also of economic inequality between Taiwanese old peasants, and mainlander veterans (C. W. Lin, 2005, p. 192). During the campaign, Su announced:

> *"I often chat with old peasants about life, local infrastructure, and politics. They say: "veterans can receive NT$10,000 to 20,000 every month, but do not need to work."….. How do you think about that if we can receive same benefit like veterans?"* (W. I. Lin, 2000, p. 107) (my own translation)

Su Huahn-Dj achieved a big victory in the election, and consequently, the DPP gained different degrees of success in other elections using the same strategy, compelling the issue to become a national one. Under the pressure of party competition, the KMT government launched the 'National Pension Insurance Research and Planning Task Force' in 1993, putting forward a proposal for introduction of a universalistic National Pension Insurance, with the existing contributory pension schemes, such as the Labour Insurance, being changed into supplemental earning-related pensions in 1994 (H.-S. Chan, 1996, pp. 96-97). Simultaneously, two non-contributory pension schemes were introduced- the 'Old-age Farmers' Welfare Allowance' in 1995 and the 'Living Allowance for Mid or Low Income Elders' in 1994. The Old-age Farmers' Welfare Allowance, a non-contributory pension scheme, provides a flat-rate benefit[60] to those 65 years of age or above, that are insured by the Farmer Health Insurance. The introduction of the Old-age Farmers' Welfare Allowance was down to the KMT wanting to garner political support from

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[59] The Democratic Progress Party is self-announced as Taiwanese's party, and attempts to establish a new independent country (D. D. Yang, 2007).
[60] Initially, the level of this flat-rate pension benefit was NT$3000, but increased gradually to NT$7000 in 2012.

the indigenous, Taiwanese peasants, thereby weakening political bases of the DPP (W. I. Lin, 2000; Shi and Yeh, 2011). This occupational-based allowance scheme covered one-third of those aged 65 years or older, but reinforced the fragmentation of the Taiwanese public pension system (Yeh and Chen, 2013). The 'Living Allowance for Mid or Low Income Elders' is a means-tested, non-contributory scheme, thus, its scope is limited. Furthermore, local governments ruled by the DPP launched citizenship-based, old-age allowance schemes.

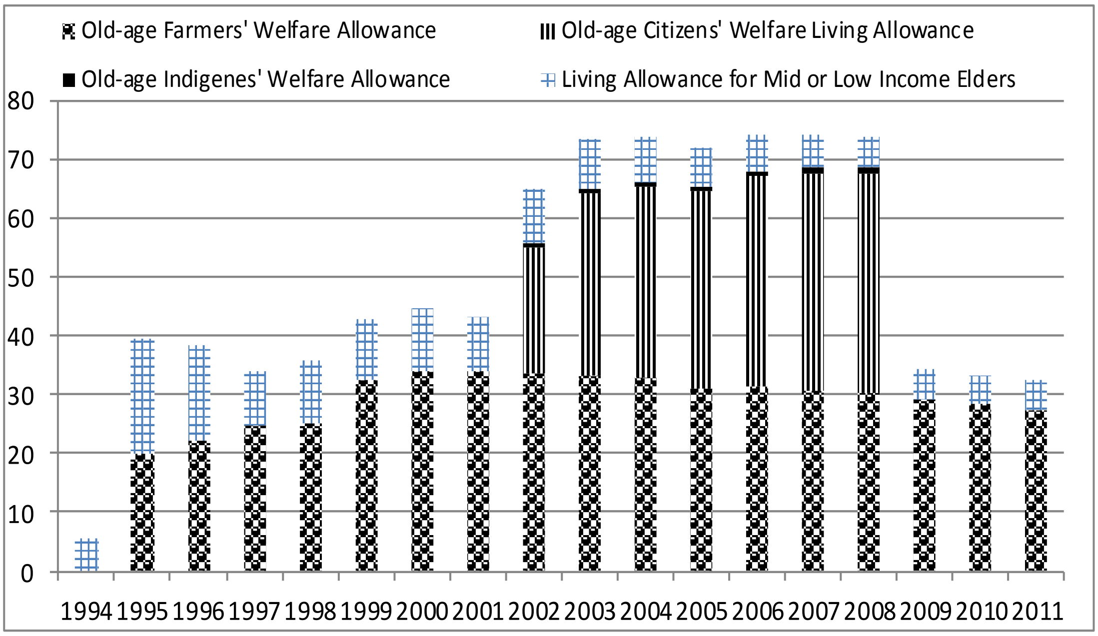

Figure 8.2.1 The Scope of Various Social Allowance Schemes (the number of beneficiaries of social allowance schemes/ total population of 65 years old and older)
Source: Directorate General of Budget, Accounting and Statistics (http://www.dgbas.gov.tw/); Bureau of Labour Insurance (http://www.bli.gov.tw/); Council of Labour Affairs (http://www.cla.gov.tw/); and my own calculation.

Although these schemes were temporary, the KMT government was prompted to introduce a contributory pension scheme to avoid financial burdens (H.-S. Chan, 1996; Shi & Yeh, 2011). Before 1994, the Ministry of Interior played a dominant role in the institutional design of the National Pension Insurance. However, the Council for Economic Planning and Development, as the pilot agency in Taiwan (Wade, 2004), took charge of the overall institutional design of the National Pension Insurance from 1994, and the Ministry of Interior therefore played a supplement role. It means that the introduction of the National Pension Insurance should not be contradicted to developmentalism, or, in other words, social policy development is still subordinated to economic development, even after democratisation.

Initially the Council for Economic Planning and Development proposed a universalistic National Pension Insurance to cover all citizens, with the various existing pension schemes to become supplemental pension schemes, based on social insurance principles, in order to minimise financial burdens on the government (Council for Economic Planning and Development, 1995). The proposal was submitted to the Executive Yuan in April 1995, but due to the introduction of the National Health Insurance (1995), the KMT government decided to postpone the implementation of the National Pension Insurance to avoid a significant increase in financial burden on the government, and employers (H.-H. Chen, 2006; Y.-H. Huang & Hsueh, 1996; W.-H. Tang & Yeh, 2006).

Yet a little later, the Council for Economic Planning and Development was turned to favour developmentalism. In 1996, it built the 'National Pension Insurance Planning Group', proposing the principle of "separating the administration while unifying the essence". By this, the existing fragmented, occupationally-based pension schemes would be maintained, but their institutional features and operations would harmonise (Y.-L. Liu, 1997).[61] Thus, in 1998, the Council for Economic Planning and Development proposed a fragmented scheme covering those unprotected by the existing pension insurances.

The proposal of the fragmented scheme was based on some considerations. Firstly, the existing fragmented, social insurance programmes were too difficult to be integrated into a universalistic scheme– a difficulty not only in its administration, but also from the interests of bureaucracies.[62] As mentioned, Taiwan's social insurance programmes are 'integrated', with various kinds of benefits provided to cover different social risks. It was designed to be a policy instrument of social control (Fu, 1993). However, in 1995, health elements of different social insurance programmes were integrated into the universalistic National Health Insurance. Thus, should old-age pension benefits of the existing social insurance programmes be extracted, the functions of the existing social insurance programmes would decline. Another issue was finance. Labour technocrats worried that, in the event the universalistic National Pension Insurance was introduced, the pension fund of the Labour Insurance would be used to support it. Thus, not even labour technocrats preferred the universalistic National Pension Insurance. Then, the comparative advantage of capitalist production in Taiwan still relies on 'flexibility' (Amsden & Chu, 2003; Fields, 2012; Wang, 2010a). A universalistic National Pension Insurance would increase financial burdens

[61] Liu Yu Lan was the main state official in the Council for Economic Planning and Development who proposed the principle of "separating the administration while unifying the essence".
[62] Source: interview, 10 April, 2009.

on employers, and SMEs in particular would be ‘hard hit’, in turn weakening Taiwan’s comparative advantage.

The KMT government decided to implement this proposal in 2000, but due to the ‘921 Earthquake’ of 1999 (China Times, 6/10/1999), it was postponed. It changed the context of pension politics, the natural disaster giving the DPP a chance to govern Taiwan, and consequently, an opportunity for political manoeuvre of pension reform (Shi, 2010, p. 349).

2. *Beyond Developmentalism?*

The DPP won the presidential election of March 2000, ending the power monopoly of the KMT. During the presidential campaign, the DPP’s presidential candidate- Chen Shui-Bian- proposed a ‘3-3-3 policy’[63] to promise the introduction of a citizenship-based, old-age allowance scheme. In 2002, the DPP government launched the ‘Old-age Citizens' Welfare Living Allowance’ for those aged 65 years old and above, excluding those whose asset and household income was higher than a specific level (known as the rule of ‘Excluding the Rich’). Although it was a temporary allowance scheme with a lower level of benefit (NT$3,000), this scheme was to be the first citizenship-based pension scheme in the history of Taiwanese welfare state development.

Since the 1990s, the KMT and the DPP both launched non-contributory pension schemes. Some argue the universalisation of the pension system was the result of democratisation, since democratisation can alter the logic of social policy making in Taiwan, forcing politicians to respond to social needs (I. Peng & Wong, 2008; Shi, 2010; Wong, 2004). However, democratisation can be shown to have reinforced the existing fragmented pension system. Figure 8.2.1 shows that following 2002, more than 70% of an ageing population could receive a flat-rate benefit from these non-contributory pension schemes. In 2007, 30.78% of the elderly could receive a flat-rate benefit from the ‘Old-age Farmers' Welfare Allowance’; 36.67% from the ‘Old-age Citizens' Welfare Living Allowance’; and 5.86% from the ‘Living Allowance for Mid or Low Income Elders’. This denotes that although the various, non-contributory pension schemes were introduced, and even the ‘Old-age Citizens' Welfare Living Allowance’ was a citizenship-based scheme, the Taiwanese pension system is still fragmented.

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[63] ‘3-3-3 policy’ included three welfare benefits for three main subgroups: (1) providing those aged 65 and older with a non-contributory allowance of NT$3,000; (2) free medical treatment for children under three; and (3) house loans at an interest rate of 3% for first time house owners (Shi, 2010, p. 350).

Although the DPP announced they are a labour-friendly party, developmentalism still deeply shaped its policy direction. The Taiwanese economy was exacerbated due to the dot com bubble crisis, thus the DPP President Chen therefore announced “Economic First, Welfare should be postponed” in 2000 (W. I. Lin, 2006, p. 28). The Council for Economic Planning and Development, as a result, re-submitted a draft proposal to the Executive Yuan, containing three plans: (1) integrated national pension insurance (universalistic National Pension Insurance), (2) fragmented national pension insurance, and (3) Individual Account. Initially, the DPP government preferred the Individual Account (Liberty Times, 23/5/2002), since it would not incur financial burdens on the government (Council for Economic Planning and Development, 2001). This institutional choice was due to the structure of Taiwan’s SMEs-dominated capitalist economy.

However, civil societies played a critical role in shifting institutional choice from the Individual Account to the social insurance programme, although they were neither organised, nor mobilised. Being the main opposition party prior to 2000, the DPP collaborated with civil society groups to ‘stand’ against the authoritarian KMT government (Wong, 2004). Consequently, after 2000, the DPP government saw civil society groups as its partner. In May 2002, these groups advocated that the National Pension Insurance should be based on the social insurance principle, in the National Social Welfare Conference (Shi, 2010, p. 351). Following the conference, President Chen met with Liu Xia, a Senior Advisor to the Office of (the) President, and promised that instead of an Individual Account, a contributory, social insurance scheme would be adopted (Liberty Times, 23/5/2002). But, the fragmented National Pension Insurance was selected in order to keep the transitional cost as low as possible (Shi, 2010, p. 352).

Democratisation shifted the issue of old-age economic security into a critical political agenda, even though it resulted from the politically-produced economic ethnic division, and weakened state autonomy. Yet, the institutional structures constrained the institutional design of the National Pension Insurance. In other words, democratisation facilitated social policy and pension development, and the institutional design of social policy and the pension system was institutionally constrained by its national capitalist structure. Although the universalistic National Pension Insurance was actually proposed, it was not a priority. Developmentalism, resulting from the interaction of the structure of capitalist production with the developmental strategy, still shapes the Taiwanese welfare state development today. Economic liberalisation furthers the existing capitalist production’s reliance on flexibility (Amsden & Chu, 2003; Fields, 2012; Wang, 2010a), and the fragmented

National Pension Insurance is, therefore, the one institutional choice alone.

The fragmented National Pension Insurance was selected, and although the Executive Yuan decided to reconsider the overall framework of the National Pension Insurance in 2005, the destination of the National Pension Insurance had been determined. This was despite conflicts existing between civil society groups, and the DPP government in the institutional design of the National Pension Insurance. Civil society groups and labour are both too decentralised to influence institutional design. In 2006, the DPP government decided to introduce the National Pension Insurance, shifting the old-age benefit of the Labour Insurance from a lump-sum payment to an annuity next year. Since the old-age benefit of the Labour Insurance is still a lump-sum payment, the replacement rate was around 17% (male) and 13% (female) (F.-L. Chen & Chung, 2008). Consequently, the annuitisation of old-age benefit was prominent. In 2007, the plan of the National Pension Insurance, and the revision of Labour Insurance, were simultaneously submitted to the Legislative Yuan (The Legislative Yuan Gazette, 96(49)). Under the pressure of the coming year's elections, the National Pension Insurance was soon legislated, and implemented from 2008 (ibid). The revision of the Labour Insurance, however, was postponed.

The National Pension Insurance primarily protects those excluded by other pension schemes, such as housewives, the unemployed, or people without the ability to work. Two interim, non-contributory schemes: the 'Old-age Citizens' Welfare Living Allowance', and the 'Old-age Indigenes' Welfare Allowance', were integrated into the National Pension Insurance as the 'Guarantee Minimum Pension'. The replacement rate is 1.3% for each year of contribution. The contribution is shared by the government and insured, 40% and 60% respectively. The introduction of the National Pension Insurance meant the goal of 'Pension for All' was achieved.

Two issues resulted: the annuitisation of the old-age benefit of the Labour Insurance, and whether peasants should be covered or not. The annuitisation of the old-age benefit of the Labour Insurance, firstly, was debated among labour unions (Taiwan Confederation of Trade Union, 2007), labour technocrats and the Legislative Yuan (The Legislative Yuan Gazette, 96(59)). The focus concentrated on the rate of level of replacement (the Legislative Yuan Gazette, 97(15), 97(40)). The Executive Yuan, initially, set at 1.1% for each contribution year (as the replacement rate), but labour wanted to increase it to 1.5%. Employers preferred the low replacement rate, arguing that the fiscal deficits of the Labour Insurance should be filled by tax revenues, rather than by increasing the contribution rate (which should take into account the economic growth rate) (the General Chamber of Commerce, 20/6/2008).

However, employers could not effectively shape or dominate pension development in Taiwan due to the decentralised SMEs-dominated business system (Fields, 2012; T.-H. Huang, 2004; Tsai, 2001; Whitley, 1999; Yeh & Chen, 2013). Finally, the amendment of the Labour Insurance was quickly passed in 2008, with the replacement rate of the benefit set at 1.55% for a one-year contribution. This amendment represented a big progression. The average replacement rate in 2012 was 29.91% of the average regular earnings (or 38.45% of the average monthly insurance salary),[64] compared to 17% before the amendment (F.-L. Chen & Chung, 2008).

Although the replacement rate was set at 1.55%, it did not mean it was a victory of labour power. Instead, it should be considered as a result of party competition and the structural power of capital. The DPP and the KMT both endeavoured to increase the replacement rate to vie for political supports (Commercial Times, 24/6/2008). Additionally, the contribution rate of the Labour Insurance is low in the history of the Taiwanese welfare state, not only since a low contribution rate could minimise labour costs, but it could also be used to vie for political supports (K.-M. Lin, 2003). Second, the structure power of capital is significant- although employers could not significantly influence policy-making through such means as lobbying or institutional participation. As mentioned, either the KMT government (1990-2000, and from 2008 to now) or the DPP government (2000-2008) were dominated by economic developmentalism, a tendency that forced the state to adopt a more ‘business-friendly’ policy, even in the face of pressure from party competition. Thus, the contribution rate of the Labour Insurance is set at a very low level. In fact, according to official estimations, once the replacement rate is 1.55%, the contribution will be increased to 23% to reach a financial equilibrium (H.-L. Tsai, 2010). The contribution rate of the Labour Insurance was far less than 23% however, reflecting that the KMT and DPP saw it as a method to vie for political supports, and for restriction of the increase of non-wage labour costs.

Another issue is whether peasants should be covered by the National Pension Insurance or not. The Old-age Farmers' Welfare Allowance is an occupationally-based, non-contributory scheme, thus reinforcing the fragmented structure of the Taiwanese pension system. The main condition for the entitlement of the Old-age Farmers' Welfare Allowance is the insured of the Farmers’ Health Insurance. In this, those insured must pay 10% of the contribution (less than NT$100 (around $3.3)), with the state subsidising the rest (90%). Peasants preferred to keep the status-quo, rather than being included into the National Pension Insurance (Shi & Yeh, 2011, p. 70). In the National Pension Insurance, the insured must pay 60% of the contribution, and thus,

[64] Source: Council of Labour Affairs, http://www.cla.gov.tw/; and my own calculation.

peasants, the beneficiaries of the ‘Old-age Farmers' Welfare Allowance’, requested to maintain an occupationally fragmented non-contributory pension scheme, arguing that joining the National Pension Insurance would lead them to pay more but for less benefits (Apple daily, 5/1/2008; Liberty Times, 1/52008). After democratisation, particularly following the 1990s, the DPP could effectively mobilise and vie for (indigenous) peasants’ political support, through such means as the issue of ethnic division and social policy (D. D. Yang 2007). Thus, during the 2008 presidential election, the KMT candidate, Ma Ying-Jeou, promised that peasants would not be covered by the National Pension Insurance. His attempt was to vie for peasants’ political supports and demobilise the DPP’s political bases. Hence, in 2008, the Legislative Yuan also reformed the National Pension Insurance to disallow peasants from joining the National Pension Insurance. That is, although democratisation led politicians to be more responsible for social demands, the interaction of policy legacies (the ethnic division resulting from the dual business structure) and party competition consolidated the Taiwanese fragmented pension system.

8.2.2 Corporate Pension – From Defined-Benefit to Defined-Contribution

The corporate pension reform was launched in the early 1990s. The Labour Standard Act turned volunteerist corporate pension into a mandatory one, but it had some problems caused by the institutional misfit between it, and the SMEs-dominated capitalist structure. First, SMEs, the heart of the Taiwanese capitalist structure, couldn’t bear high, non-wage labour cost (C.-L. Chen, 2010; Ho et al., 2004). According to official data,[65] 8.02% of employers made regular contributions payments in 2000, most of them being larger firms (Ho et al., 2004, p. 77). In addition, most of these employers paid only the lowest contributions (2%) (W.-H. Tang & Yeh, 2006, p. 83). Second, most SMEs were relatively short-lived- around 12 years averagely (C.-L. Chen, 2010; Wu, 1999, p. 142). But according to the Labour Standard Act, the entitlement of Labour Retirement Benefit was to be employed in the same firm for more than 25 years, or 15 years, but older than 55 years. Consequently, very few people could receive the Labour Retirement Benefit (figure 8.1.1 and 8.2.2). Third, this problem is exacerbated by Taiwan’s flexible labour market, where the average tenure rate is around 5.95 years, and 12.5 years for older workers (Ho et al., 2004, p. 77). In other words, the rule of entitlement was meaningless for SMEs workers. Although the restricted entitlement of the Labour Retirement Benefit was to encourage employers and employees to establish a longer relationship for

[65] Source: Council of Labour Affairs (http://www.cla.gov.tw/)

development of highly specific skills for industrial upgrading (C.-L. Chen, 2010; Ma & Sun, 2011); it failed. The beneficiaries of corporate pension was negligible (figure 8.1.1 and 8.2.2).

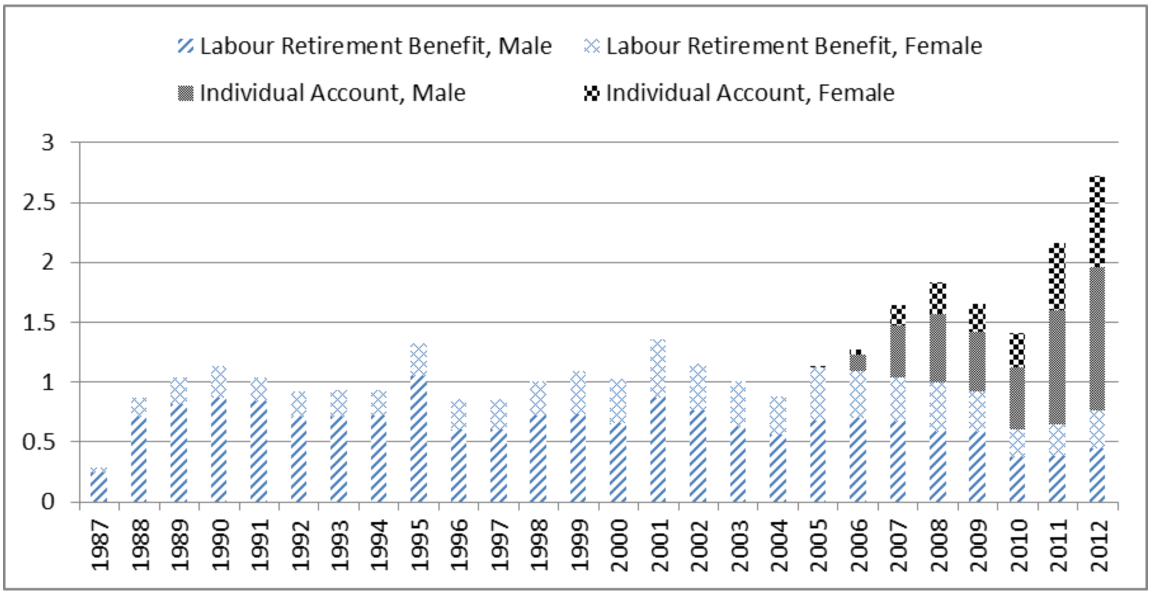

Figure 8.2.2 The Ratio of Beneficiaries of the Labour Retirement Benefit of the Labour Standard Act and the Individual Account of the Labour Pension Act (the number of beneficiaries/ total 65 years old and older population)
Source: Labour Pension Fund Supervisory Committee (http://www.lpsc.gov.tw/); the Council of Labour Affairs (http://www.cla.gov.tw/); and my own calculation.

These problems soon developed into a heated debate regarding its restricted regulation on entitlement. After five years of the introduction of the Labour Standard Act, Chao Shou-po, the minister of the Council of Labour Affairs, admitted that it was problematic (C.-L. Chen, 2010, p. 16). In the 1990s, different ideas were proposed, but no significant progress was achieved. Initially, the labour technocrats favoured a DB pension as a second-tier pension; whereas the economic technocrats preferred a DC pension scheme. In 1991, the labour technocrats put forward a DB pension scheme. Not only employers, but also labour unions, resisted this proposal (C.-L. Chen, 2010). Employers resisted it because it would increase their financial burden; labour unions resisted it due to the restricted rules of entitlement (Hsu, 2005). Therefore, it did not receive attention.

Likewise, developmentalism shaped the corporate pension reform in Taiwan. In 1996, the National Development Conference formed the opinion that corporate pension should adopt either the DB or DC scheme or both. The Council for Economic Planning and Development, however, favoured the DC pension scheme, because of the consideration of financial burdens and the structure of the labour market (Guo, 2009). According to this consensus, in 1998, the labour technocrats put forward a new proposal that included two corporate pension plans, with the Individual Account, its contribution rate set at 6%, considered the primary proposal (W.-H. Tang & Yeh, 2006; Wu, 1999, p. 144).[66] The labour technocrats argued that it was due to the consideration of SMEs' financial capacity (Wu, 1999, p. 144-145) - that is to say, the Individual Account was selected to complement the SMEs-dominated capitalist structure. From then on, the Individual Account scheme was the main choice, with labour favouring the DB pension (W.-H. Tang & Yeh, 2006, p. 87). However, it was not legislated when the DPP won the presidential election in 2000.

From 2000, the revision of the Labour Retirement Benefit was reviewed. Although the DPP a was self-announced labour party, and its presidential election candidate promised the Labour Retirement Benefit would be changed into a portable DB pension scheme, DC pension schemes were still the main choice following the election (C.-L. Chen, 2010, p. 38; Guo, 2009, p. 135). In 2001, the National Economic Development Conference, held by the President as a mechanism to obtain policy consensus, decided to adopt a parallel system that consisted of the Individual Account, and portable DB pension schemes. It would be based on the principle of "not increasing financial burdens on the government".[67] Soon, the Council of Labour Affairs proposed the draft of the Labour Pension Act, according to the consensus of the National Economic Development Conference. In the discussion that followed however, the DPP government explicitly showed its preference for the Individual Account. The labour technocrats argued that individual accounts are much better at controlling a government's financial burdens than the DB pension scheme and are suitable for the Taiwanese flexible labour market (C.-L. Chen, 2010, pp. 33-34; Guo, 2009, p. 129).

Despite labour favouring DB pension schemes, endeavouring to reverse this decision, they were powerless due to structural constrains (the Legislative Yuan Gazette, 91(64); Taiwan Labour Front, 1/2/2001). The Taiwan Confederation of Trade Union argued that labour has neither money nor power, and this reform took employers' interest into account, not labour's viewpoint (the Legislative Yuan Gazette, 93(33), p. 128). Labour power is decentralised by the SMEs-dominated capitalist production, with workers of public enterprises or private large firms not showing any preference of this topic. This was due to them being policy beneficiaries of the Labour Retirement Benefit, and well-protected (C.-L. Chen, 2010, p. 47). Furthermore, the relationship between the DPP and labour was cooperative in the 1980s and 1990s in

[66] In this proposal, the main debate was the level of contribution rate. Employers argued that 6% was too high for SMEs, but labour argued it was too low and a minimum contribution rate should be set at 8% (The Legislative Yuan Gazette, 85(23)).
[67] Source: http://theme.cepd.gov.tw/president/chp3/ch304/chp3-24.htm.

order to protect against the KMT authoritarian regime. As a result, labour unions were gradually incorporated into the DPP ruling regime (ibid, p. 46). Although labour resisted the Individual Account, they did not take any action, and eventually, even the President of the Chinese Federation of Labour showed his support to the Individual Account (ibid, pp. 37-38). Labour power was insignificant here.

Employers also preferred the Individual Account, focusing on the level of contribution, and the operation of pension funds (The Legislative Yuan Gazette, 91(64)).[68] They preferred a progressive approach by gradually increasing the contribution rate from 2% to 6% over three years, and suggested that pension funds should be re-channelled to capital markets through life insurance companies and banks (The Legislative Yuan Gazette, 91(64)). Both labour and business, however, had no influence on the institutional design of the new corporate pension scheme, with the state dominating (Ma & Sun, 2011). Chen Chu, the minister of the Council of Labour Affairs, said: “the people who resisted the new Labour Pension Act should bear the responsibility” (Coolloud, 7/3/2005). It can be understood from this that although the new proposal of the DB corporate pension was allowed, it was just a political strategy to appease labour.

In 2004, the Labour Pension Act was introduced to replace the Labour Retirement Benefit of the Labour Standard Act. According to the Labour Pension Act, both the DB pension and the Individual Account scheme can be adopted. So far, however, all firms in Taiwan adopted the portable, Individual Account scheme. In other words, the reform shifted the DB Labour Retirement Benefit to the DC Individual Account scheme. The state plays a prominent role in managing the pension fund of the Labour Pension Act, although employers preferred to decentralise it to life insurance companies, in order to stimulate the capital market, and guarantee a minimum return (the average interest rate over 2-year-terms). Otherwise, it must cover the shortfall. Put simply, although the Individual Account scheme of the Labour Pension Act is a corporate pension scheme, the role of the state is still prominent. Table 8.2.1 compares the Labour Retirement Benefit of the Labour Standard Act, and the Individual Account of the Labour Pension Act. In 2012, 0.8% of the total aged population received a lump-sum payment from the Labour Retirement Benefit, but around 2% received it from the Individual Account– this is expected to increase gradually in the near future. It did not change the nature of Taiwan’s statist pension system- the corporate pension is still negligible.

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[68] In the public hearing of the Legislative Yuan, the Chinese National Federation of Industries and the General Chamber of Commerce clearly argued they preferred the Individual Account.

Table 8.2.1 Comparison of the Labour Retirement Benefit of the Labour Standard Act and the Individual Account of the Labour Pension Act

Term	**Labour Retirement Benefit**	**Individual Account**
Legislation	Labour Standard Act (1984)	Labour Pension Act (2004)
Type	Defined-Benefit	Defined-Contribution
Contribution rate	From 2% to 15% of monthly wage	Employer: ≧6% of employee's monthly wage Employee: ≦6% of monthly wage
Coverage	Those employees who were subject to the Labour Standards Act	Those employees who were subject to the Labour Standards Act
the central competent authorities	Central Trust of China	Bureau of Labour Insurance (Fund investment/utilisation and Labour Pension Fund Supervisory Committee)
The definition of monthly wage	Average wage of last six months before retirement	Monthly wage
The definition of 'point'	Working years in the same workplace	Years of contribution
The condition of entitlement	25 working years in the same workplace, or 15 working years and aged 55 years old or older (therefore, it is not portable)	To reach retirement age (it is portable)
Benefit level	Total points: (1~15 years)*2 + (after 16th year ~)*1, no more than 45 points. Total benefit: average wage * total points	Monthly wage * (employer's and employee's contribution)+ the dividend of pension fund
Type of payment	Lump-sum	• More than 15 years of contribution more: annuity • Less than 15 years of contribution: lump-sum
Severance payment	One point for each working year	½ point for each year of contribution
Right of retirement payment	Employer	Employee

Source: compiled by myself.

The DB pension can be adopted, under agreement of the employer and employees (or enterprise unions), in firms with more than 200 employees and the approval of the government. So far, however, no firm adopts it, demonstrating that DB pensions, unlike in Japan, Korea and other coordinated market economies (Germany and Sweden) are not considered a human management and skill formation resource for Taiwan's employers (Estévez-Abe, 2008; Estévez-Abe et al., 2001; S.-Y. Lee, 2011). That is to say, although DB or DC corporate pension plans are both allowed, the SMEs-dominated capitalist structure sees the Individual Account dominating.

In this period, political democratisation (or, more accurately, party competition) prompted the government to pay attention to social demands, and responded to social needs. Yet the interaction of democratisation, and the SMEs-dominated capitalist structure, consolidated the fragmentation of Taiwan's statist pension system. By exploiting the ethnic division caused by the dual business structure, reinforced by the KMT's pension system, the DPP successfully mobilised political supports. It reinforced the fragmentation of the pension system, however, through creation of new policy beneficiaries (peasants) employing various kinds of allowance schemes. The fragmentation of the pension system was furthered by the SMEs-dominated capitalist structure, and since 1997, the Council for Economic Planning and Development have adopted the fragmented National Pension Insurance to minimise financial burden on employers, and the difficulties of integrating the existing social insurance programmes. In the discussion of pension policy-making, the state was dominant, and neither labour, nor employers were influential. Shaped by its SMEs-dominated capitalist structure, the statist, but fragmented, pension system persists. The corporate pension reform was deeply shaped by Taiwan's SMEs-dominated capitalist structure, and the Labour Pension Act was introduced to address the failure of the old system, used for industrial upgrading in the 1980s. Constrained by the SMEs-dominated capitalist structure, employers saw it as a financial burden rather than a resource for resolution of economic coordination problems. Therefore, even though the DB plan is allowed, no one adopted it. Likewise, the state played a dominant role in corporate pension reform, with the statist pension system is further consolidating.

Figure 8.2.3 shows that the fragmented pension system is maintained in Taiwan. Contributory pension schemes are institutionalised for each citizen as the first-tier pension, including the Labour Insurance, the National Pension Insurance, and public pension schemes for civil servants and military. The only exception is the 'Old-age Farmers' Welfare Allowance', a non-contributory pension scheme. The 'Living Allowance for Mid or Low Income Elders' is a social net, while the corporate pension in Taiwan is negligible. Those, such as the self-employed, peasants, or those covered by the National Pension Insurance, do not have second-tier pensions. Finally, third-tier pensions in Taiwan are left totally to the market. In the first-tier, but also the second-tier pension, the state plays a very important role.

	First pillar	Second pillar	Third pillar
Third Tier		The Individual Account of Labour Pension Act（2004）	Voluntary personal pension plans
Second Tier	(1) Military Servicemen's insurance law (1950) (2) Government Employees' Insurance Law (1958) (3) Labour Insurance (1958) (4) National Pension Insurance (2008)	(1)Labour Retirement of Benefit (1984) (2)DB schemes of Labour Pension Act(2004)	
First Tier	Old-age Farmers' Welfare Allowance (1995) Guarantee Benefit of National Pension Insurance (2008)		
Zero Tier	Living Allowance for Mid or Low Income Elders (1993)		

Figure 8.2.3 Pension Structure in Taiwan, 2012

Conclusion

In Taiwan, the statist pension system was developed alongside its dual business system, but reinforced the ethnic division between mainland Chinese, and indigenous Taiwanese. Initially, public pensions were introduced to consolidate the KMT's political bases, mainly constituted by mainland Chinese, and to support the implementation of import-substitution industrialisation for sustenance of the war economic regime. In the 1960s, developmental strategy shifted, from import-substitution industrialisation, to export-oriented industrialisation. This prompted the KMT government, in order to depress labour costs, to adopt a productivist-oriented attitude to SMEs workers, constituted by indigenous Taiwanese. Export-oriented SMEs relied on flexibility and low production costs as their comparative institutional advantage, and thus, SMEs workers were under-protected by the social insurance programmes. Political clientelism was adopted for domestic-oriented sectors, but economic developmentalism was embedded into export-oriented sectors. This strategy reinforced ethnic division, offering an opportunity for public pension reforms in the early democratic era. Taiwan's SMEs-dominated capitalist structure depressed the demand of corporate pensions. Since shaped by it, employers did not see corporate pension as a resource in economic coordination, but as a financial burden. In the 1980s, the state endeavoured to use corporate pensions to help establish long-term commitments between employers and employees, for industrial upgrading, but it failed. In the KMT's authoritarian regime, there was little room for debating pension reforms, with labour and employers, particularly, decentralised by the SMEs-dominated capitalist structure, and politically incorporated into the KMT's ruling regime. The state-dominated developmental alliance dominated pension reforms, and the way it was designed to be inter-embedded with national capitalist structure.

After the mid-1980s, the statist, but fragmented, pension system was consolidated by democratisation. Pension development in this period was strongly constrained by historical legacies and the SMEs-dominated capitalist structures. While ethnic division along the dual business system allowed political mobilisation for the DPP (through exploitation of the ethnic division through the old-age economic security issue), the SMEs-dominated capitalist structure limited the state's capacity to adopt a universalistic national pension scheme, and developmentalism, especially, was still central to the state. Moreover, neither labour, nor employers, were powerful enough to influence pension development, even following democratisation. To begin with, labour and business power was decentralised due to the SMEs-dominated capitalist structure. Then, they were incorporated into state machinery, either by the authoritarian KMT government before the mid-1980s, or by the DPP democratic government from 2000-2008. So, even after democratisation, the state still dominated the pension policy-making process.

Chapter 9 – Conclusion

This chapter will first compare the institutional complementarities between pension systems, and national capitalist structures to explain the variations in the public-private pension mixes. National capitalist structure shaped political actors' social policy preferences and the composition of cross-class coalition, before determining the public-private pension mix. Then, five explanations, reviewed in chapter 2, will be critically and empirically re-examined. I will argue that the synthesis of the developmental state thesis, and the varieties of capitalism, is better than other perspectives in explaining the East Asian pension and social policy variations.

9.1 Institutional Complementarities in East Asia

Chapter 5 compared East Asian capitalisms, demonstrating that Japan, Korea and Taiwan have developed different national capitalist structures under the state's coordination. In Japan, the keiretsu-dominated capitalist structure is characterised by the main bank financial system, and firm-specific labour market regime (firm-specific skill formation system and enterprise unionism). In Korea, the chaebol-dominated capitalist structure also developed a bank-based financial system, a company-based skill formation system, and enterprises unionism; Taiwan's capitalist structure is dominated by SMEs, which tend to rely on informal financial support, prevailing with general skills and weak labour power. The diversity of national capitalist structures shaped political actors' preferences over the pension system, affecting how they interacted and collaborated, in turn mediated how the pension system is inter-embedded with the national capitalist structure.

9.1.1 The Post-war Period: From 1945 to the mid-1980s

In the post-war period, the variations in the public-private pension mix in East Asia were the result of their national capitalist structures (summarised in tables 9.1.1-9.1.3). The Japanese pension system was rooted in the pre-war period, where the privatisation of public enterprises became the core of the pre-war Japanese economy, known as zaibatsu. In order to reduce high labour market mobility, caused by the Meiji government's liberalisation policy, the state not only developed firm-specific skill formation, but introduced corporate pensions and other management practices (the permanent employment and the seniority-based system) for public workers in public enterprises. Public enterprises as the role model, and the privatisation of public enterprises, helped diffuse the Japanese management practices to private firms. In the face of economic difficulty in the late 1920s, alongside the military mobilisation, these management practices were further consolidated. Further, the Employees' Pension Insurance was launched during the war for capital mobilisation. These public and private pensions constituted the foundation of the post-war Japanese pension system, and with Korea and Taiwan colonised by Japan in the pre-war period, their pension systems were developed following the end of the Second World War, or, more specifically, the 1950s.

1. 1945-1960: The Implementation of Import-substitution Industrialisation

The variations in the public-private pension mix in East Asia were forged in tandem with the different national capitalist structures in this period. By controlling independent variables through the comparison between Korea and Taiwan (see section 9.2.1 for more details), the variations in the public-private pension mix could be attributed to different national capitalist structures. Following the War (1945-1960), Taiwan and Korea adopted different paths to organise their national capitalist structures, in turn determining how pensions could be used to protect private workers, and to consolidate political legitimacy. Taiwan took over the public enterprises of the Japanese colonial government, whereas Korea privatised them. In Taiwan, the KMT was not only an authoritarian ruler, but also an employer, and the state was subordinated to the KMT. This structure led the KMT to prefer using the public pension (the Labour Insurance) to consolidate its political bases, and to simultaneously reduce financial burden through the state's subsidies. The Korean government, however, encouraged chaebol employers, subordinated to the state, to offer corporate pensions for their workers, through the introduction of the Labour Standard Act. This was due to the state's financial capacities being limited following the Korean War. Simply put, national capitalist structure and state-business relations determined what types of pension were chosen. In the period of import-substitution industrialisation, the coverage of the Labour Insurance in Taiwan was limited since it was predominantly provided for large enterprises. Likewise, due to its volunteerism, the coverage of corporate pensions in Korea was limited and while employers wanted to minimise labour costs, since they did not really require skilled workers in the initial stage of industrialisation. In this period, in Taiwan and Korea, the state held a dominant position in institutional coordination. In Taiwan, the KMT controlled state apparatuses and domestic-oriented public enterprises, dominating large private firms. The Korean government colluded with the chaebols to facilitate industrialisation, but the chaebols were subordinated to the state, since they had to rely on its financial assistance.

Table 9.1.1 the Features of Institutional Complementarity between Pension and National Capitalist Structure during 1945-1960

	Japan	**Korea**	**Taiwan**
Developmental strategy	The labour-intensive, export-oriented industrialisation, mainly through the use of policy loans to support export-oriented keiretsu	The import-substitution industrialisation, by using policy loans to support chaebols	The import-substitution industrialisation, by channelling financial resources to support domestic-oriented public enterprises
Cross-class coalition	The conservative LDP regime based on collaboration between (big) employers and the LDP government	The state-chaebol developmental alliance, though chaebols were subordinated to the state	The KMT's Party-state-dominated developmental alliance: business and labour were incorporated into the KMT's party-state regime
Political actors' preferences over pensions	**The state**: to recover the function of the Employees' Pension Insurance, and to introduce the National Pension Insurance. **Employers**: to restore management autonomy, and to reduce labour costs caused by corporate pensions **Labour**: to expand public, and corporate pensions	**The state**: political legitimacy **Employers**: to minimise labour cost **Labour**: improved working conditions	**The KMT**: public pensions to support its political legitimacy and war economic regime. Employers and labour were incorporated into the KMT's ruling regime.
Outcome	Public pensions were expanded and the National Pension Insurance was introduced; the development of the Retirement Allowance based on labour contracts	Public pensions for public workers and the Introduction of the Retirement Allowance, but based on volunteerism	Public pensions for public workers and the Labour Insurance for private workers; but private pension was very negligible

Source: summarised by author depending on three case study chapters.

In the face of post-war hyperinflation, in 1954 the Japanese state reformed the Employees' Pension Insurance by increasing the benefit level. Then, the National Pension Insurance was introduced by the LDP government in 1959 to achieve the goal of 'Pension for All' due to party competition. To facilitate economic development, these two public pension schemes were mobilised as industrial capital through the Fiscal and Investment Loan Programme. In this period, the Japanese government's financial capacity was severely constrained by a deflationary fiscal policy that controlled inflation imposed by the Allied government. Thus, the mobilisation of public pension funds became a critical way of promoting economic development. Conversely, post-war corporate pensions were based on labour contracts, which labour tended to see it as a deferred wage; employers saw it as a strategy for restoring management authority, and establishing cooperative employment relations (through management practices such as permanent employment, a seniority-based system, and corporate pensions and welfare), the Japanese government being too weak to stabilise capitalist economy in the early post-war period. Since the 1950s, the increasing demand of heavy and chemical industries, caused by the Korean War, forced the Japanese government and its employers to consolidate these management practices. Further, employers asked for more tax exemptions for corporate pensions, to reduce labour costs and accumulate capital so wage increases in this period could be responded to. Thus, in this period, corporate pensions witnessed a significant increase. The state-keiretsu developmental alliance had been forged, effectively politically and economically incorporating core workers into this developmental alliance. This was achieved through firm-specific skills, and the management practices introduced to resolve economic coordination problems in firm-specific skill formation. Core workers became more growth-minded in order to secure their economic and job security.

2. 1960-1970: Towards Export-oriented Industrialisation

The end of American aids forced Korea and Taiwan to shift the developmental strategy from import-substitution industrialisation to labour-intensive export-oriented industrialisation. In Taiwan, export-oriented SMEs were promoted, becoming, through the state's fiscal incentive schemes, the core of national capitalist structure. In Korea, the chaebols diversified to labour-intensive, exported-oriented sectors by exploiting the state's financial assistance (this being policy loans). Korea's 'discretionary control' strategy promoted industrial growth and economic concentration. Thus, national capitalist structures in Korea and Taiwan were further diverged: chaebols versus SMEs, respectively. Moreover, in this period, developmentalism deeply affected social policy development. In order to facilitate the implementation of labour-intensive export-oriented industrialisation, the governments concentrated financial resources on productive social policies that created educated workers for light industries, and economic development, gaining political legitimacy through continuing economic growth.

In Taiwan, constrained by developmentalism and its SMEs capitalist structure, both the public pension and corporate pensions were restricted to minimise labour costs, in order to facilitate exports, rather than develop specific skills. In Korea, the state persistently encouraged corporate pensions to establish a company-based skill formation system to reduce financial burdens on the state. In the case of labour-intensive export-oriented industrialisation, however, employers tended to exploit abundant cheap labour rather than specific skill workers. The growth of corporate pensions in Korea was, therefore, limited. In this period, the Taiwanese and Korea states dominated, with employers too weak to be institutional coordinators, and labour repressed by the authoritarian governments.

Japan's developmental strategy, meanwhile, shifted to capital-intensive, heavy and chemical industrialisation in the 1960s. During this period, the benefit level of public pensions was increased alongside rapid economic growth. The implementation of heavy and chemical industrialisation resulted in increased capital demand, and thus the state mobilised public pension funds to strategic industries for support of heavy and chemical industrialisation. Employers also asked for the introduction of two corporate pension schemes: the Tax-Qualified Pension Schemes, and the Employees' Pension Funds- not only to reduce financial burdens, but also for capital mobilisation. Thanks to cross-shareholding, private pension funds managed by life insurance companies or trust banks could be mobilised as patient capital. It then helped the enhancement of long-term commitments in inter-firm relations and employment relations. It was encouraged and coordinated by the state, who, constrained by the conservative fiscal policy, wanted to use expansionary monetary policy to facilitate economic development. Thus, the state encouraged banks and financial institutions to provide capital for firms to support keiretsu' continuous growth. In turn, this helped the state maintain and vie for political supports, and in the 1960s, these Japanese management practices were further consolidated. In short, in this period, the variations in the public-private pension mix in East Asian were consolidated.

Table 9.1.2 the Features of Institutional Complementarity between Pension and National Capitalist Structure during 1960-1970

	Japan	Korea	Taiwan
Developmental strategy	The capital- and skill-intensive export-oriented industrialisation and heavy and chemical industrialisation, basing on policy loans to support keiretsu	The labour-intensive export-oriented industrialisation basing on policy loans to support chaebols	The labour-intensive export-oriented industrialisation by using mainly fiscal incentive schemes
Cross-class coalition	The conservative LDP regime based on the collaboration between (big) employers and the LDP government	The state-chaebol developmental alliance, but chaebols were subordinated to the Park regime	The KMT's Party-state-dominated developmental alliance
Political actors' Preferences over pension	**The state**: needed more capital and to expand benefit level of public pensions **Employers**: asked for new type of corporate pension scheme for capital mobilisation and to sustain its firm-specific skills and to reduce the cost caused by public pensions and corporate pensions **Labour**: did not want a contract-out corporate pension scheme and want to increase benefit level of public pension, but not consistent as core workers supported employers' idea.	**The Park regime**: to encourage corporate pensions and company-based skill formation system **Employers**: to reduce labour cost **Labour**: repressed by the Park regime.	**The KMT**: to reduce labour cost to assist SMEs. Employers and labour were incorporated into the KMT's party-state regime.
Outcome	The benefit level of public pension was improved; two corporate pension scheme – Tax-Qualified Pension Schemes and Employees' Pension Funds were introduced.	Public pension for private workers was lacking; corporate pensions grew, but very limited	Public pensions did not change; but gradually expanded the coverage of the Labour Insurance to smaller firms

Source: summarised by author depending on three case study chapters.

3. From 1970 to the mid-1980s: Towards Heavy and Chemical Industrialisation

Since the late 1960s, Taiwan and Korea have gradually shifted to capital-intensive heavy and chemical industrialisation in the face of newly emerging industrial countries in Southeast Asia and China. This transition did not change Taiwan's SMEs-dominated capitalist structure, but consolidated Korea's chaebol-dominated capitalist structure, when the Park regime continued to use policy loans to encourage chaebols to invest in heavy and chemical industries. Thus, there was little change in Taiwan's pension system, but gradual expansion in the coverage of the Labour Insurance. Moreover, although the KMT government attempted to introduce DB corporate pensions to reduce labour market mobility, for industrial upgrading, the development of corporate pension was restricted by the institutional constraints of national capitalist structure. The institutional misfit between the corporate pension system and the national capitalist structure resulted in the 2004 corporate pension reform.

In Korea, the transition to heavy and chemical industrialisation forced the Park regime to endeavour to introduce public pensions as a policy instrument of capital mobilisation. However, due to employers' resistance following the first oil crisis, the implementation of the National Welfare Pension was postponed. The chaebols, as the rent-seeker, developed to become a symbiotic partner of the Park regime. It did this by exploiting the state's financial assistance, but also the Park regime requiring these chaebols investment in strategic industries. The state-chaebol developmental alliance was, therefore, consolidated in this period. The postponement of the National Welfare Pension forced the Park regime to further encourage enterprise welfare and a company-based skill formation system. While the chaebols had to rely on the state's financial assistance, employers' social policy preferences were changed to favour corporate pension and welfare that facilitated the institutionalisation of the company-based skill formation system and avoided skill poaching. Thus, corporate welfare and pensions, and the company-based skill formation system, were gradually developed, and enterprise unionism was further consolidated. Simultaneously, a dual labour market was gradually forged with chaebol workers highly unionised, and politically incorporated into the state-chaebol developmental alliance (when economic and job security were only secured in the case of continuing economic growth). This social cleavage, between chaebol workers and SMEs workers, deeply influenced labour market and pension reforms in the democratic era.

In Japan, the keiretsu-centred capitalist structure was maintained in this period. The benefit levels of public pensions increased again, even given the first oil crisis, and corporate pensions grew significantly, and were further consolidated. However, since the late 1970s, the attempts of pension reform were launched to increase the retirement age, but reforms failed due to labour and employers' resistance.

Table 9.1.3 The Features of Institutional Complementarity between Pension and National Capitalist Structure during the period between 1970 and the mid-1980s

	Japan	Korea	Taiwan
Developmental strategy	To emphasise high technological industries, but Japan's keiretsu-centred capitalist structure was maintained	Capital, and skill-intensive export-oriented industrialisation and heavy and chemical industrialisation, based on policy loans to support chaebols	Capital, and skill-intensive export-oriented industrialisation and heavy and chemical industrialisation, but still relied on fiscal incentive schemes to encourage exports.
Cross-class coalition	The conservative LDP regime, but was challenged by labour	The symbiotic state-chaebols developmental alliance	The KMT's Party-state-dominated developmental alliance
Political actors' Preferences over pension	**The state**: to expand the benefit level of public pensions, but intended to increase retirement age **Employers and labour**: to resist the increase in the retirement age	**The state**: needed capital for heavy and chemical industrialisation; and to encourage enterprise welfare; **Employers**: resisted the implementation of the National Welfare Pension; but began to use enterprise welfare for management practices **Labour**: repressed by the Park regime, but core workers were gradually incorporated into the state-chaebol developmental alliance	**The state**: wanted to keep labour costs as low as possible, to assist export-oriented SMEs and to compete in the world market **Employers and labour** were a part of the KMT's party-state regime.
Outcome	The benefit level of Public pensions was improved again; corporate pension did not change; and pension reform in increasing the retirement age was unsuccessful	The National Welfare Pension as a policy instrument of capital mobilisation was postponed; corporate pensions were expanded.	The coverage of the Labour Insurance was extended to small firms; the introduction of the Labour Standard Act to mandate employers to offer corporate pensions.
Public-private pension mix	A hybrid public-private pension system combining social insurance system and highly developed corporate pensions	Public pensions for public workers; but corporate pensions for private workers.	The statist pension system: public pensions dominated

Source: summarised by author depending on three case study chapters.

The variations in the public-private pension mix in East Asia was forged, and consolidated, in the post-war period. The institutional designs of the public-private pension mix were shaped by national capitalist structures, which shaped political actors' social policy preferences, and how they interacted and collaborated. This in turn influenced the design of the public-private pension mix. In Taiwan, a statist pension system was forged: public pensions were dominant, while corporate pensions were negligible. In Korea, public pensions were mainly for public workers, while corporate pensions were developed for private workers. In Japan, however, public and corporate pensions were both highly developed to form a hybrid pension system.

9.1.2 The New Era: From the mid-1980s until Now

Since the mid-1980s, East Asia has undergone political and economic transformation. Under the pressure from the United States, East Asia was forced to launch a series of reforms for financial liberalisation, and the deregulation of labour market. Simultaneously, the authoritarian governments in Taiwan and Korea were challenged and forced to liberalise their political regimes. The Japanese LDP-dominated regime, meanwhile, was challenged, with Japan's electoral institution reformed in the 1990s. These transformations, mediated by the institutional legacies of national capitalist structures, led to different challenges, affecting political actors' social policy preferences, and how they responded and coordinated pension systems and national capitalist structures. The result was that patterns of pension reforms are divergent in East Asia (table 9.1.4).

In Taiwan, thanks to democratisation, the issue of pension reform arose. In order for political mobilisation, the DPP exploited the issue of the ethnic division, forged and consolidated by the KMT's dual business structure and the pension system, in elections in the early 1990s. (Unlike Japan and Korea, the issue of non-regular workers never became a real issue in the pension reforms) Shaped by democratisation and the SMEs-dominated capitalist structure, however, Taiwan's statist but fragmented pension system persisted. Party competition encouraged the KMT and DPP to introduce temporary allowance schemes to vie for political supports, which not only reinforced the fragmentation of the statist pension system, but also created new policy beneficiaries to defend their welfare, obstructing the introduction of a universalistic national pension insurance. Additionally, the SMEs-dominated capitalist structure also limited the possibilities of the introduction of a universalistic national pension system. Although different ideas were proposed, the fragmented National Pension Insurance was selected. This followed consideration of the avoidance of additional labour costs on SMEs, and difficulties of integrating various existing social insurance programmes, these from when economic bureaucracies took charge of the institutional design of the National Pension Insurance in 1996. In pension reform discussions, employers relying on cheap labour, and high labour market flexibility as a comparative institutional advantage, wanted to avoid additional labour costs. Labour wanted a universalistic national pension scheme, and higher pension benefits. In fact, due to the SMEs-dominated capitalist structure and political incorporation by either the KMT or the DPP, even following democratisation, neither employers nor labour are influential. The state-dominated developmental alliance did not change, and was even challenged by political democratisation. Consequently, the fragmented National Pension Insurance was introduced in 2008, and the old-age benefit of the Labour Insurance was annuitised, significantly improving its benefit level. In short, public pensions were greatly expanded in Taiwan.

By contrast, in the face of economic liberalisation and economic difficulties, the business conglomerate-dominated economies of Japan and Korea adopted a dualist strategy. To develop long-term commitments in inter-firm, and employment relations, they both relied on a bank-based financial system to shield them from the pressure of short-term profit seeking. Financial liberalisation, however, prompted both nations' employers to respond to pressures from the shareholders, and to pursue short-term profits. Japan and Korea both consequently faced a dilemma: employers wanted to preserve firm-specific skilled workers, in order to sustain its comparative institutional advantage (based on a quality-based production strategy); at the same time, employers were urged to pursue short-term profits through expanding labour market flexibility, and reducing labour costs by replacing low-general skill workers with non-regular workers. Simultaneously, core workers with specific skills had strong incentives to defend job security in the face of economic difficulties, so consented to the deregulation of the labour market in exchange for their employment protection. Japan and Korea thus adopted a dualist strategy to externalise the cost of economic liberalisation to non-regular workers with low-general skills and SMEs, but to sustain a portion of firm-specific skilled workers. Public and corporate pension reforms were launched, alongside this dualist strategy.

In Japan and Korea, large employers asked for the introduction of the basic pension to externalise the cost of labour market deregulation to the state. The increase in non-regular workers, by contrast, was not a serious issue in Taiwan (see appendix 5). Further, they wanted to privatise the public pension to minimise pension costs. On the other hand, labour was divided by the business conglomerates-dominated capitalist structure. In Korea, since the 1980s, unionised chaebol workers were further empowered to consolidate enterprise unionism, and welfare. Thanks to democratisation, chaebol workers showed concerns for job security, and maintaining of employment-related welfare. Less organised, non-regular workers, however, could not be mobilised, and had to rely on public welfare. Similarly, in Japan, labour was weak and its preferences inconsistent, although a peak-level labour organisation was established in the 1980s. The electrical, and automobile industrial unions, for example, agreed with the state and employers' partial labour market deregulation in exchange for employment protection. However, they did not express clear preferences over the universalisation of public pensions that attempted to address the increase in non-regular workers.

Consequently, public pension systems in Japan and Korea underwent a dual transformation: the universalisation of the public pension system, and the reduction in benefit level. In Japan, a series of pension reforms was launched to address the financial challenges caused by population ageing and de-industrialisation since 1985 by increasing the statutory retirement age and lowering benefit level. Conversely, it set out to universalise, through the interflow of public pension funds, the pension system. It did this by introducing the Basic Pension to financially support the National Pension Insurance, and to deal with the non-regularisation of the labour market. In Korea, democratisation resulted in the implementation of the National Pension Insurance in 1988, as promised by the Chun regime. Soon after, it experienced a dual transformation. Though the coverage was gradually extended, its benefit level was lowered from 70% to 40%. As with Japan, the deregulation of the labour market, caused by economic liberalisation, resulted in the increase of non-regular workers, their contribution capacity doubted. This eventually led the Korean government to introduce a nearly universalistic allowance scheme.

Likewise, the patterns of corporate pension reforms in East Asia are divergent. In Taiwan, to reduce labour mobility, the Labour Standard Act was introduced in 1984 under the consideration of industrial upgrading, by mandating employers to provide DB pensions to their employees, and the strict rule of entitlement. But Taiwan's SMEs employers tend to rely on flexibility to compete in the world market, thus, are very sensitive to labour cost. This resulted in an institutional misfit between the corporate pension system, and the SMEs-dominated capitalist structure. Consequently, corporate pension was negligible in Taiwan. The Labour Pension Act was passed to address this institutional misfit, allowing employers to provide either DB or DC pensions to employees. So far, only the Individual Account has been adopted due to the SMEs-dominated capitalist structure. As with public pension reforms, the state (economic and labour bureaucracies) dominated corporate pension reform, and neither employers nor labour were influential in Taiwan's corporate pension reform.

Table 9.1.4 the Features of Institutional Complementarity between Pension and National Capitalist Structure after the mid-1980s

	Japan	Korea	Taiwan
National Capitalist structure	The keiretsu-centred capitalist structure, but began to focus on short-term profits	The chaebol-dominated capitalist structure, but began to focus on short-term profits	The SMEs-dominated capitalist structure
Political and economic transformation	Economic liberalisation and the 'lost decade' (1990s)	Political democratisation and economic liberalisation; and the 1997 financial crisis	Political democratisation and economic liberalisation
Problems of public pension reforms	Ageing population; the non-regularisation of labour market	Ageing population; the deregulation of labour market	The inequality between indigenous Taiwanese and mainland Chinese and different employment status
Public pension	The introduction of the Basic Pension; the increase in the retirement age; the benefit cut; more state's subsidies for financing the Basic Pension	The introduction of the National Pension Insurance in 1988 and the Basic Old-age Pension in 2007. The benefit level of the National Pension Insurance was reduced to 40% however.	The introduction of the National Pension Insurance and the annuitisation of benefit of the Labour Insurance
Problems of corporate pension reforms	Economic difficulties and new international accounting system	Financial crisis and new international accounting system	The institutional misfit between corporate pension and national capitalist structure
Corporate pension	New corporate pension system was established to provide, generally, DB pensions to core workers; but DC pensions for non-regular workers. The DB pension is dominant	New corporate pension system was established to provide, generally, DB pensions to core workers; but DC pensions for non-regular workers. The DB pension is dominant	The transition from DB pension to DC pension
Public-private pension mix	The multi-pillarisation of pension system, combined with public basic, and earning-related pensions, and well-developed corporate pension schemes	The multi-pillarisation of pension system, combined with public basic, and earning-related pensions, and well-developed corporate pension schemes	The statist pension system, but fragmented. Less developed corporate pension system, however

Source: compiled by author.

Japan and Korea reformed corporate pension systems in 2001 and 2005, respectively. Employers wanted to modernise corporate pensions to cope with economic liberalisation along the dualist strategy: DC pensions are provided to non-regular workers, while DB pensions are offered to sustain firm-specific, core workers. Generally, labour supported DB corporate pension schemes, but organised core workers in Japan and Korea tended to show, to maintain their privileged socio-economic positions, more concerns over job security and employment-related welfare. Thus, they did not really resist the corporate pension reforms in Japan and Korea. The role of the state, in Korea and Japan, was more passive in responding to employers' demands, and to economic liberalisation in corporate pension reforms, when compared with Taiwan. As a result, Japan and Korea's new corporate pension system allows employers to provide either DB or DC pensions to their employees. Though the importance of DC pensions has been increased, DB pensions are still dominant in both countries.

In short, the institutional designs of the public-private pension mix are divergent in East Asia. In Taiwan, the statist pension system persisted in the post-war period, while the corporate pension never became a critical source of retirement income. In Japan and Korea, the multi-pillar pension system is forged and consolidating, combined with a basic state pension, earnings-related public pensions, and well-developed corporate pensions. This outcome can be attributed to their different national capitalist structures, and how political actors' interacted and responded to new challenges in the new political-economic environment.

The variations in public-private pension mixes in East Asia resulted in different pension policy outcomes (table 9.1.5). In Taiwan's statist pension system, state mandatory pension schemes offer 73.2% of net the replacement rates for workers with average income. This is more than advanced European welfare states, and the OECD average; but compares with only 38.9% and 49.2% in Japan and Korea respectively. Japan is the lowest of the OECD countries, even than liberal welfare states; and Korea sits in the middle of the OECD countries, being higher than three liberal welfare states (the U.S., the U.K. and New Zealand), but lower than two other liberal welfare states (Canada and Australia) and the European conservative welfare states. It can be seen that Japan and Korea's multi-pillar pension systems, compared to Taiwan, favour lower wage earners thanks to the universalistic state pensions. That is, average income earners in Japan and Korea have more reliance on corporate pensions to guarantee a decent living. Simply put, pension systems in East Asia are more divergent than the East Asian welfare regime studies thought, and this should not be ignored.

Table 9.1.5 Net Replacement Rates of Pension Benefits by Earning

	Men			Women		
Individual Earning (% average)	50	100	200	50	100	200
East Asia/Pacific						
Hong-Kong	37.2	40.9	27.8	34.0	36.9	25.5
Malaysia	35.9	35.9	35.9	31.5	31.5	31.5
Singapore	16.3	16.6	10.9	14.6	14.8	9.7
Taiwan	**71.8**	**73.2**	**58.8**	**57.6**	**59.1**	**44.5**
OECD Asia-Pacific						
Australia	81.7	54.5	37.3	81.7	54.5	37.3
Canada	87.7	56.6	30.2	87.7	56.5	30.2
Japan	**51.6**	**38.9**	**30.9**	**51.6**	**38.9**	**30.9**
Korea	**71.4**	**49.2**	**31.6**	**71.4**	**49.2**	**31.6**
New Zealand	80.1	41.4	23.0	80.1	41.4	23.0
United States	63.4	47.6	37.2	63.4	47.6	37.2
Other OECD						
France	72.1	62.4	54.8	72.1	62.4	54.8
Germany	59.1	61.3	44.9	59.1	61.3	44.9
Italy	74.8	74.8	78.4	76.6	58.1	62.4
United Kingdom	64.8	41.3	23.2	64.8	41.3	23.2
OECD (30)	82.4	69.9	60.6	81.9	68.3	59.0

Source: OECD (2009, p. 31).

9.2 Theoretical Reflections and Contributions

9.2.1 Theoretical Reflections

The five explanations reviewed in chapter 2 are insufficient for explaining the variations in the public-private pension mix in East Asia. The logic of industrialism provides two problems in explaining the East Asian public-private pension mixes. First, it cannot explain why Korea and Taiwan adopted different pension systems for private workers. Second, it also cannot explain why the pension system did not expand in line with economic growth in Korea and Taiwan in the post-war period. However, Japan expanded public pensions from the 1950s, in the context of rapid economic growth. Through cross-national and cross-temporal studies, we can infer that social needs, caused by industrialisation, could not be mediated when democratic politics were absent. Overbye (1994) argues that democratisation acted as a catalyst to force politicians to respond to social needs, caused by industrialisation. A significant expansion in public pensions in Korea and Taiwan could, therefore, be observed following democratisation, since it forced politicians to respond to social needs.

The democratisation thesis, indeed, can explain public pension expansions in East Asia. Korea and Taiwan, particularly, significantly expanded public pensions following democratisation. Likewise, the introduction of the National Pension Insurance in Japan could also be partly attributed to democratic politics. It cannot explain, however, why three East Asian governments introduced pensions prior to democratisation, such as the Employees' Pension Insurance during the war in Japan; corporate pensions in 1950s Korea; and the Labour Insurance in 1950s Taiwan. Further, it cannot illustrate why Korea and Taiwan adopted different pension schemes for private workers during the 1950s. The cross-national variations in the public-private pension mixes in East Asia were forged before industrialisation, and democratisation. Nevertheless, democratisation furthered and consolidated their divergences. Democratisation and economic liberalisation prompted the East Asian governments to reform pension systems, but, constrained by the institutional legacies of national capitalist structures, they adopted different methods. Following democratisation, Taiwan's statist pension system was consolidated by the implementation of new public pensions and increasing benefit levels. In Korea, corporate pensions were furthered, since organised chaebol workers could defend job security and corporate welfare in democratic politics. Public pensions were expanded to non-regular workers. Japan adopted the dualist strategy, after the 1990s. Dualism was gradually consolidated following the 1990s in Japan and Korea.

The power resource theory cannot explain the public-private pension mixes in East Asia. First, labour power is unable to explain why Taiwan adopted a public pension for private workers, while Korea introduced corporate pensions for private employees in the 1950s. Indeed, some argue that the introduction of the Labour Insurance in Taiwan, and the Labour Standard Act in Korea, should be attributed to labour power, mentioned by Goodman & Peng (1996) and Yi (2007). This argument is problematic when comparing Taiwan and Korea. Generally, Korea's labour is more militant than Taiwan, but has a lower union density (Y.-K. Lee, 2011). Taiwan's labour, however, was organised under the control of the KMT government, thus not mobilised (see chapter 5). It would, therefore, be difficult to explain a country (Korea) with a more militant labour introduced corporate pension. In the post-war period, the Korean and Taiwanese governments, as authoritarian rulers, needed to address labour questions to maintain political legitimacy, to consolidate political bases (in turn creating a business-friendly environment that implements developmental strategies), while the way in which the states dealt with them very much depended on national capitalist structures. Second, the power resource could not explain why Taiwan institutionalised a statist pension system with a 'highest net replacement rate', despite labour power being weak at national and firm level; while Japan had the highest union density in 2010, but its net replacement rate is lowest in three East Asian welfare states. Third, the traditional power resource theory often ignores that labour are not a homogenous group, but divided along industrial sectors and firm sizes. In Japan and Korea, due to their business conglomerates-dominated capitalist structure, it can be seen that labour is divided into core workers with firm-specific skills in large firms, and non-regular workers in SMEs. It is thus difficult to use labour power (such as union density) to explain East Asian public-private pension mixes. One point should be noticed, however, being that labour organisations in East Asian are divergent. Enterprises unionism, prevalent in Japan and Korea, could be a factor for explaining the development of corporate pensions, employers tending to establish cooperative industrial relations through generous corporate welfare. The causal mechanism, however, between enterprise unionism and corporate pensions is unclear. From the process-tracing studies of Japan and Korea, corporate pensions and enterprise unionism, were initially encouraged, and institutionalised, by the state's intentions, rather than the mobilisation of labour.

The rise of the varieties of capitalism school helps to focus on employers' social policy preferences, such as Y. J. Choi (2008, 2009) and S.-Y. Lee (2011). This argument ignores that employers in East Asia were actually incapable of coordinating institutions in the post-war period, such as in Taiwan-employers were either too decentralised, or politically incorporated into the KMT's ruling regime. In Japan and Korea, in the early stage of industrialisation, employers were not institutional coordinators, but acted as rent-seekers, exploiting the states' financial assistance. However, through rent-seeking, large employers could be developed into a symbiotic partner of the state. Despite this, the state in Japan and Korea still played a significant role in recent pension reforms.

The integrated political-economic explanation, synthesising the developmental state thesis and the varieties of capitalism, not only helps dissect similarities and variation in East Asian welfare states, but also demonstrates how the institutional complementarity between the pension system and the national capitalist structure is politically mediated. In the less developed countries, for example, in order to catch-up economically (often seen as one of the sources of political legitimacy), the states must be developmental to actively coordinate the national capitalist structure to enhance market efficiencies. How the state coordinates institutional coherence between social protection and capitalist production, however, depends on national capitalist structures. The Japanese and Korean states, for example, actively atomised labour by encouraging large employers to develop corporate welfare, and a firm-specific skill formation system. This made core workers more growth-minded in the post-war period, through expansionary monetary policy (i.e. policy loans) that ensured the continuous growth of business conglomerates. The KMT government in Taiwan tended to adopt the strategy of political incorporation to manage labour relations, and to repress labour power, creating a SMEs-friendly business environment. Though by different means, the East Asian governments created a business-friendly environment to implement developmental strategies.

Thus, we have to perceive that political actors' social policy preferences, and how they interact and collaborate, are constrained, and shaped by national capitalist structures. In Japan and Korea, the state and employers saw corporate pensions as a resource for resolving economic coordination, and, constrained by the conservative fiscal policy, the state wanted public pension funds to be mobilised as industrial capital to support industrialisation. By contrast, Taiwan's employers, wanting to minimise labour costs, saw pensions as a financial burden. Furthermore, thanks to Taiwan's SMEs-dominated capitalist structure, the government tended to use fiscal incentives (such as tax exemption) to promote exports, rather than mobilise public pension funds.

The national capitalist structure shapes how political actors interact and collaborate. In Taiwan, the KMT government dominated the institutional coordination, politically incorporating employers and labour into the KMT's party-state ruling regime. This was partly because of the decentralised, SMEs-dominated capitalist structure. In Taiwan, therefore, the state dominated pension reforms, even following democratisation. In Japan and Korea, the state, in order to promote economic development and achieve full employment, collaborated with, and assisted, large business-conglomerates (keiretsu and chaebol, respectively). The state-business developmental alliances, including the state, large employers and core workers, are forged, while SMEs employers and non-regular workers, for example, are excluded.

The difference in the national capitalist structures shaped political actors social policy preferences, and the nature of cross-class coalition, which led to different patterns of public-private pension mixes in East Asia. In Taiwan, the state, the conservative KMT government, or the progressive DPP government preferred a statist pension system under the SMEs-dominated capitalist structure. In Japan and Korea, however, the state-business developmental alliance developed a multi-pillar pension system. The state was happy to encourage employers to provide corporate pensions to their employees, corporate pensions then becoming a resource for employers in resolving economic coordination, but at the same time, large employers and core workers requested that the state launch universalistic pension schemes for the increasing, non-regular workers, to absorb the cost of economic liberalisation. Dualism is, therefore, gradually consolidating.

9.2.2 Theoretical Contributions and Limitations

This study, comparatively and temporally, helps understand how different national capitalist structures structured different patterns of the public-private pension mixes in East Asia. Comparatively, this study systematically examined the diversity of East Asian capitalisms to explain the public-private pension mixes in Japan, Korea and Taiwan. Despite the varieties of capitalism perspective having been widely utilised to explain cross-national variations in European welfare states (Iversen & Stephens, 2008; Mares, 2003; Schröder, 2013; Swenson, 2002), in East Asian welfare state studies (apart from Choi (2008; 2009), S.-Y. Lee (2011), and C. U. Park (2007)) it is lacking. These East Asian studies did not systematically examine the diversity of East Asian capitalisms, however, theoretically assuming that national capitalist structures are functionally inter-embedded with welfare state regimes. More importantly, these studies bring employers back into analysis, but ignore the significance of the state in coordinating pension systems and capitalist structures. This study developed an integrated political-economic explanation to dissect the diversity of East Asian capitalisms, through comparative institutional analysis, and to illustrate how political actors' pension preferences were shaped, through comparative historical analysis, by national capitalist structures. This can help us to understand how different patterns of public-private pension mixes are forged in East Asia.

This study also compared the origins and development of the public-private pension mixes in three East Asian welfare states. In East Asia, comparative pension studies are still lacking in public pension systems, not to mention corporate pensions. The lack of a comparative analytical framework is probably responsible. This study not only systematically compared public pension systems in three East Asian welfare states, but also, particularly, the corporate pension systems, through the integrated political-economic explanation. A large number of East Asian welfare state studies point out that private welfare is the key to explaining the distinctiveness of the East Asian welfare state regime (i.e. Deyo, 1992; Pempel, 2002), however, East Asian corporate pensions are not systematically examined and compared. A comparison of public-private pension mixes in East Asia helps to systematically examine political actors' social policy preferences. This is because, for example, Japan and Korea's employers' showed more interest in corporate pensions, but tended to resist public pensions due to them using corporate pensions as a policy tool of human resource managements. We can only draw a clearer picture of political actors' social policy preferences through comparison of the public-private welfare mix. This lacking element may stop understanding of how the institutional complementarity between pension systems, and national capitalist structures, is politically and strategically mediated.

However, political actors' social policy preferences are not fixed. Schmidt (2009, p. 520) points out that by underpinning on the rational choice theory, the varieties of capitalism school presupposes fixed preferences of political actors and stable institutions in that allow the logic of interaction among rational actors, within coordination games, to be mapped. In Korea, employers' social policy preferences varied in tandem with the developmental strategies. In the early stage of industrialisation, although the chaebol-dominated capitalist structure had been forged, it did not directly lead employers to prefer the corporate pension and company-based skill formation system in the 1950s and 1960s. The developmental strategies of these decades did not rely on these employment practices, but abundant cheap and educated workers. It was changed in the 1970s and 1980s, when the Korean economy was shifted to focus on capital, and skill-intensive industries that prompted employers to change management practices, in order to further establish long-term commitments with employees. In Taiwan, employers' social policy preferences have not changed since the 1960s, due to SMEs employers' financial capacities being limited, forcing them to exploit flexibility as their comparative advantages (also see Yeh and Chen, 2013). By temporally analysing the dynamic process of economic development in developing countries, we can go further than the traditional varieties of capitalism school, mainly focusing on advanced societies that illustrate how political actors' social policy preferences are shaped by developmental strategies as well as national capitalist structures.

The integrated political-economic explanation, however, has some limitations. In this study, firstly, the core theoretical assumption is that the state must act as the institutional coordinator to improve, or increase, market efficiencies, rather than to replace it. This assumption depends very much on the precondition that the state is rational, and that its capacity is strong enough to address economic coordination problems. In fact, in the case studies, state capacity varied, with the state not always being rational. In Japan, for example, the re-formation of the corporate pension system, and other management practices, following the war, was based on employers-labour coordination, since the state was too weak to deal with labour questions. In Taiwan, in the 1980s, the state wanted to use DB corporate pensions to reduce labour market mobility, but SMEs employers could not, and did not, as a result want to launch corporate pensions for their employees. This institutional misfit resulted in the introduction of the Labour Pension Act in 2005. In other words, in the case of either the state is irrational, or state capacity is weak- we cannot understand how employers and labour could reach a consensus without the state's intervention, particularly at firm level.

Another point to be understood is that the integrated political-economic explanation is very ‘East Asia-centred’, by the developmental state, and the varieties of capitalism, being synthesised– the result of the developmental state being originated from the experiences of the East Asian economic miracle. Its applicability to other countries, as such, will be questionable, since not all developing countries have strong states as evident in East Asia.

9.3 Prospects for the Future: An East Asian Welfare Regime?

Over the past two decades, the study of welfare regimes was significant in the comparative, East Asian welfare state studies. By explaining the cross-national variations in the public-private pension mix in East Asia, this study attempted to map various issues. For example, East Asia welfare states are insufficiently stable to be crystallised as ‘regime’. Taiwan introduced the National Pension Insurance in 2008, while Korea introduced the National Pension Insurance in 1988, and the Basic Old-age Pension in 2007. These pension schemes are not mature due to relatively younger demographic structure. It demonstrates that the Taiwanese and Korean welfare states are in the process of regime crystallisation. I suggest, therefore, that more attention should be paid to the institutional dynamic and co-evolution of East Asian welfare states.

In this study, also, the public-private pension mixes, and the institutional coherence between social policy and the national capitalist structure, are shown to be divergent in East Asia. These factors are critical criteria of welfare state regimes (Esping-Andersen, 1990), so, East Asian welfare regime should not be expected to exist just because of productivism (Holliday, 2000; Y. J. Lee & Ku, 2007). In fact, more and more studies have recently noticed that social policy arrangements (Choi, 2013; Hudson & Hwang, 2013), labour market reforms (Song, 2012a; 2012b), labour politics (Y.-K. Lee, 2011; Yun, 2008), and the structure of income inequality (Chi & Kwon, 2012) are divergent in East Asia. These studies demonstrate that these East Asian welfare states cannot neatly fit into a ‘regime’. To see whether these differences can be explained or not, the integrated political economic explanation can be employed. If it cannot, ways for revision needs establishment. As such, to study these variations in East Asian welfare states should be the focus of such studies in the near future, since it may help to develop another theoretical vision, or system that differs to the West.

Appendix 1. Economic Indicators

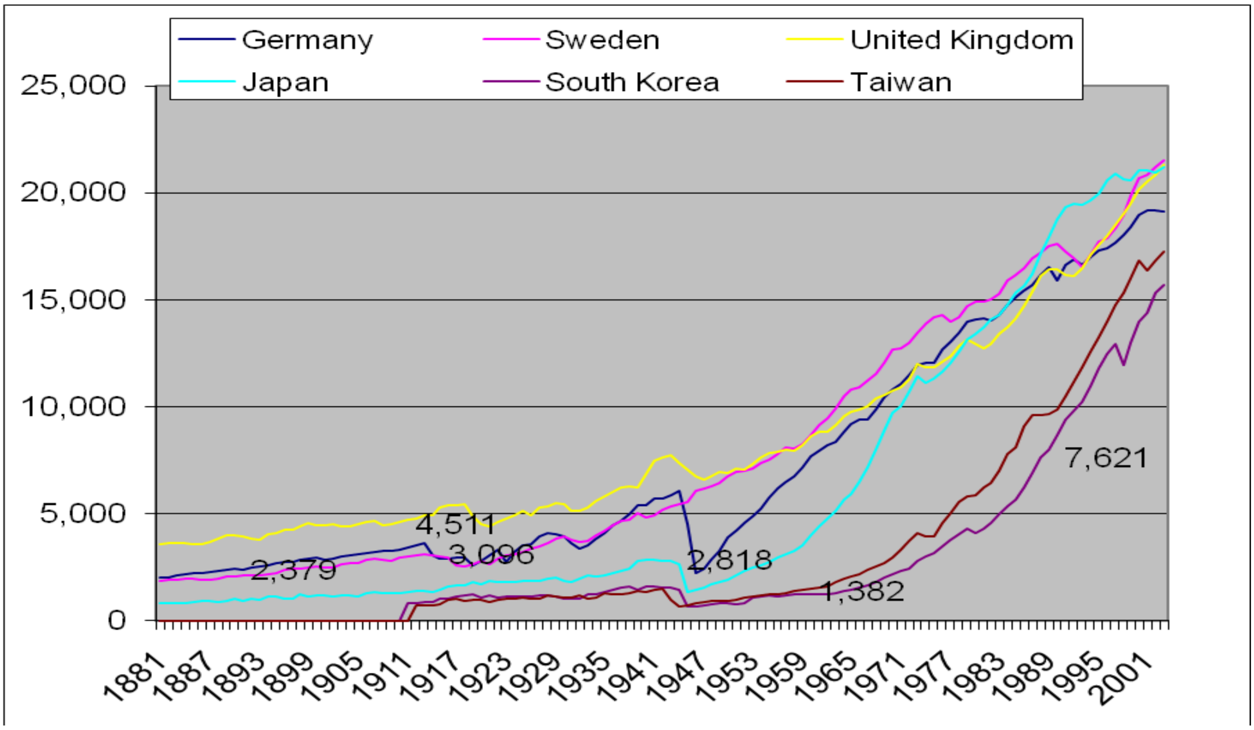

Figure a 1. 1 GDP per capita, from 1881 to 2003 (unite: International Geary-Khamis dollars)
Source: http://www.historicalstatistics.org/

Table a 1. 1 the share of economically active adults employed in agriculture sector, 1900-2007

	1900	1930	1950	1960	1970	1980	1990	2000	2007
Japan	--	--	18.58 (47.66)	13.65 (32.42)	8.98 (19.04)	5.56 (10.68)	3.83 (6.91)	2.97 (4.82)	2.79 (4.24)
Korea	--	--	--	34.59 (61.41)	27.23 (49.69)	18.25 (35.29)	12.98 (20.83)	6.95 (10.42)	5.28 (7.37)
Taiwan[a]	--	--	--	--	--	19.50	12.85	7.79	5.28
Hong-Kong	--	--	--	14.32 (17.23)	2.60[b] (3.89)	1.10 (1.29)	0.69 (0.85)	0.27	0.16 (0.18)
Singapore	--	--	--	6.06[c] (8.36)	2.17 (3.10)	1.12 (1.52)	0.27[d] (0.28)	0.23	--
Germany	21.32[e] (35.2)	14.94[f] (28.9)	10.79[g] (23.2)	5.95[h] (13.37)	3.69 (7.48)	3.02 (5.73)	2.03 (3.26)	2.47	2.35
Sweden	49.8[i] (71.32)	24.29[j] (35.4)	11.86 (16.49)	11.87 (13.78)	7.89	5.62	3.66	2.06 (2.20)	2.03 (2.18)
U.K.	7.7[k]	6.0[l]	5.1[m]	3.76[n]	2.65[o]	2.49	1.99	1.34 (1.40)	1.27 (1.33)
U.S.A.	--	--	10.37 (11.89)	6.06 (6.47)	3.47 (3.60)	2.81 (2.94)	2.74 (2.28)	2.56 (2.59)	1.41 (1.43)

Source: * Data retrieved from "LABORSTA Internet" (International Labour Organisation), various years.

** The figures in () means unpaid family workers are also included.

[a] Data retrieved from "National Statistic, R.O.C." (http://www.stat.gov.tw);

[b] 1971; [c] 1957; [d] 1991; [e] 1907, date cited from Flora el al. (1987); [f] 1933, date cited from Flora el al. (1987); [g] date cited from Flora el al. (1987); [h] 1961; [i] date cited from Flora el al. (1987); [j] date cited from Flora el al. (1987); [k] 1901, date cited from Flora el al. (1987); [l] 1931, date cited from Flora el al. (1987); [m] 1951, date cited from Flora el al. (1987); [n] 1961; [O] 1971.

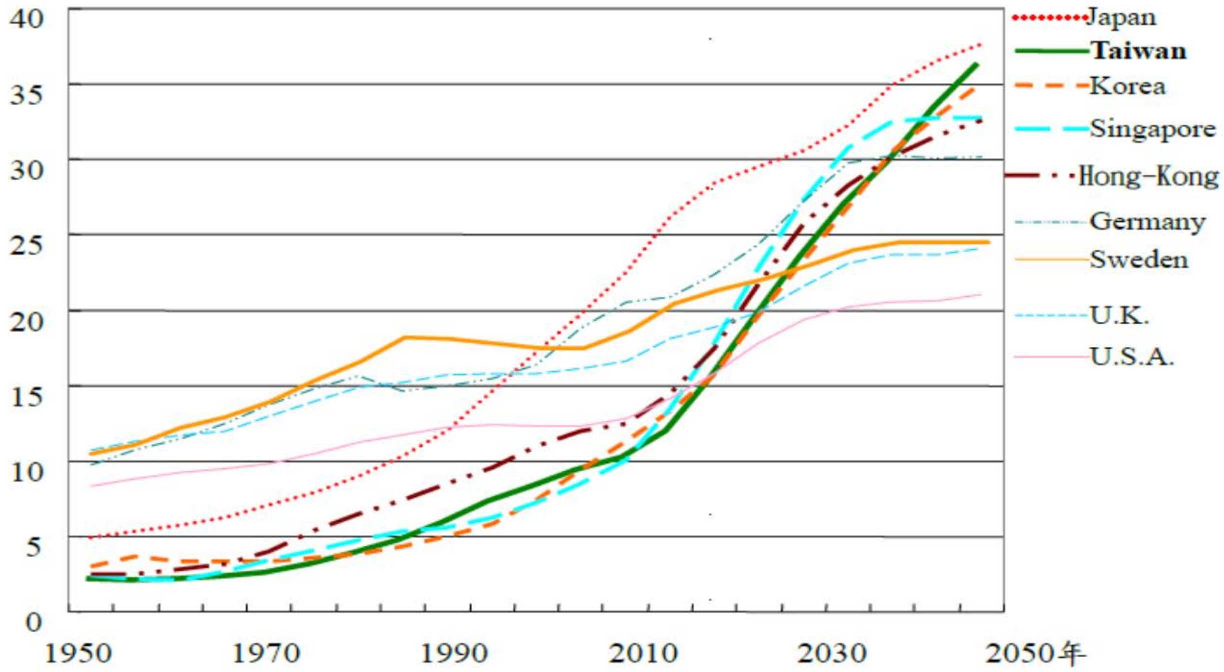

Figure a 1. 2 The percentage of the population ageing 65 and over (medium variant)
Source: Council for Economic Planning and Development (http://www.cepd.gov.tw/);
United Nations, World Population Prospects: The 2008 Revision. (Population database).

Appendix 2. Social Expenditure in Taiwan, Korea and Japan

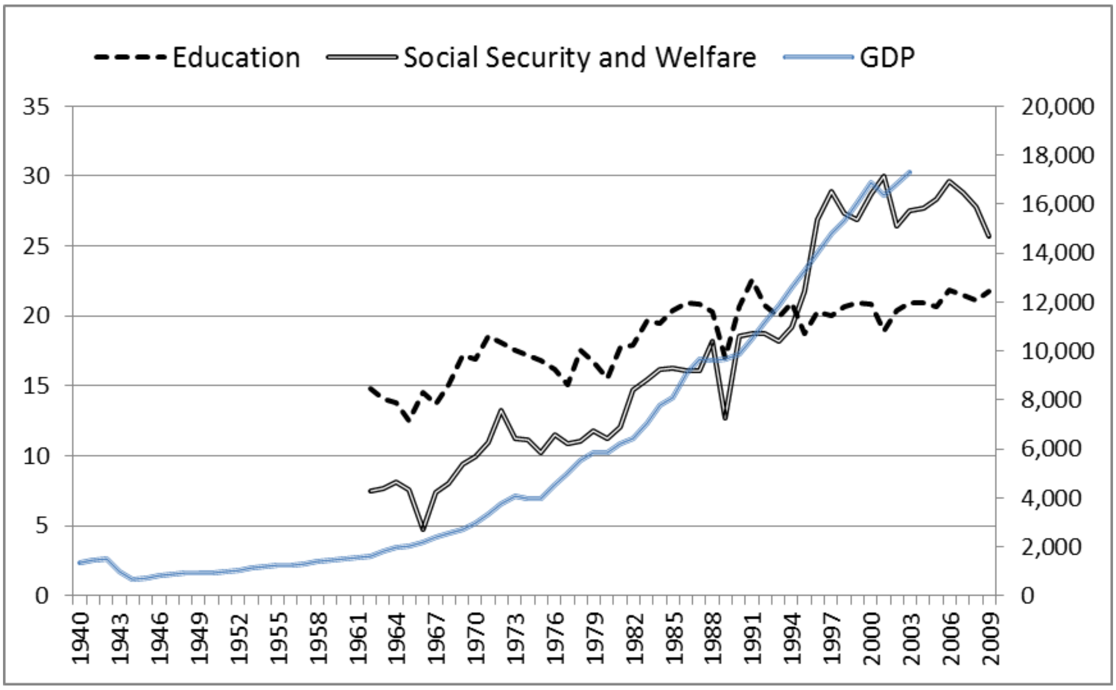

Figure a 2. 1 The Level of Social Expenditure on "Education" and "Social Security and Welfare" as Percentage of Total Government Expenditure in Taiwan
Source: Minister of Finance, Taiwan, various years

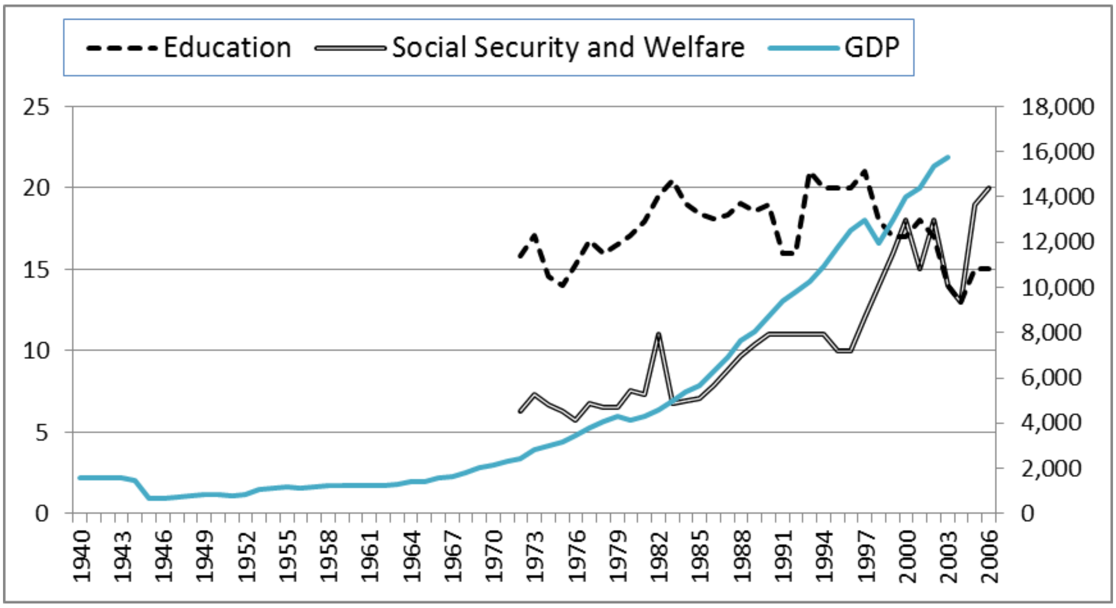

Figure a 2. 2 The Level of Social Expenditure on "Education" and "Social Security and Welfare" as Percentage of Total Government Expenditure in Korea
Source: the International Monetary Fund, Government Finance Statistic (GFS), various years

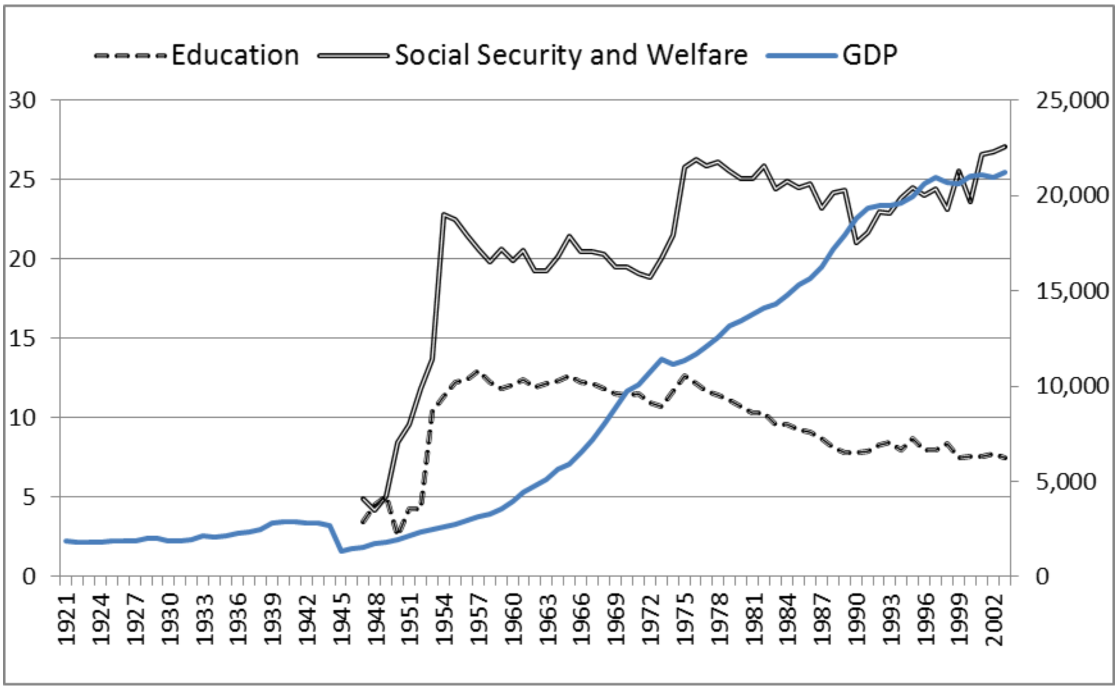

Figure a 2. 3 The Level of Social Expenditure on “Education” and “Social Security and Welfare” as Percentage of Total Government Expenditure in Japan
Source: Japanese Statistics Yearbook, various years.

Appendix 3. The Coverage of Public Pensions in Taiwan, Korea and Japan

The calculation of the coverage of public pension schemes is very controversial, in particular, in the countries where adopted fragmented social insurance pension schemes for different status and occupations. In general, two different meanings of pension coverage could be identified. One is the number of insured, and the other is the number of beneficiaries. The later, in fact, could be advantageous in the comparison within the developed welfare states where pension systems have been mature. However, in East Asian welfare states, in particular, in Korea and Taiwan, it could be problematical. Since, the number of beneficiaries of immature public pension schemes could underestimate the real coverage of pension schemes. Hence, in order to estimate the coverage of public pension schemes more precisely, the number of insured is more suitable for estimating the coverage of social insurance in East Asia.

The other issue is how to calculate the coverage of public pension schemes. The main controversy within it is the base of the pension coverage. In some case, the coverage of public pension schemes is calculated by the equation of the number of insured divided by economically active adults. However, it is problematical in some countries where adopted social insurance pension system. In general, the entitlement of social insurance pension schemes is based on the record of contribution, and it means that most of insured have to be included in the labour market. However, this link between labour market participation and entitlement tends to exclude those who are not included in the labour market or less-privileged such as self-employed. Hence, these welfare states have two avenues towards the goal of pension for all. One is to integrate the existing fragmented social insurance pension schemes along with occupations and status. And the other is to introduce another social insurance pension scheme for those who are excluded from labour market and have no will to participate or less-privileged workers. The later way was adopted in Japan and Taiwan. It means once we see economically active adults as the base of the coverage of public pension schemes, the coverage of public pension schemes would exceed 100%, since the numbers of insured of public pension schemes are far more than total working population. Here the coverage of public pension schemes is calculated by “the number of insured / total 15-64 population”.

In Taiwan, we can see four public pension schemes are provided for employees (the Labour Insurance), civil servants, peasants (the Old-age Farmers' Welfare Allowance) and the rest (the National Pension Insurance). The Old-age Farmers' Welfare Allowance was introduced in 1995, is a non-contributory pension scheme only provided for those who are insured of the Farmer Health Insurance. The National Pension Insurance was implemented in 2008.

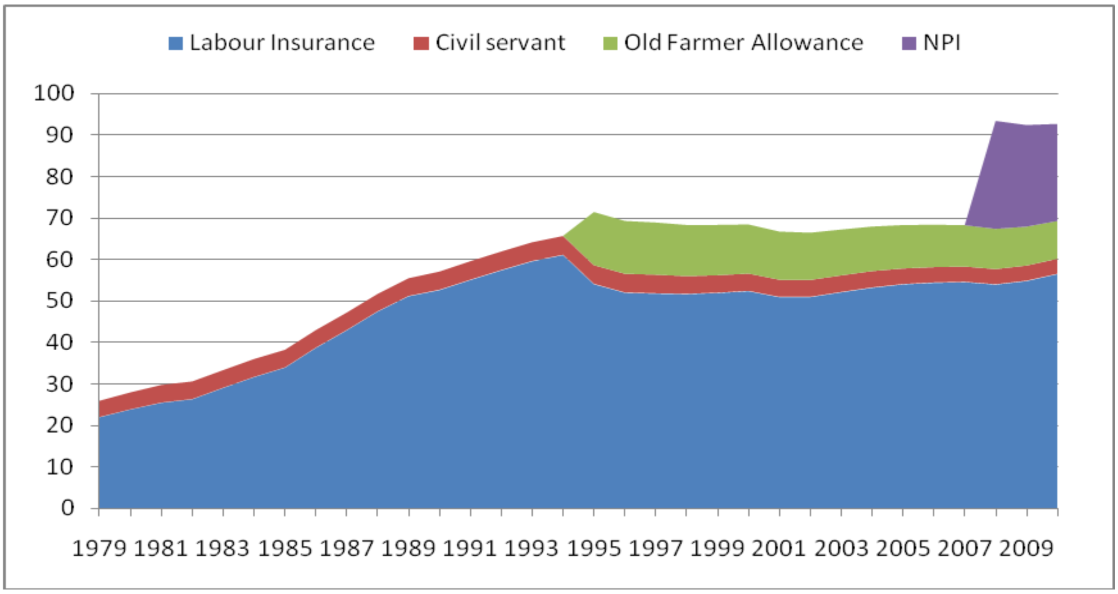

Figure a 3. 1 The coverage of public pension schemes in Taiwan from 1979 to present
Source: Directorate-General of Budget, Accounting and Statistics; Council of Labour Affairs, various years

In Korea, the National Pension Insurance was legislated in 1973, and but implemented in 1988. It is the only one public pension scheme for private workers. It is similar to Taiwan's the Labour Insurance and Japan's the Employees' Pension Insurance. The public pension schemes for public and private teachers and state officials, in fact, had been introduced before the 1970s. However, the relevant data regarding the number of insured and the number of beneficiaries could not be acquired. Moreover, the Basic Old-Age Pension a non-contributory allowance scheme was legislated in 2007 provides flat-rate benefit to 70% of 65 years old or older.

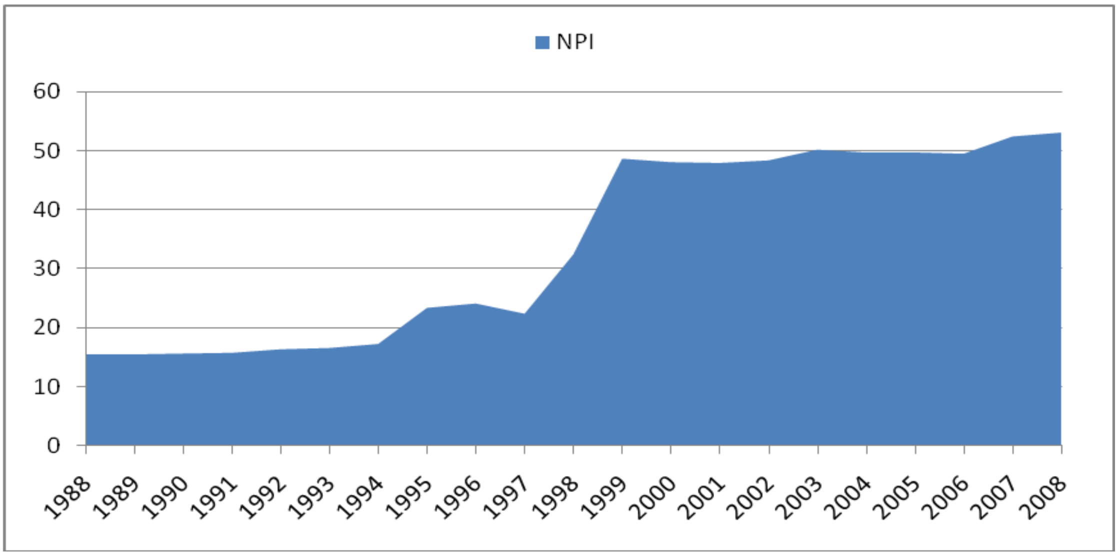

Figure a 3. 2 The coverage of public pension schemes in Korea from 1988 to 2008
Source: Korean NPI Statistics Yearbook, various years; World Bank.

In Japan, two main public pension schemes are the Employees' Pension Insurance, and the National Pension Insurance, were introduced in 1942 and 1959 respectively. The Employees' Pension Insurance is provided for employees in private firms, that is "the Persons insured of class 2"; by contrast, the National Pension Insurance is provided for labour market excluded (the Persons insured of class 3, most of them are dependants), and less-privileged (the Persons insured of class 1, such as self-employed). "The Persons insured of class 2" also included employees in the public sector who are usually covered by the fragmented Mutual Pension Schemes. Due to its fragmentation, the coverage of the Mutual Pension Schemes is excluded.

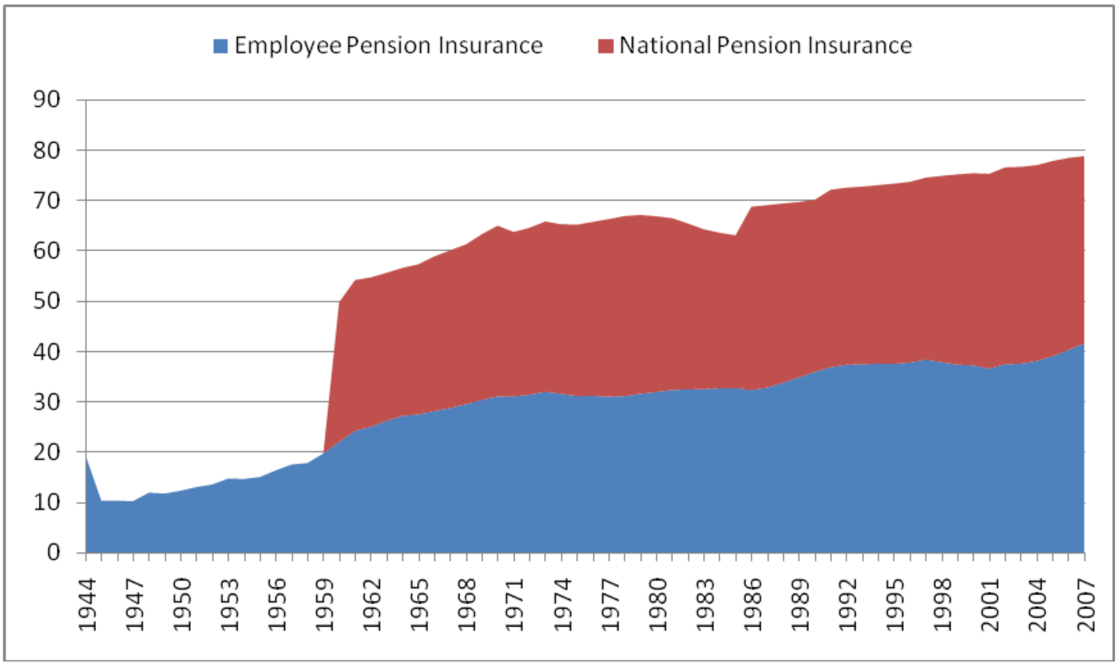

Figure a 3. 3 The coverage of public pension schemes in Japan from 1944 to 2007
Source: Japanese Statistics Yearbook, various years.

Appendix 4. The Degree of Democratisation in Japan, Korea and Taiwan

The data regarding the degree of democratisation is collected from “Polity IV Project: Political Regime Characteristics and Transitions, 1800-2010”. It offers the authority characteristics of states in the world system, including 164 countries. And within this dataset not only the degree of democratic or autocratic authority, but also other political indices, such as “State Fragility Index” are provided. The most important characteristic of this dataset is that it examines concomitant qualities of democratic and autocratic authority, rather than discreet and mutually exclusive forms of governance.

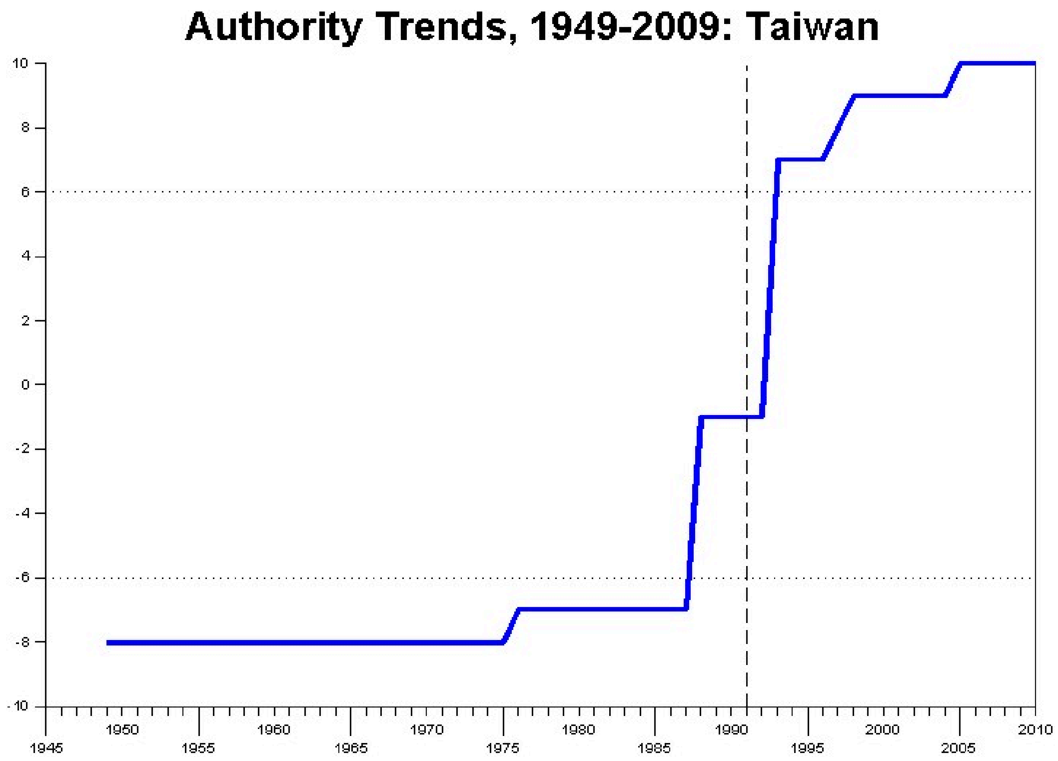

Figure a 4. 1 Authority trend (the degree of democratisation) in Taiwan from 1945 to 2010

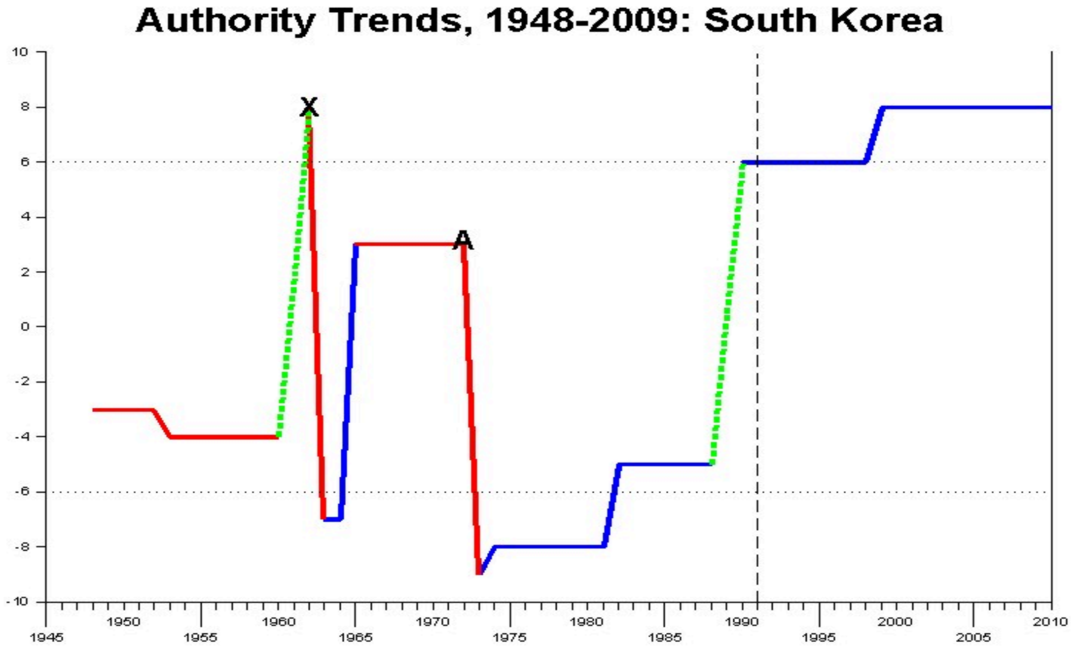

Figure a 4. 2 Authority trend (the degree of democratisation) in Korea from 1945 to 2010

Table a 4. 1 South Korean Government Regimes

Tentative democracy (the First and Second Republics, 1948-1960 and 1960-1961) Syngman Rhee, civilian, elected president, 1948-1960* Yun Po-sŏn, civilian, president within a parliamentary government, 1960-1962
Hard authoritarianism (Military Government, 1961-1963) Park Chung Hee, military, Chairman of the Supreme Council for National Reconstruction, by coup d'état, 1961-1963
Soft authoritarianism (Third Republic, 1963-1972) Park Chung Hee, military, directly elected president, 1963-1972
Hard authoritarianism (Fourth and Fifth Republics, 1972 -1981 and 1981-1987) Park Chung Hee, military, indirectly elected president, 1972-1979 Ch'oe Kyu-hu, civilian, indirectly elected president, 1979-1980** Chun Doo Hwan, military, coup d'état 1979, indirectly elected president, 1980-1988
Re-democratisation (Sixth Republic 1987-) Roh Tae Woo, military, directly elected president, 1988-1993 Kim Young Sam, civilian, directly elected president, 1993-1998
Democratic consolidation (Sixth Republic, cont.) Kim Dae Jung, civilian, directly elected president, 1998-2003 Roe Moo Hyun, Civilian, directly elected president, 2003-2008 Lee Myung-bak civilian, directly elected president, 2008-

* Syngman Rhee was elected president by the National Assembly in 1948, and by direct elections in 1952, 1956 and 1960.
** Ch'oe Kyu-ha was a stop-gap president under the control of the military junta,
Source: adopted from Ringen et al. (2011, table 1).

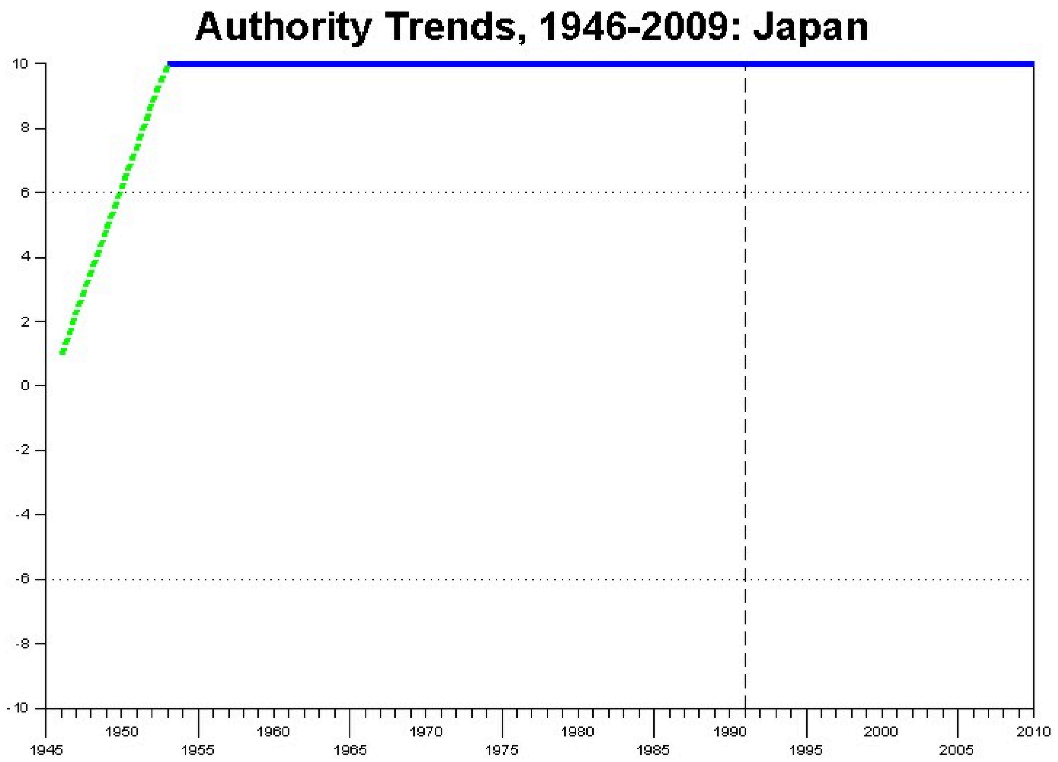

Figure a 4. 3 Authority trend (the degree of democratisation) in Japan from 1945 to 2010

Appendix 5. Labour Market Indicators

Table a 5. 1 the numbers of union members and union density in five countries

Unit: thousands, ％

年別	Taiwan		Korea		Singapore		Japan		The United States	
	The number of union members	Union density [a]	The number of union members	Union density	The number of union members	Union density	The number of union members	Union density	The number of union members	Union density
1994	637	27.4	1659	13.5	233	16.4	12699	24.1	16748	15.5
1995	598	25.4	1615	12.7	235	15.6	12614	23.8	16360	14.9
1996	588	23.6	1599	12.3	255	17.1	12451	23.2	16269	14.5
1997	589	23.0	1484	11.2	260	16.4	12285	22.6	16110	14.1
1998	576	22.1	1401	11.5	273	16.9	12093	22.4	16211	13.9
1999	614	22.5	1,481	12.6	290	15.3	11,825	22.2	16,477	13.9
2000	589	20.9	1,526	12.0	314	15.0	11,539	21.5	16,258	13.5
2001	584	20.9	1,568	12.0	338	16.5	11,212	20.7	16,275	13.5
2002	562	20.3	1,606	11.6	390	18.1	10,801	20.2	16,145	13.3
2003	559	19.5	1,550	11.0	417	19.5	10,531	19.6	15,776	12.9
2004	595	19.6	1,536	10.6	444	20.1	10,309	19.2	15,472	12.5
2005	619	19.7	1,506	10.3	450	19.4	10,138	18.7	15,685	12.5
2006	580	18.1	1,559	10.3	463	18.6	10,041	18.2	15,359	12.0
2007	573	17.4	1,688	10.8	495	18.1	10,080	18.1	15,670	12.1
2008	523	15.8	1,666	10.5	517	17.5	10,065	18.1	16,098	12.4
2009	518	15.4	1,640	10.1	526	17.6	10,078	18.5	15,327	12.3
2010	521	14.6	…	…	…	…	10,054	18.5	14,715	11.9

Source: http://www.cla.gov.tw/. (Taiwan －http://www.cla.gov.tw/; Japan － http://www.mhlw.go.jp/toukei/list/13-22.html; the United States － http://www.bls.gov/news.release/union2.toc.htm; others －Japan's "The Comparison of International Labour")

a. Taiwan's union density is calculated as the share of the numbers of industrial unions members in the numbers of employees within in the firms with more 30 employees.

Table a 5.2 the Ratio of Non-regular Workers to Total Employees in East Asia (%)

	Taiwan			Japan			Korea		
	part-time workers	dispatched workers	temporary workers	part-time workers	dispatched workers	temporary workers	part-time workers	dispatched workers	temporary workers
2001	5.3	--	--	--	1.0	12.8	7.3	--	--
2002	5.5	--	--	17.7	1.1	13.5	7.6	--	--
2003	5.1	--	--	18.2	1.2	13.8	7.7	--	--
2004	4.1	--	--	18.1	1.4	13.9	8.4	0.2	25.7
2005	3.3	--	--	18.2	1.7	14.0	9.0	0.3	27.4
2006	2.1	1.7	--	18.0	1.9	14.0	8.8	0.3	25.4
2007	2.3	--	3.0	18.9	2.1	13.9	8.9	0.3	24.7
2008	2.6	--	3.3	19.6	2.2	13.6	9.3	0.3	23.7
2009	3.2	1.4	2.7	20.3	1.8	13.7	9.9	0.4	26.1
2010	3.2	1.5	2.5	20.2	1.5	13.8	10.7	0.4	23.0
2011	3.1	1.4	2.5	20.6	1.5	13.7	13.5	--	23.8
2012	3.0	1.4	2.4	20.5	--	13.7	10.2	--	--

Source: http://statdb.cla.gov.tw/html/nat/0228menu.htm;
http://statdb.cla.gov.tw/html/nat/0125menu.htm

Appendix 6. Skill Profiles in East Asia

First of all, “workers’ skills are difficult to measure because they are not directly observable” (Estévez-Abe et al., 2001, p. 169). Estévez-Abe et al. (2001) use a number of indirect indicators to measure skill profits, including (1) median length of tenure, (2) vocational training share, (3) vocational training system and (4) upper-secondary/ university education. The combination of these measures helps to identify three types of skill profiles: firm-specific skills, industry-specific skills, and general skills. In table a 6.1, I replicate their approach to add Korea and Taiwan to show that Korea could be categorised into firm-specific skill formation system, and Taiwan’s skill profile should be grouped as general skills. Their approach offers a sophisticated way to measures skill profiles, but ignores the dynamic or change of skill profiles since the data they collected is based on 1995. Especially, in the post-industrial economy, the change in the national composition of human capital has become more significant.

Table a 6. 1 Skill profiles in OECD and East Asian countries

	(1) Median length of tenure [a]	(2) Vocational training share [b]	(3) Vocational training system [c]	(4) Upper-Secondary/ university education [d]	(5) Skill Profile [e]
Coordinated Market Economies					
Austria	6.9	22	Dual apprenticeship	71 6	Firm/industry/ occupational
Germany	10.7	34	Dual apprenticeship	81 13	Firm/industry/ occupational
Sweden	7.8	36	Vocational Colleges	74 13	Firm/industry/ occupational
Norway	6.5	37	Vocational Colleges	82 16	Industry/ occupational
Belgium	8.4	53	Mixed	53 11	Industry/ occupational
Finland	7.8	32	Vocational Colleges	67 12	Industry/ occupational
Italy	8.9	35	Company-based	38 8	Firm/ occupational
France	7.7	28	Company-based	60 10	Firm/ occupational
The Netherlands	5.5	43	Mixed	62 22	Industry/ occupational
Switzerland	6.0	23	Dual	80	Industry/

			apprenticeship	10	occupational
Denmark	4.4	31	Mixed	66 15	Industry/ occupational
Liberal Market Economies					
Canada	5.9	5	Weak	76 17	Occupational/ general
Australia	3.4	9	Weak	57 15	Occupational/ general
Ireland	5.3	6	Weak	50 10	Occupational/ general
New Zealand	n.a.	7	Weak	60 11	Occupational/ general
United Kingdom	5.0	11	Weak	76 13	Occupational/ general
United States	4.2	3	Weak	86 26	Occupational/ general
East Asian countries					
Japan	8.3	16	Company-based	n.a. 57[69]	Firm/ occupational
Taiwan	5.51[70]	50.5[71]	Vocational colleges	42[72] 27	Occupational/ general
Korea	6.6[73]	41[74]	Company-based	98[75] 65	Firm/ occupational

a. The median length of enterprises tenure in years, 1995 (Norwegian figure refers to 1991, Taiwanese figure refers to 1994)
b. The share of an age cohort in either secondary or post-secondary (ISCED5) vocational training.
c. The character of the vocational training system according to whether most of the training occurs at the company level (as in Japan), through a dual apprenticeship system (as in Germany), through vocational colleges (as in Sweden), or through some mixture of the latter two (as in the Netherlands). Where vocational training is weak, we have not distinguished between the type of system.
d. First entry is the percentage of 25-34-years-olds with an upper secondary education; the second entry is the percentage of 25-34-years-olds with a university degree (1996 figures).

Source: adopted from Estévez-Abe et al. (2001, table 4.3) and my own revision

Fleckenstein et al. (2011), therefore, develop another approach to analyse the change in the national composition of skill profiles. They use ISCO-88's (the International Standard Classification of Occupations) occupational classifications to group nine occupational categories into three skill categories, including high-general, low-general and specific skills, regardless of whether the acquisition of skills occurred

[69] 2010, source: http://dx.doi.org/10.1787/888932664233.
[70] 1994, source: http://www.dgbas.gov.tw/.
[71] 2001, source: http://www.edu.tw/. The share of an age cohort in the secondary vocational schools.
[72] Source: http://www.dgbas.gov.tw/.
[73] 1995, source: OECD (1998). OECD Economic Surveys: Korea. Paris: OECD.
[74] 1994, source: Ashton et al. (1999, p. 70).
[75] 2010, source: http://dx.doi.org/10.1787/888932664176; http://dx.doi.org/10.1787/888932664233.

through formal or in-firm training schemes. Table a 6.2 summaries how they grouped different occupational categories into three different skills categories.

Table a. 6.2 Skills Reclassification[76]

Occupation	Skills category
1. Legislators, senior officials, and managers	High-general
2. Professionals	High-general
3. Technicians and associate professionals	High-general
4. Clerks	Low-general
5. Service workers and shop and market sales workers	Low-general
7. Craft and related workers	Specific
8. Plants and machine operators and assemblers	Specific
9. Elementary occupations	Low-general

Source: Fleckenstein et al. (2011, p. 1628).

This approach has two advantages. First, this approach is better in analysing the change of skill specificity in the era of post-industrialisation, by grouping into different occupational categories into high-general, low-general and specific skills. Second, it has potential to account for skill polarisation in post-industrial economies. Principally, this approach is developed to explain how social protection reforms came with the change of skill specificity in the post-industrial Britain and Germany.

However, by analysing the change in the composition of occupational categories and grouping different occupational categories into three skill categories, this approach ignores that the types of skill formation regime and the developmental strategy (product market strategy). First, this approach simply groups some occupational categories into one particular skill category, but ignores what the types of skill formation regime. For example, in Japan, although high-general and low-general skills have been increasing in the last two or three decades, its firm-specific skill formation regime did not significant change. Firms' on-the-job and off-the-job training schemes are still prevailed. Taiwan, as an opposite example, although the proportion of specific skills were much higher than high- and low-general skills before the 1990s, the acquisition of skills occurred through formal education and training programmes. Moreover, export-oriented sectors were and are dominated by small and medium enterprises, and therefore, small employers did not have preferences in developing highly specific skills. Taking into the types of skill

[76] Due to their approach is develop to analyse the change in the proxies of skill specificity in the 'post-industrial societies', the sixth occupational category- 'skilled agricultural and fishery workers', therefore, is excluded.

formation regime is necessary.

Second, this approach ignores that skill specificity is complemented with national developmental strategy or product market strategy. For example, a nation's developmental strategy or product market strategy is labour-intensive export-oriented industrialisation, like Korea and Taiwan in the 1960s, what employers emphasised is the minimisation of labour cost. Thus, we can witness that although the proportion of specific skills was high in Korea and Taiwan in the 1960s, employers' preferences were to reduce labour cost as possible. Japan's product market strategy is quality-based, therefore, employers have preferences in developing firm-specific skills in order to increase their competiveness in the world market. Therefore, it would be difficult to measure skill level by disaggregating the composition of occupational categories.

From table a 6.1 to table a 6.4, I adopt a similar approach to show the composition of occupational categories in Japan, Korea and Taiwan, but do not simply divide them into three skill categories. Since the International Labour Organisation does not include Taiwan, therefore, Taiwan's data is collected from the Taiwanese official data. More detailed and better data about Japan's composition of occupational categories could be collected from the Japanese government. Therefore, I do not use the International Labour Organisation's data for Taiwan and Japan. But, principally, the definition of occupational categories in Japan and Taiwan is according to the International Labour Organisation. Therefore, they would be comparable.

These figures draw a picture to show the change in the composition of occupational categories. But we should not easily conclude that Japan, Korea and Taiwan in the 1970s had same skill formation regime. In Taiwan, the SMEs-dominated business structure restricted its capacity in developing either firm- or industry-specific skills, but had to rely one public education and training systems. Furthermore, Taiwan's product market strategy was developed to exploit low labour cost rather than quality-based. Since the 1980s, the proportion of 'Product machine operated and related workers' which is considered as workers with specific skills had been declining. Simultaneously, occupational categories which are grouped into either high- or low-general skills increased significantly since the 1990s, especially, 'Technicians and associate professionals' (high-general) and 'Service workers and shop and market sales workers' (low-general).

In Korea, according to Fleckenstein et al.'s approach (2011), the proportion of specific skills increased by nearly 10%, because its developmental strategy was shifted to heavy and chemical industrialisation. Simultaneously, the ratio of occupational categories with high- and low-general skills increased, especially, ‘clericals and related workers’ and ‘sales workers’ (low-general skills). Since the 1990s, the ratio of high-general skills occupations, such as ‘Professionals, ‘Legislators, senior officials, and managers’ and ‘Technicians and associate professionals’, has been increasing as well.

In Japan, in the early 1950s, the ratio of agriculture related workers was high, but it declined soon since the late 1950s. The ratio of specific-skills occupations was increased to around 40% in the 1970s and high- and low-general skills occupations also increased significantly at the same period. But since the 1990s, the former has declined but the latter increased again.

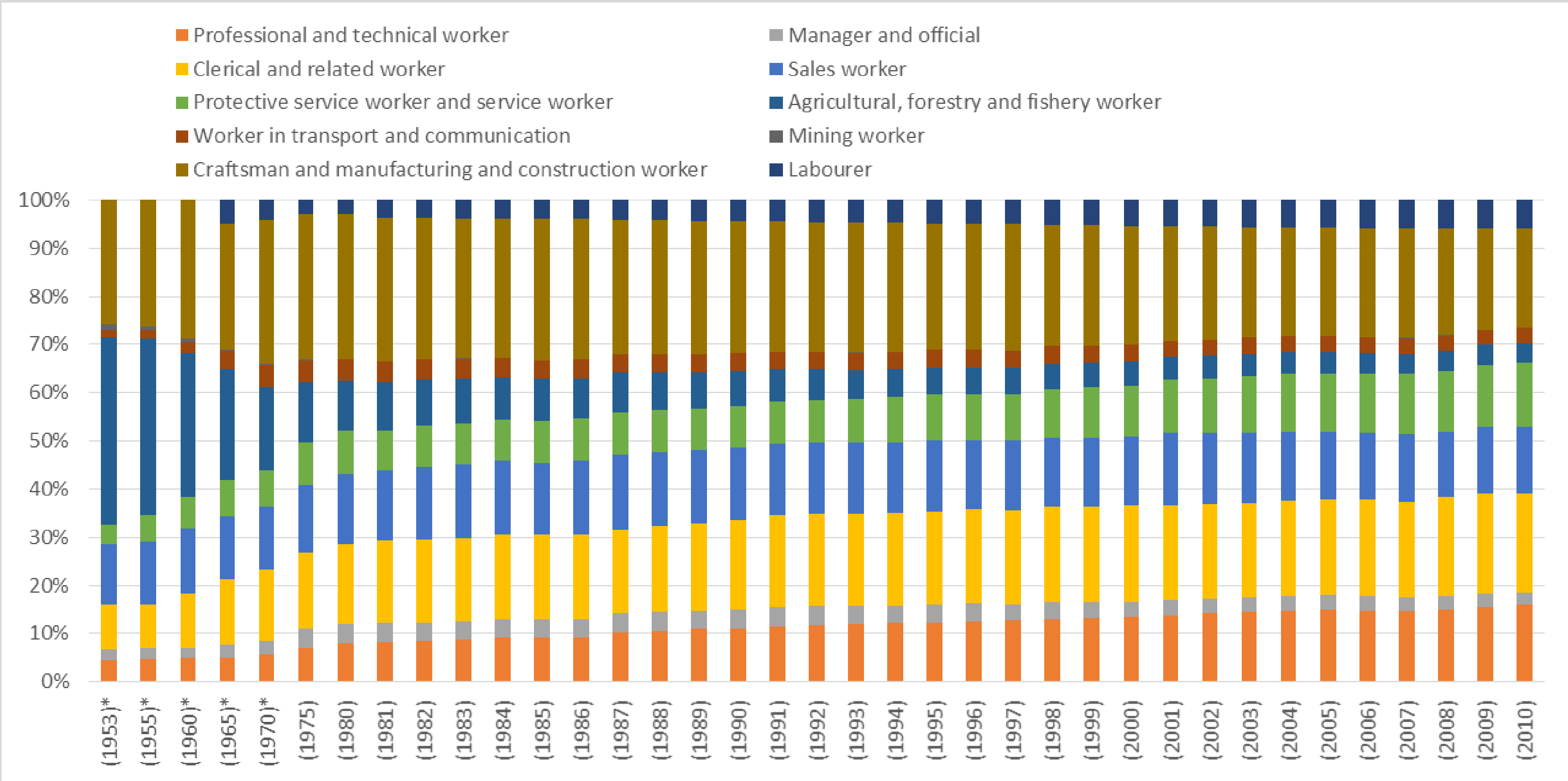

Figure a 6.1 Employment by Occupations in Japan 1953-2010
Source : Japan Statistic Yearly Handbook, various years
'*' indicates that Okinawa-ken is not included in the figures.
1. "Craftsman and manufacturing and construction worker" in 1953-1961 includes "Labourers".

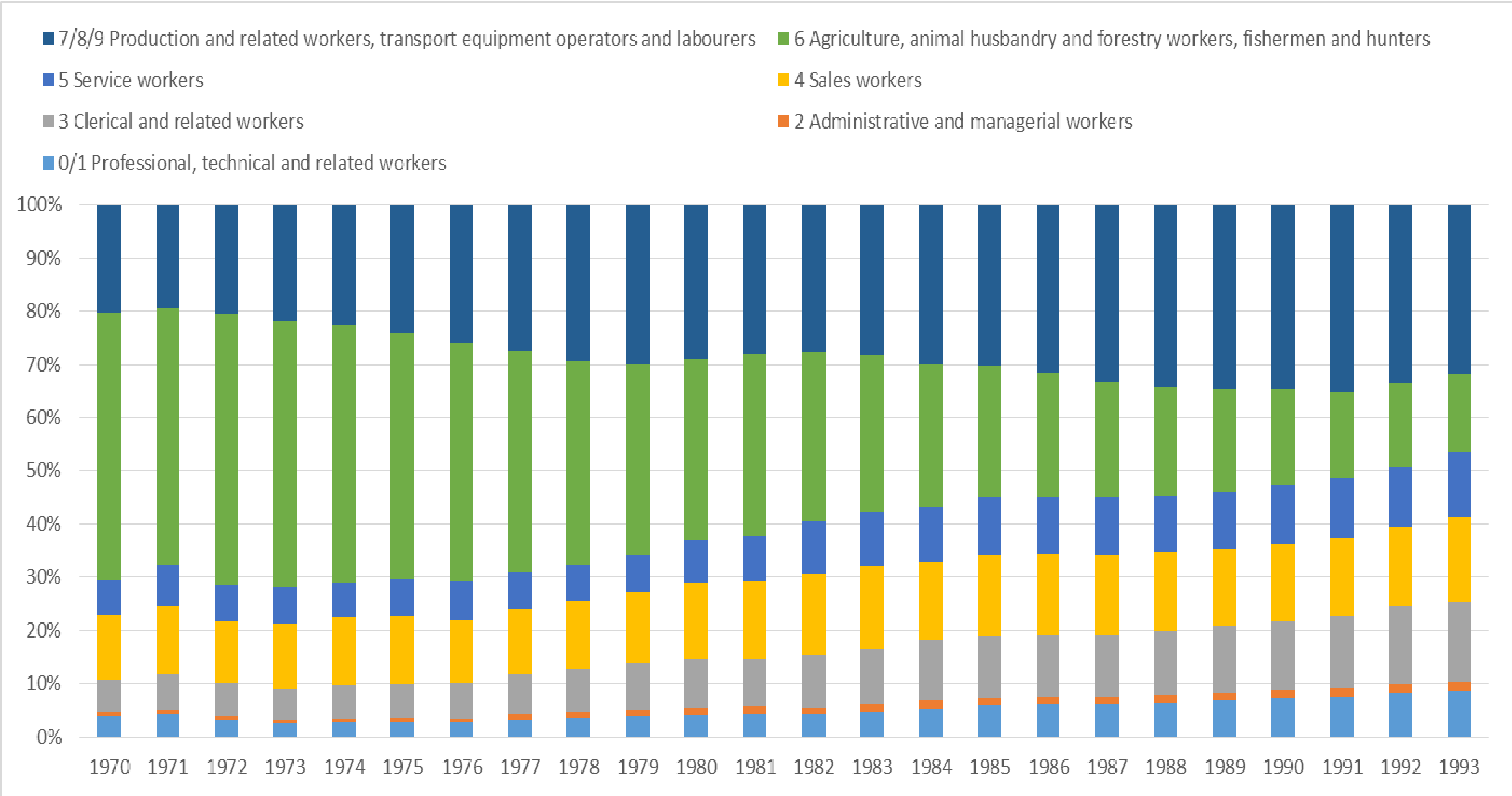

Figure a 6.2 Employment by Occupations in Korea, 1970-1993 (ISCO 1968)
Source : International Labour Organisation

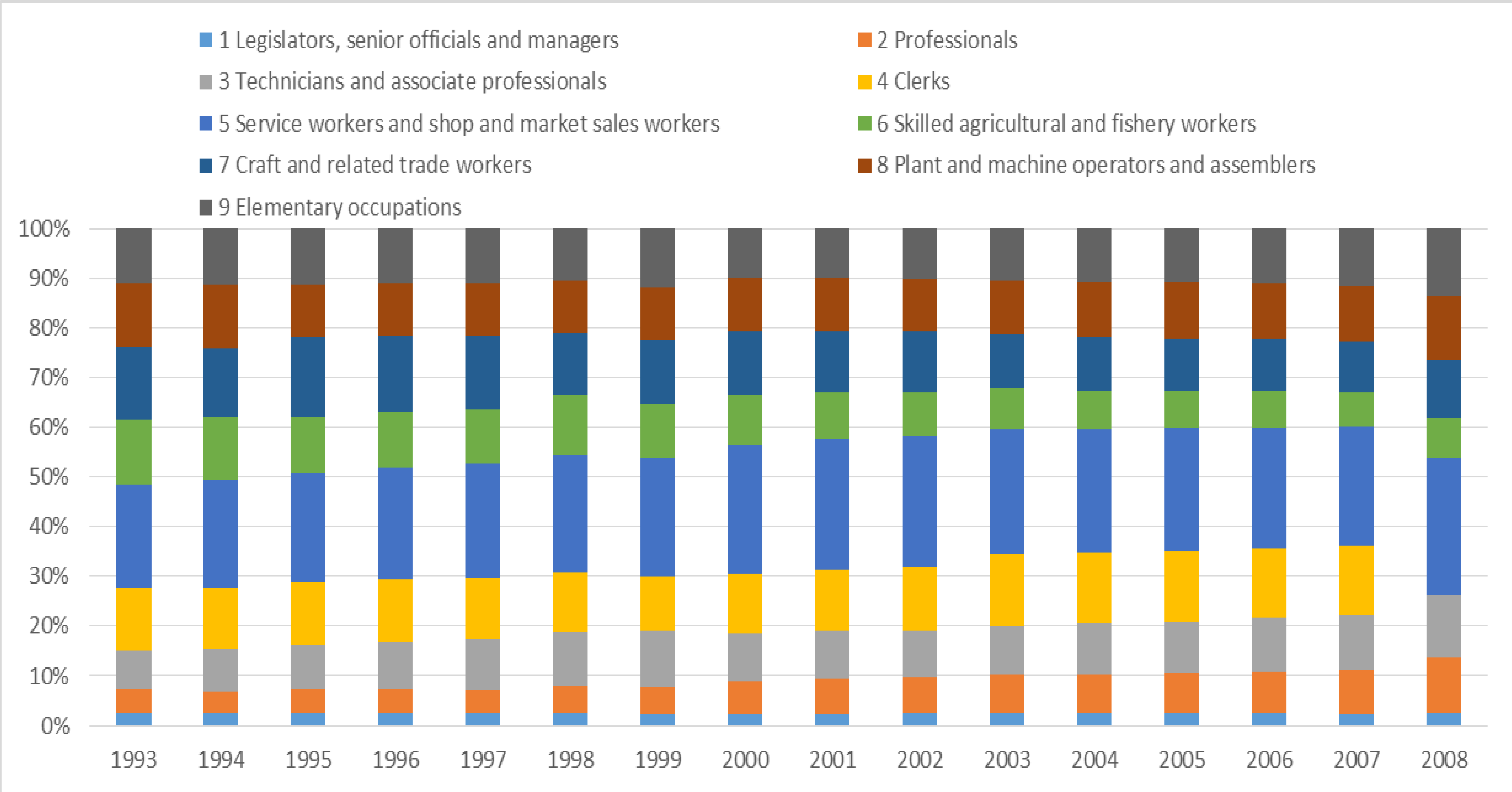

Figure a 6.3 Employment by Occupations in Korea, 1993-2008 (ISCO 88)

Source : International Labour Organisation

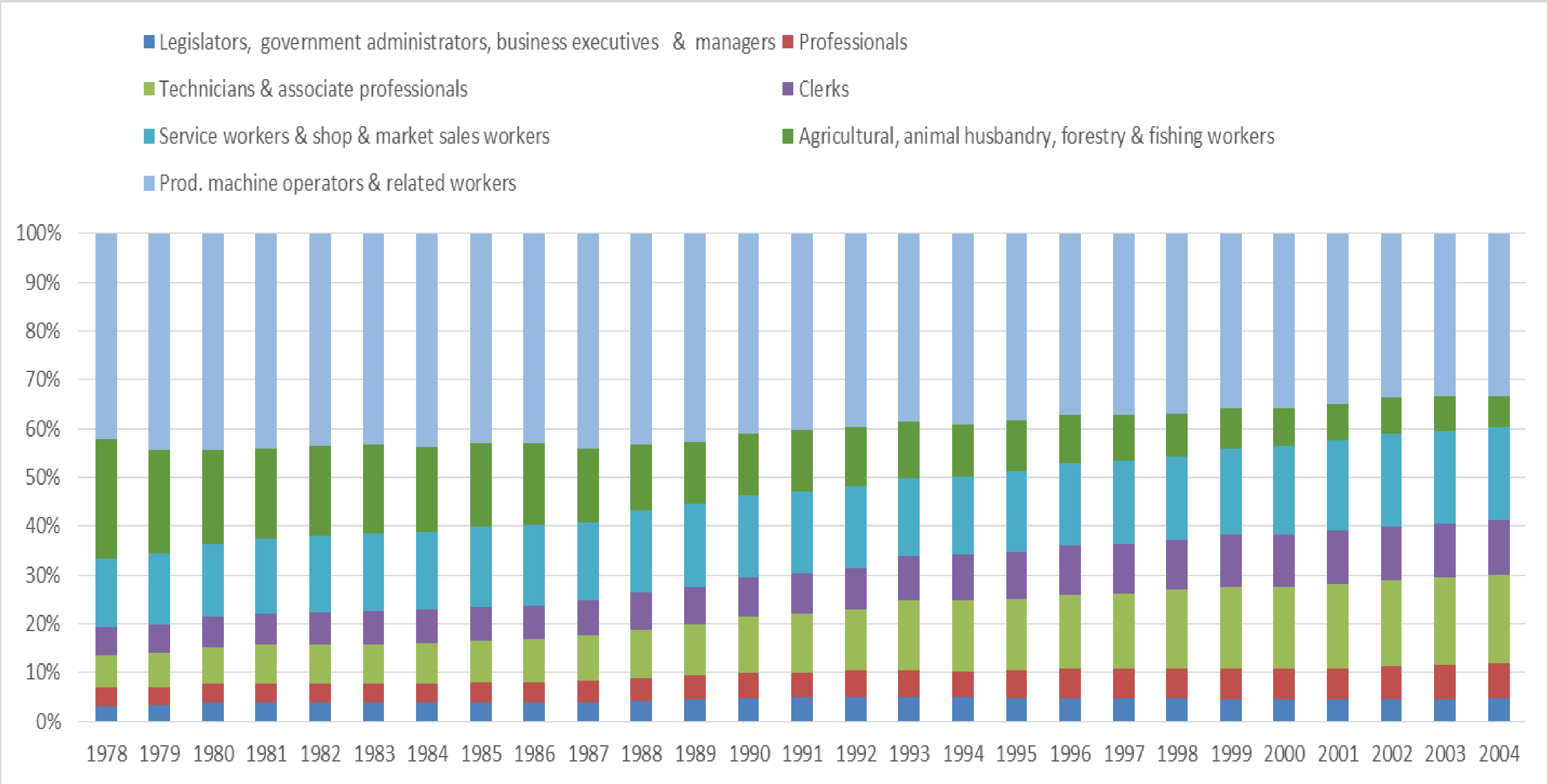

Figure a 6.4 Employment by Occupations in Taiwan, 1978-2004 (ISCO-1968)

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