

The Evolution of Welfare Production Regimes in East Asia: A Comparative Study of Korea, Japan, and Taiwan

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Abstract: This study examines the evolution of a dualistic welfare production regime in Korea and Japan, with Taiwan as a contrasting case. It examines how institutions evolved during the industrialization period in the three countries. Taking the view of historical institutionalism, the Varieties of Capitalism approach (Hall & Soskice, 2001) provided theoretical grounds for analyzing the variation of welfare production regimes in East Asia. The study argues that historical events (in Japan, the end of World War II and the Allied occupation; in Korea, the influx of foreign aid followed by the Korean War and the military government; in Taiwan, the defeat of the Kuomintang and ethnic divisions) created a critical juncture for these countries' institutional developments. Korea and Japan developed large-company-oriented welfare production regimes, while Taiwan's regime was more small and medium size enterprises (SMEs)-oriented. The dualistic welfare production regime of large companies and small and medium size enterprises (SMEs) in Korea and Japan is further explained by the functional equivalent welfare system that developed together with each country's production regime.

Keywords: East Asian welfare production regimes, dualistic welfare production regime, functional equivalence, historical institutionalism, varieties of capitalism

INTRODUCTION

Despite its enthusiasm for explaining the unique features of Asian welfare states taken as a whole, the literature pays little attention to differences between Asian countries. Discussion of East Asian welfare states was sparked by challenges to the welfare

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regime typology of Esping-Andersen (1990). Scholars argue that there are limits to the ability of class theory, industrialization theory, or power resource theory to explain this development, and that an Asian welfare state model can be introduced to explain its distinctive features (Aspalter, 2006; Croissant, 2004; Ku & Jones Finer, 2007; Kwon H, 2005; Kwon & Holliday, 2007; Lee & Ku, 2007).

Kasza (2006, p. 116) summarized scholars' descriptions of the welfare states of Hong Kong, Japan, Singapore, South Korea, and Taiwan as follows:

1. Centralized bureaucracies with one-party domination and weak labor movements characterize politics.
2. States have directed economic development toward distributive and growth objectives, producing egalitarian patterns of income distribution.
3. Rapid economic growth has allowed states to forestall the adoption of public welfare measures.
4. The notion of public welfare as a social right of citizenship is weak.
5. There is little public social protection for disadvantaged members of society, who are held responsible for their plight; dependence on the state for welfare is stigmatized.
6. Family, company, and community play major welfare roles.
7. Welfare programs are highly segmented, offering differential benefits for various groups in a way that reinforces their relative shares of power and status.
8. Political leaders use Confucian rhetoric to combat demands for Western-style welfare.

Too often, literature on East Asian welfare states groups East Asian countries together as similar, without a close examination of the critical differences in their institutions, and simply compares them with Western welfare states. The limited attention given to the differences in East Asian institutional arrangements has hindered the development of a comparative study on East Asian welfare production regimes. A number of studies have discussed East Asian welfare regime or varieties of capitalism in East Asia, but there are almost no comparative studies of East Asian welfare production regimes. This lack of focus on institutional differences in East Asia limits our understanding of production regimes and policy arrangements in the region.

This study focuses on the history of institutions in order to better comprehend the nature of institutional arrangements and to gain useful insights into the welfare production regimes in Korea, Japan, and Taiwan. Two approaches can be useful in understanding institutional arrangements in East Asia: the historical institutional approach (Thelen & Steinmo, 1992; Immergut, 1998) and welfare production regime theory from the varieties of capitalism (VOC) literature (Hall & Soskice, 2001). With this theoretical background, the article compares how the welfare production regime

evolved during the industrialization period in Korea, Japan, and Taiwan. It also discusses the dualistic nature of welfare production regimes in Korea and Japan and how they evolved, a trend that is less apparent in Taiwan.

The VOC approach is advantageous in examining different institutions as a combination. Social protection and the characteristics of the welfare program are highly associated with industrial structure and industrial relationships, particularly in these three countries, due to their historical backgrounds. Much of the industrial policy was functionally equivalent to social policy, and companies were themselves welfare providers in Korea and Japan. Developing the VOC theory further, this article highlights functional equivalent welfare policies in East Asia and examines industrial relations in addition to welfare policy, production systems, and skill formation, which were originally suggested by the VOC approach.

VOC theory has a limited ability to explain the interaction between institutions since it is based on a functionalistic perspective. Hence, a historical analysis of the selected countries is adopted to explain the complementary interactions. This enables us to understand the historical conditions that reinforced or limited those interactions. The article presents a theoretical discussion of comparative historical analysis and welfare production regimes. It then conducts a comparative historical analysis of Korea, Japan, and Taiwan, examining how their welfare production regimes evolved during the industrialization period.

VARIETIES OF CAPITALISM AND HISTORICAL INSTITUTIONALISM

The VOC literature has been developed as a contribution to the institutional approach. It assumes that “certain types of institutions lock economic actors into long-term relationships that make it possible for workers and employers to commit to specific assets” (Estévez-Abe, 2006, p. 148). The VOC literature contributed to the understanding of the welfare state by examining the link between models of capitalism and the welfare state (Estévez-Abe, Iversen, & Soskice, 2001).

Further to this development, the link between social protection and the formation of skills is embraced (Estévez-Abe, Iversen, & Soskice, 2001) by the concept of *welfare production regime*. This refers to the “set of product market strategies, employee skill trajectories and social, economic and political institutions that support them” (Estévez-Abe, Iversen, & Soskice, 2001, p. 146). Skills are divided into three types: firm-specific, industry-specific, and general. Firm-specific skills are valuable to firms that provide on-the-job training in them and are the least portable. Industry-specific skills are

gained through apprenticeships and vocational school programs. These skills are recognized by employers as long as workers stay within a specific industry. General skills carry a value independent of the firm and industry and hence are the most portable.

Linking the discussion on capitalism and welfare states, Estévez-Abe et al. (2001) examine the link between skills and social protection. They argue that strong employment protection encourages workers to invest in firm-specific skills, as employees require some measure of credible protection. In a country with weak employment protection, workers would prefer to acquire general skills. However, in the case of industry-specific skills, unemployment protection matters more as it secures earnings-related benefits and keeps skilled wages high, even when supply exceeds the demand for those industry-specific skills. In the absence of such unemployment protection, workers who lost their jobs would have to find a job outside of their industry, and this would undermine their incentive to invest in industry-specific skills in the first place. Accordingly, weak employment protection or unemployment protection leads individuals to invest in general and portable skills. Moreover, if a country's production regime is based on general skills, low employment protection actually provides an advantageous environment for companies to be competitive, as they can easily fire and hire new workers according to their level of general skills.

The key to this argument is that the distinctiveness of a particular welfare production regime is reinforced by the institutions of the social protection system (Estévez-Abe, Iversen, & Soskice, 2001). This study focuses on the development of company-provided employment and wage protection systems that were functionally equivalent to the social protection referred to in the VOC literature.

One limitation of the VOC literature is its view of the static arrangement of welfare production regimes. However, the historical institutional approach allows us to conduct a comparative analysis of the evolution of institutional arrangements in the selected countries. Historical institutionalism provides an insightful theoretical basis as it focuses on the differences in, and the persistence of, policies in each country. Historical institutionalists pay attention to how institutions structure a nation's response to new challenges. Historical institutionalism also emphasizes the combinations of multiple factors. In contrast to a functionalistic perspective, it privileges complexity and "rejects the traditional postulate that the same operative forces will generate the same results everywhere in favor of the view that the effect of such forces will be mediated by the contextual features of a given situation inherited from the past" (Hall, 1996, p. 9). The historical institutionalist approach uses comparison to test a hypothesis that can account for the observed differences between cases (Thelen, 2004). Such theories of institutions provide an explanation for the disparity between national political outcomes and for the inequalities that mark these outcomes (Hall, 1996).

VOC theory is useful in examining different institutions as a configuration and explaining how skill formation, welfare system, and production structure develop together by complementing each other. While adopting this approach of examining institutions of welfare policy, production system, and skill formation as a combination, the article also examines industrial relations. Taking the VOC argument further, the evolution of arrangements will be examined through a comparative analysis taking a historical institutionalist approach. Three developed East Asian countries are selected for this study, and from the many similarities between these countries, three institutional similarities are selected for analysis. The following section examines the similarities between the three countries.

SIMILARITIES IN KOREA, JAPAN, AND TAIWAN

Among the many similarities in these countries, three features are especially relevant when discussing their institutions during the industrialization period. First is the influence of Confucianism, which is embedded in many social norms and institutions and in much of the culture. Characteristics of Confucianism include respect for seniors, filial piety, and paternal benevolence, putting the group before the individual, conflict avoidance, loyalty and dutifulness, lack of complacency, striving for learning, entrepreneurship, meritocracy, and family orientation with a patriarchal authority (Goodman & Peng, 1996).

Many studies have attempted to show Confucianism's positive and negative role in East Asian economic development. In relation to welfare state development, Jones (1993) identifies Asian welfare states as variants of "corporatism" resulting in characteristics such as "conservative corporatism without (Western-style) worker participation; subsidiarity without the Church; solidarity without equality; laissez-faire without libertarianism; an alternative expression for all this might be 'household economy' welfare states—run in the style of a would-be traditional, Confucian, extended family" (Jones, 1993, p. 214).

Second, all three countries had highly centralized bureaucracies and one-party domination or a political environment equivalent to that during the industrialization period. In Japan, the Liberal Democratic Party, which is a conservative party, was in power from 1955 until 2009. While leftist parties were almost entirely absent in Korea and Taiwan, the Social Democratic Party of Japan was the main opposition party. However, the Social Democratic Party was more concerned with international defense policies and opposed the expansion of welfare. Welfare policies in Japan were developed and initiated by the Liberal Democratic Party (Kwon, 2005).

In Taiwan, the Chinese Nationalist Party (Kuomintang or KMT) had been in power since the party fled from China until the left-leaning Democratic Progressive Party took power in 2000. In mainland China in 1949, the KMT, led by Jiǎng Jièshí, was defeated by the Chinese Communist Party, which was led by Mao Zedong. As soon as Korea became independent from Japan in 1945, the North was occupied by the Soviet Union and the South by the United States. South Korea established a separate government with Rhee Seungman as its first president; Rhee ruled until 1960. In 1961, Park Chung-hee led a military coup d'état and ruled the country until 1979. Although the ruling party had less influence in Korea than in Japan and Taiwan, as it has a strong presidential system, the ruling party was characterized as rightist until the Kim Dae Jung government was elected in 1998.

The political system is different in all three countries. Korea has a strong presidential system, Taiwan a semi-presidential system, and Japan a parliamentary system. However, they all had authoritarian characteristics, which allowed all three states to be authoritative in developing and implementing their policies. These states had independent, or autonomous, political power, as well as more control over the economy; the term *development state* was coined to describe the phenomenon of state-led economy in East Asia.

Lastly, all three countries set economic development as their priority during the postwar period and had strongly interventionist governments. After World War II, each society experienced economic hardships. In Japan, the economy was in chaos with high rates of poverty and inflation. In 1949, the Ministry of Commerce and Industry was reorganized and the Ministry of International Trade and Industry was established. An economic white paper published in 1956 stated that Japan was “no longer post-war” and established its goal as economic independence and full employment based on a stable economy in a five-year “framework for economic independence” (Cho, 2009, p. 17). Pursuing a policy of state-driven economic development, the country experienced rapid economic growth from the mid 1950s. From 1955 to 1961, GNP grew by 82 percent, compared to 15 percent in the United States and 16 percent in the UK. The rate was almost twice that of West Germany (43 percent), which was the highest among all Western countries. In describing the miraculous economic development in Japan, Johnson (1982) highlights the role of the state, especially the Ministry of International Trade and Industry, and suggests that Japan is a good example of a state in which the developmental orientation predominates.

In Taiwan, the first four-year economic development plan was established in 1953, and the government implemented import substitution policies. From 1946 to 1962, financial aid from the United States was \$4,428 million, second only to Korea. However, US aid funding took the form of development loans in 1961, and this had a great

impact on Taiwan's economy, leading the country to implement an export-promotion policy during the 1960s (Jang, 2008). Exports increased from \$2 billion in 1971 to almost \$13 billion in 1978 (Cho, 2009).

In Korea, the military government in 1961 set economic development as one of its priorities as a way to gain legitimacy. The government led by Park established a five-year economic development plan in 1962. With this export-promotion policy implemented by the government, Korea gradually entered an era of rapid economic development and reached 15 percent GDP annual growth in 1969. From 1960 to 1971, Korean exports increased 33-fold, led by the growth of the manufacturing sector. Economic development from the 1960s was strongly government led.

Thus, three commonly discussed characteristics of post-war East Asian welfare states that connect the three countries under discussion here are the strong influence of Confucianism, an authoritative government, and strong government-led economic development during the industrialization period. These three countries with Confucian backgrounds had relatively high autonomy and were able to implement policies for economic development during the postwar period. However, there were country-specific historical events in each country that structured the institutional arrangements and the subsequent developments. Many argue that Japanese industrial policy during the colonization period created similar industrial structures in Korea and Taiwan. However, when examined in detail, differences in the early stage of industrial development created different trajectories for the rest of the industrialization process.

ROOTS OF DIVERGENCE

Historical events created a certain environment in each country, which led to development of specific institutional arrangements during the industrialization period. In Japan, after signing the Instrument of Surrender in 1945, the government had to implement demilitarization and democratization. The establishment of a modern state was initiated by the elites in government rather than being driven by civil society or the public. In 1946, the Emperor of Japan renounced his divinity, and in April of that year, the first election for the House of Representatives was held. In the same year, Japan promulgated a new constitution after the Allied occupation powers (General Headquarters, Supreme Commander for the Allied powers or GHQ) revised it. The new constitution, together with five New Directives issued by the GHQ, led Japan to democratize, emphasizing the concepts of sovereignty of the people, emancipation of women, the right of labor to organize, and a democratic economy. Under the occupation of the GHQ, Japan had to implement three reforms in order to democratize the

economy: land reform, dissolution of the conglomerates, and democratization in the labor market (Cho, 2009).

GHQ wanted to restrict the potential of a revival of militarism in Japan and avoid conglomerates' monopolistic control over the market, and so it led the reform efforts. Ten conglomerates were dissolved, including Mitsui, Mitsubishi, Sumitomo, and Yasuda, and family-owned companies were forced to offer stocks to the public. GHQ implemented policies for land reform, believing that peasants working under the feudalistic Japanese land system were a source of low-wage labor and military force that could lead to militarization.

Lastly, GHQ's democratic reforms contributed to the introduction of the three fundamental labor laws—the Trade Union Act (October 1945), the Labor Relations Adjustment Act (September 1946), and the Labor Standards Act (April 1947) (Keizer, 2010). In 1946, the unionization rate increased to 41.5 percent from 7.9 percent the year before. However, Gordon (1985) explains that the harsh deflationary policies of the Dodge line¹ forced companies to take a hard stance and employees to take moderate actions. This led to the emergence of a “management version of Japanese labour relations” in the early 1950s, and “most often a part of the yearly pay raise would be ‘automatic’ or objective, linked directly to age and seniority and the remainder would depend upon an evaluation that took place concerning the issue of job security” (Gordon, 1985, pp. 366, 390).

In Korea and Taiwan, the process of industrialization was led by strong government intervention without the development of democracy. The Park Chung-hee government ruled Korea for about 20 years, and in Taiwan, the military government ruled with martial law for 38 years. In both Korea and Taiwan, the military government had to seek legitimacy and used the threat of communism to maintain authority. Korea's economic environment was different from that of Japan and Taiwan, as it suffered the consequences of the Korean War (1950-1954), which left it one of the poorest countries in the 1950s, with a GDP similar to Uganda's. From 1946 to 1962, the amount of aid that Korea received from the United States was \$5,434,000,000. However, as soon as the United States changed the grant aid into a loan, as in Taiwan, Korea had to switch its import substitution policy to an export-led one.

Korea emphasized the threat from communist-governed North Korea. Because Taiwan's KMT had been defeated by the Communist Party in China, it too was wary of any communist movement. Korea and Taiwan suppressed labor unionization and opposition parties' activities in order to accumulate capital and maintain low wages to

1. The Dodge Line was a series of economic measures, named after and under the supervision of the US envoy Joseph Dodge, to reduce inflation by slashing government subsidies.

implement a state-driven export-led policy (Kwon, 2005). Martial law was maintained in Taiwan and in Korea as the military security agency and administrative agencies were expanded through emergency measures.

However, Taiwan's policy diverged from that in Korea due to its unique historical ethnic divisions. About 2 million people, including soldiers, intellectuals, and business elites, arrived in Taiwan around 1949 after the KMT's defeat. These Chinese from the mainland (*wai shung jen*) only comprised about 15 percent of the total population of Taiwan. The KMT, which fled from China, was a minority that implemented policies that could prevent Taiwanese people (*bun shung jen*), who comprise the majority of the population, from gaining political power. The KMT maintained its one-party system with a specific labor division along ethnic lines. Politics, military security positions, and most of the essential positions in state-led industries and large companies were occupied by *wai shung jen*. *Bun shung jen* were only allowed to own small and medium-sized companies. The Taiwanese government retrieved properties and industries from Japan in 1948 and nationalized rather than privatizing them. Hence, a large proportion of industry was owned and run by the government after the war. This planned industrial division was to prevent the *bun shung jen*'s economic capacity from developing into political power (Fields, 1995).

The following section compares how the three countries subsequently developed their institutional arrangements, highlighting the evolution of dualistic welfare production regimes in Korea and Japan.

INDUSTRIALIZATION AND INSTITUTIONAL EVOLUTION

Production System

The production system of each of the three countries is closely linked with its political background and history. Although both Korea and Taiwan implemented export-led policies, production for export was driven by small and medium enterprises (SMEs) in Taiwan and by large companies in Korea. In Taiwan in the early 1980s, the proportion of small and medium-sized companies was 98 percent, and workers in SMEs made up 70 percent of the total labor force. The production from SMEs was 76.7 percent of total exports. The Taiwanese government initially did not implement policies to support SMEs, when strong export orientation policies were developed. A large part of Taiwan's domestic market and financial resources was dominated by public companies and large private companies with strong ties to the KMT. It was only in the 1980s that the government recognized SMEs' role in its export-led economic development

and introduced policies to support them, highlighting the KMT's "politics of survival." While the Korean government made a policy priority of using financial instruments to support large private companies for economic development, the KMT considered the growth of large private companies owned by *bun shung jen* to be a threat. Hence, most of the resources from financial institutions were only made available to government-owned companies and to a few companies that had strong KMT ties (Chu 1994).

While Taiwan's economy can be classified as familial capitalism based on small and medium-sized companies (Gerlach, 1992), the Korean production system is better considered as chaebol-based rent-seeking capitalism (Kwon, 2006).² When the Korean government implemented export-led policies, certain industries were disproportionately subsidized by the government, helping them to grow. Park Chung-hee's government led the economic development based on the development of heavy industry during the 1970s. This is the period when chaebols started to come to the fore. Korea's economic structure is still highly reliant on exports, especially by the chaebols (Jang, 2008).

The three countries had different financial systems, which were closely linked with different production systems and welfare systems. Japan's economy is categorized as stakeholder capitalism rather than shareholder capitalism, emphasizing the importance of sustainable relationships between companies and financial institutions and of seeking to benefit all stakeholders. Companies rely more on banks or insurance companies for financing rather than on stock markets and financial institutions actively taking part in supervising the management of their affiliated customers (Kwon, 2006). The development of such relationships between companies and financial institutions started in the late 1940s, when GHQ imposed reforms on the *zaibatsu* (Japanese conglomerates equivalent to chaebols in Korea). However, the conglomerates were reorganized into corporate groups in which affiliate companies were stakeholders, and the bank became a stakeholder, holding shares in component companies.

In contrast, in Korea, most of the large companies have been owned and managed by the head of the conglomerate and his family members. In this hierarchical structure, financial institutions were considered only as vehicles to carry out government financial policies. In the 1960s, the Korean government implemented export-led policies, developing heavy chemical industry, and expanded its support for companies by increasing investment and the availability of loans together with tax cuts. The government secured massive foreign loans through subsidized government channels (Brinton, Lee, & Parish, 1995). During this period of export-led policies, large amounts of capital started to be accumulated by business conglomerates, and the dual structure of chaebols and

2. A *chaebol* is a South Korean form of business conglomerate with multinational holdings; Samsung and LG are examples.

SMEs started to be formed. Both Korea and Japan structured a production system based on large private companies, but the GHQ in Japan dissolved zaibatsu, while chaebols were developed through generous financial support from the military government, creating two different types of capitalism.

In Taiwan, while the government did not implement financial policies that explicitly favored SMEs, the increase of exports and economic development were both led by the SMEs. Unlike Japan, where companies relied on the banking system, or Korea, where financing through government played a large role, SMEs in Taiwan procured financial resources through family, friends, and acquaintances. Linking it with the welfare system, Taiwanese companies had a more paternalistic management strategy, which led employers to make higher contributions to social protection.

In the 1970s, Taiwan's organization of production moved in the opposite direction from that promoted by the Korean government, which focused on capital-intensive production. In Korea, a great influx of foreign capital was funneled to chaebols through governmental financing, while Taiwan had few foreign loans. The Korean government's policy of supporting chaebols led it to focus on greater capital intensity, while Taiwan companies developed a labor-intensive production system. By the 1970s in Korea, over half of all private-sector enterprises with 10 or more workers had more than 200 workers (Brinton et al., 1995), and the development of capital-intensive production in Korea kept the labor demand lower than in Taiwan. Furthermore, foreign loans to the Korean government were allocated principally to chaebols, fueling the growth of large firms. Brinton et al. (1995) suggest that connections between employer and employee were likely to be more informal in Taiwanese companies.

Unlike in Taiwan, in both Korea and Japan, large companies dominated the market (Kwon, 2003). In Japan, because of the dual structure of large companies (and their affiliates) and SMEs, there was a vertical relationship between a parent company and affiliated contractors (Gerlach, 1992). This kind of corporate governance was structured from 1950 to 1960, when Japan was experiencing economic development. In sum, Korean and Japanese economic development through large companies created a dual production system during the industrialization period, with companies of different sizes providing different working conditions with regard to wages, employment, and corporate welfare.

Skill Formation

Industrialization in Japan started decades earlier than in Korea and Taiwan, following the Meiji Restoration in the late 19th century. Taking a historical approach, Thelen (2004) examines how the individual artisans (*oyakata*) participated in the skill forma-

tion system after the Meiji Restoration and during the industrialization period. Traditional artisans were integrated into large factories for apprentice training through continuous teaching, adapting traditional skills to new tasks (Thelen, 2004). This form of in-plant training increased dramatically when the metalworking sector developed with large private firms in the 1920s.

During this period, companies needed a large number of skilled workers, and they started to take punitive steps or offer inducements to secure their workforce (Thelen, 2004, p. 161). Because such programs were costly, other measures to draw skilled workers into a more dependent relationship with the company were taken. In the 1920s, a large number of companies, especially in heavy industry, started to recruit young people directly out of school (in April of each year), and founded training schools for their workers (Thelen, 2004). Thus, skill formation in Japan involved extensive firm-based training in the context of stronger internal labor markets. Skill formation was strongly associated with complementary personnel policies (Thelen, 2004; Dore, 1974, pp. 399-400). During the interwar period, the government imposed strict regulation of labor mobility and encouraged training within companies. During this period, training programs were widely established within the private sector (Weiss, 1993, p. 346; Thelen, 2004).

Similar to Japan, in Korea, companies regularly hired graduates, trained them in firm-specific skills, and employed them until retirement. Recruiting companies often screened potential employees based on university degree, and hence the ranking of the university was important. This employment custom was carried out in large private-sector companies and the public sector, but not in SMEs. In the 1960s, the government started to establish strong ties with large private corporations, and large corporations made use of the cheap labor for light-industry-based, export-led industrialization. During the 1960s when labor-intensive light industry was promoted, large numbers of low-skilled workers who used to work in agriculture migrated to urban areas. Labor demand for skilled workers was not yet high, and the need for companies to secure their workers was low as well. However, from the 1970s, the government focused on heavy industry, and the number of large companies (and factories) with 500 or more workers started to increase rapidly. A scheme to develop six major industries was financed through a specially developed National Investment Fund which mobilized public employee pension funds and a large proportion of private savings. From the mid-1970s to early 1980s, chaebols grew large and the government's control over the allocation of foreign funds and other credit made the state the major player in investment decisions.

The transformation of the Korean government's development focus from light industry to heavy industry changed the demand for skills. Male skilled workers

became the main labor force for heavy industry in large companies, but from 1975, companies experienced labor shortages (table 1) and started to compete on quality rather than price, with the result that the need for large companies to train and secure their workers started to increase (Yang, 2004).

Table 1. Skill Shortages in Korea, 1977-1981.

	Managerial and office skills	Manufacturing skills	Total
Employed workers	1,279,925	1,846,005	3,125,930
Additional workers needed	11,225	43,481	54,706
Shortage	0.88%	2.35%	1.75%

Source: Yang, 2004.

In Korea, government policy on skill formation was closely linked with government policy on economic development. In the 1960s, the Park Chung-hee government strengthened its authoritarian control over educational policy. The slogans were “education for economic development” and “nation-building through education” (Adams & Gottlieb, 1993, p. 26). Skill formation plans were informed by economic development plans; the state encouraged expansion of education during the 1960s, and the number of schools increased. Vocational high schools were established in the 1960s to provide skilled workers for labor-intensive light industries. In the 1970s, when the government implemented policies to develop heavy and chemical industry, it promoted vocational education and training to provide the new industries with semi-skilled and skilled labor (Ashton & ESRC Pacific Asia Programme, 1999). In 1972, the Ministry of Science and Technology predicted that there would be a shortage of scientifically and technically skilled labor that could not be covered by public training centers (Ashton & ESRC Pacific Asia Programme, 1999). Therefore, the government enacted the Special Measures Law for Vocational Training in 1974, under which companies of over 500 employees were required to train at least 15 percent of their workforce within the company. The penalty for noncompliance was a fine. From 1976 on, the threshold was lowered to 300 employees (Ashton & ESRC Pacific Asia Programme, 1999). The number of skilled workers who were trained in-plant training centers rose by 90 percent in the five years following the law’s enactment (Ashton & ESRC Pacific Asia Programme, 1999).

Skill formation was different in Taiwan than in Korea and Japan. The provision of education and vocational training was highly controlled by the government, and it changed according to the economy’s labor demand. Thus, Taiwan’s workforce policy was coordinated with different stages of economic policies. The distinctive feature of

Taiwan's skill formation system, compared to that of Korea and Japan, has been the existence of a comprehensive public training system and a lack of on-the-job training in most private companies (Ashton & ESRC Pacific Asia Programme, 1999). Having fewer resources than large companies, SMEs were less able to train their employees. In comparison with the large companies in which workers were also expected to stay for a longer period of time, the SMEs had substantial disincentives to spend resources on training, as a high rate of worker turnover could nullify their investment.

In the late 1960s, on-the-job training was carried out in state-owned enterprises, and in 1971, the government encouraged private companies to provide training for their workers. In-plant training programs were to be used in state-owned enterprises to demonstrate their value to the private sector (Ashton & ESRC Pacific Asia Programme, 1999, p. 90). However, these were not successful. Although the state attempted to encourage private firms to offer vocational training, the state was unable to shift responsibility for training to the private sector (Ashton & ESRC Pacific Asia Programme, 1999), and most of the training was provided by public training centers or the state education system.

Because workforce planning was organized by the state, the education and vocational training system was changed to adapt to economic policies. For example, the structure of higher education was changed to produce more engineers, and the percentage of students enrolled in engineering-related subjects increased in the late 1960s (Ashton & ESRC Pacific Asia Programme, 1999). Also in response to the shift to capital- and skill- intensive industrialization, the Science and Technology Development Program planned for staffing at the tertiary levels in 1979.

In sum, the Taiwanese economy has been dominated by SMEs, and it has been difficult for the government to promote formal vocational training in these enterprises. Skill formation was organized in schools and public training centers and led by the state through general educational institutions such as universities and vocational high schools (table 2).

Table 2. Proportion of Students in Vocational and General High Schools in Taiwan

	1960	1970	1990	1995	2000
General high schools	60%	43%	28%	30%	40%
Vocational high schools	40%	57%	72%	70%	60%

Source: Green, F., Ashton, D., James, D., Sung, J. 1999, originally from Chang, 1995.

Another important aspect of skill formation in Taiwan is that firms had competed in occupational labor markets rather than developing an internal labor market as in

Korea or Japan. The duration of the working period in a firm, the worker's age, and firm-specific skills are important factors in an internal labor market. However, in an occupational labor market, work experience in a certain industry is the important factor for wage determination or promotion (Osterman, 1985; Song, 2000). In an occupational labor market, it was easier for workers to move from one company to another (as long as they were in the same industry) than it was for workers in firms with internal labor markets. Therefore, workers in Taiwan had industry-specific skills rather than firm-specific skills (Song, 2000).

Welfare System

Most studies focus on the lack of generous welfare systems in East Asia, compared with Western countries, during the industrialization period. However, during this period of rapid economic development, East Asian countries developed welfare systems that were functionally equivalent to social protection policies, as suggested by the VOC literature. The unique institutional arrangements that provided welfare to workers and their families are highly linked to the development of production regimes in the three countries.

Skill formation in Japan and Korea took place alongside some measure of job security. For example, key workers received broad company-specific training designed to allow companies to deploy their workers flexibly in response to the company's needs. But companies tried to "offset the reluctance of workers to invest in such company-specific training by employing compensative measures like offering long-term employment commitments, instituting seniority based wages and internal career ladders, and introducing company welfare schemes" (Levine & Kawada, 1980, pp. 114-118). This kind of permanent employment is defined as a Japanese custom.

The custom of permanent employment developed in Korea as well. During this period of rapid development of heavy industry, large companies in Korea adopted the on-the-job training system that had been carried out in Japan (Yang 2004). In both Korea and Japan, on-the-job training included rotating workers through different departments so that they could gain broad skills in a number of the firm's functions. In addition, in order to secure their labor force, companies developed internal labor markets in which the allocation and pricing of labor were governed by company rules and procedures. Once workers were employed, they were shielded from the competition of the external labor market and only had to compete within the company for promotion or higher pay.

Criticizing the social democratic bias in traditional welfare state discussions, Estévez-Abe (2008) examined the Japanese welfare state by focusing on Japan's use of

industrial policies as a form of social policy. She summarizes Japanese welfare policy as “work-based social protection,” and explains that this system helped “create and sustain a coordinated market economy in the absence of generous social security programs for wage earners” (Estevéz-Abe, 2008, p. 17). Strong internal labor markets with an expectation of lifetime employment in a single firm and a seniority-based wage system protected workers from the employment and wage insecurity of the external labor market’s fluctuations. The bonus system also played a role as welfare benefits and protections were motivated by companies’ desire to secure their workforce.

From the mid-1970s in Korea, large manufacturing companies with skilled employees provided training and developed a structured promotion policy based on seniority. Since training employees is costly, companies offered the employees job security, which helped employers to secure a stable workforce while providing employment security for the workers. For example, POSCO introduced a structured promotion policy in 1976. In order to be categorized as a *meister* (highly skilled worker), an employee had to work at least 10 years and be over 40 years old. Meisters’ pay could be as high as that of managers, and the company provided special support for housing and full tuition for their children. If employees worked another 10 years after achieving *meister* status, they could continue to work until age 65, and their children would receive priority in hiring (Yang, 2004).

Such mechanisms for providing training and motivating employee loyalty later led to the development of a firm-based welfare policy. This firm-based welfare system in Korea and Japan created a dualistic welfare production regime between employees in SMEs and large firms. For example, in Japan in 1965, workers in companies of 30 to 100 employees received only 61.7 percent of the welfare benefits received by workers in companies of 500 workers or more. The type and level of welfare benefits differed between large companies and SMEs in Korea as well. Large companies in both Korea and Japan gave comprehensive welfare benefits to their workers in order to secure their workforce and discourage turnover.

The welfare systems in Korea and Japan complemented their production structures and helped generate the differences in welfare provision between large companies and SMEs. Privileged core workers in large firms in Japan’s dual labor market preferred company-based benefits over universal benefits, and large firms that have political influence often seek protective measures for themselves. Pension schemes differ by occupation, firm size, and whether workers are part time or full time (Estevéz-Abe, 2008).

Korea’s national pension and insurance system initially encompassed only workers in large firms. In Korea, to secure financial resources, medical insurance was introduced to large companies; the disparity in welfare protection between large companies

and SMEs was large. Medical insurance, which started in 1977, initially only covered workers in companies with 500 or more employees. Coverage was extended to workers in companies with 300 or more employees in 1979, and to workers in companies with 100 or more employees in 1981.

The introduction of medical insurance in Korea is a good example of how a welfare system can complement a production regime. Companies in the heavy and chemical industries grew large in the 1970s, and it was during this period that medical insurance was created in the interest of employers who wanted to secure their workers by providing incentives, and employers could also borrow this fund for company's production. Of course, the government was highly supportive of large companies, which led economic development, and it supported this large-company-based medical insurance.

Japan increased the coverage of healthcare and pensions to a universal level in 1961, but government contributions to social protection never exceeded 10 percent of GDP until 1980. For example, during the mid 1970s, the share of social protection from total GDP was 5.5 percent in Japan (1973-1974), while it was 23.9 percent in Sweden (1974), 13.6 percent in the United Kingdom (1973-1974), and 11.7 percent in the United States (1973-1974). Employers and employees bore the brunt of the welfare cost. In Japan, contribution by employers was low, at 29 percent, compared with 41.2 percent in Germany, 58.4 percent in France, and 59.8 percent in Italy.

Compared with Korea, where medical insurance was compulsory for companies with 300 or more employees in 1979, in Taiwan the coverage was compulsory for firms with 5 or more employees as well as self-employed workers. In other words, in Taiwan, social protection covered SMEs from the beginning.³ In the Taiwanese social protection system, the employer's share of the contribution is higher than it is in Korea and Japan.

In contrast to Japan and Korea, where lifetime employment and a seniority-based wage system played a functionally equivalent role to employment protection and wage protection, SMEs in Taiwan had high worker turnover. SMEs were often managed by the owner or a member of his or her immediate or extended family, resulting in low organizational commitment for workers who were not family members. In addition, SMEs usually paid less than large firms and offered less opportunity for advancement (Farh, 1995). The company did not provide any functionally equivalent employment protection or wage protection. Instead, social protection by the government covered workers in SMEs (and self-employed workers) from the very beginning of the development of the welfare system.

3. Providing medical insurance became obligatory to companies with 10 or more workers in 1970, and to companies with five or workers more in 1979.

In addition, employers applied a more paternalistic management style, which was rooted in Confucian values, to secure their workers and prevent high turnover. For example, employers developed personal ties with employees, and managers created an atmosphere of harmony in their companies or departments. The relations between employers and employees could be highly personal because employer authority stemmed from moral superiority rather than competence (Chen, Ko, & Lawler, 2003; Wilkinson, 1994).

Employers' contribution to medical insurance was 80 percent in Taiwan, compared with about 50 percent in Korea and Japan. In Taiwan, the contribution by the employer is four times higher than that of the employee. This is counter-intuitive, as SMEs would have fewer financial resources than large companies; according to Kwon (2006), the more family- and acquaintance-based working conditions in Taiwanese SMEs may be a factor.

Industrial Relations

In 1955, the Japan Productivity Center (Nihon Seisansei Honbu) was established with representatives of labor and management and academic experts. It developed an agreement that "tied the protection of employment and the increase in wages to rising productivity" (Keizer, 2010, p. 16). However, this agreement was made at the level of the firm, which could have resulted in large differences in wage among companies. At about the same time, the mid-1950s, Japan started its rapid development. Hence, the demand for skilled labor increased, and companies sought to secure the workers that they had invested in training. This led unions to coordinate their actions regarding wage levels within and between industries so that they could strengthen their bargaining power by developing identical wage demands.

This led to the development of *shunto* ("the spring struggle"), the annual wage negotiations between unions and employers. The Trade Union Federation in Japan, Rengo, was established in 1987 merging the Japan Confederation of Labor (Domei) and the Federation of Independent Labor Unions (Churitsu Roren). Unions were firm-based and active mostly in large enterprises. Rengo customarily set a specific target for the annual wage increase to aid the collective bargaining during *shunto*.

The relationships between unions and companies were very close, and union members' fates depended on their company's success. For example, officers of the union usually maintained their seniority and tenure while working exclusively on union activities and being paid from the union's accounts. Many union officers would go on to higher positions within the corporation if they were particularly effective. Many managerial-level employees were former union members. Another characteristic of

Japanese labor unions was that regular workers automatically became members of the union, but temporary and part-time workers were excluded. The firm-based unions of most large companies created disparities between employees of large corporations and those of SMEs.

The relationship between the government, private enterprises, and labor unions had a clear hierarchy in Korea during the industrialization period. After the coup in 1961, the Park Chung-hee government dissolved all the labor unions and established the Federation of Korean Trade Unions. It was the only legal labor union during the authoritarian period and until the establishment of the Korean Confederation of Trade Unions in 1995. Its structure was similar to that of an industry-based union. However, it was an alliance of firm-based unions with hierarchical characteristics, unlike the more horizontal structure of an industry-based union. After political democratization in 1987, workers in large enterprises organized and demanded wage raises, job security, and an increase in welfare provision (Peng, 2010), and developed firm-based labor unions. Like in Japan, workers were closely tied to the success of their companies and had little incentive to form nation- or sector-wide unions to include SME workers.

Korea and Japan's labor unions were similar in having a firm-based union system, while Taiwanese unions were more often occupation- or industry-based. Dividing corporatism into societal corporatism and state corporatism (Schmitter & Lehmbruch, 1979), Chen et al. (2003) suggest that Taiwan falls into the category of state corporatism, "a top-down relationship in which the state dominates associations whereas societal corporatism provides more autonomy for the associations" (p. 317). Both the Korean and Taiwanese governments suppressed union activities, but the Taiwanese government suppressed them by promoting the formation of a state-controlled trade union (Frenkel, Hong, & Lee, 1993). In other words, industrial relations were determined by the corporatist practices of the KMT. Until democratization in the later 1980s, the KMT pursued political stabilization in order to provide the necessary environment for rapid economic development that could legitimize the authoritarian government (Chen et al., 2003). Hence, the state, party, and union had a hierarchical relationship (Deyo, 1992; Song 2000), and trade unions were administrative arms of the government for the implementation of economic policies (Chen et al., 2003).

Two types of unions are defined by law in Taiwan, enterprise (firm-based) and craft (occupation-based) unions. Due to suppression by the KMT, craft unions declined, and enterprise unions developed in public companies and in the few private large companies until the mid 1980s (Frenkel et al., 1993). Only a few SMEs with fewer than 30 workers had enterprise unions, but craft unions were more comprehensive, including the self-employed, workers in companies with fewer than 30 workers, and SMEs. Chen et al. (2003) explain that this kind of craft union is similar to associa-

tional unionism in the United States.

Craft unions in Taiwan played a different role in industrial relations than unions in Korea or Japan, partly because they did not have specific employers with which to bargain and partly because many joined the union to participate in publicly subsidized labor insurance programs (Chen & Taira, 1995). However, in 1987, when martial law was abolished and democratization was sparked, workers in SMEs formed occupation-based unions called *jiopkongwhe*, and the unionization rate increased rapidly (table 3). Thus, two types of industrial relations emerged in Taiwan: firm-based (enterprise) unions in public firms and large private companies, and occupation-based (craft) unions in SMEs (Chen & Taira, 1995). Another unique characteristic is that Taiwanese craft unions have been location-based, meaning that workers in SMEs in different locations formed unions that are both occupation- and location-specific (Song, 2000).

Table 3. Enterprise unions and Craft Unions in Taiwan

	Union		Union members		
	Enterprise unions	Craft unions	Enterprise unions	Craft unions	Unionization rate
1979	1,637	–	1,028,700	–	20.4 %
1984	1,924	–	1,370,600	–	22.8 %
1986	1,201	989	478,400	1,067,700	26.9 %
1989	1,453	2,009	577,300	1,766,800	32.6 %

Source: Kwon S, 2005.

CONCLUSION: THE VARIETIES OF WELFARE PRODUCTION REGIMES

Japan, Korea, and Taiwan all had highly centralized bureaucracies that made economic development a priority and were successful in achieving that goal. However, events in each country created a different path for the development of welfare production regimes during the economic development process. Path dependency emphasizes contingency and historical events that determine the subsequent continuities through a lock-in mechanism. Historical events created a critical juncture in each country that affected its institutional arrangements: in Japan, the end of World War II and occupation by the GHQ, in Korea, large amounts of foreign aid followed by the Korean War and the military government, and in Taiwan, the defeat of KMT in mainland China and the ethnic division in Taiwan.

Korean conglomerates (chaebols) grew during the industrialization period, while

Figure 1. Welfare Production Regime in Japan during the Industrialization Period

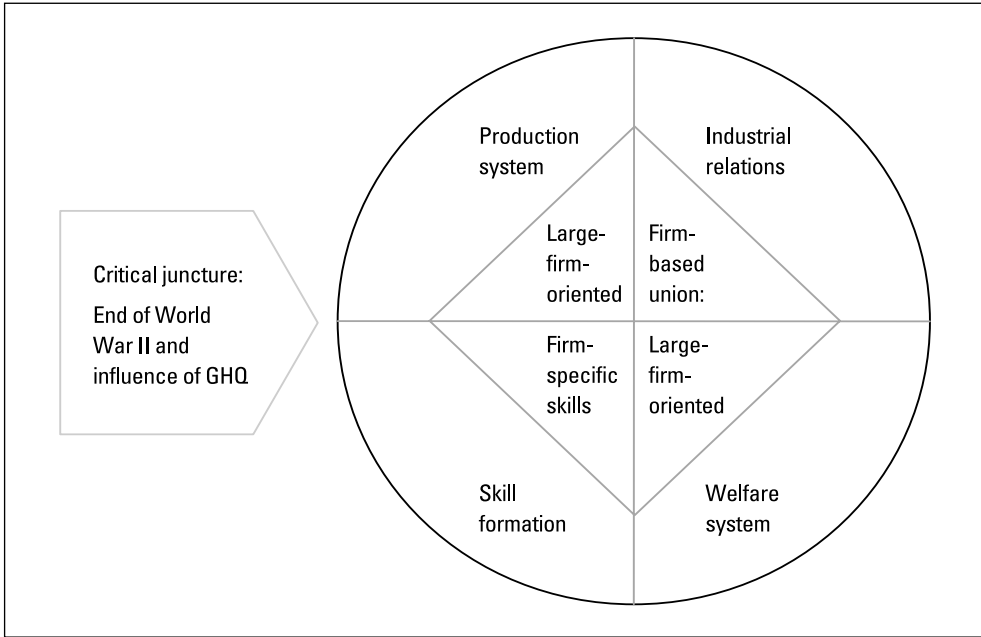
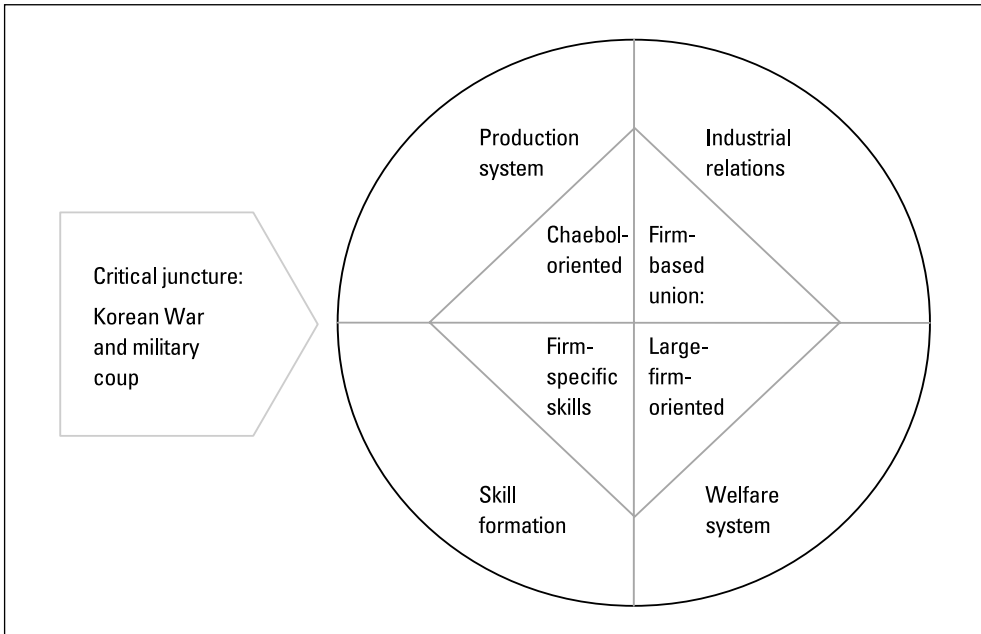


Figure 2. Welfare Production Regime in Korea during the Industrialization Period



Japanese conglomerates (*zaibatsu*) were dissolved by the GHQ. However, on a larger scale, Korea and Japan had a number of similarities in the welfare production regimes that were formed during the industrialization period. In both countries, the production system, industrial relations, skill formation, and the welfare system were oriented to large private companies (figure 1 and figure 2). Large private companies led these countries' economic development, and there was a clear hierarchical relationship between them and affiliated companies.

The rapid growth in the manufacturing sector required skilled labor, and firms in this sector had to compete with each other to secure their workforces. Hence, workers gained firm-specific skills through on-the-job training that gave little incentive for them to move to another firm. Also, the unique development of the welfare system was heavily dependent on large firms, and these firms played a significant role in providing welfare to their workers. Firms wanted to secure their workers as they had invested much in their workers' training, and they developed an internal labor market that had a number of unique systems, such as the seniority-based wage system and lifetime employment.

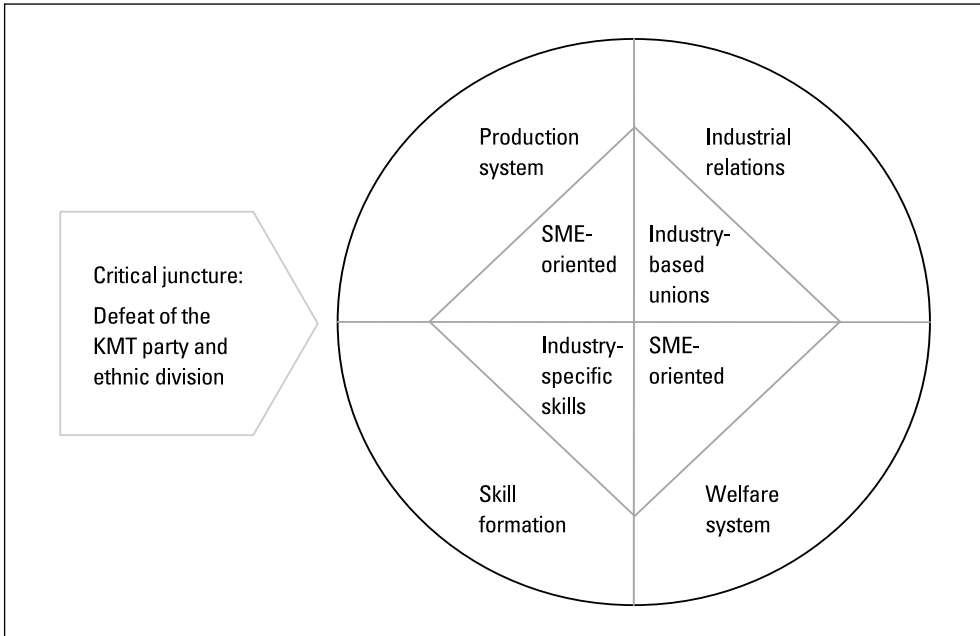
Keizer (2010) summarized the institutional character of Japanese employment practices as having three pillars: lifetime employment, seniority-based wages, and enterprise unionism. Lifetime employment is defined as "the practice whereby a worker is hired immediately after school and is expected to stay with the same firm until retirement" and "the firm, in return, is expected to retain him until the age of mandatory retirement (typically 55 to 60) regardless of business conditions" (Odagiri, 1994, p. 48). Enterprise unionism "implies that the employees of the firm, including both blue-collar and white-collar workers but excluding those in managerial positions above a certain rank, are represented by a single union" (Odagiri, 1994, p. 49).

Given their firm-specific skills and the welfare provided by their companies—such as subsidies for housing, bonuses, and employment protection—workers had little incentive to move to another firm. In addition, firm-based labor unions had very little incentive to encompass the needs of the workers outside their firm. Employment and wage protection for regular workers in large firms and welfare provided by the companies created a large firm-oriented welfare production regime, which had a dualistic structure with different conditions for employees of large firms and SMEs.

In the case of Taiwan (figure 3), the origin of the KMT and the authoritative government created a different kind of welfare production regime. During the industrialization period, the Taiwanese regime was oriented to SMEs and was occupation-based. The unique historical background of ethnic division and the politics related to it created a production system that was SME-led, and the welfare system, industrial relations, and skill formation developed in response to it. Hence, there was a dual structure for the

two ethnic groups but not for large companies and SMEs. Workers had higher mobility within the same occupation, and the public vocational schools played a larger role in providing skilled workers than they did in Korea and Japan.

Figure 3. Welfare Production Regime in Taiwan during the Industrialization Period



The three countries’ diverging paths can be explained by the critical juncture created by specific historical events in each country. Grounded in VOC theory, this study examined four different institutions—production systems, skill formation, industrial relations, and welfare systems—and further developed the concept of the welfare production regime introduced by the VOC literature. The formation of institutional arrangements was examined with a historical institutional approach, in order to explain the formation of varieties of welfare production regimes during the industrialization period in the three East Asian countries.

While a number of similarities between East Asian economies and East Asian welfare states have been discussed, only a limited number of studies have examined their differences. This study examined the different welfare production regimes that emerged in Korea, Japan, and Taiwan during the industrialization period, demonstrating that Korea and Japan were more oriented to large firms while Taiwan was SME-oriented.

Welfare systems that are functionally equivalent to welfare policies in Western

welfare states were discussed in this article, which supported the argument of dualistic welfare production regimes in Korea and Japan. Seeleib-Kaiser (2002) explains that the dual structure in Japan was further entrenched by the country's emphasis on work and policies that favored large companies and full-time workers. Estévez-Abe (2008) also explains that Japan relies on a variety of functional equivalents to social security in areas where its social security benefits are meager. However, direct beneficiaries of such functional equivalents are firms and producers rather than the individual workers. For example, wage subsidies are paid to employers rather than to employees. This is argued to play a functionally equivalent role as income protection, since companies can avoid firing their workers during downturns in the business cycle (Estévez-Abe, 2008), but the disparities in the dual labor market remain untouched.

These social policies, which are argued to function as equivalents to other social protections, in fact further strengthen the dual structure of insiders (employees in large firms and full-time workers) and outsiders (SME employees and part-time workers). The next question will be whether the dualistic welfare production regime in Korea and Japan can cope with the challenges of the period of globalization and deindustrialization.

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