

# Changing Patterns of Industrial Relations in Taiwan

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This article examines changing patterns of industrial relations (IR) in Taiwan. Although trade unions have become more autonomous since the lifting of martial law in the mid-1980s, trends such as the privatization of state-owned enterprises, industrial restructuring, flexible employment practices, and importation of foreign workers hinder union development. The millennium may represent a turning point for workers and their organizations because the Democratic Progressive Party (DPP) replaced the Kuomintang (KMT) as the ruling party. This may further union independence and power because the DPP tends to be a more pro-labor party. However, balancing the interests of workers and employers will still be a challenge for the DPP, particularly given employer opposition to many of the DPP's labor policies.

MANY SCHOLARS HAVE ATTRIBUTED TAIWAN'S SIGNIFICANT ECONOMIC ACHIEVEMENT to the maintenance of industrial peace (Frenkel, Hong, and Lee 1993; Chen and Taira 1995). Trade unions in Taiwan had long been seen as merely auxiliary institutions and administrative arms of the government for the implementation of national industrial policies, helping the government to drive economic growth. However, the situation has changed since the lifting of martial law in 1987, when groups of labor activists and antigovernment leaders began to form unofficial enterprise-centered unions. Furthermore, the millennium was a turning point for workers and their organizations because the Democratic Progressive Party (DPP) replaced the Kuomintang (KMT) as the ruling political party in Taiwan.<sup>1</sup> Shui-bian

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<sup>1</sup> Until its victory, the DPP had been the biggest and strongest opposition political party in Taiwan. This party was formed in 1987. Until the election of Shui-bian Chen, the KMT, or Nationalist Party, had ruled in Taiwan since 1949 (and earlier in mainland China after the establishment of the Republic of China).

Chen was elected president in 2000. This had been expected to bring about a more autonomous development of trade unions and speed up the transformation of Taiwan's industrial relations (IR) system because the DPP tends to be a more pro-labor party. However, these changes have not fully materialized as a consequence of political and other difficulties. In addition to the effects of the lifting of martial law and political democratization on unionism, the privatization of state-owned enterprises and the transformation of Taiwan's industrial structure have altered the IR environment substantially over the last 10 years.

The first section of this article reviews the changing pattern of the Taiwanese IR system over the past several decades, focusing on the influences of political and economic environments. The second section examines the development of a new mode of IR in Taiwan in that it addresses emerging economic challenges and the process of political democratization.

### Corporatism and Industrial Relations

In his classic work, John Dunlop (1958) saw IR systems as the result of the interactions of various actors and the contexts in which they operate. For Dunlop, the interactions of three major actors (government, workers and their organizations, and employers and their organizations) and technical, social, political, and economic contexts shape the various patterns found in national IR systems. He posited that any change in these actors or contexts would result in the transformation of IR systems to some degree. Whatever the limitations of the IR systems' perspective now in understanding IR processes in highly industrialized and postindustrial countries (Kochan, Katz, and McKersie 1986), it is certainly useful as a starting point in the analysis of IR in developing countries.

For developing countries, the political and economic contexts often have a vital role in shaping their IR systems (Sharma 1985). National industrialization policies dominate the development of labor movements and IR. In order to pursue rapid economic growth, political elites must encourage foreign investment, so state intervention in labor-management relations in order to keep industrial peace is often a result. Therefore, the interplay of political and economic developments shapes various aspects of the IR system in developing countries, especially in the earliest stages of industrialization. This has certainly been the case in Taiwan.

*Corporatism.* Researchers have proposed different types of national IR systems to encompass the relationships among the state, employers, and

workers. Corporatism is one way in which these relationships are managed (White 1996). Although the term corporatism varies in its definition, several common characteristics have been proposed. The term mainly describes the relationship between the state and social groups and interests. In this relationship, the state plays a key, often dominant role in regulating and coordinating the activities of social groups. The establishment and continued existence of formal groups representing social interests are granted and franchised by the state, although such officially recognized groups are to varying degrees autonomous (White 1996; Malloy 1979).

Corporatism can be differentiated into *societal corporatism* and *state corporatism* (Schmitter and Lehmbruch 1979). State corporatism refers to a top-down relationship in which the state dominates associations, whereas societal corporatism provides more autonomy for the associations. State corporatism would be characteristic of the approaches taken by many authoritarian regimes, whereas societal corporatism is associated with more democratic governments. The approaches taken, for example, by the governments of Germany and, to a lesser extent, Japan in coordinating national IR systems would fall into the latter category, whereas mainland China employs more of a state corporatist system (although market reforms and economic liberalization certainly are changing this). Efforts at tripartite cooperation in South Korea (Park and Park 2000; Bae 1997) also represent societal corporatist practices.

The pattern of Taiwanese IR system was determined by the corporatist practices of the KMT from 1949 (when the KMT government moved to Taiwan after the revolution in China) until the election of the DPP presidential candidate in 2000. Until the mid-1980s, the party pursued two distinct but interrelated, goals: political stabilization and economic growth. Political stabilization provided a necessary environment for rapid economic development that legitimized one-party authoritarian rule. In order to stabilize the political situation, the KMT established a dominant bureaucracy and strict legal system that covered all aspects of social associations. Shu (1987) pointed out that this policy resulted in a “strong state/weak society” before the 1980s. By the 1980s, however, the KMT began to pursue more liberal political policies and to introduce democratic reforms. Two major events—the passage of the Labor Standards Act in 1984 and the lifting of martial law in 1987—substantially altered the IR system after the mid-1980s. Therefore, prior to the mid-1980s, Taiwanese labor policies can be characterized as authoritarian and a form of state corporatism, with labor organizations controlled by the state (Deyo 1989; Lee 1995; Freeman 1994). After the mid-1980s, the lifting of martial law transformed Taiwan’s IR system, bringing about the development of a more autonomous labor

movement. IR became more adversarial, and the Taiwanese system moved toward societal corporatism.

*Political and Institutional Forces.* Industrialization policies and economic development in Taiwan have received much attention (Deyo 1989). Taiwan's industrialization efforts can be traced back to the end of the Japanese colonial period in 1945 and the retreat of the KMT from mainland China under Chiang Kai-shek in 1949. Under Japanese colonial rule, the economy revolved around the production and processing of food crops. After the KMT retreat to Taiwan, a series of industrialization policies was initiated, from import substitution in the 1960s to an export-led orientation from the 1970s onward. The development of import-substitution policies eventually resulted in market saturation and a high unemployment rate (Wilkinson 1994). The problems caused from import substitution rekindled concern with identifying appropriate development strategies, resulting in the adoption of an export-led industrialization policy.

Taiwan benefited from export-led industrialization in several ways. Annual real growth in the 1980s and 1990s was substantially higher than during the 1960s. Trade surpluses accumulated rapidly. The combination of large surpluses and higher domestic savings reduced foreign debt. The unemployment rate declined rapidly and remained quite low until the mid-1990s, increasing during the Asian financial crisis of 1997 and thereafter.

The total labor force in Taiwan grew rapidly from 3.6 million in 1960 to 9.8 million in 2000.<sup>2</sup> Until the late 1980s, labor-management relations were peaceful, and workers were not militant. This outcome was attributable to a large extent to the policies of the KMT. However, the dominant culture of Taiwan is rooted in Confucianism, which, among other values, emphasizes deference to authority and social harmony. In fact, Confucianism is a pillar of the national philosophy of the Republic of China developed by the KMT, and Confucian principles have long been a part of the curriculum in primary and secondary schools in Taiwan. Rapid economic growth and extensive interaction with Western cultures have engendered significant cultural change in Taiwan, making it now more individualistic and less hierarchical. Such cultural change has played a role in the emergence of the worker militancy of more recent years that we will explore below.

Prior to the mid-1980s, trade unions were merely auxiliary institutions and administrative arms of the government for the implementation of

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<sup>2</sup> The total labor force includes employers, self-employed, government employees, private-sector employees, and unpaid family members who work more than 15 hours a week. However, those in military service are excluded.

national industrial policies, helping the government drive economic growth. In the political sphere, workers and their organizations often were mobilized to support KMT-nominated candidates in national and regional elections. Therefore, workers and their organizations played a vital role in sustaining the rule of the KMT. The government's and the KMT's intervention in IR has its historical background. In the years after the establishment of the Republic of China in 1912, trade unions were formed to protest low wages and worsening working conditions in foreign companies. The early labor movement was transformed by the political struggle between the KMT and the Communist Party. Trade unions at that time were pro-Communist. The KMT tried to attract the leadership of the trade unions. However, this effort was unsuccessful and affected the attitudes of the KMT toward workers and the labor movement after 1949.

Given the KMT's unhappy experience with organized labor on the mainland, the party adopted repressive labor policies with regard to independent unions in Taiwan (Deyo 1989; Freeman 1994). First, the KMT actively developed its own political organizations at the plant level to absorb and co-opt union members. The KMT's explicit purposes were to consolidate its power in Taiwan and to mobilize workers against the threat of a communist takeover in Taiwan. Second, the government used labor laws to regulate workers' activities, such as strikes. This resulted in state-controlled or employer-sponsored trade unions.

After the Nationalists fled to Taiwan and established a provisional government in 1949, the leadership of the KMT and the remnants of the Nationalist army that had accompanied Chiang Kai-shek were quite distinct from the indigenous Taiwanese.<sup>3</sup> Taiwan had been reunited with China at the end of World War II after a half-century of Japanese control, and the period between 1945 and 1949 had been accompanied by repressive policies on the part of the Nationalist government toward the indigenous Taiwanese. In order to stabilize the state, the KMT established a division, later called the Social Work Committee, to take charge of the affairs of social groups and institutions, especially workers and their organizations. The Social Work Committee promoted the formation of state-controlled trade unions (Frenkel, Hong, and Lee 1993). It invited employers and key managers to attend seminars on IR and persuaded employers to allow workers to be unionized and to be involved in union affairs. The numbers of unionized workers increased rapidly after the 1960s. In many ways, the KMT also

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<sup>3</sup> The term *Taiwanese* refers mainly to the Chinese who had been living on Taiwan for several hundred years and spoke a distinctive dialect of Chinese. It also includes minority aboriginal people who are not ethnically Chinese and compose only a small proportion of the population.

used the state-controlled labor movement to advance foreign-policy objectives. For example, unions were encouraged to build relationships with labor organizations in other countries perceived to be anticommunist (e.g., the AFL-CIO) in order to further KMT policies and build support for Taiwan in its ongoing conflict with the mainland (Lee 2000).

In addition to active intervention by the KMT, labor legislation also played a significant role in shaping the pattern of IR. Trade unions in Taiwan are regulated by the Labor Union Law, first enacted by the KMT in mainland China in 1929 and last amended in 1975. This law sets forth the structure, formation, and obligations of trade unions. A union can be organized along craft/occupation or industrial lines when there is a minimum of 30 workers in an establishment (Article 6). Only one union is permitted per plant, and membership in the union is mandatory. Workers who refuse to join a recognized union can be suspended from their jobs at the behest of the union, although in practice many workers do not join unions because this measure of the law is not implemented effectively.

Two types of unions are defined under Taiwanese law: industrial and craft. These are literal translations from Chinese, although these terms have different meanings in Taiwan than is the case in the United States. Certain categories of workers are excluded from full union representation rights under the Labor Union Law: persons employed in administrative and educational agencies of government and munitions industries. Employees not working in excluded categories have full representation rights (e.g., collective bargaining, right to strike) and can form and join what are termed *industrial unions* (although the term *enterprise union* is probably more accurate in English in most circumstances). However, few employers in this category with fewer than 30 workers actually have unions because it is quite difficult for workers in very small companies to establish industrial unions. *Craft unions* are really much more like worker beneficial associations, and this term refers only to the types of unions that can be joined by workers excluded from full rights under the Labor Union Law, by the self-employed, and by those from the nonexcluded categories who work for small companies. In fact, craft unions are somewhat akin to what has been termed *associational unionism* in the United States. Craft unions have played a less important and less active role in Taiwan's IR system partly because craft unions do not have specific employers with which to bargain and partly because the principal reason that workers, who are mostly self-employed, join craft unions is to participate in publicly subsidized labor insurance programs (Chen and Taira 1995). Craft unions are not organized at the enterprise level but normally are city-wide or county-wide organizations.

TABLE 1  
UNIONS AND UNION MEMBERSHIP IN TAIWAN, 1987–2000<sup>a</sup>

Year	Number of Unions	Industrial Unions		Craft Unions	
		Membership (in thousand)	Unionization Rate	Membership (in thousand)	Unionization Rate
1987	2510	703	30.7	1396	36.3
1988	3041	696	29.5	1564	42.8
1989	3315	698	30.6	1721	42.8
1990	3524	699	31.3	2057	50.7
1991	3654	692	29.3	2249	59.7
1992	3657	669	28.9	2389	59.7
1993	3689	651	28.5	2521	61.2
1994	3706	637	27.4	2641	60.3
1995	3704	598	25.4	2537	58.1
1996	3700	587	23.6	2461	56.7
1997	3714	589	23.0	2364	53.3
1998	3732	576	22.0	2346	52.1
1999	3804	613	22.5	2313	50.3
2000	3836	589	20.9	2279	49.2

<sup>a</sup>See text for discussion of the calculation of unionization rates.

SOURCE: Council of Labor Affairs, *Monthly Bulletin of Labor Statistics, Taiwan Area, Republic of China*, Executive Yuan, November, 2001, Table 3–1.

Membership is higher for craft unions than for industrial unions. The membership and unionization rates for both types of unions decreased in the 1990s. Table 1 shows data on union membership and unionization rates from 1987 to 2000. The official data for Taiwan report two unionization rates. The industrial union rate is the percentage of workers in the non-excluded category in companies with more than 30 employees who are union members. The craft union rate is the percentage of self-employed and non-excluded workers in companies with fewer than 30 employees who are union members. Although government, educational, and munitions workers can join craft unions, they have been excluded from these figures. In the year 2000, for example, Table 1 accounts for about 7.5 million workers out of the total Taiwan labor force of 9.8 million (the difference being governmental, educational, and munitions workers; although these individuals can join craft unions, most do not, and they are not counted in the official union figures). Given the differences in the types of unions in Taiwan, an overall unionization rate is not particularly meaningful.

Taiwan's labor law permits the formation of a labor confederation but does not allow for competing labor confederations. Language in the law is such that only the Chinese Federation of Labor (CFL) can be the Taiwan-wide labor confederation. The CFL thus became a singular, noncompetitive,

and state-sponsored organization enjoying the exclusive representation of local unions and workers. The CFL received government subsidies, which generally accounted for more than two-thirds of its total budget.

It is important to discuss further the relationship among the government, the KMT, and the CFL and its affiliates. The KMT used the CFL and its affiliates to penetrate unions and to mobilize workers politically. It became involved in the election of trade union cadres, including nominating candidates and mobilizing supporters. The directorship of the CFL was a key position for persons who developed close political and personal ties with leading KMT members. Furthermore, the director of the CFL usually was nominated as a legislator by the KMT. For example, Shen-shan Hsieh, a well-known former chair of the Council of Labor Affairs (the cabinet-level agency in charge of labor relations matters), also had been a worker-legislator<sup>4</sup> and a member of the KMT Standing Committee (the policymaking body of the party).

Another aspect of the government's repressive labor policies was the use of labor laws to prohibit the mobilization of workers. Strikes, for example, were unlawful before the lifting of martial law in 1987. Even now, there are still many requirements that must be met by workers and unions for a strike to be legal. Strikes cannot take place until mediation has failed and a majority of the entire membership votes in favor striking via secret ballot. Not only are strikes prohibited during mediation, but so are other types of concerted actions (e.g., slowdowns, picket lines, boycotts). Furthermore, strikes are still prohibited in some sectors, such as cotton, fiber, wool, and textiles.

Other important types of labor disputes in Taiwan include issues related to union contract interpretation and enforcement, as well as to complaints that arise under the provisions of the Labor Standards Act (1984). The former are much like "rights" disputes under established contracts in the American context, in which labor and management disagree over interpretation of the terms of an existing contract. These types of disputes are resolved through mediation and arbitration under the authority of the Council of Labor Affairs (CLA). The latter are individual disputes that relate to wages or employment security (e.g., discharges) and not specifically related to union activities. Such disputes are similar to cases that might arise in the United States under laws such as the Fair Labor Standards Act or the Occupational Safety and Health Act. Initially, such cases are brought to the CLA, but they can be taken to a labor court if satisfactory agreement cannot be reached through intervention of the CLA. In contrast to strikes,

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<sup>4</sup> At one time, some members of the legislature were elected by different occupational constituencies (including general workers), whereas others were elected by the population at large. The system of occupational legislative representatives has now been abandoned.



TABLE 2  
LABOR DISPUTES (EXCLUDING STRIKES) FOR SELECTED YEARS, 1981–2000

Year	No. of Disputes	Labor <sup>a</sup> Contract	Wage <sup>b</sup>	Workers Involved
1981	891	229	263	6,903
1984	907	205	187	10,761
1985	1443	438	248	16,517
1987	1609	313	194	15,654
1988	1314	278	208	24,237
1989	1943	710	489	62,391
1990	1860	788	418	34,089
1991	1810	836	528	12,696
1992	1803	848	557	12,394
1993	1878	852	548	37,949
1994	2061	931	643	30,890
1995	2271	962	761	27,342
1996	2659	1271	891	21,654
1997	2600	1172	737	81,004
1998	4138	1954	1321	103,568
1999	5860	2978	1953	30,440
2000	8026	3921	3127	56,643

<sup>a</sup>Disputes over labor contract include labor dismissal and wrongful severance.

<sup>b</sup>Disputes over wage include claim for wage increases, arrears of wages and wage decreases.

SOURCES: Council of Labor Affairs, *Monthly Bulletin of Labor Statistics, Taiwan Area, Republic of China*, Executive Yuan, September, 1994, Table 3–6; Council of Labor Affairs, *Monthly Bulletin of Labor Statistics, Taiwan Area, Republic of China*, Executive Yuan, November, 2001, Table 3–5.

these cases are much more numerous and have been rising rapidly since the mid-1980s (Table 2), reflecting greater union and worker militancy in the period of political liberalization. Although the number of these disputes has increased steadily, the number of workers involved has fluctuated. The number of workers involved in nonstrike labor disputes peaked in 1997 and 1998 because of the Asian financial crisis; many plants closed during that time, generating numerous complaints.

*Organizational Influences.* Small and medium-sized enterprises (SMEs) are the quintessential business organizations of Taiwan. This is in marked contrast to the significance of conglomerate-like organizations in Japan (*keiretsu*) and Korea (*chaebol*), as well as the large-scale state-owned enterprises of mainland China. In 1995, companies that had fewer than 30 employees employed some 65 percent of work force in the private sector, and companies that had more than 500 employees employed only 5.5 percent of the work force. Many SMEs are short-lived, and the owners of these SMEs often also serve as managing directors and perform key functions. Most key managers are also members of the owner’s immediate or extended

family. Workers are usually paid less than in large-sized companies, have little opportunity for upward mobility (given prevalence of family members as managers), and thus have low organizational commitment, resulting high turnover (Chen 1997; Farh 1995).

The characteristics of SMEs have affected the development of IR in Taiwan. Management systems in these firms can be very centralized and autocratic, particularly in family-controlled organizations. Thus non-family members can feel that they have little influence on decisions and that rewards and advancement opportunities are arbitrary. This promotes low organizational commitment and relatively high turnover rates in many SMEs, so unions have difficulty organizing these workers. In contrast, some SME employers apply a more paternalistic management style rooted in Confucian values (Chen 1995). In such cases, employers develop personal ties with employees to maintain harmonious labor-management relations.<sup>5</sup> The personalization of management in these situations also makes unionization more difficult but here mainly out of high employee loyalty and commitment. In larger organizations, many forces have tended to support higher levels of unionization. The state has had more interest in intervening to promote the unionization of larger companies because these organizations often have played a central role in the government's economic development plans. Given the government's influence over the unions, organizing workers served as a means of securing industrial peace. The political role of these unions in supporting the government during the KMT era meant that organizing workers in companies with large concentrations of workers was an especially attractive target. Finally, many larger companies are state-owned. Trade unions in state-owned companies usually were seen as a model to encourage other enterprises to unionize.<sup>6</sup>

## Contemporary Issues in Employment Relations

As we have seen, the KMT government significantly intervened in and controlled the development of the Taiwanese IR system prior to the 1980s.

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<sup>5</sup>Traditional Chinese culture, in fact, has been incorporated into labor relations practices in companies. Managers have to create an atmosphere of harmony in their companies or departments. However, the relations between employers and employees are highly personal because employer authority stems from moral superiority rather than competence (Wilkinson 1994; Chen 1997).

<sup>6</sup>Before martial law was lifted, trade unions in Taiwan were merely auxiliary institutions of industrial peace for Taiwan's economic development. They served as administrative arms of the government for the implementation of national policies. Trade unions in state-owned enterprises played both economic and political roles. Unions in state enterprises helped the KMT government to win elections. Therefore, the government has an interest in promoting unionization in state-owned enterprises.

In the past two decades, Taiwan's IR system has faced several important challenges that have led to substantial transformations. This section examines these challenges, including political democratization, structural change in industry, and the privatization of state-owned enterprises.

*Political Democratization.* A growing breach between labor and the KMT became evident in 1986 when two anti-KMT worker-legislator candidates defeated two KMT nominees in a national election. The event shocked the KMT, which undertook a review of labor policy. In response to the apparent disaffection of workers with the KMT, a cabinet-level agency, the Council of Labor Affairs (CLA), was established in 1987. The CLA became responsible for the administration of most labor laws, occupational health and safety matters, social welfare legislation, and the resolution of labor disputes. Prior to this change, the Division of Labor in the Ministry of Interior had been responsible for labor issues, and enforcement had been weak (Lee 2000). Establishment of the CLA showed that the government was attempting to enhance its image concerning workers' welfare and to provide labor with greater protection. However, this move also allowed the KMT to retain control over the trade unions through CLA enforcement powers. In the long run, organized labor in Taiwan began charting an independent course.

Political democratization has been the leading cause of change in the Taiwanese IR system since the late 1980s. Both the democracy and labor movements gained momentum with the lifting of martial law. The establishment of the Democratic Progressive Party (DPP) in 1987 was highly significant because it was the first legal opposition party allowed in Taiwan. The DPP leadership was composed of many of the KMT's staunchest adversaries, many of whom had been imprisoned during the martial law era. Although opposition groups had existed prior to the DPP and fielded candidates in legislative elections, they were relatively weak organizations and provided only token opposition to the KMT; none were constituted as political parties.

Despite establishment of the CLA, the KMT gradually lost its supporters from among workers and labor organizations from the mid-1980s onward. In contrast, the DPP developed closer ties with some independent unions and their federations, such as the Taiwan Labor Front. The change in the attitude of unions can be attributed to two factors. First, the KMT was not able to balance the interests of employers and workers; most workers thought the KMT regime was more favorably disposed toward employer interests than toward those of workers. Second, the policy of privatization of state-owned enterprises (see below) increased worker insecurity in that sector because of the possibility of job loss. Since unions in state-owned

enterprises play an important role in Taiwan's IR system, workers in these companies could be a significant political resource.

There were some independent labor organizations even prior to the lifting of martial law. Most notably, the Taiwan Labor Front (TLF), born on May 1, 1984, was the first of these activist labor organizations. It provided free legal consultation and played a crucial role in awakening labor consciousness, although, strictly speaking, the TFL was not initially a federation of unions and thus not technically illegal. The ending of martial law raised union militancy and ushered in an increase in the number of independent unions. The TLF helped to organize the first postwar strikes in 1988 and also started to focus on labor education and union organizing.

Also in 1988, the Labor Federation of Independent Unions formed outside the sanctioned union system. These and related labor organizations and their affiliates were illegal because they violated the "one plant, one union" provision in the Labor Union Law. Yet the KMT government tolerated their existence and took no strong action against them. It is generally believed that the KMT wished to avoid actions that might further estrange workers from the party or lead to serious labor conflict that would have significant social and economic ramifications. However, unlike the TFL and Labor Federation of Independent Unions, many of the independent unions that formed in the immediate post-martial law era were concerned mainly with specific grievances in particular companies. In the end, most dissolved once those issues had been addressed; others failed to secure their objectives and collapsed as members became disenchanting (Lee 2000).

The 1990s saw a rejuvenation of the independent labor movement. Following political liberalization in 1992, the TLF started to wage political campaigns on labor rights issues. It helped to ignite national debates on plant closings in 1992, on national health care in 1995, and on industrial democracy in 1996. Two TLF members were elected to parliament in 1996 and successfully pushed to have the Labor Standards Law revised to extend its coverage to over 2 million additional workers in the service sector. In early 2000, the TLF published "Where Taiwanese Workers Stand," a document that was largely adapted by the DPP as its labor policy platform in the 2000 presidential election.

There are many other independent federations and unions besides the TLF. The Labor Federation of Independent Unions is still in existence and now has 20 affiliated industrial unions. The Taiwan Confederation of Trade Unions (TCTU), a nation-wide federation of industrial unions, was established on May 1, 2000, and is the most important federation besides the Chinese Federation of Trade Unions. After Shui-bian Chen won the presidency in 2000, independent unions were legalized through a presidential

edict. Not only did the strength of independent trade unions increase since the mid-1980s, but mainstream trade unions affiliated with the CFL also have tended to become more autonomous (Kleingartner and Peng 1991; Chen and Taira 1995). That there are fewer unions and union members now than in the mid-1980s should not be seen as a diminution of union power because unions today enjoy much power, and their influence is widely felt (Lee 2000). One reason for this is that these organizations have become more independent, so their support cannot be taken for granted by the government. Political parties must court labor, which gives it more impact. However, because of the unexpected economic downturn in 2001, the unemployment rate increased from less than 3 percent in late 2000 up to more than 5 percent in late 2001. The increased unemployment rate, if chronic, may erode union power.

The year 2000 was a milestone for the DPP because its candidate, Shui-bian Chen, defeated the KMT nominee and won the the presidential election in Taiwan. During the campaign, Mr. Chen proposed many labor policies that were quite different from those of the KMT and generally were viewed as more pro-labor in character. Among the more significant of these were:

- *Industrial democracy initiatives.* Due to the inefficient operation of trade unions in enterprises, labor-management conferences would be convened periodically to promote the right of worker participation in companies. Although the labor-management conference concept had been prescribed in the Labor Standard Act (LSA) in 1984, less than 1 percent of establishments conform to the LSA by holding such conferences (CLA 2001). Mr. Chen proposed that workers should be endowed with information rights, negotiation rights, and even codetermination rights by participating on company boards of directors (*DPP News*, February 29, 2000).
- *Autonomous development of trade unions.* The development of independent trade unions had been inhibited by the KMT and the regulations of the Labor Union Law. Mr. Chen advocated that political parties should withdraw from the affairs of trade unions. In addition, provisions of the Labor Union Law allowing only a single, noncompetitive national labor confederation should be dropped and new national confederations should be legalized. In fact, a new national labor confederation, the National Confederation of Industrial Unions, which was outside the Chinese Federation of Labor, was established early in 2000. Mr. Chen also attended the first meeting of its establishment (*Reports from Cool Labors Organization*,

February 28, 2000<sup>7</sup>). In addition, he advocated that the Labor Union Law should be revised to allow civil service workers and teachers to organize unions (*DPP News*, March 4, 2000).

- *Reexamination of the privatization policy of state-owned enterprises.* Workers in state-owned enterprises fear the deprivation of their job security and welfare after privatization. Trade unions have always opposed the privatization policies of the KMT. Mr. Chen proposed that the privatization policy should be reexamined and that the scheduled privatizations should be postponed (*DPP News*, September 13, 1999).

Mr. Chen also advocated other labor policies, such as the reduction of prescribed working hours from 48 to 40 hours per week and a decrease in the number of the foreign guest workers. All these labor policies are quite attractive to workers and unions and could be helpful in promoting the development of autonomous trade unions. However, once Chen had been elected, opposition to many of the proposals on the employer side complicated implementing these policies. For example, reduction of prescribed working hours without any reduction in earnings would cause significant increases in the costs of production. Implementation of industrial democracy would result in substantial intervention into business operation. Not only are these moves opposed by the KMT, but the abrupt onset of severe economic difficulties for Taiwan that coincidentally emerged at the time of Chen's election also have made it difficult to make policy changes that might at least temporarily undercut Taiwanese competitiveness.

Although able to implement some of his labor policies (e.g., the legalization of independent unions via presidential edict), it is not surprising that President Chen has faced severe challenges in the legislature, which continued to be controlled by the KMT after his election. For example, the DPP government proposed reducing normal working hours initially to 44 hours per week, with a further reduction at some later point to 40 hours per week. However, the legislature preempted the president by amending the Labor Standards Act to reduce working hours from 48 hours per week to 84 hours biweekly (i.e., 42 hours per week). Thus the KMT sought to please workers' organizations while providing employers somewhat more flexibility. However, the revisions have raised severe conflict among the DPP, government agencies, the KMT, and labor organizations. In general, then, Mr. Chen's labor policies faced challenges in a KMT-dominated legislature. In the December

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<sup>7</sup> The main goal of the Cool Labor Organization is to help promote workers' interests and report new developments in labor policy.

2001 legislative elections, neither the KMT nor the DPP succeeded in winning an outright majority of the seats. The DPP, though, was able to gain control of the legislature through a coalition, but one that has been quite tenuous. A KMT challenge, given sufficient support from smaller parties and independents, could displace the DPP. This situation has meant that the DPP has had continued difficulty in passing new labor legislation because it could not always expect support from coalition partners.

Another important labor issue is pension reform. Employers must provide a lump-sum pension payment (up to 45 months' average wage) to workers who have been employed for the same business entity for over 25 years (or over 15 years for employees who are age 55 or older). That such seniority must be within "the same business entity" has resulted in limited coverage because there are so many short-lived SMEs in Taiwan. In fact, most workers are unable to attain full pensions because most Taiwanese business entities are not even in operation for as long as 25 years. The government is reviewing pension policy, and the CLA has specifically proposed a portable pension to ensure that workers are able to receive pensions at the age of retirement. Mitchell, Peng, and Zaidi (1993) have pointed out possible directions for pension reform. However, the proposed changes have faced various challenges from both employers and workers, and the matter has not yet been resolved.

*Unionism in State-Owned and Private Enterprises.* Although political democratization has brought about more autonomous development in Taiwan's labor movement, there is a sharp contrast between what has occurred in state-owned versus private enterprises. Private enterprise unions became relatively militant in the mid-1980s but gradually lost momentum after the early 1990s. In contrast, unionism in state-owned enterprise has persistently played a significant role in Taiwan's IR system. In particular, the policy of privatizing state-owned enterprises that began in the late 1980s has further affected the development of IR in these organizations. Below, we examine the weakening of private enterprise unionism, the strengthening of unionism in state-owned enterprises, and the likely effects of the privatization.

*Unionism in state-owned enterprises.* Prior to the 1980s, Taiwan had, in relative terms, one of the largest public enterprise sectors in the world (Wilkinson 1994). The significance of the public sector has decreased gradually because of the privatization of state-owned enterprises.<sup>8</sup> Pressures

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<sup>8</sup> Since the 1990s, many enterprises have been privatized, such as China Steel Company and three commercial banks (First Bank, Hwa-nan Bank, and Chang-hwa Bank). The privatization of many other public enterprises is underway, such as in the case of Chinese Petroleum Company.

from other governments and international organizations relating to free trade, along with the costs of subsidizing state enterprises that were not profitable, caused the government to reduce the role of public enterprises through a policy of privatization beginning in the late 1980s. The privatization policy has changed the relationship among employees, employers, and government in public enterprises substantially. Privatization has continued under the DPP government, albeit at a reduced pace.

The DPP faces a significant dilemma regarding privatization. On the one hand, most labor organizations in state-owned enterprises strongly oppose the privatization policy. Most state enterprise workers believe that privatization is simply another term for *layoff*. The DPP has been dependent on labor support and is anxious not to alienate unions or union members. On the other hand, DPP leaders also recognize that if privatization of state-owned enterprises is postponed, many of these enterprises will gradually lose their competitiveness. With Taiwan now entering the World Trade Organization (WTO), pressures for privatization doubtless will increase. The DPP government still supports privatization, although progress is rather slow.

Employees in state-owned enterprises have long enjoyed more employment security, higher salaries, and better benefits compared with those in the private sector (Zhu, Chen, and Warner 2000). Privatization threatens these advantages in the minds of many workers and union leaders. Because the jobs of employees in state-owned enterprises are at risk, workers have become more committed to their unions, and this has resulted in a more independent union movement. Privatization of state-owned enterprises has caused changes in employment relations from state-sponsored unionism before the 1980s to more autonomous unions today.

Change can be found in the unions representing workers in several major state-owned enterprises, such as the Chinese Petroleum Company (CPC) and the Chinese Telecommunications Company (CTC). These unions question the legitimacy of privatization policies and ask for industrial democracy and involvement in decision-making processes in the firms. For example, in order to protect workers' jobs and welfare, the Chinese Telecommunications Workers' Union has proposed the "three rights of workers' participation"—participation in business decision making, participation in personnel decision making, and participation in profit-assignment decision making.<sup>9</sup> In 1995, workers from the Chinese Telecommunications Workers' Unions argued that "The Three Laws on Telecommunication" should contain a provision allowing for three worker representatives on the board of directors (Chen 1997). In addition, in the past decade numerous unions

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<sup>9</sup> *Newsletter of Chinese Telecommunication Workers' Union*, no. 17, 1999.



have asked for the abandonment of privatization, although these unions know that there is little chance of this occurring. Still, they advocate this policy as a stratagem to promote and protect workers' jobs and benefits.

Although the policy and process of privatization lead to worker militancy and union independence, union power may well decrease gradually after these companies are privatized. This outcome occurred in the case of the China Steel Company (CSC), which had been the largest state-owned steel company in Taiwan and was privatized in 1995. Since then, the CSC union has become less militant because workers worry more about the attitude of employers and job security. Therefore, it seems likely that in the long run the unions in state-owned enterprises will, once these companies are privatized, become less militant and similar to other unions in the private sector. However, they are apt to be more activist in the short run.

*Unionism in the private sector.* In contrast to unionism in state-owned enterprises, unions in the private sector tend to be less militant. As discussed earlier, the predominance of small and medium-sized enterprises in the private sector in Taiwan seems to be a major cause of the relatively weak private-sector labor movement. The organizational characteristics of SMEs, such as paternalistic management and hostile environments, makes workers less apt to support unions and owners more apt to oppose them.

Taiwan has, over the past decade, experienced a period of relatively higher unemployment rates compared with the 1980s. Involuntarily turnover increased rapidly. According to a report by the Directorate-General of the Budget, Accounting, and Statistics (1998), the proportion of unemployed workers in the 30- to 49-year-old age bracket (prime-aged workers) also increased. From Western experience, large-scale layoffs and higher unemployment rates can lead to less militant labor movements, at least in the short run (Lawler 1990). A similar process may be at work among Taiwanese workers in the private sector, who might be loath to risk the animosity of employers in a time of economic retrenchment.

The LSA has played a significant role in Taiwan's IR system since its promulgation in 1984. Coverage under the act was extended to all industries in 1998. The purpose of the act is to provide minimum standards for labor conditions, to protect workers rights and interests, to strengthen labor-management relations, and to promote social and economic development (Article 1).<sup>10</sup> Some scholars point out that the standards of the act are

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<sup>10</sup> There are several crucial aspects that the LSA specifies to protect workers' rights. First, a worker shall be paid such wage as is determined through negotiations with his or her employer, provided, however, that it shall not fall below the basic wage (Article 21). Second, the law stipulates work hours,

significantly higher than in other extensively developed countries, except for the basic wage (San 1993). As a consequence, many employers argue that it is hard for small companies to comply with the act (Kleingartner and Peng 1991; Lee and Park 1995). Most labor disputes arise because the employers fail to follow the rules of the act. In fact, since workers in SMEs have difficulty in organizing and bargaining, the LSA often serves as a substitute for collective bargaining and has become the major protection for workers in much of the private sector. The Council of Labor Affairs (1998) reports that less than 300 collective-bargaining agreements were in effect in 1998 in a population of around 3600 unions. The union substitution effect and the high standards of the LSA give little room for labor and employers to engage in collective bargaining (San 1993). Therefore, collective bargaining is not a major function of trade unions.

*Industrial Structure and Transformation.* Structural changes in Taiwanese industry and employment patterns are challenging past IR/HR practices in Taiwan and accelerating changes to a new economic and industrial order. The ongoing organizational restructuring process and the trend toward employment flexibility have radically transformed relationships between employers and employees. Besides, the outflow of capital from Taiwan to mainland China and other Asian countries has resulted in increased labor disputes and unemployment problems because of large-scale layoffs, especially in the manufacturing sector. In a similar vein, the importation of foreign guest workers from countries in Southeast Asia also has raised concerns about employment security for native workers. The decline in traditional manufacturing and the increase in the high-tech and service sectors have led the transformation of HR/IR practices. HR practices in the high-tech industry tend to be team-based and have greater levels of employee involvement. Employers are willing to spend much on employee training. These practices in the high-tech sector are basically different from traditional HR/IR in Chinese private enterprises (Chen 1995). We elaborate on these issues from several perspectives.

*Organizational restructuring.* In the wake of the Asian financial crisis, enterprises in Taiwan faced severe challenges, and many of them struggled to survive. Foreboding headlines such as “Downsizing,” “Plant Closure,” “Merger,” “Hiring Freeze,” “Early Retirement,” and “Wage Reduction

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time off, and leaves of absence (Chapter 4). Third, an employer shall give retirement and severance payments when the worker has worked for a specific period of years in the establishment (Chapter 6). Fourth, an employer shall compensate the worker if occupational accidents happen (Chapter 7).

across the Board” were ubiquitous in the press. All hinted that enterprises in Taiwan have been undergoing radical restructuring. Thousands of firms have been engaged in organizational restructuring—many of them announced hiring freezes, some of them having downsized, others having redesigned their work flow and jobs, and some having flattened their organizational structures to make them lean. In addition, there were plant closings and also some mergers and the formation of strategic alliances (Chow 2000). This restructuring process inevitably influenced workers, and relationships between employers and employees in Taiwan are undergoing a radical transformation as a consequence.

According to data collected throughout the 1990s by the Department of Statistics in the Ministry of Economic Affairs, the number of plants that closed reached peaks of 6988 and 6788 in 1992 and 1998, respectively,<sup>11</sup> compared with an average for the 1990s of 5361 closings per year (Table 3) and an average of 3511 per year in the 1980s. Thus many plant closures resulted in frequent industrial disputes (Peng 1999). From 1987 to 1998, some 675 labor disputes over wage issues resulting from plant closures and involving 463,000 workers were brought before the Council of Labor Affairs; this rapid growth in labor disputes was mainly due to downsizing, plant closures, ownership transfers, mergers, and shrinkage in business (Chen 1998).

TABLE 3  
NUMBERS AND RATIOS OF PLANT CLOSURE BY YEAR, 1991–2000

Year	Total Number of Registered Plants	Plant Closure	
		Number	Ratio
1991	84,179	4873	5.8%
1992	100,601	6988	7.0%
1993	96,053	4664	4.9%
1994	95,446	6917	7.3%
1995	97,976	5992	6.1%
1996	97,611	5507	5.6%
1997	99,339	2904	2.9%
1998	98,755	6788	6.9%
1999	98,488	3982	4.0%
2000	98,262	4995	5.1%

SOURCE: Department of Statistics, Ministry of Economic Affairs, 1991–2000, *Domestic and Foreign Express Report of Economic Statistics Indicators*, tables on number of currently registered plants and tables on number of plant closure, various years, Taiwan, Executive Yuan.

<sup>11</sup> These numbers also mean that about 7 percent of registered plants terminated their operations in each of these two years.

The current trend toward downsizing, mergers, and alliances has caused reductions in employment and, in turn, changes in or even terminations of labor contracts. This spawned many disputes between labor and management. Labor often was at a disadvantage. Moreover, limited and shrinking job opportunities discouraged workers from engaging in union activities.

*Outsourcing and the satellite assembly system.* There are several tiers of subcontracting activities in the production process in some manufacturing industries of Taiwan, especially in export-oriented industries. Hierarchical subcontracting (termed the *satellite assembly system*; Hamilton 1997:284–85; Lui and Chiu, 1999) consists of many small and medium-sized manufacturers. The subcontracting system works through social networks among business owners and managers. Operation of such networks depends on what is termed *guanxi*: the informal but strong relationships among people in Chinese culture based on interpersonal trust, loyalty, kinship, or other social connections (Hamilton 1997). Units also can be connected to each other and the wider world in other ways as well, e.g., through a wide range of atypical or nonstandard employment arrangements, such as subcontracting, part-time work, home working, contract workers, etc. (Lui and Chiu 1999).

Lui and Chiu (1999:171) suggest two reasons for the success of these strategies: “First, networks consist of large numbers of subcontractors competing for orders, each of whom has to prove him/herself reliable. Information on subcontractors is easily available and the use of subcontracting is based on insiders’ knowledge of their own trade that constitutes a kind of folk wisdom. Second, . . . there are plentiful supplies of reliable contractors, subcontracting firms and home workers.” Both types of outsourcing are a hindrance to union development either because social networks often blur the boundary between labor and management or because atypical workers are very difficult to unionize.

*Labor market flexibility.* In response to the wider legal liability under the Labor Standards Act and increased competition in the global market through the 1990s, employers now seek to achieve more flexibility in labor employment. Thus various types of contingent work arrangements, such as part-time, direct-hire temporary work, labor dispatching,<sup>12</sup> and subcontracting, have been used to increase labor market flexibility (Chen 1994; Lui and Chiu 1999; Lee et al. 2001).

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<sup>12</sup> *Dispatched workers* are similar to agency temporaries or contract company workers of the United States in that there is a triangular relationship among dispatched workers, staffing companies, and client firms, and they work on a short-term basis. This type of contingent work arrangement has been termed *labor dispatching* by the Japanese (Chiu 1998).

One governmental survey, conducted in 1995 by the Council of Labor Affairs (CLA), focused specifically on the labor dispatching industry. According to this survey, about 4 percent of private enterprises were identified as labor dispatching agencies, but unfortunately, information on the percentage of enterprises using dispatched workers was not reported (CLA 1996). Presumably, though, this figure is much higher than 4 percent because one dispatching agency can send its workers to several firms requesting such services. Another CLA survey on outsourcing found that 17 percent of all private enterprises subcontracted at least part of their business activities to outside organizations or individuals (CLA 2000). Chen (1994) reported that in his sample, 33 percent of the enterprises employed temporary workers, 32 percent used subcontractors, 22 percent employed part-time workers, and 19 percent used dispatched workers. Lee and colleagues (2001) found that 26 percent of the private enterprises employed fixed-term workers, 33 percent used subcontractors, 26 percent employed part-timers, but only 3 percent used dispatched workers. The results of the Chen and Lee and colleagues surveys are quite similar, except for the use of dispatched workers. Moreover, their findings are consistent with the CLA surveys. There would seem to be only one published study of flexible employment arrangements based on data collected from employees rather than companies. The results indicated that about 6 percent of the labor force consists of part-time employees<sup>13</sup> (DGBAS 2001:Table 17). Based on these sources of information, it seems that the use of contingent work arrangements is extensive in Taiwan.

It is generally believed that contingent workers are difficult to organize either because many do not stay with the same employer for extended periods or because they work for more than one employer. These conditions often leave them at a disadvantage in organizing and undertaking collective action for their own welfare (Parker 1994). Moreover, contingent workers generally are separated from and excluded by the regular employees because they do not share common interests with the regular workers (Way 1988). Hence employers can hamper union organizing efforts by using contingent work arrangements. This has long been a specific union avoidance tactic in the United States (Lawler 1990), although it is not clear if this is what is driving this approach in Taiwan, since firms simply may be seeking ways to reduce costs.

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<sup>13</sup> *Part time* refers to those employed persons who work less than 40 hours a week. It is noteworthy that this estimate may be somewhat exaggerated because a few persons may have both part-time and full-time jobs at the same time (i.e., *moonlighters*).

*Foreign workers.* Labor shortages in several industries, such as manufacturing, construction, shipping, and commercial fishing, were serious in the late 1980s. Under strong pressure from business groups, the government changed its immigration policy and, starting in 1991, allowed employers to hire workers from abroad. Since then, the range of industries and occupations in which foreign workers can be hired has increased drastically. By 2001, about 315,700 Southeast Asians worked in Taiwan, which is equivalent to 3 percent of the domestic labor force. Before 1997, foreign workers could only be employed on 2-year visas, but this period was extended to 3 years in 1997 in response to strong demand for labor. Most foreign workers come from Thailand (133,370 in 2001); the second largest group is from Indonesia (92,384 in 2001); most of the rest are from the Philippines (77,707 in 2001, mostly domestic workers), with a few from Malaysia and Vietnam (CLA 2001).

Foreign workers have become one of the focal concerns of the labor movement since the 1980s. Unions have organized several demonstrations against the CLA, which is responsible for foreign worker policy. Unions and their supporters claim that employers try to replace local workers with foreign laborers and have thus caused unemployment among Taiwanese workers. This position has produced tension between foreign workers and local unions (Taiwan Labor Front 1999).

Taiwan's Labor Union Law allows foreign workers in Taiwan to join existing unions and to vote for union officials, but they cannot be elected to union office. Moreover, foreign workers are restricted from organizing their own unions, participating in collective bargaining, and striking. And even if foreign workers were allowed full rights in this area, their short tenure (maximum of 3 years) likely would make them disinterested in union affairs. Of course, these workers earn far more in Taiwan than they would generally make at home, so most do not have the incentive to pursue unionization. In general, foreign workers are discouraged from participating in labor organizations and consider earning money their first priority.

*IR/HR in the high-tech sector.* The high-technology sector was established in Taiwan in the early 1980s, developed steadily through the 1980s, and began prospering in the 1990s.<sup>14</sup> The government has taken an active role in promoting the development of science and technology. For example, the Hsinchu National Scientific Industrial Park was established near Taipei in 1980, and a second has been under construction since 1998 in Tainan. The rapid growth of high-tech firms has given Taiwan the world's third

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<sup>14</sup> High-tech industries include information technology, chemical production, and other technology-intensive industries.

largest information technology output, behind only Japan and the United States. Technology-intensive industries accounted for 37.5 percent of all manufacturing output in 1995 and 43.4 percent in 1998 compared with 24 percent in 1986 (National Science Council 1997). However, Taiwan's position in this sector is now seriously threatened by mainland China.

There are several characteristics of IR/HR in high-tech industries that are different from traditional manufacturing industries. First, as a result of the rapid development in high-tech industries (especially information technology) in the 1990, severe shortages of professionals, such as engineers, developed. This problem is expected to continue for some time, even though many outstanding scientists and engineers returned to Taiwan in recent years, mainly from the United States (National Science Council 1997). The phenomenon led to high turnover rates among high-tech industries because of raiding. Therefore, various HR practices were implemented to retain and attract high-quality professionals. For example, firms emphasized teamwork, training and development, empowerment, and provision of employment security (Huang, Huang, and Uen 1998).

Second, Huang, Huang, and Uen (1998) further point out that managing high-tech professionals is quite different from managing other occupations because of the former's self-directed attributes. Unionization among high-tech firms in Taiwan is low compared with other large manufacturing companies. Low unionization results from the use of HR management practices that reduce workers' incentives to be unionized, such as stock options and widespread participation and communication. Furthermore, because the high-tech sector remained prosperous, labor problems that have occurred elsewhere, such as massive layoffs, are not common in the high-tech industry. Workers generally do not have the kinds of grievances and insecurity that often breed unionization efforts. Many factors limiting the union propensity of workers in the Taiwan high-tech sector are similar to those prevalent in the high-tech industries of the United States.

## Discussion

For most of the period since 1949, the IR system in Taiwan was subject to the control of the KMT. Industrial peace was considered a necessary condition to sustain political stability and economic development. While there were union activities, they did not include collective bargaining but rather served to monitor employers' obligations under the law.

The situation has changed as a consequence of the lifting of martial law and formation of the DPP in the late 1980s. Political democratization led to

the development of autonomous and independent unionism. In addition, a milestone for workers and unions was the DPP's defeat of the KMT in the presidential election in 2000. Taiwan's IR system begun a transformation from state corporatism into societal corporatism due to political democratization.

Although unions and workers have been gaining momentum over the past decade, several important trends in the labor market have disadvantaged many unions. These trends include the privatization of state-owned enterprises, industrial transformation, growing employer utilization of flexible employment arrangements, and the extensive use of foreign guest workers. Looking toward the future, political and economic forces will still continue to shape Taiwan's IR system. In the political arena, there is optimism for trade union growth and development because of the pro-labor nature of the DPP. It is expected that political democratization, which tends to promote industrial democracy and the development of independent trade unions, will continue. In contrast, rising unemployment rates and persistent opposition to expanding employee benefits by employers could become significant challenges to the DPP's labor policies.

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