

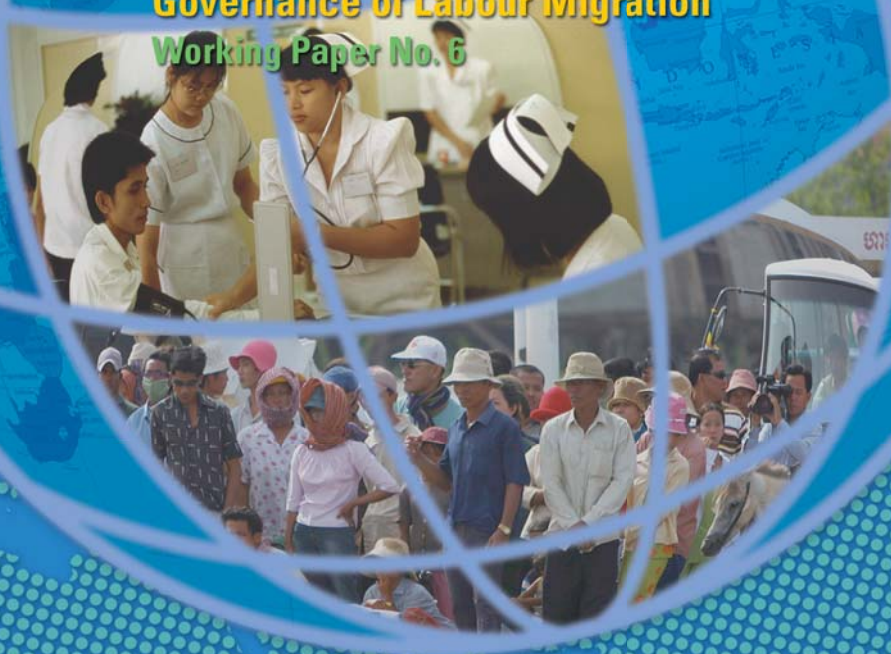
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Governance of Labour Migration**  
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# **The Admission of Foreign Labour and Its Impact on the Labour Market in Taiwan, Province of China**

**Joseph S. Lee**

**Regional Office for Asia and the Pacific**  
**January 2008**



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# The Admission of Foreign Labour and Its Impact on the Labour Market in Taiwan, Province of China

Joseph S. Lee \*

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## 1. INTRODUCTION

During the late 1980s, Taiwan, Province of China<sup>1</sup> began to experience a shortage of labour among its low-skilled workforce. This was caused by the enormous success of its economic development that resulted in both the incomes and the educational attainment of its people rising rapidly, and as a consequence increasing numbers of these workers became unwilling to take up low-paid work that required hard labour. This shortage of low-skilled labour threatened the very survival of Taiwan's labour-intensive industries so that many employers in these industries started to recruit illegal immigrants from abroad. By 1989, it was estimated that there were approximately 30,000 illegal foreign workers in Taiwan, and the majority of them were found working in the construction and labour-intensive industries.

To clamp down on these illegal foreign workers, the authorities in 1989 issued a decree that permitted foreign workers to enter the Island and work for a number of specific projects; these workers were provided with a one-year work permit with the possibility of an extension for one more year.

The admission of such a small number of foreign workers was unable to meet the needs of the employers in the private sector and the employers thus put great pressure on the authorities to admit more foreign workers into Taiwan. As a result, in 1991, the authorities issued work permits for more foreign workers to work in 15 job categories within six manufacturing industries where the employers faced severe labour shortages. In 1992 the authorities then went on to enact the

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<sup>1</sup> Henceforth to be simply called Taiwan.

Employment Service Act (ESA) which established an official mechanism whereby employers in Taiwan would be permitted to apply for foreign workers openly.

Today, with the FWP having been in existence for 15 years and most of the labour-intensive industries having moved to mainland China and Southeast Asia, is there still a need for the FWP? The answer is yes for the following reasons:

(1) Whilst the figures in Table 1 show that the labour shortage rate has steadily dropped from seven per cent in the early 1990s to 3.4 per cent in 1997 and to 2.6 per cent in 2006, nonetheless there is still a labour shortage problem in Taiwan and the dimension of the labour shortage has been shifting from only the least educated to somewhat better educated, i.e., from workers with less than nine years of education to workers with a senior high school education. As the figures in Table 2 show, in 1997 42 per cent of all the unfilled jobs required a senior high school education. Although there is no shortage of these better educated people in Taiwan, nonetheless many of them are unwilling to accept production work; instead, they want office and white collar jobs.

(2) In recent years there is an increasing shortage of workers in the service area, especially in healthcare area and therefore there is a rising need for foreign caretakers. The rising demand for foreign caretakers is caused by the aging of the population in Taiwan and therefore the rising demand for workers to care for the elderly people. Unfortunately most of these caretaker jobs are low pay, hard work, long hours, and are ranked low in terms of social prestige. It is for these reasons that few native workers want to take up these jobs.

In the following sections, we first present the changing functions of the FWP, and the different issues related to the management of the FWP, and finally the impact of FWP on Taiwan's labour market.

Table 1 Labour shortage rates in Taiwan, Province of China: 1997-2006

Unit: %

Year	1997 May	2000 May	2002 May	2004 June	2006 June
Total	3.4	3.4	2.9	2.5	2.6
Industrial sector	3.9	3.7	3.4	3.1	3.2
Mfg. industries	4.3	3.9	3.4	3.2	3.2
Construction	3.1	3.2	3.2	2.7	2.2
Services	2.8	3.0	2.4	2.0	2.1

Source: DGBAS 2007

$$* \text{ Labour shortage rate} = \frac{\text{(No. of unfilled positions)}}{\text{(No. of unfilled positions + total employed)}}$$

Table 2 Distribution of Unfilled Positions

Unit: %

	2000	2002	2004	2006
Educational Attainment				
Below Junior High	11.8	17.2	9.8	9.7
Senior High	42.0	27.8	29.7	32.5
Junior College	18.4	21.9	19.3	16.8
College & above	15.5	22.6	26.6	18.7
No restriction	12.2	10.4	14.6	22.3
Total	100	100	100	100

Source: DGBAS 2007

## 2. The general principles of the FWP

When the ESA was enacted in 1992, it designated the Council of Labour Affairs (CLA) as the official agency with sole responsibility in deciding the number of foreign workers to be admitted into Taiwan and also how these foreign workers would be distributed among different industries and job categories. The CLA subsequently announced the implementation of an official Foreign Workers Program (FWP) which would admit foreign workers into Taiwan based on the following specific principles:

## 2.1 The supplementary nature of foreign workers

The most important principle behind the FWP is that foreign workers can only be admitted as a supplement to native workers, and not to displace them. In accordance with this principle, the CLA set specific quotas, for both the total number of foreign workers and the different industries and job categories. Employers who wish to hire foreign workers within the permitted industries or job categories are required to prove to the CLA that a labour shortage actually exists in their area of operations, and that the shortage is hindering their operations, their potential expansion, or the upgrading of their production facilities. The CLA requires an employer to place advertisements providing details of the job openings in various newspapers for three days as a means of ensuring that the employment of foreign workers will not lead to the displacement of native workers. If no qualified native workers apply for the various positions, then the employer becomes eligible to hire foreign workers.

To prevent local workers from being displaced by foreign workers, the CLA places limits on the number of foreign workers within each workplace. The authorities also prohibit the employment of foreign workers in administrative and managerial positions, since there are no labour shortages within these job categories. Small firms (i.e., firms with less than ten employees) are ineligible for the employment of foreign workers, partly because they have a minimal impact on the economy, and also because the CLA has insufficient staff to inspect the enormous numbers of small firms.

## 2.2 The temporary nature of foreign workers

The foreign workers that are admitted into Taiwan are allowed in on a temporary basis and cannot under any circumstances change their status to that of permanent immigrants. Foreign workers are normally allowed to stay in Taiwan for two years; however, if their continued presence is proved to be necessary, their employers can apply on their behalf for an extension for one more year, which makes it a maximum of three years. However these foreign workers must return home for 45 days before they are allowed to come back to Taiwan and work for the same employer, for a

combined total stay of six years. However, in June 2007 the Legislative Yuan amended Article 51 of the ESA and now permits foreign workers to stay in Taiwan for another term, which means that they can remain for a maximum of nine years.

### 2.3 No impeding the industrial upgrading and economic development of the island

A very strict and straightforward stipulation within the FWP is that the importation of foreign workers into Taiwan is prohibited if the upgrading of Taiwan's industrial structure is delayed as a consequence.

### 2.4 Minimum social costs

The CLA also makes it clear that the admission of foreign workers into Taiwan should occur under the condition of keeping social costs to a minimum, which means that married foreign workers are not allowed to bring their families with them, and that unmarried workers are not allowed to marry and raise a family whilst working in Taiwan. During the early years, it was also prohibited for female foreign workers to become pregnant whilst working in Taiwan; and indeed, any such worker who was found to be pregnant was immediately deported. This rule has since been removed as it is recognized by the authorities that this practice constitutes a violation of human rights. However, foreign workers who are found guilty of committing any crime, even a minor offence such as shoplifting, remain subject to immediate deportation.

### 2.5. Illegal foreign workers will not become on-site legal workers.

Any foreigner who does not have a work permit from the authorities is considered to be an illegal worker and will be repatriated immediately when he/she is caught.

2.6. Employers are allowed to recruit foreign workers only from the CLA-designated labour-sending countries, i.e., Indonesia, Malaysia, Mongolia, the Philippines, Thailand, and Vietnam, because of less culture difference and better diplomatic relationship.

### **3. Major features of the FWP**

The major features of the FWP in Taiwan can be summarized in the following six points:

3.1. The program provides an open and official channel for employers to bring foreign workers into Taiwan.

3.2. Such foreign workers are specifically deemed to be temporary contract labour, and once their employment contract expires, they must return to their home country.

3.3. Foreign workers may only work for specified employers and in specific categories of jobs which have the prior approval of the authorities. For example, in the category of deep sea fishing jobs, foreign workers are allowed to perform the tasks of ordinary sailors only; they are not permitted to take on the roles of fishing boat captains, deck officers, chief officers, chief engineers, second engineers, engineers or radio operators, or roles as motor boat pilots or their assistants. Within the manufacturing industries, foreign workers are only allowed to work in production jobs; they cannot take on the role of supervisors, and within the category of construction jobs, foreign workers are again allowed to perform only direct production work at either construction sites or other related places of work; they are not allowed to work as managers or supervisors.

As for foreign housemaids, they are only allowed to perform house cleaning tasks, the preparation and cooking of food, taking care of the daily lives of household members, and other related household service tasks. For caretakers, foreign workers are allowed to take care of the daily lives of those with recognized disabilities, or patients in hospitals or institutions. Finally, within the category of family caretakers, foreign workers are permitted to take care of the daily lives of disabled persons or patients in private households.

3.4. Foreign workers are to supplement native workers and must not displace them. In order to ensure the strict adherence to this provision, the CLA limits the maximum number of foreign workers that an employer may employ at any given worksite. For example, the total number of foreign workers employed in those

enterprises within the manufacturing sector classified as 'non-traditional industries' may not exceed 15 per cent of the total number of workers employed within the same workplace. In those enterprises in the manufacturing sector classified as 'traditional industries', the total number of foreign workers must not exceed 20 per cent of the total number of workers employed within the same workplace. For major investment projects within the manufacturing sector, the share of foreign workers must not exceed 30 per cent of the total employment of workers employed within the same workplace.

3.5. The program sets clear quotas for the total number of foreign workers, and for the different industries and job categories. Those employers not listed for the permissible employment of foreign workers, either by industry or job category, are prohibited from bringing in foreign workers from abroad.

3.6. Employers are allowed to recruit foreign workers only from CLA designated labour-sending countries.

#### **4. The Changing objectives of the FWP**

During the last 15 years the objectives of FWP have changed several times, responding to changes in Taiwan's economic conditions. The changes in the objectives of the FWP can be divided into the following three periods.

4.1 Using foreign workers as a means to relieve the labour shortage in public construction projects and labour-intensive industries: 1992-1997

As stated earlier, the original objective of the FWP was to help resolve labour shortage in public construction projects and labour-intensive industries. Table 4 reveals that up until 1997 65.28 per cent of all foreign workers in Taiwan were found in the manufacturing industries and two-thirds of all foreign workers in the manufacturing industries worked for labor intensive-industries; only 34.09 per cent of them worked for machinery and equipment, electrical and electronic machinery, transportation, and precision instrument industries, the so called capital and technological intensive-industries.

#### 4.2 Using foreign workers as a means to speed up the upgrading of the industrial structure and to relieve the shortage of caretakers: 1997-2005

As the industrial structure gradually shifted away from labour-intensive industries to capital and technology-intensive industries, more labour was released from the previous labour-intensive industries and thus the extent of the labour shortage was reduced. However as the rate of economic growth slowed down in the late 1990s the authorities wanted to use foreign workers as a means to speed up the upgrading of the industrial structure. Hence the authorities set up special quota of foreign workers for large investment projects. It is because large amount of investment usually occur in high tech industries than in labor-intensive industries that this special quota of foreign workers has helped the expansion of the high tech industries much more than the upgrading of the labor-intensive industries. As a result the number of foreign workers in the machinery and equipment, electrical and electronic machinery, transportation, and precision instrument industries rose quickly and to 44.61 per cent of all foreign workers in the manufacturing industries in 2006 (Table 5).

The recent aging of population in Taiwan has caused a rising demand for foreign caretakers. Thus in 2006, caretakers consisted of more than 40 per cent of all foreign workers in Taiwan.

During this period the authorities have also used FWP as a means to promote the inflow of foreign investment. For example, chief executive officers (CEOs) of foreign companies with large amount of investment (over NT\$100 million, i.e., US\$2.9 million) or managers of foreign companies with a very large amount of investment (NT\$200 million or more, i.e., US\$5.9 million) are permitted to apply for foreign household maids, even though the authorities have stopped the admission of foreign household maids except for families with young children and those where both parents are working or that have elderly parents who need intensive care.

To encourage more exports, the authorities have also yielded to employers' demand for reducing the cost of employing foreign workers by permitting them to

deduct room and board expenses from minimum wage paid to foreign workers. For many years CLA insisted that foreign workers receive the same minimum wage as native workers, so that they did not become a source of cheap labour and therefore displace native workers. However, employers in Taiwan complained vehemently about the minimum wage regulations on the grounds that they placed them in a less competitive position vis-à-vis other neighbouring countries; for example, there is no minimum wage in Singapore and there is a special minimum wage for foreign workers in Hong Kong.

In 1999 the CLA issued an order reaffirming the responsibility of employers to pay foreign workers the same minimum wage as native workers. However, they are allowed to deduct room and board expenses from the minimum wage, although these expenses are not to exceed NT\$4,000 per month. Although not all employers employing foreign workers have taken advantage of this lower minimum wage, a 2006 survey showed that 58.3 per cent of all employers employing foreign workers had deducted room and board expenses at an average rate of NT\$2,321 (CLA, 2006).

#### 4.3. Providing 3D foreign workers to employers regardless of industrial classification: 2006 to date

As one can see from Table 3, at the time the authorities set up the healthcare foreign workers program, there was no limit on the duration, which means that as long as an employer fulfils the criteria set forth by the CLA, he is entitled to import foreign healthcare worker. It is because of this policy that the number of foreign caretakers increased very rapidly and in 2006 40 per cent of all foreign workers in Taiwan were caretakers. However this rise of foreign caretakers is at the expense of foreign production workers, since the authorities made a promise that the share of foreign workers should not be more than 3.26 per cent of the total workforce, which is around 300,000 workers.

This decline of the number of foreign production workers has created serious problems for many employers in the manufacturing industries. Because labour shortage is not limited to certain labour-intensive industries, in almost all

industries there are certain that are dirty, difficult, and dangerous which no native workers are unwilling to accept even when they are unemployed. There are certain industries that require three shifts but no native workers are willing to work at the night shift. To deal with these problems the CLA in 2006 changed its policy by reclassifying foreign workers into two categories, namely, production and service workers. With such a tactic, it was able to explain to trade unionists that the upper limit of 3.26 per cent was referring to production workers, and service workers were not part of the limitation. Shortly after this reclassification, the CLA announced gave the green light of admitting an additional 20,000 foreign workers into Taiwan in the category of 3D jobs. In July 2007 the CLA announced that it establishes a tripartite committee for deciding the quota of foreign workers to be admitted into Taiwan and these foreign workers are no longer limited to certain designed industries, instead they can be allocated to any industries that in need of 3D workers or night shift workers.

Recently the authorities are also considering permitting Taiwanese businessmen who relocated their production facilities to mainland China before and now are returning to Taiwan. This is because in recent years the labour costs in mainland China are raising rapidly, some of the employers who previously migrated to Mainland China are urging the authorities to permit them to import foreign workers so that they can return to Taiwan.

## **5. Managing the FWP**

There are several major issues associated with the managing of FWP in Taiwan: (i) the lack of any formalized procedures and objective formulae for determining the quotas of foreign workers within the different industries and job categories; and (ii) the excessive brokerage fees charged by employment agencies which has proved to be one of the major factors leading to the phenomenon of increasing number of 'missing workers' in Taiwan.

### 5.1 Lacking objective formulae in setting the quotas

In order to maintain control over the number of foreign workers coming into Taiwan, the CLA was designated (under the ESA 1992) as the sole official agency with responsibility for determining the appropriate quotas for foreign labour in the different industries and job categories; the ESA stipulated that a tripartite committee was an appropriate mechanism for performing this task.

However, the CLA did not comply with the stipulated procedure; instead the quotas have been determined by CLA staff members who utilize labour market indicators (such as the labour shortage rate and the unemployment rate) and other relevant information in determining the quota of foreign workers. It is only in public construction projects that an objective formula is used to determine the number of foreign workers for employment in each project. The formula used states that the number of foreign workers which any project may employ would be equal to:

(The share in the total costs of the construction costs accounted for by Project X multiplied by the share of the labour costs) divided by (the average wage multiplied by the number of working days).

Thus, one can see that for a project with an 85 per cent share of the total construction costs, a 35 per cent share of labour costs, a total budget of NT\$100 million for the entire project, 30 working days, and an average wage of NT\$ 22,000 per month, the project would be allowed to employ a maximum of 45 foreign workers.

The lack of formal procedures and objective formulae in other industries has provided employers and other interest groups with an opportunity to exert pressure on the CLA to raise its quotas. Thus, shortly after the enactment of the ESA, along with an additional 68 manufacturing industries, household maids, caretakers, and deep sea fishing crew members were all added to the job categories qualifying for the employment of foreign workers.

Soon afterwards, a further 73 manufacturing industries, six ceramics industries, employers in major investment projects, and employers in projects involving major

expansions of production facilities were also added to the list of qualifying employers. In August 1994, special permission was granted for the admission of foreign workers for employment in 3D jobs in seven manufacturing industries, and in the export processing zones and industrial science parks. Finally, in November 1999, a number of high-tech and non-high-tech industries were also added to the list of those eligible for the employment of foreign workers (Table 3).

As the CLA continued to raise its quotas, there was a corresponding rapid rise in the total number of foreign workers entering Taiwan. Table 4 reveals that the number of foreign workers rose rapidly from 30,000 in 1992, to 164,973 in 1995, 304,605 in 2001, and 338,755 in 2006. Clearly, therefore, the original purpose of the quota system, i.e., to control the number of foreign workers entering Taiwan has not accomplished.

Actually the CLA has made several attempts at establishing several objective formulae for determining foreign worker quotas; of these, one which has been seriously considered for implementation is the 'warning system'. The 'warning system' is comprised of two indicators designed to measure the impact of the admission of foreign workers on both the labour shortage as a whole in Taiwan, and on unemployment levels among native workers. When the values of both indicators approach zero, the admission of foreign workers should cease. These two indicators are as follows:

X indicator =  $\frac{\text{the change in the unemployment rates between the current period and the last period}}{\text{the change in the number of foreign workers between the current period and the last period}}$ .

Y indicator =  $\frac{\text{the change in the labour shortage levels between the current period and the last period}}{\text{the change in the number of foreign workers between the current period and the last period}}$ .

where the X indicator calculates the impact of the admission of foreign workers on the unemployment levels among native workers in Taiwan, and the Y indicator calculates the impact of the admission of foreign workers on the overall labour shortage in Taiwan.

Table 3 Status of foreign workers in Taiwan, Province of China

Effective Date	Major Policies	Requirements	Target No.	Unit: Persons
12 October 1991	<p>First round (6 Industries):</p> <ol style="list-style-type: none"> <li>1. Construction;</li> <li>2. Textiles;</li> <li>3. Basic metal industries;</li> <li>4. Fabricated metals;</li> <li>5. Machinery and equipment;</li> <li>6. Electrical and electronic machinery and repairs.</li> </ol>	—	15,000	
8 May 1992	Employment Service Act	<ol style="list-style-type: none"> <li>1. Identify legal foreign workers</li> <li>2. Period of stay of up to 2 years;</li> <li>3. Employers pay stabilization fee.</li> </ol>	—	
17 August 1992	Household Maids	<ol style="list-style-type: none"> <li>1. Unit: family;</li> <li>2. Must advertise in local newspapers for three days;</li> <li>3. Household maids must be old enough and possess trainee license;</li> <li>4. Both spouses working with children under 12 years of age; or living with parents (70+ years of age), elderly persons (70+ years of age) with no relatives, elderly persons (70+ years of age) living with relatives.</li> </ol>	7,999 (increased to 8,000 on 12 January 1993)	
20 August 1992	Caretakers	Public or private healthcare or mental institutions	No limitations	
20 August 1992	Crewmen	<ol style="list-style-type: none"> <li>1. Ships of more than 20 tons;</li> <li>2. Regular workforce comprising less than 1/3 foreign crewmen;</li> <li>3. Must advertise in local newspapers for three days.</li> </ol>	No limitations	
26 September 1992	<p>Second round (68 industries):</p> <ol style="list-style-type: none"> <li>1. Important export industries;</li> <li>2. High linkage industries;</li> <li>3. 3D industries.</li> </ol>	<ol style="list-style-type: none"> <li>1. At least 10 employees in the establishment;</li> <li>2. Total workforce to comprise a maximum of 30% foreign workers;</li> <li>3. With request that foreign workers file at industry association;</li> <li>4. Foreign workers not allowed to engage in administrative or management duties;</li> <li>5. Must advertise in local newspapers for three days.</li> </ol>	32,000	

Table 3 (Contd.)

Effective Date	Major Policies	Requirements	Unit: Persons Target No.
12 January 1993	<p>Third round (73 industries), the 68 second round industries, plus:</p> <ol style="list-style-type: none"> <li>Shipping industry;</li> <li>Chemical products industry;</li> <li>Umbrella industry;</li> <li>Food processing industry;</li> <li>Chemical industry.</li> </ol>	<ol style="list-style-type: none"> <li>Establishments which had imported more than 50 foreign workers in the first round would not be allowed to reapply for the second round;</li> <li>Firms with high layoff rates would not be allowed to reapply.</li> </ol>	9,000
23 May 1993	Fourth round: (6 industries) Chinaware, etc.	No quotas on the number of foreign workers allowed.	No limitations
17 August 1993	Fifth round (73 industries): New plants or expanding production facilities.	<ol style="list-style-type: none"> <li>New plants: maximum number of foreign workers should not exceed 30% of the total workforce of a worksite;</li> <li>Major government construction projects.</li> </ol>	No limitations
14 September 1994	Sixth round: Export Processing Zones, Science-based Industrial Park, and 38 industries.	–	<ol style="list-style-type: none"> <li>5,000</li> <li>10,000</li> </ol>
8 October 1994	<ol style="list-style-type: none"> <li>Major investment projects in manufacturing;</li> <li>Schools, institutions and construction of hospital projects;</li> <li>Construction of major investment projects.</li> </ol>	<ol style="list-style-type: none"> <li>Major investment refers to investment of more than NT\$200 million</li> <li>Investment of more than NT\$150 million</li> </ol>	No limitations
May 1995	Seventh round: (7 industries)	–	4,825
December 1996	New policy for manufacturing industries in reallocating quota of foreign workers	Foreign workers who had completed their two-year contract, these quota will be assigned to other employers, in order to prevent some employers monopolize the opportunities of employing foreign workers	–

Table 3 (Contd.)

Effective Date	Major Policies	Requirements	Unit: Persons
			Target No.
February 1998	New policy for gradually reducing the number of foreign workers in Taiwan.	With the exceptions of major public infrastructure projects and investment of more than NT\$200 million, no more new positions would be allocated for the hiring of foreign workers.	—
August 1999	Requiring the employment of native workers as conditions of employing foreign workers	Requiring employers to actively recruiting native workers from public employment agencies as a condition of applying for the employment of foreign workers.	—
July 2000	Employers required employing one additional native worker for the employment of one foreign worker, and one aboriginal worker for two foreign workers.	Requiring employers to actively recruiting native workers from public employment agencies as a condition of applying for the employment of foreign workers.	—
August 2000	Announcing the policy of reducing foreign workers by 10% annually	—	—
January 2001	Agreement signed with the Philippines, Indonesia and other countries on direct importation of foreign workers	—	—
October 2001	Amended ESA and to make it easier for foreign white collar workers to work in Taiwan,	—	—
October 2001	Setting standard service fees for private employment agencies and prohibit the charge of brokerage fees by employment agencies from foreign workers.	—	—
January 2006	Permitting an additional 20,000 3D foreign workers to Taiwan.	—	—

Source: Council of Labour Affairs, *Annual Report* (various years).

Table 4 Distribution of foreign workers, by industry

Industry Sector	1995		1997		1999		2001		2003		2005		2006	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
	Unit: Persons, %													
1. Manufacturing	26,403	76.62	60,401	65.28	64,256	58.9	57,055	51.56	62,039	53.99	66,928	50.99	69,903	50.16
Food	3,366	2.04	4,402	1.79	4,305	1.54	4,511	1.48	4,680	1.56	4,970	1.52	5,307	1.57
Textiles	23,435	14.21	32,956	13.41	33,113	11.87	28,026	9.2	26,911	8.97	23,995	7.33	22,454	6.63
Apparel	3,331	2.02	3,577	1.46	3,023	1.08	2,575	0.85	2,318	0.77	1,748	0.53	1,459	0.43
Leather and fur products	2,639	1.6	2,663	1.08	2,189	0.78	1,613	0.53	1,441	0.48	1,320	0.40	1,311	0.39
Wood and bamboo products	2,024	1.23	2,233	0.91	1,724	0.62	1,285	0.42	906	0.30	872	0.27	858	0.25
Furniture and fixtures	226	0.14	209	0.09	211	0.08	214	0.07	218	0.07	257	0.08	300	0.09
Pulp and paper	3,587	2.17	3,824	1.56	3,490	1.25	3,455	1.13	3,339	1.11	3,316	1.01	3,415	1.01
Printing	-	-	-	-	205	0.07	243	0.08	303	0.10	326	0.10	327	0.1
Chemicals	1,289	0.78	1,401	0.57	1,497	0.54	1,892	0.62	1,716	0.57	1,867	0.57	1,876	0.55
Chemical products	1,572	0.95	2,170	0.88	1,722	0.62	1,607	0.53	1,570	0.52	1,635	0.50	1,653	0.49
Rubber products	4,678	2.84	4,463	1.82	4,763	1.71	4,251	1.4	4,475	1.49	4,475	1.37	4,448	1.31
Plastic products	11,566	7.01	11,211	4.56	10,582	3.79	10,184	3.34	9,880	3.29	10,052	3.07	10,255	3.03
Non-metallic minerals	8,042	4.87	9,688	3.94	7,460	2.68	6,141	2.02	6,177	2.06	6,195	1.89	6,174	1.82
Basic metal products	15,363	9.31	14,885	6.06	12,128	4.35	10,315	3.39	9,717	3.24	9,853	3.01	10,434	3.08
Metal products	14,758	8.95	18,994	7.73	17,304	6.2	16,413	5.39	17,175	5.72	17,895	5.47	19,533	5.77
Machinery and equipment	3,876	2.35	4,195	1.71	6,300	2.26	6,643	2.18	7,120	2.37	7,455	2.28	7,959	2.35
Electrical and electronic machinery	21,230	12.87	35,825	14.58	42,105	15.1	44,135	14.19	51,135	17.04	57,057	17.43	58,556	17.29
Transportation	4,616	2.8	6,844	2.79	6,881	2.47	6,949	2.28	7,253	2.42	8,260	2.52	8,286	2.45
Precision instruments	536	0.32	624	0.25	704	0.25	752	0.25	695	0.23	840	0.26	1010	0.3
Miscellaneous	-	-	237	0.1	4,550	1.63	5,851	1.92	5,010	1.67	4,540	1.39	4,288	1.27
Others	269	0.16	-	-	-	-	-	-	-	-	-	-	-	-
2. Construction	38,570	23.38	48,786	19.86	51,894	18.61	33,367	10.95	14,117	4.70	13,306	4.06	11,745	3.47
Household maids and healthcare service workers	-	-	35,245	14.34	61,723	22.13	112,934	37.08	20,598	40.18	44,015	43.99	53,785	45.4
4. Fishing boat crewmen	-	-	1,265	0.51	999	0.36	1,249	0.41	3,396	1.13	3,147	0.96	3,322	0.98
Total	64,973	100.00	145,697	100.00	178,872	100.00	104,605	100.00	100,150	100.00	127,396	100.00	138,755	100.00

Sources: 1. Council of Labour Affairs, *Survey of Utilization and Administration of Foreign Workers in Taiwan*, (various years).2. DGBAS, *Monthly Report of Salary and Productivity Statistics* (various years)

Table 5 Distribution of foreign workers within Manufacturing industries

Industry Sector	1995		1997		1999		2001		2003		2005		2006	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Manufacturing	126,403	100%	160,401	100%	164,256	100%	157,055	100%	162,039	100%	166,928	100%	169,903	100%
Food	3,366	2.66%	4,402	2.74%	4,305	2.62%	4,511	2.87%	4,680	2.89%	4,970	2.98%	5,307	3.12%
Textiles	23,435	18.54%	32,956	20.55%	33,113	20.16%	28,026	17.84%	26,911	16.61%	23,995	14.37%	22,454	13.22%
Apparel	3,331	2.64%	3,577	2.23%	3,023	1.84%	2,575	1.64%	2,318	1.43%	1,748	1.05%	1,459	0.86%
Leather and fur products	2,639	2.09%	2,663	1.66%	2,189	1.33%	1,613	1.03%	1,441	0.89%	1,320	0.79%	1,311	0.77%
Wood and bamboo products	2,024	1.60%	2,233	1.39%	1,724	1.05%	1,285	0.82%	906	0.56%	872	0.52%	858	0.50%
Furniture and fixtures	226	0.18%	209	0.13%	211	0.13%	214	0.14%	218	0.13%	257	0.15%	300	0.18%
Pulp and paper	3,587	2.84%	3,824	2.38%	3,490	2.12%	3,455	2.20%	3,339	2.06%	3,316	1.99%	3,415	2.01%
Printing	-	-	-	-	205	0.12%	243	0.15%	303	0.19%	326	0.20%	327	0.19%
Chemicals	1,289	1.02%	1,401	0.87%	1,497	0.91%	1,892	1.20%	1,716	1.06%	1,867	1.12%	1,876	1.10%
Chemical products	1,572	1.24%	2,170	1.35%	1,722	1.05%	1,607	1.02%	1,570	0.97%	1,635	0.98%	1,653	0.97%
Rubber products	4,678	3.70%	4,463	2.78%	4,763	2.90%	4,251	2.71%	4,475	2.76%	4,475	2.68%	4,448	2.62%
Plastic products	11,566	9.15%	11,211	6.99%	10,582	6.44%	10,184	6.48%	9,880	6.10%	10,052	6.02%	10,255	6.04%
Non-metallic minerals	8,042	6.36%	9,688	6.04%	7,460	4.54%	6,141	3.91%	6,177	3.81%	6,195	3.71%	6,174	3.63%
Basic metal products	15,363	12.15%	14,885	9.28%	12,128	7.38%	10,315	6.57%	9,717	6.00%	9,853	5.90%	10,434	6.14%
Metal products	14,758	11.68%	18,994	11.84%	17,304	10.53%	16,413	10.45%	17,175	10.60%	17,895	10.72%	19,533	11.50%
Machinery and equipment	3,876	3.07%	4,195	2.62%	6,300	3.84%	6,643	4.23%	7,120	4.39%	7,455	4.47%	7,959	4.68%
Electrical and electronic machinery	21,230	16.80%	35,825	22.33%	42,105	25.63%	44,135	28.10%	51,135	31.56%	57,057	34.18%	58,556	34.46%
Transportation	4,616	3.65%	6,844	4.27%	6,881	4.19%	6,949	4.42%	7,253	4.48%	8,260	4.95%	8,286	4.88%
Precision instruments	536	0.42%	624	0.39%	704	0.43%	752	0.48%	695	0.43%	840	0.50%	1,010	0.59%
Miscellaneous			237	0.15%	4,550	2.77%	5,851	3.73%	5,010	3.09%	4,540	2.72%	4,288	2.52%
Others	269	0.21%												

Source: see Table 4

The implications of these two indicators are as follows: (i) the admission of foreign workers into Taiwan should help to alleviate the problem of the acute labour shortage on the island; thus, opportunities for native workers will be raised, and foreign workers represent a supplement to native workers; and (ii) as the number of foreign workers admitted into Taiwan continues to increase, there will be a corresponding decline in the overall labour shortage on the island, and at some point foreign workers will begin to compete with native workers. In other words, when Taiwan began admitting foreign workers, the X and Y indicators were both positive, but as increasing numbers of foreign workers were admitted, both indicator values became negative. However, the ideal number of foreign workers in Taiwan would only be achieved when these two indicators are close to zero.

Whilst the concept of the 'warning system' appears to be very simple, clear and easy to understand, it nevertheless had two inherent flaws; (i) the overall labour shortage and unemployment levels are not only affected by the number of foreign workers in Taiwan, they will clearly be affected by other economic factors, none of which are included in the calculation of the two indicators; and (ii) much more importantly, there is actually no comprehensive labour shortage data collected in Taiwan. As a result, the CLA has not adopted the formula.

In an effort to take the political pressure out of the procedure for setting quotas for foreign workers, scholars and experts have been urging the CLA to set up a tripartite committee, as originally suggested in the ESA 1992, to make the process more transparent (Hsin 2007). However, the opinion of the CLA is quite different in that for them this procedure would be dogged by more political pressure, not less. A recent survey of 163 employers in Taiwan has nevertheless shown that the majority of employers (63.8%) would prefer to have a tripartite committee in deciding the quotas for the admission of foreign workers (Hsin 2007: 118). As to exactly who should have the power to allocate foreign workers to different industries and job categories, 44.17 per cent of the employers surveyed preferred this matter to be decided by 'employers associations', whilst 36.81 per cent preferred to let the authorities continue to make such decisions (Hsin 2007).

Finally in July 2007, the newly appointed commissioner of the CLA has set up a tripartite committee to determine the number of foreign workers to be admitted to Taiwan. He noted that such a tripartite committee could respond to the needs of the economy faster than the previous system and could avoid the political pressure from employers.

## 5.2 Excessive brokerage fees

More than 90 per cent of all foreign workers entering Taiwan are recruited through private employment agencies, either in the form of local employment agencies, employment agencies within the labour sending countries, or based on the joint efforts of both local and foreign employment agencies. However, irrespective of the type of recruitment process used, foreign workers are charged very high brokerage fees for the services of such agencies; in some cases, the fees are as high as nine months to one year of a foreign worker's wages.

The excessive brokerage fees charged by the agencies constitute one of the primary reasons why foreign workers switch from their assigned employer to other employers upon the expiration of their current employment contract. Since it is illegal for any foreign worker (without being assigned by the CLA) to work for another employer in Taiwan, such workers therefore immediately become illegal workers. It is, however, only in this way that they can continue to work in Taiwan. In order to avoid being caught and subsequently deported, these workers then tend to go 'underground', at which point they become 'missing workers'. Some of the major causes of foreign workers switching from one employer to another are briefly described in Table 6.

In 2003, in an attempt to tackle the problem of excessive brokerage fees and reduce the number of missing foreign workers in Taiwan, the 1992 version of the ESA was amended to give the CLA the right to supervise the operations of these employment agencies.

Table 6 Reasons for foreign workers changing employers, June 2005

Reasons for Changing Employers	%*	Unit: %
1. Encouraged by fellow countrymen	46.05	
2. Expiration of employment contract	36.93	
3. Seeking higher wages	20.84	
4. Unable to adapt to the current working and living conditions	13.24	
5. Homesick	7.70	
6. Reassigned by job broker	2.06	
7. Unable to get along with native workers	2.06	
8. Others	21.68	

*Note:* \*Multiple answers were permissible; thus, the total is greater than 100%.

Source: CLA 2006

The CLA subsequently announced that the charging of brokerage fees for foreign workers was to be prohibited. The employment agencies would, however, be allowed to charge a standard service fee, which was set at NT\$1,800 per month for the first year, NT\$1,700 per month for the second year and NT\$1,500 per month for the third year. Furthermore, the CLA urged all employment agencies in the labour-sending countries not to charge brokerage fees in excess of a single month's wage for a foreign worker (based upon the minimum wage rate per month in Taiwan which at the time of the announcement stood at NT\$15,840, US\$465.9, since July 2007 it is NT\$17,280, US\$508.2). The CLA also prohibited employers in Taiwan from collecting commissions from the employment agencies, warning that any employer found to be accepting such fees would lose his right to employ foreign workers.

The CLA has also made attempts to implement direct hiring programs through the negotiation of bilateral agreements with the governments of labour-sending countries, including the Philippines, Thailand, Vietnam and Mongolia. In accordance with these bilateral agreements, employers in Taiwan will be allowed to hire workers directly from the labour-sending countries through their representative offices in Taiwan, thus entirely bypassing the employment agencies in both the labour-sending and labour-receiving countries, and of course, cancelling out any brokerage fees

(CLA Newsletter, August 2004). Such programs have not, however, proved to be very successful, essentially because, for reasons of convenience, employers in Taiwan prefer to recruit foreign workers through the various private employment agencies (CLA, 2006).

In its ongoing attempts to tackle the problem of excessive brokerage fees, in 2007, the CLA turned its attention to the removal of dishonest and unqualified employment agencies by amending the 'Establishment and Management of Private Employment Agencies Act'. This Act stipulates that all employment agencies are to be evaluated periodically, with the employment agencies being placed into A, B, or C categories based on their evaluation results. Any employment agency placed in category C must improve its performance within a given period of time; if it fails to achieve a satisfactory improvement resulting in its upgrading itself to category B within the specified period of time, it will be disqualified and will no longer be allowed to remain in business. The professional staff members within these employment agencies are also required to be licensed, with an additional requirement that they renew their license every four years.

The list of qualified employment agencies is posted on the CLA website, so that citizens may have a means of checking the qualifications of these employment agencies. Through such close supervision, the CLA is clearly hoping that the problem of excessive brokerage fees can be resolved, and that a reduction in the total number of missing workers can be achieved. In fact, such measure is working as could be seen from Table 7 which reveal that the increasing trend of missing workers reversed itself in 2006.

### 5.3. Changing employers

As mentioned before, in Taiwan foreign workers are not allowed to change jobs once they arrive in Taiwan. This regulation has been facing serious criticism by scholars in the social sciences and other areas pointing out that it is a violation of basic human rights. The authorities have since relaxed its position somewhat. It was stipulated by the CLA that, based on the following conditions, a foreign worker may change his/her employer. These conditions were: the death of the

employer or the relocation of the original employer's production facilities abroad, the closing down of the assigned business, reducing the size of the employer's business, failure to comply with the employment contract for more than three months, and other incidences or events which were beyond the control of the foreign worker, e.g., abuse by the employers and unsafe working conditions. In July 2007 the CLA went further by permitting foreign worker to change employer as long as the current employer agrees and a future employment has been arranged. The only requirement is that this foreign worker must return home for a short period of time before he is allowed to re-enter Taiwan and take up the new job.

Table 7 Number of Missing Foreign Workers, by Country, 1998-2006

Year	Missing Rates of Foreign Workers from Selected Asian Countries *										Total No. of Missing Workers at large
	Indonesia		Philippines		Thailand		Vietnam		Total		
	No.	(%)	No.	(%)	No.	(%)	No.	(%)	No.	(%)	
1998	493	2.8	2,450	2.3	1,728	1.3	–	–	4,679	1.8	6,646
1999	760	2.5	1,882	1.6	1,403	1.0	–	–	4,057	1.4	5,504
2000	1,680	2.9	1,303	1.2	1,234	0.9	35	0.7	4,288	1.4	5,514
2001	2,804	3.2	1,048	1.2	942	0.7	293	2.8	5,089	1.6	6,220
2002	3,809	4.0	643	0.9	1,042	0.9	1,584	7.8	7,079	2.3	8,143
2003	3,411	4.6	873	1.2	1,171	1.1	4,233	9.6	9,688	3.2	11,125
2004	1,978	4.9	1,177	1.4	1,369	1.3	7,536	10.2	12,062	3.96	16,593
2005	1,973	6.7	1,543	1.7	2,040	2.1	7,363	8.2	12,938	4.16	21,679
2006	4,232	6.1	1,023	1.1	1,239	1.3	4,422	5.8	10,918	3.26	21,051

Note: \*Missing rate=No. of missing workers divided by total number of foreign workers x 100.

Source: CLA (2006).

## **6. Impact of the FWP on Taiwan's Labour Market**

Several studies have attempted to ascertain the impact that the FWP has had on the local labour market in Taiwan. San (1996), by examining business census data along with the 1993 survey of foreign workers, found that the job content and the technology used by native workers in low-skilled jobs were mutually substitutable. Using 1991 business census data, Hsu (1997) noted that the interaction between native and foreign workers included: (i) a substitution effect in the labour-intensive industries; (ii) a supplementary effect in the machinery and electronics industries; and (iii) a supplementary effect in small firms. San and Lin (1999) carried out a further survey of foreign workers and found that the average wage was lower than that for native workers; thus, they concluded that foreign workers were effectively displacing low-skilled native workers. Using the 1996-2002 Manpower Utilization Survey data to investigate the occupational choices of men and women in different regions, Jiang (2007) found that foreign workers had a negative effect on the employment opportunities of the native workers.

In another study which used the Manpower Utilization Survey longitudinal data to investigate the labour mobility of employed and unemployed workers between 1980 and 2000, Lin (2003) found that labour mobility was an important mechanism for unemployed native workers in terms of their ability to secure reemployment. In the first period (1980 to 1990), 96 per cent of the unemployed workers who moved around had succeeded in finding new jobs; in contrast, 58.4 per cent of non-movers succeeded in finding reemployment, while 16.1 per cent remained unemployed. Nevertheless, as a result of the worsening labour market situation in the late 1990s, there was a relative fall in the reemployment rate in the second period (1991 to 2000); thus only 84.2 per cent of mobile unemployed workers found reemployment during this period, with 15.9 per cent remaining unemployed. For non-mobile unemployed workers, 56.8 per cent found reemployment and 20.6 per cent remained unemployed (Lin, 2003). Lin also found that the reemployment rate for native workers was lower in those areas with

greater numbers of foreign workers, and that mobile unemployed native workers tended to steer clear of those areas where there were significant numbers of foreign workers, such as Taipei and Taoyuan counties, since it proved much more difficult to find jobs in these places.

In actual fact, the admission of foreign workers into Taiwan and its impact on the local labour market has differed before and after 1997. As Figure 1 shows, within a very short period of time the elasticity of the labour supply has become zero; thus, the supply of native labour in Figure 1 is ON. A quota system has been adopted in Taiwan; therefore, the elasticity of the labour supply of foreign workers is zero, in which case, NF in Figure 1 refers to the supply of foreign workers entering Taiwan.

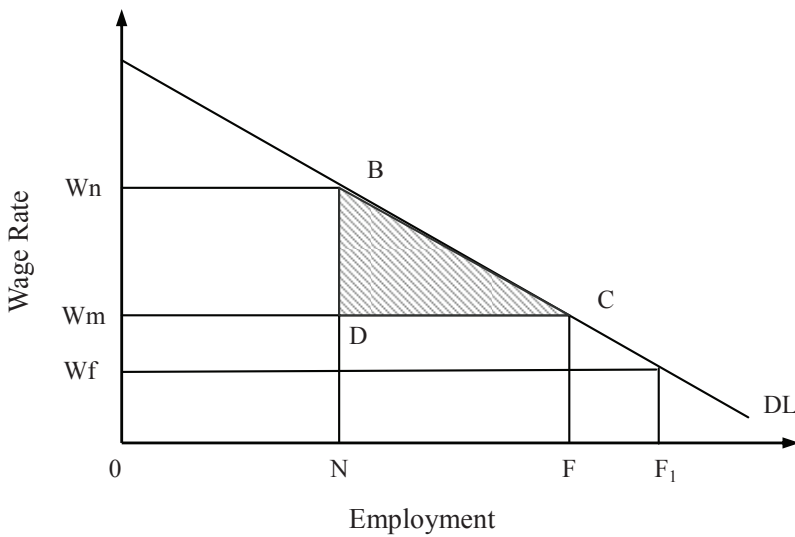


Figure 1 The impact of foreign workers on the employment of native workers

Prior to 1997, foreign workers were admitted strictly into job categories with serious labour shortages; thus, foreign and native workers were employed in a segmented labour market where the employment of foreign workers had no impact on either the wages or employment of native workers. As Figure 1 shows, native workers received  $W_n$  wages and foreign workers received  $W_m$  wages, with  $W_m$  indicating the minimum wage rate in Taiwan. By admitting  $NF$  or the number

of foreign workers into Taiwan employers received an additional benefit (the shaded area BCD), and foreign workers received the wage bill NDCF. The subsequent rise in the unemployment rate after 1997, along with the reduction in the overall labour shortage due to the upgrading (or migration) of many of Taiwan's labour-intensive industries, resulted in native workers being more willing to accept lower wage rates as a more attractive alternative to remaining unemployed.

However, the foreign worker policy adopted by the authorities since the late 1990s had changed, such that Taiwan is now using such readily available labour to promote its high-tech industries, export industries and major investment projects. The authorities' aim in implementing such a change was that it might result in a revitalizing of Taiwan's economy; but the authorities failed to recognize that the export industries were no longer engaging in production in Taiwan. Despite the fact that production orders were received in Taiwan, in the majority of cases, the products were actually being produced in mainland China from where they were shipped directly to overseas customers. The authorities also failed to recognize that, despite the amount of investment in high-tech industries being enormous, the number of jobs generated by these industries was very small. Clearly, therefore, such efforts have not succeeded in generating any significant number of employment opportunities for native workers (Liu, 2007; Wu, 2007).

The CLA 1999 directive allowing employers to deduct room and board expenses from the minimum wage received by foreign workers effectively lowered the costs of hiring foreign workers; the knock-on effect of this was to further increase the demand for foreign workers among employers in Taiwan. Referring back to Figure 1, the wage rate for native workers in the post-1999 period has been somewhere between  $W_n$  and  $W_m$  (or very close to  $W_m$ ), while the wage rate for foreign workers has declined to  $W_f$  with the demand for foreign workers increasing to  $NF_1$ . In this case, not only have the jobs of native workers come under threat from the admission of foreign workers, but we are also witnessing a redistribution of income effect.

It is because of this negative effect that the authorities have changed their strategy in recent years. Instead of adopting a passive approach by preventing native workers from being displaced by foreign workers, the authorities have switched to a positive approach in which it requires employers to hire certain number of native workers for each foreign worker admitted (CLA 2007).

## **7. Conclusions**

In 1992, the authorities of Taiwan, Province of China introduced a foreign worker program (FWP) in response to the island's acute labour shortage. The program was to have allowed limited numbers of foreign workers to enter Taiwan for employment in select industries and job categories. The functions of the FWP have changed several times as economic conditions changed. In the beginning the authorities used the FWP to resolve labour shortage problems for the labour-intensive industries and then later on to promote the upgrading of the industrial structure. Recently the authorities are using the FWP to provide labour supply to all industries experiencing shortage of labour in 3D jobs or in need of night shift workers.

To prevent employers from using foreign workers to displace native workers, the CLA in the past utilized a passive approach, i.e., by requiring employers to place job vacancy ads in newspapers. Recently the authorities have changed to a more active approach by requiring employers to hire a certain number of native workers before they are allowed to hire one foreign worker. For example in hiring foreign caretakers, the CLA requires prior to their recruiting of foreign workers, that employers first look at a list of native workers provided by a local employment agency. If no one on the list is qualified, the CLA will offer to train native workers on the list at their expense. If this is not possible, the employer is allowed to hire foreign caretakers. However, if the employer decides to hire a native caretaker, the CLA will subsidize him up to NT\$10,000 a month for one year. The effectiveness of this approach is questioned because the average cost of hiring a native caretaker is in the region of NT\$50,000 to NT\$60,000, while the cost of

hiring a foreign caretaker is only slightly more than NT\$20,000.

Excessive brokerage fees have also been a problem for the effective operation of the FWP, mainly because they cause foreign workers to leave their assigned employers to work for 'underground' employers resulting in their becoming 'missing workers'. Through tighter controls on employment agencies, the authorities have been able to lower its brokerage fees and reduce the services provided by the local employment agencies to foreign workers. Recently the authorities have also relaxed its requirement by permitting foreign workers to change employers under certain conditions. All these efforts could help to reduce the number of missing foreign workers in Taiwan.

What lessons can other countries learn from Taiwan's experience?

- 1.) A quota system has the advantages of openness and transparency. However, the Taiwan experience shows that there is a need for a mechanism that can change the quota quickly in responding to the changing economy. In 2007 the CLA has set up a tripartite committee in deciding the quota and the allocation of foreign workers. Whether this is a better and more effective approach in determining the quota of foreign workers, it is too early to tell because this committee has been formed only for a month and has met only one time.
- 2.) Bilateral agreements have worked well for European countries in reducing excessive brokerage fees and illegal immigrants, but they do not work that well in Asian countries, partly due to the inefficiencies of some of the governments within this region (Lee 2006). An alternative approach is to directly supervise employment agencies by setting an upper limit for their service fees, as well as standards for their service, and by evaluating their performance periodically. In this way, unqualified employment agencies may be removed from the government's referral list. This approach seems to produce better and more satisfactory results than bilateral agreements with the governments of labour-sending countries. However, further evaluation of the effectiveness of this new approach is needed before one can come to a definite conclusion.

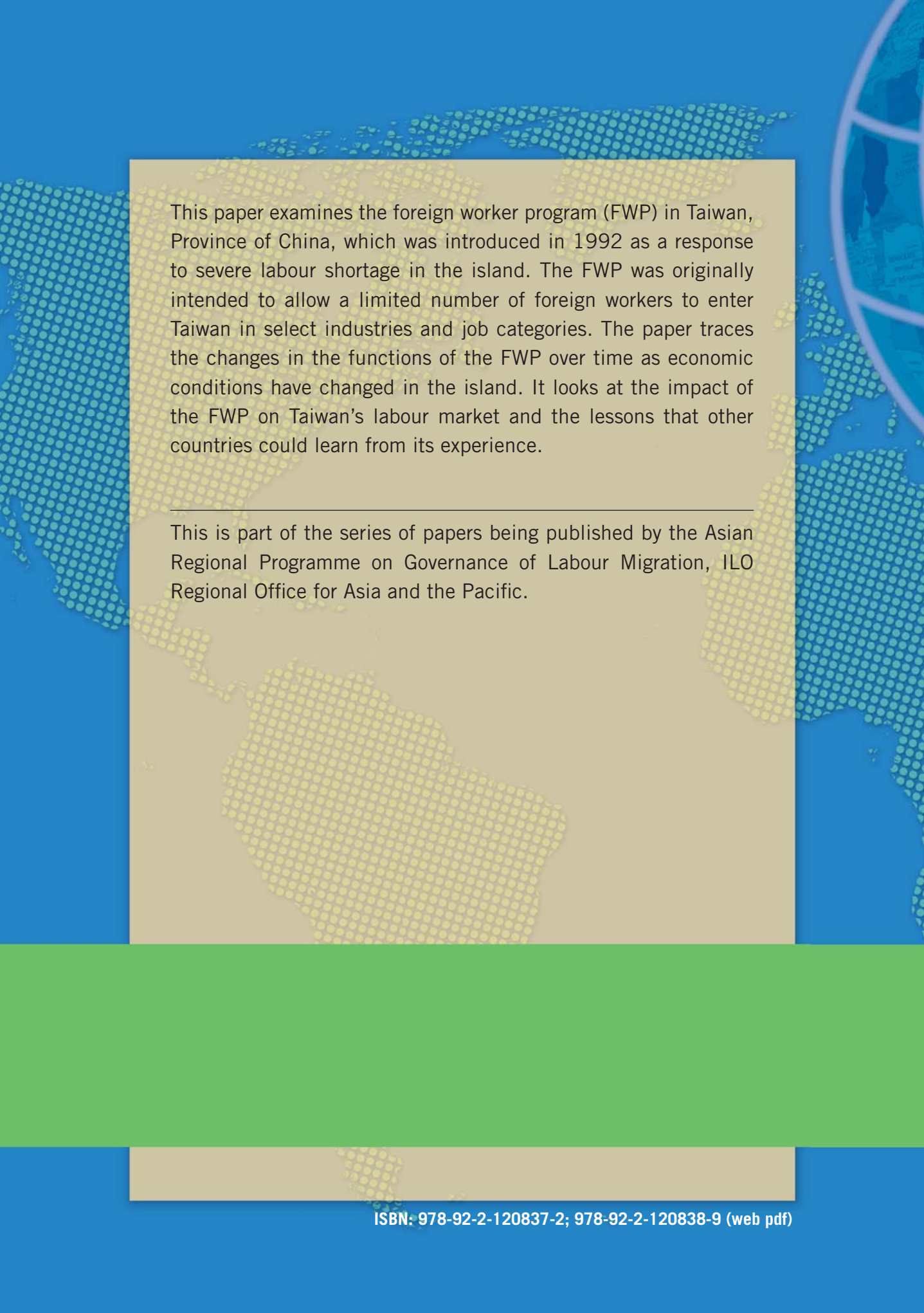
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This paper examines the foreign worker program (FWP) in Taiwan, Province of China, which was introduced in 1992 as a response to severe labour shortage in the island. The FWP was originally intended to allow a limited number of foreign workers to enter Taiwan in select industries and job categories. The paper traces the changes in the functions of the FWP over time as economic conditions have changed in the island. It looks at the impact of the FWP on Taiwan's labour market and the lessons that other countries could learn from its experience.

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