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Chapter 2: Working Poverty and Anti-Poverty Policy in Four East Asian Societies

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Abstract

“Working poverty” occurs when market labor earnings plus post-market transfers together do not provide adequate resources to reach a minimal standard of living. This chapter overviews working poverty and social policy aimed to address it in four East Asian societies: Hong Kong, Japan, South Korea, and Taiwan. For each society, we survey major policies that could reduce working poverty: minimum wages, social insurance programs, earnings supplementation and means-tested social assistance. Estimates of working poverty rates range from 3.7% in Taiwan, a society that combines a high minimum wage with access to social assistance, to 10.8% in Japan, a society that includes the working poor in social insurance programs without allowing for their distinct economic needs. Hong Kong and Korea both supplement the incomes of working poor households - with a cash allowance and earned income credit, respectively. This range of policy approaches shows diversity in welfare state evolution.

KEYWORDS: working poverty, in-work poverty, social policy, welfare state, East Asia

2.1. Introduction

While poverty within the context of industrialized market economies is typically associated with unemployment or not participating in the labor market, poverty also arises when the combination of market participation, post-market transfers, and private resources does not provide sufficient resources for attainment of a minimum standard of living. The latter phenomenon, known as “working poverty” can happen even in high-income societies if political and market structures allow it.

This chapter surveys working poverty and select social policy measures aimed to address it in four East Asian societies: Hong Kong, Japan, South Korea (henceforth “Korea”), and Taiwan. As outlined in the introduction to this volume, the last several decades have seen East Asian societies transformed into industrialized and post-industrialized globalized economies, with increases in GDP, rising household incomes, and decreases in poverty. However, as the region has grown wealthier, working poverty remains an issue (Yeh & Lue 2018). We provide a brief background discussion of the conceptual and theoretical understandings of working poverty. Then, for each of the four focal societies, we present estimates of the prevalence of working poverty and discuss policy efforts to prevent it through market interventions or reduce it through post-market transfers. We conclude with a cross-society analysis and thoughts for further inquiry.

2.1.1 Conceptualizing and measuring working poverty

This chapter’s overall topic is working poverty, a general concept defined as the intersection of poverty status and engagement in paid work, which may refer to individuals who work but live in a poor household, or to households that have some members in work but whose total income is such that the household is poor. We present specific evidence on the percentage of working individuals aged 18-64 who are poor, a figure that would be called the “in-work poverty” rate in many contexts. An important related concept for welfare discussions is the phenomena of

“working poor households,” typically operationalized as households with at least one worker and resources falling below a poverty line.

These concepts rest on assumptions about work, an individual concept, and poverty, a household concept. While all kinds of labor contribute to human well-being, typically “working” refers to someone engaged in productive activities designed to bring new resources into the household through market exchange (i.e. paid work). Work can take the form of entrepreneurship, but within market economies most workers are employees of another person or entity. However, with diversification of the labor market and lifestyles, defining “working” can be problematic as there are workers who only work part-time, sometimes only for a few hours a week and also those who work only for a limited duration of the year. In practice, such distinctions often yield to local practice or data availability. For instance, the American Bureau of Labor Statistics defines work as being employed (including self-employment) or actively looking for a job for 27 weeks in the past year whereas the International Labour Organization uses any working for pay in the past week (Lohmann, 2018).

Poverty is a necessarily relative concept; the resources rendering a household poor in one society might provide a comfortable middle-class status in another setting or era. Common poverty measures range from \$2US per person per day in lower-GDP societies, cut-off levels or absolute poverty lines, or some percentage of the median income, such as 50% or 60% (Iceland 2013). Poverty typically is measured at the household unit level, with different methods (equivalence scales) used to adjust for household size and, in some cases, household members ages or relationships. A wage that is adequate to support a one or two-person household may fall below the poverty threshold if a household contains more members, including children, elders, or adults with temporary or permanent disabilities. In our focal societies, official poverty measures use 50% (Japan, Korea, Hong Kong) or 60% (Taiwan) of median income and vary in the types of income counted and the adjustment for household size. Our common measure, described below, uses the 50% median income level.

2.1.2 Markets, policy, and working poverty

Explanations for the existence and extent of working poverty rely on theories about demographic, economic, and policy forces (Crettaz and Bonoli, 2010; Brady et al 2010; Lohmann and Marx, 2018). The extent of working poverty depends on how much poverty is generated by the market and how much of that poverty remains after post-market policy. Because poverty is a household-level construct, household formation and fertility patterns also matter. The prevalence of single-parent households in western economies is one driver of working poverty rates (Brady et al 2010). However, such households are less common in East Asia (Yeh and Lue, 2018) and accordingly, we pay more attention to market and policy factors. Market economies create inequality. While different institutional arrangements may result in varying levels of inequality, some level of inequity inevitably results from distributional systems based on exchanges of privately-owned capital and labor (e.g. Piketty, 2014). In such systems, the lower portion of the earnings distribution may fall below the socially determined minimum resource level needed for subsistence; this is working poverty. Chung-Yang Yeh and Jen-Der Lue (2018) trace how the political-economic institutional arrangements of Taiwan, Japan, and Korea give rise to working poverty. In Japan and Korea, large conglomerates develop firm-specific skills among workers identified as long-term or lifelong employees. These regular full-time (and mainly male) workers enjoy considerable benefits from the corporations, but this

system excludes part-time, temporary, and casual workers, all of whom are likely to fall within the ranks of the working poor. In contrast, Taiwan historically has taken a more liberal approach to employment, with fewer employment protections and more firm-to-firm mobility as a regular part of the economy. Hong Kong upholds laissez-faire principles to the greatest extent, with its overall economy providing limited firm-specific benefits.

Given that inequality and working poverty arise within market economies, policy solutions can take one of two major forms. Policies can intervene in market processes, preventing poverty from arising through encouraging or requiring adequate earnings and protections against earnings interruptions for workers. Alternatively, post-market strategies allow markets to generate inequality, but reduce this inequality post-hoc through welfare state mechanisms that redistribute income from wealthier to poorer residents. In 20th century, East Asian societies were classified in the welfare state typologies as “productivist” (Holliday, 2000) or “Confucian” (Jones, 1993) with small public social expenditures intended to support economic growth and larger roles for families and corporations than in most European welfare states (Lee & Ku, 2007). However, in the past decades, the East Asian societies have taken quite different paths in developing their social protection systems (Kim, 2015; Yang & Kuhner, 2020).

Specific social welfare policies take the form of social insurance or targeted assistance, and we will use these terms in describing the anti-poverty policies for which the working poor are eligible. Both social insurance and social assistance programs can vary in how many eligible participants they serve, how generous the provisions are, and how the assistance is delivered. These dimensions have implications for programs’ efficacy, public support, and legitimacy. The analysis in this chapter focuses mostly on income transfer programs, although we also discuss key in-kind provisions related to daily needs such as housing and child care.

2.1.3 Analysis

Our analysis consists of a cross-society comparison of poverty rates and four systematic case studies. Two main questions structure our analysis. First, what proportion of the working population is poor (working poverty rate)? Local government practices vary in defining both work (employment or self-employment) and poverty, so we use a common method described in the following section. Second, what major policies aim to prevent or ameliorate working poverty? Our case studies characterize how low-paid work interacts with policy in each society. Authors with expertise in the given countries prepared cases based on public documents; the authorship team then reviewed each case, clarifying details and synchronizing across countries as possible. Cases first describe each society’s views on working poverty within broader economic and policy contexts. We look at the minimum wage and social insurance programs as the primary poverty prevention strategies as well as secondary approaches including earnings supplementation and social assistance. Finally, each case concludes with a discussion of society-specific policies. We do not cover policies on skill development, another potential area of poverty prevention; readers interested in active workforce development strategies should consult Yeh & Lue (2018).

2.2. Extent of working poverty

The top panel of Table 2.1 summarizes our poverty rate calculations. The top panel represents the overall poverty rate, using a common definition which is the share of individuals (of all ages) whose equivalized household disposable income is below the poverty threshold. The poverty threshold is the 50% of overall median. This is the standard method used by OECD and in Japan, Korea and Hong Kong. The result shows 16.3% for Korea, 15.8% for Hong Kong, 15.4% for Japan, and 10.0% for Taiwan.

The bottom panel shows our estimates for the working poverty rates which we define as a share of poor individuals among working individuals aged between 18 to 64. We limit the age of the individuals in our estimates because the poverty status of elderly population is largely dependent on the pension schemes in each society and our focus is on policies preventing poverty among standard-age workers. As in the top panel, poverty is defined as living in a household with equivalized household disposable income below 50% of the median equivalized household income for the overall population. “Working” is defined as engaging in any kind of paid-work activities, including self-employment. We do not include unemployed or in-training individuals in the working population, because we would like to eliminate the influence of the unemployment benefits in our assessment of each society’s policies on working-poor. Estimates of working poverty rates range from 3.7% in Taiwan to 10.8% in Japan.

In all four societies, the working poverty rate falls below the full-population poverty rate, indicating that working status correlates with being non-poor. However, the variation is substantial, with Japan’s working poverty rate almost three times as large as Taiwan’s. The ranking of societies also differs between the two rates. While Taiwan shows the lowest rate for both population poverty and working poverty, Korea’s total population poverty rate is the highest even though its working poverty rate is a modest third. Japan exhibits the opposite trend as Korea, with the highest working poverty rate and a modest population poverty rate.

TABLE 2.1 ABOUT HERE

The results are consistent with previous findings such as Chung-Yang Yeh and Jen-Der Lue (2018), which also covered Japan, Korea and Taiwan. Our figures are slightly lower (likely reflecting the different time period) but show the same ordinal ranking as in their analysis of 2006-2010 LIS data with Japan having the highest working poverty rate followed by Korea and then Taiwan. The range across the four societies is also comparable to similar figures from the US, whose working poverty rate of 4.5% in 2018 (BLS 2020) is based on a poverty line that is typically much lower than 50% of the median income and the EU average of 9.4% of the population below 60% of the median income (Peña-Casas et al 2019).

2.3. Hong Kong

2.3.1. Work and poverty in Hong Kong

Hong Kong is characterized as a rich global city in East Asia, yet the city has a high level of income inequality (Hong Kong Census and Statistics Department, 2017; Peng, Yip & Law, 2019). Economic restructuring and relocation of labor-intensive jobs to mainland China in the past decades created a class of working poor population (Legislative Council, 2006). After announcing its first poverty line in 2013 (50% of the median monthly household income for

households of different size), the Hong Kong government noticed that a high proportion of workers are in fact poor. Per official 2019 Hong Kong statistics, 7.3% of persons living in households with one working-age employed individual have income below the relative poverty line (Census and Statistics Department, 2020), and half of the poor population lives in working poor households (Cheung et al., 2019).¹ Although the Hong Kong SAR government has largely embraced *laissez faire* principles, the presence of a substantial working poor population in a wealthy city propelled the government to establish measures to support low-paid workers (Cheung & Chou, 2016).

2.3.2 Social policies supporting low-paid workers

2.3.2.1 *Minimum wage*

The minimum hourly wage in Hong Kong took effect in 2011, with the wage level set at HK\$37.5 (US\$5.78) in 2019². The minimum wage covers all employees (including monthly-, weekly-, daily-, hourly-, or piece-rated full-time or part-time employees) regardless of whether they are employed by a continuous contract. Only domestic helpers and student interns are excluded. Policymakers review and adjust the minimum wage level every two years. Advocates call for annual reviews and criticize the minimum wage for failing to keep pace with inflation (Lau & Wong, 2018).

2.3.2.2 *Social insurance*

Hong Kong does not have a social insurance system that protect its workers from labor market or lifecycle risks. Hong Kong's social policy framework contains neither employment insurance nor a public pension system; unemployed workers cannot rely on unemployment insurance payments. With regard to old age income, Hong Kong enacted a provident fund system, the Mandatory Provident Fund (MPF) system in 2000. The MPF scheme covers employees and self-employed persons aged 18-64. It requires workers earning higher than HK\$7,000 (US\$1,080) to contribute 5% of their relevant income to the fund, with a monthly contribution cap of HK\$1,500 (US\$231). Additionally, employers must contribute 5% of employees' relevant income to employees' MFP accounts. This contribution level has been criticized for only providing a meagre retirement income (Ho, 2001). As the funds are managed by commercial banks, critics describe the system as favoring development of the financial sector without offering adequate income protection to low-paid workers (Chan, 2003).

2.3.2.3 *Social assistance*

Hong Kong's major social assistance program is the Comprehensive Social Security Scheme (CSSA). CSSA covers residents who have resided in Hong Kong for at least one year and who pass both income and asset tests. CSSA recipients receive a standard rate of cash benefits, and

¹Note that this measure is different than our earlier measure standardized across societies. We provide it here to illustrate how Hong Kong tracks the condition. This was the only society among the four in which we could construct any working poverty rate using publicly-reported government statistics.

² We translate all nominal currency amounts currencies to US dollars using a purchasing power parity (PPP) approach based on PPP figures as of 2017.

recipients meeting categorical eligibility can qualify for further supplements (e.g., Single Parent Supplement, Transport Supplement, Employment Support Supplement) and special grants (e.g., to cover the costs of rent, school fees, medically recommended diet, and medical or rehabilitation appliances). CSSA recipients aged 15 to 59 in normal health and whose working hours are less than 120 hours per month are required to participate in the Support for Self-reliance Scheme to receive employment support services. As of 2020, 4.1% of Hong Kong population was on the CSSA caseload with average monthly benefits of HK\$6,090 (US\$939) monthly benefit per individual. The Census and Statistics Department (2020) estimates that CSSA reduced the relative poverty rate in Hong Kong by 2.2 percentage points in 2019.

In 2016, the Hong Kong government introduced the Working Family Allowance scheme (WFA; formerly known as Low-Income Working Family Allowance) as an explicit effort to reduce working poverty. WFA provides cash subsidies to low-income families not receiving CSSA. Households meeting the working hour requirements (36 hours per month for single-parent households and 144 hours otherwise, although these requirements were temporarily relaxed during the pandemic) and income and asset limits are eligible to receive monthly allowance of HK\$500 to HK\$1,400 (US\$77 to US\$216). Households with children are eligible for per-child monthly child allowances (HK\$700-HK\$1,400; US\$108-US\$216). As of 2020, the WFA assisted more than 56,000 households (>180,000 individuals; 2.3% of population). It is estimated that WFA reduced the poverty rate in Hong Kong by 0.6 percentage points in 2019 (Census and Statistics Department, 2020).

2.3.2.4 *Other social policies*

Worth mentioning against the backdrop of Hong Kong's extremely high cost housing market, its Public Rental Housing (PRH) scheme offers an affordable rental housing option and covers one third of its population, including many working poor households. Households passing income, asset and residency tests are eligible to apply, but waiting time for general applicants is long (averaging 5.8 years in 2021). Estimates suggest that PRH reduced the relative poverty rate by 3.7 percentage points in 2019, a larger anti-poverty effect than that of the costlier CSSA (Census and Statistics Department, 2020).

2.4. Japan

2.4.1. Work and poverty in Japan

In the past, Japan was known for its life-long employment (with tenure) and seniority-based wage structure resulting in fairly low levels of unemployment and wage inequality. However, after the economic downturn of the late 1980s and subsequent restructuring, now only a portion of the work force is promised life-long employment while the rest of the work force is what is known as "informal (hiseiki)" workers. Hiseiki workers usually do not work full-time, are paid a lower hourly wage than those with tenure even for the same work, and do not receive social insurance coverage. The share of hiseiki workers has increased steadily with 2020 estimates of 48% of female labor and 18% of male labor force in this status (Statistics Bureau of Japan, 2021). The increase has created a working-poor class in the society. According to the authors' calculation using the 2019 Comprehensive Survey of Living Conditions by the Ministry of Health, Labor and Welfare, 9.5% of working age men and 11.4% of working age women who are working (excluding those who list other activities, such as studying and housekeeping, as

their main activity) live in households with household disposable income below 50% of equivalized median. Among the elderly, the working poverty rate jumps to 12.4% for men and 18.0% for women.

2.4.2 Social policies supporting low-paid workers

2.4.2.1 *Minimum wage*

Japan's minimum hourly wage varies by regions and industries, with the latest average minimum wage at JPY 904 (US\$8.41), ranging from JPY792 (in Okinawa, Oita, Saga and other regions) to JPY1013 (in Tokyo). The minimum wage is reviewed annually. From 2016 until the COVID-19 outbreak in 2020, the minimum had been increasing substantially to boost the economy and combat labor shortages. There is a continuing debate regarding the anti-poverty effectiveness of raising the minimum wage since only a fraction of minimum wage workers actually live in poor households (Kawaguchi & Mori 2009; Akisaka, Ito & Otake 2017).

2.4.2.2 *Social insurance*

Japan's mandatory social insurance is divided into two systems. Workers with full tenure have the employment-based insurance for pension, health care, long-term care and unemployment. For them, employers pay half of insurance premiums. Others, including most hiseiki workers, receive municipality-based social insurance covering pension, health and long-term care. For this system, subscribers (i.e. the employees) pay the entire premium. In the employment-based insurance, premiums are a fixed percentage of earnings. In contrast, the contribution structure for the municipality-based scheme is regressive, set at a fixed amount. So even though municipality-based social insurance provides security in terms of old-age, sickness and long-term care needs, its high premiums can cause low-paid workers to fall into poverty.

2.4.2.3 *Social assistance*

The Public Assistance (Seikatsu Hogo) is Japan's last safety net. Its concept is quite broad, covering all citizens (and legal aliens) whose income is below a minimum standard of living.³ The program provides the difference between the recipient's income and the minimum standard of living, as well as health and long-term care and coverage for housing and educational expenses. However, because applicants must meet not only an income test, but also asset, work and family tests, it is notoriously hard to receive. For the work test, recipients have to show they are unable to work, either for medical or other undeniably convincing reason (such as having a disabled child). For the family test, one's direct family (parents, children, siblings) must be contacted and vouch that they are unable to provide support, even in situations of long-term family estrangement. Thus, in reality, only about 1.7% of the population receives Public Assistance.

Another income support programs worth mentioning is the Child Rearing Assistance for single-parents which provides a maximum JPY43160 (US\$401) per month for low-income single-parent households with one child. Eligible parents receive JPY10190 (US\$95) for the second child and JPY6110 (US\$57) for subsequent children.

³ Japan reviews the minimum living standard every five years to see if it covers recipients' minimum needs. Currently it is set at about the same as the consumption level of the bottom decile of a model family and then adjusted for factors including household size, location, and age of household members. It is slightly below the poverty line based on 50% of median disposable income for single-person families and slight over the poverty line for larger households.

2.4.2.4 *Other social policies*

There are many programs for single-parent households such as health care assistance, public housing, and preferential placement in public day-care centers. However, the Public Assistance is the only program for working poor households with two parents or without children. Public Assistance is often denied for the working-poor under age 65; rather they are encouraged to look harder for better employment.

2.5. Korea

2.5.1. Work and poverty in Korea

With no official definition of working poverty in Korea, scholars use various definitions to provide a rough picture of the incidence of working poverty. According to the common estimations presented in Table 2.1, the working poverty rate is 7.0%, lower than the full population poverty rate of 13.5% or the most recent government estimate of 11.1% poverty among 18-64 year-olds (Korea Statistics, 2020). The incidence of low pay, the share of workers earning less than two-thirds of median earnings, is 17.0 % in 2019 (OECD, 2021). Even though it is higher than the OECD average of 15.3% the incidence of low pay has declined steadily from 26.0% in 2007.

2.5.2 Social policies supporting low-paid workers

2.5.2.1 *Minimum wage*

Korea's minimum wage law took effect in 1988 and the minimum wage has steadily increased every year since then. The 2018 minimum wage increase of 16.4% to 7,350 KRW (US\$8.01) was the second highest increase since 2001 and part of President Moon Jae-in's campaign pledge to hike the hourly minimum to 10,000 KRW (US\$10.90) during his five-year-term. Accordingly, the ratio of minimum wages to median or mean earnings of full-time employees is 0.49 or 0.63, respectively in 2019 (OECD, 2019), substantial improvements over the 2000 levels of 0.24 and 0.29 respectively. The minimum wage level for 2022 is set at 9,160 KRW (US\$9.89), up 5.05% from 8,720 KRW(US\$9.42) in 2021.

While proponents note that mandated minimum wage increases stimulate the national economy and benefit workers by raising their income, the sharp 2018 increase drew a severe backlash, especially among small business owners, and companies with fewer than five employees who rely heavily on low-wage personnel. Studies of the 2018 increase yield conflicting results. Some research found increased earnings without negative impacts on employment (Kim, 2019), but others show an estimated 4.6% to 5.1% decrease in employment (Yoo, 2020).

2.5.2.2. *Social insurance*

Among five nationally established social insurance programs, the most relevant to Korea's working poor are unemployment insurance (UI), the public pension system and industrial accident compensation insurance. Employment insurance covers workers in businesses employing more than one worker, and both employees and employers pay the UI contributions. The national pension applies to all citizens between 18 and 60 years old by law; however, those who report no income are exempt from paying premiums. Industrial accident insurance

automatically applies to all businesses or workplaces with at least one employee, and employers pay its premiums.

Even though social insurance schemes are mandatory to all employees by law, actual coverage among low-paid workers is low because many workers fall into grey areas between employment and self-employment and workers who work less than 60 hours per month (likely to be low-paid workers) can opt out. (However, persons who work longer than three months or who are daily workers must contribute even if working fewer than 60 hours per month or 16 hours per week on average.) This leads the dependent self-employed, including those who work on an on-call or per-job basis for on-demand service providers such as Uber (driving) or Baemin (food delivery), low-earning self-employed workers, and others without standard job contracts to be exempt from the programs or choose not to be insured voluntarily. As of 2017, only 41.1% and 39.4% of low paid workers who earn less than two thirds of the median wage are covered by national pension and unemployment insurance, respectively (Kim, 2018). In order to boost the coverage rate, the government subsidizes pension and employment insurance contributions for workers whose monthly average pay is less than KRW 2.15 million (US\$2,344). Employers, who are likely to be small business owners, also receive subsidies for their portion of the premiums.

In light of the COVID-19-induced labor crisis the government launched a new plan to gradually expand eligibility for unemployment insurance from the existing employee-centered UI to the entire working population. The number of those covered rose from 13.7 million in 2019 to 17 million in 2022 through the phased inclusion of jobs like artist, platform workers, freelancer, and the self-employed. Since July 2021, employment insurance has been applied to the dependent self-employed, yielding over half a million new subscribers in this category (Korean Ministry of Employment and Labor, 2021).

2.5.2.3. *Social assistance*

Korea's implemented its social assistance program, National Basic Living Security (NBLS) in 2000, replacing the old Livelihood Protection Scheme in place since the early 1960s. In 2015 the government abolished the "all or nothing" assessment process under which only those below a uniform income threshold were eligible. New rules allow recipients to receive customized benefits, a reform that made it more accessible to the working poor. After this amendment, the percentage of recipients among the total population increased by almost half, from 2.6 % in 2014 to 3.6% in 2019. Different income eligibility thresholds apply for each benefit category: 30% of median income for the livelihood benefit, 40% for the medical benefit, 45% for the housing benefit, and 50% for the education benefit.

2.5.2.4 *Other social policies: EITC and child tax credit*

In 2009, Korea introduced the Earned Income Tax Credit (EITC), a tax credit program that aims to support low-income families without work disincentives, the first such scheme among East Asian countries. In 2019, the government expanded the target population from 1.66 million to 3.34 million households. Eligibility limits vary by household type: dual-income household (36 million KRW, US\$ 38,880), single-income household (30 million KRW, US\$ 32,400), single adult household (20 million KRW, approx. US\$21,600). Households with children age 18 and under and earnings below US\$43,200 also qualify for child tax credits.

2.6. Taiwan

2.6.1 Low-paid work and poverty in Taiwan

The economic crisis of 2008 and subsequent mass underemployment in Taiwan, drove increases in the numbers of the working poor and in-work poverty (Ku, 2015). Policy narratives and studies often relate the working poor to “atypical” workers (including part-time workers, dispatched workers, and temporary workers) (Yeh & Lu, 2018). National numbers show the count of these atypical workers increasing from 572,000 in 2008 to 751,000 in 2019, approximately 8.1% of the total employed persons (National Statistical Bureau of Taiwan, 2021). To address this “new” poverty problem, in 2010 the official poverty line--the Minimum Living Standard (MLS)--was revised to 60% of the median disposable income per person per month. In the meantime, the national poverty statistics began to highlight a near-poor population: the middle-to-low-income household, defined by households with income between 1 and 1.5 times the MLS. Approximately 85% of the middle-to-low-income households have an employed household head (Ministry of Health and Welfare of Taiwan, 2019). In 2020 the share of all individuals in poverty and near poverty were 1.27% and 1.38% respectively. However, these ‘official’ poverty rates only capture the number of individuals in households enrolled in the social assistance program, underestimating the poverty problem in Taiwan. Our calculations using 2016 Luxembourg Income Study (LIS) data show that 14% of households and 10% of individuals were in poverty (defined by 50% of household equivalized median income). Further analyzing workers living in households in poverty, the poverty rate for all workers aged 18-64 was 3.7%, and for part-time workers was 13.4% in 2016.

2.6.2. Social policies supporting low-paid workers

2.6.2.1 *Minimum wage*

Taiwan formalized its minimum wage framework under the Regulations for the Deliberation of Basic Wage of 1985 which established a Basic Wage Commission of governmental officials, experts, and representatives from labor and employment that deliberates annually on minimum wage matters (Hsin, 2016). In 2021 the minimum wage is NT160 (US\$10.54)⁴ hourly and NT 24,000 (US\$1,580) monthly. The minimum monthly wage does not vary by location and is lower than the official threshold demarking the middle-to-low-income households (NT 25,241, US\$1662) for Taipei City (the jurisdiction with the highest cost of living in Taiwan). Recently, labor activists have been advocating for a living wage approach that considers the local cost of living to strengthen labor rights and address working poverty.

2.6.2.2 *Social insurance*

Taiwan’s social insurance system includes the National Health Insurance, the National Pension Program, the Employment Insurance Program, and several occupation-based social insurance programs that provide a wide array of benefits (for maternity, injury or sickness, medical, disability, old-age pension, and survivors) to ordinary workers, agricultural workers, military personnel and civil servants and teachers. The Employment Insurance Act, established in 2002,

⁴ Note that the PPP conversion of NT to US dollars yields a much higher rate than the nominal exchange rate. In this case, the PPP amount is \$10.54 while the exchange rate amount would be \$5.70. We use the PPP as it is widely-accepted as a more suitable conversion rate.

is the most critical social insurance policy for low-paid or atypical workers who are at a high risk of poverty due to job instability. The Act promotes employment protection and active labor market policies in three areas: unemployment provision, employment services, and vocational training. Employed workers age 16-64 are required to join the Employment Insurance Program, with exceptions for unregistered businesses and workers already enrolled in certain occupation-based social insurance programs. The coverage rate (defined by the number of insured persons as a percentage of all employees) for the employment insurance program was 77% in 2020 (Authors' calculation). For workers who have accumulated at least one year of insurance enrollment within the three years prior to job separation, the regular unemployment benefit provides 60% of the insured salary for up to six months. The program also provides health insurance premium subsidies for unemployed workers as well as incentive payments for those who re-enter the labor-force before using up their unemployment benefit. Additionally, the program provides vocational training living allowances to help workers advance skill sets and employment prospects (Laws & Regulations Database of The Republic of China, n.d.). The National Pension Insurance program of 2008 was introduced to improve old-age pension coverage for individuals who have no or limited work histories under the existing fragmented, occupation-based public pension system (Chen & Shi, 2021).

2.6.2.3 Social assistance

The Social Assistance Act was established in 1980 and has evolved over the intervening decades. The Act provides a package of support for enrolled low- and middle-to-low income households, including monthly income support, emergency relief, medical assistance, public housing and housing subsidies, tuition subsidies for dependent children, and asset-building programs. To qualify for social assistance benefits, a worker must have a household income less than 1.5 times the local MLS, ranging from NT25,241 (US\$1,662) for Taipei City to NT12,102 (US\$797) for outlying islands (Ministry of Health and Welfare of Taiwan, 2021). However, family resource calculations assume that able-bodied working-age adults earn the local monthly minimum wage, even though a worker's actual earnings may be lower. In practice, this policy assumption excludes some childless low-paid or part-time workers from receiving assistance. In order to encourage work among able-bodied enrollees, the Act also provides employment services, training, or workfare and allows local governments to adopt an income disregard that excludes a certain portion of the earnings from total household income when recertifying an enrollee's eligibility during the first three years receiving assistance.

2.6.2.4 Other social policies

Taiwan has implemented other social programs to enhance working poor family resources. For example, a temporary Wage Supplement Program (a pilot EITC program) was introduced in October 2008 in response to the economic hardship resulting from the financial crisis. However, this program was terminated in December 2009 due to its unclear policy goals, problematic eligibility criteria and implementation, and unsustainable funding source (Ku, 2015). Most recently, the Taiwanese government has strengthened its subsidized child care and child rearing allowance to support low- and middle-class working families with children and to improve the low fertility rate (see further policy information in Li, 2021).

2.7. Cross-case analysis

The four societies show similarities – but also notable differences - in the broad outlines of their anti-poverty policies. This section reviews the policy choices taken by the four governments.

2.7.1 Minimum wage

Raising the minimum wage is seen as a mechanism to reduce working poverty in all four societies, even broader research debates this as an anti-poverty strategy (Neumark & Shirley 2021). However, even assuming no reduction in labor demand, the mechanical effect of the minimum wage varies across the four societies (Table 2.2). In PPP-adjusted U.S. dollars, Taiwan's has the highest minimum at \$10.54 and Hong Kong's the lowest at \$5.78. To compare adequacy, we calculate the earnings of a full-time, full-year minimum wage worker (2080 hours) relative to the 50% of median income poverty line for a one-person household. Given this standard, a full-time Hong Kong minimum wage worker has the lowest adequacy. This is unsurprising as adjustments to minimum wage in Hong Kong have long been criticized for their low frequency (once in two years) and falling behind the inflation rate. Taiwan's minimum wage has the best performance, assuring 174% of the poverty line. This performance is a result of a 42% increase in minimum hourly wage from US\$7.42 in 2011 to US\$10.54 in 2021 (PPP-adjusted). Korea and Japan's minimum wages perform somewhere in between, assuring about 1.5 times the poverty line in Japan, and somewhat less (1.3 times) in Korea. In reality, of course, poor workers often work part-time or part-year, reducing the potential impact of the minimum wage.

TABLE 2.2 ABOUT HERE

Politically, the minimum wage attracts advocates and detractors across all four societies. The 2018 increase in minimum wage in Korea fueled backlash and public debate. Hong Kong advocates point to its relative inadequacy given the cost of living, and the same is true in Taiwan even though the wage is higher relative to the poverty line. To improve working conditions of working poor, the Taiwan government has centered its labor policy reforms on strengthening labor protections for atypical workers and raising the minimum wage in the recent years (Li, 2021). At the same time, critics of the minimum wage approach in Korea question its impacts on labor demand (a large issue in the research literature, e.g. Neumark & Shirley 2021), and in Japan some note that a large portion of the minimum wage workers are not poor.

2.7.2 Post-market transfers

Regardless of the minimum wage level, post-market transfers may better address risks of poverty for part-time or temporary workers. Table 2.3, based on the work of Julia Shu-Huah Wang and colleagues (in Chapter 4, this volume), summarizes the social insurance and social assistance programs available to the working poor in each of the four societies. Because some program eligibility varies by family and employment circumstances, the table displays programs accessible to two household types, a childless worker and a two-parent household with one five-year-old child. In each case, we assume one worker who works 16 hours per week, lives in a

major urban area, and has no assets. These should be considered best-case scenarios for assistance in that we assume the household receives all benefits for which they are eligible. As noted below and in the individual case studies, local rules, administrative practices, or cultural customs may prevent seemingly eligible persons from applying for or being granted aid.

TABLE 2.3 ABOUT HERE

2.7.2.1 Social Insurance

Social insurance schemes protect financial well-being against the risk of job loss. As such, these policies are not really mechanisms for reducing *working* poverty among workers, but they do protect against temporary losses of wages due to unemployment for persons who are otherwise employed. Hong Kong does not have UI, and Japan's system only covers higher-paid permanent workers. Korean workers whose earnings would qualify them as working poor are mandatorily covered by UI (called "employment insurance" in Korea). Taiwan also covers UI for low-paid, part-time workers under the Employment Insurance Act, with an emphasis on active labor market policies integrating employment services, vocational training, and unemployment compensation.

Although it cannot directly reduce working poverty, the structure of old age social insurance matters for the working poor. Helpfully, it reduces the financial burden on low-wage workers who would otherwise have to privately support elders in their families and save for retirement. However, insofar as low-paid workers have to contribute via taxes and premiums, old age insurance also reduces current disposable income. As with UI, the program designs vary across societies, but all four societies' programs are limited in how they consider the working poor, either by not including them or including them but having regressive structures. Hong Kong has an individual savings scheme for old age protection, but it is not compulsory for lower earners. Japan has a mandatory old-age insurance scheme, but for working-age poor persons, the required contributions reduce current income, especially because the contribution schedule is not as progressive as the income tax, even with government subsidies. In Korea, participation in the national pension system is mandatory for most employed and self-employed workers with an exception for employees working less than 16 hours per week for fewer than three continuous months. In practice, many lower-earning workers, particularly the self-employed, do not pay into insurance even when contributions are required. As in Japan, social insurance premiums can pose economic burdens to low-wage workers, so the Korean government subsidizes contributions somewhat. In Taiwan, income replacement rates of old-age pensions are mainly based on workers' occupations and work status, raising concerns about the inequitable pension benefits across ordinary workers, civil servants/ public school teachers, and individuals with no or limited work histories (Chen & Shi, 2021).

2.7.2.2 Social Assistance.

Whether and how working poor households qualify for means-tested social assistance varies as well. While one view of social assistance is that it is the ultimate safeguard against poverty, it often is stigmatized and designed to be difficult to access - both practically and psychologically - in order to limit cost or use. In Japan, social assistance is heavily marginalized, covering less than 2% of the population, mostly non-working elderly or disabled persons. Very few of Japan's

working poor qualify for housing or medical assistance. In Taiwan, social assistance assumes able-bodied working-age adults can earn the minimum monthly wage. Thus like in Japan, social assistance plays a very small role in alleviating working poverty among childless adults. While Korea had previously taken an “all or nothing” approach that rendered many working poor practically ineligible for social assistance, recent changes allow customized benefits and have increased total coverage. Hong Kong’s CSSA extends to 4.1% of the population and effectively reduces poverty for many of them, including the working poor who work less than 120 hours per month.

2.7.2.3 Targeted Wage Supplements

While cash assistance as part of means-tested social service programs is limited and stigmatized, wage supplements are more popular. These programs were inspired and, in some cases, modelled after the U.S. success with the Earned Income Tax Credit. The EITC targets only the working poor and has pro-family elements in directing larger benefits to families with children. Korea introduced an EITC in 2009 and considerably expanded it in 2019, and Taiwan had a short-lived EITC in 2008, but policymakers did not make it permanent given lack of political consensus on the policy design (e.g., policy goal, eligibility, administration, and funding). In Japan, such a scheme is often mentioned as a way to overcome the labor-supply limitations of a higher minimum wage (EITC would only benefit the working poor, but not the non-working poor or minimum wage workers in higher-income families), but cost considerations have precluded its adoption to date. In designing its earning supplement program Hong Kong decided not to attach benefits for low-wage workers to the tax system because most low-income individuals do not have tax liabilities. Hence, the take up rate would have been sub-optimal had Hong Kong opted for an EITC approach. Instead, Hong Kong adopted a wage supplement approach with its Working Family Allowance.

2.8. Conclusion

This review of working poverty and selected policy responses in four East Asian societies shows similarities and divergence in the evolution of region’s economies and welfare states.

2.8.1 Limitations

Any conclusions must be tempered by the limitations of this analysis. First, while the analysis covers four important societies within East Asia, it does not include mainland China, the largest society both geographically and economically. Within-society variation – particularly the differences between urban and rural regions – is one reason that complicates including China in comparative studies. Second, substantial parts of our analysis are based on program rules, not program reach in practice. While we note that some program administration practice – particularly in Japan, and to a lesser extent, Korea – deflect seemingly eligible workers from claiming public assistance, we do not systematically track actual program participation. This limitation shows up in the analysis summarized in Table 2.3, which shows the eligibility for some household types but not the percentage of potentially eligible persons who qualify for *and use* the programs. While governments rarely publicize measures of program reach in this way,

such calculations would provide a helpful comparative measure of the strength of social provision (Bruch, Meyers, Gornick, 2018).

Third, while we discuss how policy can prevent working poverty through shaping the terms of the market or via post-market redistribution, we have not explicitly modelled poverty pre- and post-taxes and transfers. Our poverty rates comparison uses disposable income, which includes earnings and cash transfers but subtracts taxes. Hence, we do not distinguish between market systems that create less working poverty versus the extent to which each society's redistributive policies reduce working poverty. Koen Caminada and colleagues' (2019) work to distinguish primary (market) poverty and post-transfer poverty using LIS data shows that post-market redistribution decreases poverty by 9.0%, 1.9%, and 3.7% respectively in Japan (2008 data), Korea (2012) and Taiwan (2016), but this focuses on overall poverty, not just working poverty. Hong Kong's Census and Statistics Department (2020) tracks how much the CSSA and WFA reduce poverty (a combined 2.8 percentage points using 2019 data), but again this focuses on all poverty not just working poverty. We welcome future comparative research that carefully parses out policy effectiveness in reducing working poverty.

Finally, our analysis pays only passing attention to the major global event of the current era: the COVID-19 pandemic. Given the constraints of space and our commitment to outlining foundational elements of each society's policy systems, we were not able to analyze the implications of the pandemic and the responses by each society's policy systems. Because times of turmoil may also be times of change, some of the temporary provisions enacted to buffer citizens from the economic fall-out of the pandemic may become permanent—or new policies may arise. Future research can examine these possibilities. Despite these limitations, we hope that the findings in this chapter add to our understanding of working poverty in Asia and provides a foundation for further inquiry.

2.8.2 Discussion

How should we make sense of the variation in working poverty rates within the context of East Asia's economies? Prior work suggests that policy approaches and minimum wages matter more than features of the economy in determining levels of working poverty (Brady et al 2010; Peña-Casas et al, 2019). In the US and UK context, in-work credits such as the EITC are particularly effective policies (Brewer & Hoynes 2020). The particular mixtures of welfare state inclusion, targeted assistance, and minimum wage adequacy observed across our four societies gives clues to their rank ordering. Japan, the society with the largest standardized working poverty rate, tries to include the working poor into the main body of all work force by including them in social insurance programs. For full-time workers, the minimum wage is sufficient to raise a single worker above the poverty line, but there is no EITC or similar income supplement for part-time workers and those with families. Both policy and local practices make it hard for the working poor to qualify for other income support or assistance, which has not done much to raise current disposable income among the least advantaged workers.

Korea is similar to Japan in that a set of large firms that employ a significant portion of the labor force at high wages dominates the economy, and that its social security system is built around employment at such firms. As such, the system provides better protection to standard full-time workers than low-paid workers and dependent self-employed, leading to descriptions of a “dualized” welfare state (Kim, & Yu, 2018). However, Korea has recently made substantial efforts towards alleviating poverty among workers. The 16.4% minimum wage increase in 2018

and its 2019 expansion of the EITC both show concern for the economic well-being of working poor.

The other society in the middle range of our estimated working poverty rates, Hong Kong, differs from Japan and Korea. Hong Kong has a low minimum wage relative to its poverty rate and little social insurance infrastructure for workers, but its wage supplement program, Working Family Allowance, lifts many working individuals out of poverty.

Finally, Taiwan, the society with the lowest rate of working poverty, has a minimum wage that is highest relative to the local poverty line among the four societies. This minimum wage reduces poverty among childless workers, while workers with children benefit from child care, child supplements, and social assistance. However, the social assistance system still excludes many low-wage workers, particularly those without dependents, and the adequacy of unemployment and old-age benefits for low-wage workers remain underexamined.

From the viewpoint of welfare state typology, Hong Kong seems to have taken the approach similar to the U.S. and other liberal welfare states, by introducing targeted wage supplement schemes. Hong Kong, in addition, relies more heavily on its means-tested social assistance program and lacks the protection of a social insurance system, which is in line with the liberal welfare state typology or remains a facilitative regime (Holliday, 2000). While the prior literature often characterized Japan, Korea, and Taiwan as societies engaging in more welfare investments relative to others (e.g. the inclusivist regime discussed by Kim [2015] and the developmental-particularist regime by Holliday [2000]), we found Taiwan to exhibit better welfare outcomes as measured by its lower working poverty rate. Similar to Yang & Kühner's (2020) findings, our policy analysis indicates increasing social protection in Taiwan through improving minimum wages and expansion social insurance and social assistance programs in the past two decades. Among the four societies examined here, Japan mandates the working poor to participate in social insurance but premiums reduce current income in order to reduce later life poverty. Korea also requires many poor workers to contribute to social insurance, but a substantial number of the working poor opt out and do not pay their contributions. Overall, the performance of Japan in terms of working poverty rate is the worst among the four. Korea, another country that is close to conservative welfare states but with the addition of the EITC, has a lower working poverty rate. As a whole, our findings support the line of literature which indicates that East Asian welfare systems exhibit heterogeneous design and regimes that continue to evolve (e.g., Yang, 2017; Yang & Kühner, 2020).

Table 2.1. Poverty rates for the total population and for working population aged 18-64 (percentages)

	Hong Kong	Japan	Korea	Taiwan
Total population (all age groups)	15.8	15.4	16.3	10.0
Working Population aged 18-64 (working poverty rate)	7.3	10.8	7.0	3.7

Note: Standardized “working poverty rate” is the individual poverty rate for persons aged 18-64 who are engaging in some kind of paid work at the time of survey (excluding unemployed and in-training persons). Poverty status is calculated using total disposable household income and poverty threshold as 50% of national median. The household income is equalized using the square root of the household size as the equivalent scale.

Source: Government statistics and authors’ calculations using society-specific sources as follows. Hong Kong’s numbers are based on the Poverty Situation Report in 2019 (Census and Statistics Department, 2020) because population-based data were not publicly available. (In Hong Kong, the poverty lines and disposable household incomes were available by household sizes, so square root equivalence scale method was not used). Japan calculations using the Ministry of Health, Labor and Welfare’s Comprehensive survey on Living Conditions 2019. Korea calculations using Survey of Household Finances and Living Conditions 2020. Taiwan calculations using Luxembourg Income Study 2016.

Table 2.2. Minimum wages and adequacy

Minimum wage	Hong Kong	Japan	Korea	Taiwan
Hourly minimum wage	37.5 HKD	902 Yen	8,720 won	160TWD
In US\$	\$5.78	\$8.19	\$9.42	\$10.54
Adequacy relative to poverty line	1.15	1.48	1.26	1.74

Note: The minimum wage adequacy is calculated assuming 40 hours per week of work for 52 weeks of year relative to the poverty line for a one-person household. The poverty line is set at 50% of median equivalized disposable household income. Conversion to US\$ based Purchasing Power Parity.

Table 2.3. Eligible Program Type by Societies for Families Having One Worker Earning Minimum Wage Working 16 Hours per Week

	Childless Single Adult				Two Parents with a Child Aged 5 Years Old			
	Japan	Korea	Taiwan	Hong Kong	Japan	Korea	Taiwan	Hong Kong
Living Assistance	(P)				(P)	✓	✓	✓
Housing Assistance	(P)	✓	✓	✓	(P)	✓	✓	✓
Medical Assistance	(P)	✓	✓	✓	(P)	✓	✓	✓
Unemployment Insurance		✓ ⁽¹⁾	✓			✓ ⁽¹⁾	✓	
Child Benefit						✓(U)		
Child Care Assistance					✓	✓(U)	✓	✓
Earned Income Benefit ⁽²⁾		✓		✓		✓		✓
Holiday Subsidy			✓				✓	

Notes: The information reflects welfare benefits available for residents with no assets in Tokyo, Seoul, Taipei, and Hong Kong in 2019. In general, Unemployment Insurance coverage depends on individual's employment status. This table shows whether each of two cases with low-paid worker as a head of household is eligible for Unemployment Insurance or not. (P) indicates provisional eligibility for social assistance as described in the main text. (U) indicates universal programs that are not means tested. ⁽¹⁾Korea's UI covers persons who work more than 16 hours per week or those employed for at least three continuous months at fewer than 16 hours per week. ⁽²⁾ Korea's Earned Income Tax Credit is delivered through the tax system whereas Hong Kong's similar Working Family Allowance is delivered through the social benefit system as many lower-earning households do not file income taxes in Hong Kong. However, the overall structure of the two programs is similar.

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