

Semi-peripheral Ascent and Changes in National Social Formation: The Case of Taiwan (1987/88-2007)

HUANG Chenwei

Thesis submitted for the degree of Doctor of Philosophy

PhD in Politics
School of Geography, Politics, and Sociology
Faculty of Humanities and Social Sciences,
Newcastle University,
March 2011

NEWCASTLE UNIVERSITY

School of Geography, Politics, and Sociology

Author's Declaration

I certify that, to the best of my knowledge, all the material in this thesis represents my own work and that no material is included which has been submitted for any other award or qualification.

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Abstract

The thesis uses Taiwan as a case study to examine the following argument: both the changes to the capitalist world-system and the political dynamics of domestic state-capital-labour relations determine national capitalist development and ascent trajectory. Taiwan was chosen as a case study because it demonstrates the particular developmental trajectory of semi-peripheral ascent (ascent from the semi-periphery) and of a rising East Asian economy. I study the case by firstly analysing Taiwan's peripheral ascent (from the periphery to the semi-periphery) in the historical process. Secondly the thesis studies three sectors as a national case, namely the industrial sector, the financial sector, and the labour sector. The three sectors demonstrate the dynamics of a semi-peripheral ascent trajectory as they represent the development of industrial production, financial expansion, and anti-systemic movements, which are all keys to influence semi-peripheral ascent. The thesis finds that although there are opportunities for Taiwan's semi-peripheral ascent, Taiwan has not yet ascended to the core. The reasons are (1) the state's restrictions on the overseas expansion of Taiwanese industrial capital and financial capital, in particular to China; (2) Taiwanese industrial capital and financial capital still rely on capital from the core zone. The thesis therefore contributes to the study of semi-peripheral ascent by adding analysis of domestic state-capital-labour relations into the context of a changing capitalist world-system.

Declaration

1. All Chinese terms in this thesis are rendered by the Hanyu Pinyin system; however, most Taiwanese names are rendered by the Wade-Giles system.
2. Chapter Five (section 5-1) was published in Chen-wei Huang (2009), ‘Bilateralism and Multilateralism: Taiwan’s Trade Liberalisation Trajectory’, *The Hague Journal of Diplomacy* 4 (1), p.37-59

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Abbreviation

ADB Asian Development Bank

AMF Asian Monetary Fund

APEC Asia-Pacific Economic Forum

APT ASEAN plus Three (South Korea, Japan, and China)

ARATS Association for Relations across the Taiwan Strait (the PRC)

ARF ASEAN Regional Forum

ASEAN Association of Southeast Asian Nations

CALL Committee for Action on Labour Legislation

CEPD Council for Economic Planning and Development

CFL Chinese Federation of Labour

CLA Council of Labour Affairs

CM Contract Manufacturers

CPC Communist Party of China

DPP Democratic Progressive Party

EOI Export-oriented Industrialisation

EPZ Export Processing Zone

ERSO Electronics Research and Service Organisation

FDI Foreign Direct Investment

FTA Free Trade Agreement

FTAAP Free Trade Area of the Asia-Pacific

GSP Generalized System of Preference

HPAEs High-performing Asian Economies

HSP Hsinchu Science Park

ISI Import-substitution Industrialisation

ITRI Industrial Technology Research Institute

KMT Kuomintang (The Nationalist Party)

IPE International Political Economy

IR International Relations

LRS Labour Right Association

LSL Labour Standards Law

M&A Merger and Acquisition

MAC	Mainland Affairs Council
NGO	Non-governmental Organisation
NSC	New Security Concept
NUC	National Unification Council
OBU	Offshore Banking Units
ODM	Original Design Manufacturers
OEM	Original Equipment Manufacturers
PRC	People's Republic of China
QFII	Qualified Foreign Institutional Investor
RCA	Radio Corporation of American
ROC	Republic of China
SEF	Strait Exchange Foundation (Taiwan)
SEI	Statue for Encouraging Investment
SME	Small-and-medium-size enterprises
SOE	State-owned Enterprises
SUI	Statue for the Upgrading of Industry
TCTU	Taiwan Confederation of Trade Unions
TIFA	Trade and Investment Framework Agreement
TLF	Taiwan Labour Front
TNC	Transnational Corporation
TSMC	Taiwan Semiconductor Manufacturing Company
TSU	Taiwan Solidarity Union
UMC	United Microelectronics Corp

Chapter One : Introduction

As a developing country, Taiwan's economy experienced a great leap in terms of economic growth, industrialisation, increase in trading volume and accumulation of wealth during the first three to four decades of the post-war period. Taiwan has shifted from an export-led agrarian economy to an export-led industrialising economy in a mere 20 years (1945-1965). The gross national product (GNP) per capita increased from US\$196 in 1952, to US\$3,297 in 1985, and again to US\$18,020 in 2008. Taiwan was the 16th largest trading country in the world in 2008. This economic achievement has demonstrated the possibility of a peripheral country becoming a semi-peripheral state in the world economy. Various development studies and East Asian studies have researched the specific developmental experience of Taiwan.¹ This thesis is concerned with not only how Taiwan ascended from a peripheral economy to a semi-peripheral economy, but also how Taiwan continues to struggle to ascend further, possibly to 'core' status. Taiwan has continued its economic 'upward' movement since the late 1980s (e.g., the beginning of capital-exports, a shift from labour-intensive to technological and capital intensive and export-led industrialisation). Whether Taiwan has ascended to a core economy or has remained at a semi-peripheral status is the concern of this thesis. What kind of strategies has Taiwan used, what are the opportunities and constraints that Taiwan has confronted, what are the key actors to drive the change, and what are the obstacles to ascend to the core?

What do I mean by the term 'ascent'? The term 'ascent' includes a double meaning of development. In the first meaning, ascent is a change of position in the capitalist world-system, for example, from the periphery to the semi-periphery. In the second meaning, ascent is a general national change, a change of capital

¹ The literature has gone through a number of different academic phases and modes of analysis. Attention was first paid to Taiwan by modernisation theorists in the 1970s. They have focussed on Taiwan's transition from a 'traditional economy' to a 'modern industrialising economy', as well as studying the long-term evolution of economic growth (Galenson 1979; Ho 1978). In the 1980s and the 1990s, the research into Taiwan's political economic development (and East Asia's development in general) has shifted to neo-classical economic theories (Balassa 1989; 1991; Rhee 1989); state-centred approach (Evans 1995; Evans *et al.* 1985; Gold 1986; Haggard 1990; Rodrik 1995; Wade 2004[1990]); regulation theory (Hsu 2002; Huang 2002); and the new institutionalist approach (Clark and Chan 1994; Evans 1995; Fields 1997; Moon and Prasad 1994). The main concern in their approaches was how Taiwan could ascend from being an 'underdeveloped' (or less developed) economy to become a newly industrialising economy.

accumulation's structure, a change of social formation, a change of political economic system. Several approaches have attempted to explain the key factors that have influenced national ascent. I have divided these into two main schools. The first approach is the national model of development (including modernisation theory, the school of 'varieties of capitalism', and the developmental state approach) which argue that a peripheral state is able to ascend once they have found a correct policy or institutional arrangement domestically. The other approach is the world-system perspective, which mainly concerns the overall structure of the capitalist world-system and how that structure affects national development. This thesis contends that although the national approach has provided detailed discussion on the domestic context of development (e.g. state-business relations, institutional frameworks, state policies), it has placed insufficient emphasis on the international context that enables a state to develop (or not). Although the world-system perspective is a good starting point to understand national development, the perspective needs to add analysis of the domestic social relations of capital accumulation in order to understand the dynamic picture of national ascent.

Taiwan is chosen as a case study for three reasons. Firstly, Taiwan's post-war developmental experience presents the process of peripheral ascent, namely ascent from the periphery to the semi-periphery of the capitalist world-system. Secondly, as a newly industrialising economy (NIE), the case of Taiwan has demonstrated one of the successful experiences of development in East Asia in terms of economic growth and the progress in export-led industrialisation.² However, Taiwan's developmental process and its changes is not a single isolated experience. It demonstrates the particular course of national ascent and the dynamics of East Asian development. Taiwan's capitalist development has a special historical and geopolitical context, and the aim of the thesis is not to generalise a universal model of national development based on Taiwan's experience. The aim is rather to analyse the factors that influence the trajectory of ascent and to use the case of Taiwan to examine the analytical framework for understanding national capitalist development. This thesis will thus engage in debates over peripheral and semi-peripheral ascent, and East Asian development. The specific historical and geopolitical context of Taiwan's

² EOI means an economy with industrial exports serving as leading or main sectors; the import-substitution industrialisation (ISI) means an economy that attempts to substitute products which it imports so that it can reduce dependence on imports.

development also implies that national ascent needs to be put into a wider international context. Thirdly, as noted above, since Taiwan has successfully graduated from peripheral ascent (i.e. from a periphery to a semi-periphery), what has happened to Taiwan's semi-peripheral ascent? Has Taiwan ascended to the core or is it struggling to maintain the status quo? Further, the analysis of the semi-peripheral zone is a complicated subject (and also one with insufficient analysis) in world-system analysis, and the case of Taiwan will provide a useful study in mapping the complexities of semi-peripheral ascent.

Drawing from the case study of Taiwan, my thesis aims to examine the following argument: *to understand national capitalist development and ascent, it is necessary to study both a country's structural position in the capitalist world-system and domestic state-capital-labour relations.* This argument has two intentions: firstly, to demonstrate that the national model approach, which explains national development and change mainly from a national context, is insufficient. The international context that enables some countries to develop is under researched in the national model approach. This thesis will thus agree with a world-system perspective which views the dynamics of capitalism as a world-system and places national development and change within the context of the hierarchical structure of capitalism (i.e. core-semi-periphery-periphery nexus) and of the structure of politics (i.e. the interstate system). Secondly, the central argument will also show that although the world-system approach is a useful framework of analysis with which to explain national capitalist development from a wider international context, it has not always paid sufficient attention to the domestic context. In particular, it places insufficient emphasis on the political dynamics of state-capital-labour relations. Accordingly, my research follows the basic framework of world-system analysis but adds new analysis (domestic state-capital-labour nexus) into the study of Taiwan. Some analysis of the national model approach is, however, useful in looking at the domestic context of social relations, in particular the role of the state. The thesis thus intends to break the dichotomy between the national model approach which mainly focuses on domestic context and the world-system approach which mainly pays attention to the international context.

1-1 Analytical Framework

How will I analyse the two key aspects of national capitalist development and ascent, namely the structural position of a nation-state in the capitalist world-system and its domestic level of state-capital-labour relations? For the first aspect, the world-system perspective views capitalism as a world-system that crosses national or state boundaries (e.g. Wallerstein 1974; Chase-Dunn 1989). National-states are structured as one of the analytical units of capitalism, rather than complete and independent units. World-system analysts categorise the hierarchical structure of capitalism into three economic zones: core, semi-periphery, and periphery (Wallerstein 1974; 1979; 1984). National capitalist development and its path of ascent are conditioned and constrained by the hierarchical structure and the political system of the capitalism world-system (i.e. the interstate system). Therefore, the trajectory of national capitalist development needs to be situated in the context of the country's structural position and links within the capitalist world-system, rather than being viewed as an ahistorical and isolated national experience. Accordingly, the first aspect of national capitalist development can be analysed via the understanding of a nation-state's structural position and methods of incorporation into the capitalist world-system. Key questions include: what is the state's political-economic position in the capitalist world-system? What are the relationships between the state and other states, in particular how has the hegemonic core state influenced the development of that state? How is that state incorporated into the capitalist world-system (e.g. through trade or finance) and how does such incorporation reshape the developmental trajectory of the state?

The above framework of analysis focuses on the influence of the capitalist world-system on a particular state, such as Taiwan. However, can capitalism as a world-system itself fully explain the trajectory of ascent of any given individual state? Is the state merely a passive actor, being changed by the whole system? If national development is only determined by the world structure of capitalism, then all the states which are located in the same position will share the same developmental trajectory. In this respect, developmental trajectories will be limited to three main types, core, semi-periphery and periphery. I do not agree with the idea that capitalism is a simple and rigid structure, nor do I believe that world-system analysts deny the diversity of developmental trajectories. The point is that we need to add an analysis of

the domestic social relations of capital accumulation into the research on national development.

The domestic social relations of capital accumulation are state-capital-labour dynamics. Why is that? To begin with the concept of ‘capital,’ I agree with the world-system perspective’s definition that capitalism is a system of ceaseless accumulation of capital. As Chapter Two will discuss, although the perspective disagrees in part with the definition of capitalism by Marx, the perspective shares some agreement with Marx’s definition of capital (e.g. Wallerstein 2004). In Marx’s (1956[1893]) argument, ‘capital’ has two important meanings: Firstly, it is more than the accumulation of money and wealth. Capital is used for the consumption of goods which brings about an increase in the value of the goods, and these goods can be sold for the realisation of profit. Secondly, as to how the increase of value of goods is possible, Marx argued that neither the purchase of goods (e.g. raw materials) nor the sale of the finished goods that adds value, but that special commodities can increase the value of goods, namely ‘labour power’(also called variant capital). Labour power can produce more in a day than is needed to survive. The consumption of labour power is a labour process, and the new value being created is surplus value. As such, capital accumulation is not merely a ‘stock of consumable goods, machinery, or authorised claims to material things in the form of money’, nor is it merely ‘accumulated wealth’ (Wallerstein 1983, p.13). It is also a configuration of social relations in order to pursue capital expansion.

Why is the state a key to the social relations of capital accumulation? The possibility for the capitalist to appropriate surplus value from labour is the subordination of labour to capitalists. In this process, less resistance from labour will strengthen its subordination. For Marx, this is the role of the state in a capitalist society. Marx argued that the state is a product of class struggle: as he puts it in the Communist Manifesto, ‘political power properly so called, is merely the organised power of one class for oppressing another (Marx and Engels 1848).’ In this respect, I agree that the role of the state is not pre-given or neutral, but a consequence of the power struggle among social forces (e.g. capitalists, wage labour, and peasants). Yet the state still plays a primary role, as in Wallerstein’s (2004) description, ‘a state is a bounded territory claiming sovereignty and domain over its subjects, now called citizens...A state claims the legal monopoly over the use of weapons within its territory, subject to the laws of the state (Wallerstein 2004, p.97).’ I agree that the state acts as a ‘legal monopoly’, and as a ‘national-legal, administrative agency of

coercion' (Wallerstein 2004, p.97; Woo 1991, p.6), and these features distinguish the state from capital and labour. Furthermore, differently from Marx, the world-system perspective views the role of the state as one that is also limited by the world-system. As Chapter Two will discuss, the capitalist world-system needs a special political system to prevent the world-economy from becoming a world-empire, namely a competitive interstate system. States are not equally powerful: the hegemon and the core zone tend to be relatively stronger than others. This is the context in which a state relates to other states. As such, I do not view the functions of a state as pre-given and static, since the ability of the state is both constrained by its position within the interstate system and its relations with other social forces (i.e. capital and organised labour). The 'state' in this thesis is a concept related to two aspects, the interstate system and domestic social relations. Thus, by adding analysis of the state-capital-labour nexus, we will be able to analyse the specific developmental route and how domestic social relations impact upon this route. Above all, national ascent is a shift of position within the world-system, and it is a change in the national social formation. As such, the political dynamics of the state-capital-labour nexus will be the second aspect of the analysis of national capitalist development.

In sum, the national trajectory of ascent is determined by both the structure of the capitalist world-system (including the accumulation structure and the interstate system) and the domestic state-capital-labour nexus. With respect to the first aspect, world-system analysts have developed an analytical framework to analyse the dynamics of capitalism and its structure of accumulation and politics, and I will discuss the analytical framework in detail in Chapter Two. By adopting the world-system perspective, this thesis intends to contribute to the debate on national ascent as it will place national ascent in a historical and international context rather than view it as an isolated model of development. Moreover, the originality of this thesis is that the approach is different from the world-system perspective in the way that I view national ascent as not only a change of structural position within the world-system but also as a change in national social formation. The contribution of the thesis lies in my adding the analysis of the domestic state-capital-labour nexus into a world-system perspective.

How will I analyse the political dynamics of domestic state-capital-labour nexus? Firstly, with regard to the role of the state, literature from East Asian development studies and from semi-peripheral studies both view the state as acting in a significant

interventionist role to promote national ascent (see the discussion in Chapter Two). Yet, I agree with the findings from world-system analysis that the role of the state cannot be generalised but should be examined through their different positions in the capitalist world-system. My intention is not to discuss a universal role of the state in national development but to explore the particular role of the state in a semi-peripheral position, and how a semi-peripheral state attempts to ascend when it is at a crossroads between interstate state struggle and global capital accumulation. To ascend to the core, it is not as simple as the state merely supporting capital and oppressing labour, nor does the state merely regulate economic order. The reality is more complicated. As ‘ascent’ has a double meaning: it is the state, not capital or labour, that needs to find a balance between its role in the interstate system, in the structure of capitalism, and in the domestic social formation. Secondly, this thesis argues that the dynamics of capital needs to be analysed in its various forms. Capital takes different forms depending upon its various functions in the capital accumulation process. Capital is agricultural or industrial capital when it produces agricultural or industrial goods; capital is financial capital when it takes on a loaning function to earn interest. The social relations of these forms of capital also varies, e.g. in the agricultural capital, the social relations of capital accumulation is between the landlord and peasants (or slavery). In the historical study of Taiwan, both agricultural and industrial capital played an important role in Taiwan’s peripheral ascent (from periphery to semi-periphery); more recently, however, industrial capital and financial capital have become the two main dominant forces in semi-peripheral ascent. My distinction between industrial capital and financial capital is based on Marx (1956[1894]) and Hilferding’s (1981[1910]) analysis of loan capital and functioning capital, as well as on the world-system perspective’s discussion of hegemonic cycles. Industrial capital controls industrial production which has been viewed by world-system analysis as the primary force used to ascend. The role of financial capital and the degree of its expansion are significant both to national capitalist development and to the semi-peripheral state’s ascent trajectory.

Thirdly, although labour is another part of the social relations of capital accumulation, most national model approaches have mainly studied domestic state-capital relations and overlook the role of labour in the capital accumulation process, especially in the power struggle of social forces. Few world-system analysts have researched the dynamics of organised labour as a social force that influences national

development and as part of an anti-systemic movement that resists capitalism (e.g. Beverly J. Silver). Labour is not only a productive force in the process of capital accumulation, its organised form can offer resistance to the dynamics of capitalism. In particular, my thesis is concerned with the questions, what is the role of labour in national ascent and development? Can organised labour act as an anti-systemic movement while labour is engaged in the trans-nationalisation of production (e.g. transnational corporations) in the capitalist world-system?

1-2 Application to the Case Study of Taiwan

Although Taiwan's development has been influenced by a specific geopolitical conflict (i.e. China-Taiwan relations), as Chapter Four will show, its developmental trajectory is nevertheless a case of peripheral ascent and of East Asian development. On the other hand, the historical particularity of Taiwan's development implies that it is misleading to generalise to a universal model of development among other countries, even though they are in similar positions within the capitalist world-system. I will analyse the historical development of Taiwan's capitalist development since the beginning of its integration within the capitalist world-system. All the present achievements are the consequence of historical development. The historical study can also explore the factors that contributed to Taiwan's ascent from a peripheral to a semi-peripheral economy. The thesis will also discuss the main changes to the structure of the capitalist world-system in the last two decades on which the study will focus, as these changes have conditioned Taiwan's semi-peripheral ascent.

After reviewing Taiwan's historical development and the changes to the capitalist world-system in recent periods, I will discuss how the structural changes to the capitalist world-system and the dynamics of the state-capital-labour nexus have shaped Taiwan's capitalist development. This thesis develops a particular way of analysing the dynamics of the state-capital-labour nexus in the case of Taiwan, namely to study three sectoral cases (industrial sector, financial sector, and labour) within one national case. The three sectors demonstrate the dynamics of semi-peripheral ascent trajectory, as the three sectors represent the power of industrial production, finance, and anti-systemic movement. As noted previously, the development of industrial capital and financial capital are keys to determining the position of a state within the capitalist world-system. For a semi-peripheral state such

as Taiwan, the expansion of industrial capital and financial capital domestically and internationally is the main method with which to ascend to the core. In particular, I will pay attention to the electronics industry when I discuss the industrial sector, as this industry has dominated Taiwan's production, export, and overseas investment since the 1990s. Taiwan's shift of position within the global production chain (the term will be introduced in Chapter Three, section 3-2-1) in the electronics industry also shows a special feature of semi-peripheral ascent. In each sectoral case study, how state-capital relations and the structure of capitalism affect the dynamics of the sector will be examined. We will find that in Taiwan's case, the state has different attitudes towards industrial capital and financial capital, and these differences lead to dissimilar development. Overall, the study of the industrial and financial sectors explores how the dynamics of state-capital relations and the change to the capitalist world-system influence Taiwan's industrial production and financial expansion. The third sectoral case study, labour, will demonstrate how labour as a productive force contributes to national development and capital accumulation through the changing labour process, but on the other hand as an organised social force resists the logic of capitalism. Without analysing this "double" role of labour, we cannot capture the dynamic of national social formation.

With regard to the period covered by the research, the thesis focuses on the recent period because the main concern is how the economic status of Taiwan has changed in the capitalist world-system and how this struggle involves changes to the social formation. The period 1987/88-2007 is chosen for several empirical reasons. Although Taiwan achieved semi-peripheral status in the 1970s (as will be discussed in Chapter Four), it was not until the late 1980s that Taiwan built its own peripheral links via outward investment. The years 1987/88 mark the beginning of Taiwan's political democratisation, cross-strait exchanges, economic liberalisation, and capital-export. In other words, the period covers the deepening of Taiwan's links within the East Asian region and the world-system, and the start of rapid changes to national social relations³.

³ In 1987, Martial Law was lifted, the control of outward capital flow was relaxed, and the exchange rate of the NT dollar against the US dollar appreciated by 16% relative to that in 1986. In January 1988, Lee Teng-hui became the first Taiwanese-born President, after the death of former President Chiang Ching-kuo. The lifting of Martial Law and the decline of the Chiang family's political power indicated the loosening of the control of the authoritarian KMT regime. In 1987, after the lifting of Martial Law

The year 2007 is chosen to be the end of the research period. From the context of capitalist world-system's cyclical movement, the global financial crisis of 2007-2009 is a serious challenge to the current downturn B-phase of capitalism. From Taiwan's perspective, some studies (Hsu 2002; Huang 2002) choose the year 1999 as a significant date to analyse Taiwan's structural transformation or the changing role of the state because the ruling KMT party lost the presidential election in March 2000. Taiwan's first political change in ruling party was called '*bian-tian*' in Chinese, meaning 'the sky is changed'. This political change was seen as critical to the future political economic regime at the time, 2000/2001. However, from the present viewpoint of 2008, the political changes of 2000 have not been very significant to Taiwan's political economy. The main reason is that the Democratic Progressive Party (DPP) followed similar policies to the post-1996 Lee Teng-hui administration, in terms of cross-strait relations, economic liberalisation, financial reform, and relations with local factions.⁴ I will further discuss this in following chapters. Here I will only give two brief examples. After Lee left the KMT in 2001, he established the Taiwan Solidarity Union Party (TSU), which together with the DPP, formed the pro-Taiwanese-independence 'pan green' political group.⁵ Tsai Ying-wen, chairperson of the DPP since May 2008, was one of Lee's core political advisors in the late 1990s with regard to cross-strait relations and national security. Accordingly, although belonging to different parties, I argue that the DPP administration was the political successor, rather than an alternative to, Lee's (post-1996) administration. In March 2008, the KMT candidate, Ma Ying-jeou, won the presidential election. This seems to be a turning point for changes in cross-strait relations and of capital accumulation in Taiwan,⁶ but it is too early to tell and is not the concern of the thesis.

and an isolation of 38 years, the Taiwanese government lifted the ban on Taiwanese nationals visiting mainland China.

⁴ Taiwan held its first presidential election in 1996 and Lee won the election as the first democratically elected president of the ROC. Lee's policy on cross-strait relations then became more 'pro-independence' in stance, for example, the statement on "a special state-to-state relations" and the policy of 'no haste; be patient' towards Taiwanese investment in China.

⁵ Based on the colour of the party flag, the "pan green" political group is composed of the DPP and the TSU, and the 'pan blue' political group refers to the KMT and the PFP (a spin-off of the KMT after 2000).

⁶ In April 2008, President Ma Ying-jeou appointed a core member of the TSU (also a core member of Lee Teng-hui's political staff), Lai Shin-yuan, as the Chairperson of the Mainland Affairs Council (MAC). Many KMT politicians fiercely opposed Lai's appointment, arguing that Lai, as a pro-Taiwan-independence politician, would be an 'executive' for Lee Teng-hui's views.

1-3 Research Method

The research methods I mainly used are: library-based research, document analysis, and twenty-three semi-structured interviews with elites. The secondary and tertiary sources⁷ in Chinese were collected during two field trips to Taiwan. During my second field trip (June-September 2007), I was a visiting PhD student at the Academia Sinica, where I was able to access much Chinese language research material. As for the interviews, during my first field trip to Taiwan (from December 2005 to April 2006) and a field trip to Geneva in June 2006, I conducted 21 semi-structured interviews in Taiwan and two in Geneva, respectively. The interviewees included high-level government officials, trade union staff and NGO activists. The full list of interviewees is given in Appendix One. In addition to the interviews, my direct involvement with the labour movement and trade union activity from 1999 to 2006⁸ also contributed to my primary and insider observations with regard to the subject of labour in this thesis.

I chose document analysis as it can partly demonstrate empirical observation during an extensive period of time. These documents include reports (from government, non-governmental organisations, and international institutions), statistics, manuscripts, media reports, published biographies and diaries and so on. As Johnson, Reynolds, and Mycoff (2007) argue, the advantage of using the written record is that the information might have existed for a long enough time to allow academic analysis; and the information also permits researchers to access subjects that may be difficult to research via direct or personal contact (e.g. some historical event). In my view, the method of document analysis also provides a basic structure to empirical observation for any further research (e.g. interviews). The disadvantage of the method, in the view of Reynolds, and Mycoff (2007), is that the written record content maybe biased by its

⁷ According to Burnham *et al* (2004), the most common categorisation of research sources is: (1) *primary sources*, which were produced by the event in question and are of restricted circulation; (2) *secondary sources*, which were composed of evidence, made after the event and were published in public; (3) *tertiary sources*, which comprise of all the literature that intends to interpret the event.

⁸ I worked for Ching-Jen Labour Service Center and was also the Assistant Consultant of Labour Dispute Settlement in Taipei County Government from 1999 to 2001. Then I worked as the Director of Communication, and the European Affairs Coordinator in the Chinese Federation of Labour between 2001 and 2006. During my career, I have also attended various international labour conferences, workshops and executive board members meetings held by the ILO, international and regional trade unions, e.g. ICFTU (ITUC), ICFTU-APRO (ITUC-AP), PSI, ITF.

author and may only show selective information. Some written records are even unavailable. As such, the thesis adopts the second method to supplement the method of document analysis, namely semi-structural interviews of elites.

The method of elite interviews is chosen for the purpose of (1) supplying information that was not available from library-based research and document analysis; and (2) obtaining primary observations from interviewees who were key policy-makers, trade-negotiators, and labour-organisers. Burnham *et al*'s (2004) discussion of 'elite interviewing' is very useful as my interviewees were experts in the topic in which I am interested. The interviews were conducted in the following way: I first identified my targets, and then sent a fax or email to each target and attached a two-page question list comprising 10-15 questions together with a short introduction to myself. In my case, providing a short introduction of the interviewer was a useful tool as giving the interviewees some information about the interviewer may help them decide whether they would agree to be interviewed or not. Another helpful method was to tell the target that I had already successfully approached some key interviewees.

Each interview was conducted using a different question list according to their specialism and experience. In this research it was very important to provide the question list to interviewees before the interviews, because my research covered a long period of policy change; so it was appropriate for the interviewees to have time to think about the questions. In most cases, the high-level officials asked their staff or secretaries to prepare related materials or documents. However, my interviews did not merely stick to the question list; the interview was flexible, depending on the interaction process. Each interview lasted from one to three hours. The limitation of elite interviewing (especially high-level government officials) is that sometimes they answered my question in a very cautious and official way. Accordingly, I tried to frame the questions put to high-level government officials so as to cover a long period of policy change or major historical events, because currently these questions would not be so sensitive, and the high-level officials had experienced a longer period of policy change than junior officials. I asked questions concerning current policy issues to senior, but not high-level, government officials, as they are often more open than high-level officials to discuss current issues.

1-4 Chapters Abstract and Main Arguments

Chapter Two will give the specific theoretical and analytical framework that I shall use to analyse semi-peripheral ascent. I will first review and critique the various literatures which concern national capitalist development in the domestic context, including modernisation theory, the school of variety of capitalism, and East Asian development studies. These studies provide detailed analyses of domestic policy, institutional arrangements, and state-capital relations. However, their fundamental assumption is mainly that a developing country should try to find and follow a 'correct' national model. I will argue that this approach places insufficient emphasis on the international context of development and misunderstands the dynamics of capitalism. As such, the second section will introduce the world-system perspective with which I agree. This perspective views capitalism as being an international movement since its inception and having incorporated states into its structure of accumulation and politics. The study on national capitalist development needs to be first placed in such a structure rather than being viewed as an independent national system. Several key frameworks from this perspective will be discussed in this section. However, the chapter notes a problem when the perspective is adopted for the analysis of national development, namely that the perspective tends to overlook the dynamics of the domestic social relations of capital accumulation. Since capital accumulation is not only a material action or existence but a configuration of social relations, under-researching this means that the perspective cannot capture fully the dynamic change of national social formation but merely views the national state as a passive actor, influenced by the structure of capitalism. In the third section, I will add a new framework to the world-system perspective, which is the analysis of the political dynamics of the state-capital-labour nexus. I will argue that the capitalist world-system (including the structure of accumulation and the interstate system) and the domestic state-capital-labour nexus determine the trajectory of national ascent. The first factor (the capitalist world-system) provides the opportunities for national development, but also embeds the conditions of or limits national ascent. How to make use of the opportunities and how to overcome the limits will lie in domestic state-capital-labour relations.

After developing the new combined analytical framework, Chapter Three will concentrate on the structural changes to the capitalist world-system over a particular

period (1967/1973-2007), which will be referred to as the Kondratieff wave B-phase (the term will be introduced in Chapter Two). The examination of the structural changes to capitalism will focus on the shift of the structure of capital accumulation and changes to the interstate system. Capitalism in the period under examination has experienced a downturn phase in terms of the declining profit rates in the industrial sector and sluggish economic growth in the core zone. However, in order to prevent the decline of profit rates in the industrial sector, the centre of capital accumulation has expanded from the core to semi-peripheral and peripheral regions (in particular the East Asian region) via global industrial restructuring, and from the industrial sector to financial sector via the process of financialisation. In accordance with the B-phase is the relative decline of the US as a hegemonic power in economic and financial areas, which has indirectly facilitated the 'rise' of East Asian economic power. The East Asian region is now a new centre of capital accumulation (in addition to the EU and North America), but it is not yet a world political-military centre. Furthermore, the complex political economic relationship between the East Asian region and the US also imposes uncertainty to future hegemonic order.

After discussing the bigger picture of structural changes to capitalism in the last two or three decades, Chapter Four will move on to the case of Taiwan and will begin with a historical study. This chapter has two intentions, firstly, to demonstrate that Taiwan has been incorporated into the capitalist world-system, not since the K wave B-phase, but in fact since the seventeenth century. Secondly, the chapter will discuss how Taiwan had ascended from the periphery to the semi-periphery in the post-war period. This chapter will also show that historical continuity and achievements are significant to Taiwan's current development. Taiwan's periods of changes (Dutch colonialism, Chinese rule, British influence, Japanese colonialism, the US-supported KMT authoritarian regime) are linked to historical cyclical change and hegemonic transitions highlighted in the world-system perspective. Taiwan's capitalist development reflects regional and global changes. How Taiwan was affected by the capitalist world-system and what the social formations were, as well as the development and achievement of each period, will be briefly examined.

Chapters Five, Six, and Seven will examine Taiwan's semi-peripheral development during 1987/88-2007 via analysis of two key aspects: Taiwan's structural position within the capitalist world-system and its methods of incorporation, and the dynamics of state-capital-labour relations. Chapter Five will focus on the

industrial sector as the international expansion of Taiwanese industrial capital has deepened Taiwan's semi-peripheral status and has led to Taiwan becoming further engaged in the international division of labour of production. The development of industrial capital needs to be analysed in the context of the changes to the capitalist world-system and the state's industrial policy. Firstly, neo-liberalism, in terms of liberalisation, privatisation, and deregulation, has caused a collapse of Taiwan's bureaucratic-corporate capital⁹ and has limited the guiding and interventionist role of the state in Taiwan (in particular because the state no longer acts as a capitalist itself). Secondly, global restructuring has led to Taiwan's industrial capital expanding their overseas production: China in particular has become the largest destination and trading partner for Taiwanese industrial capital. However, the state has been cautious in exporting Taiwan's capital to China. Thirdly, the dominant industrial capital, the hi-tech electronics industry, demonstrates how a guiding and interventionist role of the state (even if its functions have been limited) has promoted Taiwanese industrial capital to take advantage of global restructuring, namely to upgrade Taiwan's position from processing production to contract manufacturing as part of a global production chain in the electronics industry. Such a path, however, limits the development of Taiwanese industrial capital as the dominant force in this industry, and in the wider capitalist world-system, thus becoming one of the obstacles in ascending to the core.

Chapter Six will examine Taiwan's financial sector as its development is key to ascending to the core in the capitalist world-system. The development of Taiwan's financial capital has also been influenced by changes to the capitalist world-system and the state's financial policy. Firstly, financialisation has led to the liberalisation of Taiwan's financial sector and the state no longer acts as a source of financial capital to directly fund industrial capital. However, the speed of financial liberalisation and privatisation has been slow due to the state's caution (security concerns and a lack of access to international financial institutions), cross-strait relations (the delay of Taiwan's accession to the WTO), and resistance by labour groups (e.g. anti-privatisation campaigns). Secondly, global restructuring also brings about a pattern of financialisation of capital, which can be observed in Taiwan. Yet, Taiwan's financial capital has not yet dominated the non-productive financial sector but instead relies on

⁹ The term will be introduced in Chapter Four. It was created by Liu Jin-qing (1975) to refer to Taiwan's KMT state bureaucrats and private capitalists are combined together to dominate the industrial and financial sectors in the post-war period.

foreign financial capital's innovation. Thirdly, the state promotes the concentration of financial capital but limits overseas expansion of Taiwanese financial capital into China. Financial capital is not able to increase transnationalisation, nor does it become influential in guiding industrial capital.

Chapters Five and Six reveal that although the capitalist world-system offers an opportunity for the expansion of Taiwanese capital as well as the state promoting the ascent of industrial and financial capital, Taiwan's industrial and financial capital nevertheless confront limits on their development due to the restrictions by the state and the interstate system. Chapter Seven will look at another restriction to the development of industrial and financial capital, namely resistance from organised labour. To study the dynamics of organised labour, I begin with an analysis of the labour process of Taiwanese labour (e.g. the labour market, working conditions) as this pattern reflects how labour is structured in the capital accumulation process. I will analyse what the impact of changes to the capitalist world-system has been on the pattern of labour. In the first section, I discuss how the changes of the capitalist world-system bring about changes to the labour pattern and process, namely the rise of skilled labour in the hi-tech sector; the imports of migrant labour; and the rise of overseas cheap and low-skilled employment. The position of Taiwanese industrial capital in the global production chain has linked Taiwanese labour with hi-skilled labour from the core zone on the one hand and with low-skilled labour from the peripheral zone (both migrant labour and overseas employed labour) on the other hand. Secondly, industrial restructuring and neo-liberalism have had a negative impact on the domestic labour pattern in terms of increases in unemployment and flexibility. Thirdly, with both the challenges and opportunities created by neo-liberalism and global restructuring, Taiwanese organised labour has successfully resisted or prolonged the negative impact on domestic labour patterns. However, the structure and organisation of the Taiwanese labour movement has not been transformed and strengthened in confronting the new employment structure and labour process. Taiwanese organised labour has neither significant political influence over the state and capital, nor does it play an active role as an anti-systemic movement.

Chapter Eight is the conclusion. This thesis uses the case of Taiwan to evaluate the argument that the structure of capital accumulation, the interstate system, and the domestic state-capital-labour nexus determine a national ascent trajectory. The first two elements provide the opportunities but put constraints on national development. It

is unrealistic to assume that all national states follow the developmental trajectory of a core state, such as the UK or the US. We need to analyse the structural position of the state in the capitalist world-system. However, we cannot assume that the world-system only has three kinds of development (i.e. core, semi-periphery, and peripheral) and view national states as merely passive actors affected by the world-system. This thesis argues that ascent is also a result of national social formation; in particular, the state-capital-labour nexus is the core of social formation. As such, the full picture of national ascent can be analysed using the three elements mentioned above.

Taiwan is both a case of semi-peripheral ascent and of a rising East Asian economy in the capitalist world-system. Taiwan's ascent opportunity, strategies and obstacles are both conditioned by its structural position within the world-system and by its domestic social relations. As Chapter Four shows, Taiwan has been incorporated into the world-system since the 17th century. During the K wave A-phase (1945-1967/1973) and the early stage of B-phase, Taiwan rose from the periphery to the semi-periphery. Its ascent was a consequence of a 'development by invitation'¹⁰ from the capitalist world-system, as well as domestic social relations facilitating such an ascent, namely a strong and authoritarian state that both guided capital and oppressed labour. As Chapters Five to Seven show, with the structural changes to the capitalist world-system in the B-phase (i.e. the increased global restructuring, financialisation, and the changes to the interstate system) and the transformation of domestic social relations (i.e. the increasing power of private capital, the decline of state capability, and the increasing autonomy of organised labour), Taiwan's ascent trajectory has also changed. Although a strong state guiding function and the oppression of organised labour were once the conditions of Taiwan's capitalist development, recently democratisation and the increase of labour autonomy since the 1980s does not limit/restrict Taiwan's capitalist accumulation. However, Taiwan has not yet become part of the core, even if the state has continued its attempt to upgrade the structural position of Taiwan. The obstacles to Taiwan's ascent are mainly due to the limits on Taiwanese industrial capital and financial capital, as well as Taiwan's weakening role in the interstate system. This case study demonstrates that ascent trajectory needs to be understood as both national social formation and as part of the structural changes to the capitalist world-system as a whole.

¹⁰ The term is from Wallerstein (1979, p.80).

Chapter Two: Rethinking National Capitalist Development

Introduction

This thesis adopts a modified world-system perspective by adding the domestic state-capital-labour context to examine national capitalist development, and uses Taiwan as a case study. In this chapter, I will discuss the theoretical framework of the analysis and demonstrate that it is better than other approaches which concern national development. I shall clarify the concept of “ascent” or “development”, as it is not merely defined as an increase of national wealth, the growth of a national economy, or degree of industrialisation; rather, this chapter will argue that national ascent should be defined as both a change of position in the world-system (e.g. from the periphery to the semi-periphery) and a change of national social formation. Firstly, the change of position means that ascent is a *relational* concept; that, in other words, the ascent and descent of national economies are not isolated national affairs but relate to other states and the whole capitalist system. Ascent and descent also relate to the changes in resources and power that national states can control politically and economically within the world-system. The chapter intends to locate national ascent in the context of the capitalist world-system. Secondly, ascent is not only a change of position within the world-system, but also represents a change of social formation, for example, a change from agricultural capital to industrial capital as the dominant productive force in a society, or a change of state autonomy over society.

In the first section of this chapter, I will review the literature relating to the issue of national capitalist development mainly from the domestic context, including modernisation theory, the school of varieties of capitalism, and the East Asian developmental model. The limitation of these approaches is that they view development as primarily a national affair, one that can be achieved through following a certain national model or domestic institutional mechanism, and therefore the approaches under research the wider international context which enable some countries to develop and some not to. After critiquing the national model of development approaches, I will introduce the relational concept of ascent in the second section. This concept is based on the theoretical framework of the world-system perspective which views national development as structured within the whole world-system. I agree with the main framework of the world-system approach as it provides a structural explanation for the trajectory of national ascent; that is, situating

national ascent and development in the context of the world-system. The main theoretical arguments of the world-system perspective, including the definition of capitalism, the hierarchical structure of capital accumulation, the interstate system, and anti-systemic movements will also be discussed. However, the world-system perspective does not bring the aspects of national social formation sufficiently into the analysis of national ascent trajectory. They provide the “big picture” of structural changes within the world-system, but place insufficient emphasis on the dynamics of national social formation. Accordingly, the third section will critique the world-system approach and add a new framework to the study of national ascent, namely the analysis of the political dynamics of state-capital-labour relations.

In general, the chapter argues that a country’s structural position and methods of incorporation into the capitalist world-system condition and constrain a country’s ascent. Analysing the domestic level of state-capital-labour relations can demonstrate the specific trajectory (including the achievement and obstacles) of ascent, and how that country uses the opportunities to ascend. Ascent trajectory is both informed by national social formation and structured in the capitalist world-system. The combination of these aspects (the structure of capital accumulation, the interstate system, and the state-capital-labour nexus) is the nature of national developmental trajectory

2-1 A Critique of the National Model Approach

I will review three main approaches (modernisation theory, varieties of capitalism school, and the East Asian developmental model) which place national development at the centre of their research by analysing domestic factors, such as economic systems, institutional arrangements, the role of the state, industrialisation policy and so on. These three main approaches have been used to study the developmental experiences of developed and developing countries (e.g. Britain, Japan, German, and East Asian NIEs) and have played an influential role in the study of national capitalist development.

2-1-1 Rostow's modernisation theory

Modernisation theory was the first influential theory on national economic development after World War Two. Its main approach was to view national development process as a series of successive linear stages through which all countries must pass (Todaro 2006, p.78). The approach views the modernisation process as a global, phased and lengthy process which originated in fifteenth century Europe, and has now become a worldwide pattern (Huntington 1971). The leading scholar, Walt W. Rostow, in *The Stages of Economic Growth: A Non-Communist Manifesto* (1960), introduced the analytical framework of modernisation. Based on Britain's developmental experience, he argues that all countries must pass through five linear stages of development, from low-productive agriculture to high-productive industrialisation, and from a national economy to integration into the international economy. The first stage is 'the traditional society', which has limited productivity due to a lack of access to modern science. Thus it results in an agricultural economy in accordance with a hierarchical social structure. Examples are the Chinese empires and medieval Europe. The second stage is 'the preconditions for take-off', which is the transition process between a traditional society and 'take-off'. Agricultural and industrial productions are introduced and modern science and modern manufacturing enterprises thus appear. Overall, society is still characterized by low-productivity methods. This stage can be observed in late seventeenth century and eighteenth century Western Europe.

The third stage is 'take-off'. With new techniques in agriculture and industry, society expands production and develops its economy by expanding new industries and increasing effective investment and high capital imports. Britain, France, and the US in the early nineteenth century; Germany and Japan during the late nineteenth century; Russia and Canada in the early twentieth century; and India and China in the 1950s are all examples. The fourth stage is 'the drive to maturity'. During this stage, society expands into the international economy with a mature ability to produce goods that were formally imported. Industry has transformed into a more technological and refined process and society has the capability to produce select products. Most of the Western European countries and the US were at this stage by the end of the nineteenth century. The final stage is 'high mass-consumption'. The increase of real income per head brings about a large number of people who can transcend consumption for basic

needs. Therefore the structure of labour also shifts to increase workers in offices or in skilled jobs, and the ratio of urban workers to total population also increases. This stage can be seen in the advanced countries.

There are several problems with modernisation theory. Firstly, Rostow adopted the British experience of development and assumed that other developing countries can develop under the same conditions. Modernisation studies view national states as an independent unit and presume that a state begins on a path of development that will finally arrive at the same stage of development as advanced countries (Hopkins 1982, p.10). As some scholars argue (e.g. Deviney and Crowley 1978; Todaro 2006; Cypher and Dietz 2004; Wallerstein 1979), the assumption is limited, as it ignores the actual conditions of other developing countries, and it attempts to generalise a universal path from the British experience. A country's developmental capability cannot be taken for granted or be viewed as a pre-given. Not all countries have the same capability as an advanced economy like Britain. Secondly, modernisation theory is ahistorical and incorrectly assumes that the dynamics of economic development, at least during the first three stages, is limited by national boundaries (Wallerstein 1979). The so-called "modernisation" process is actually a historical evolution of capitalism. The point is that the dynamics of capitalism never limits itself to national or state boundaries. Nor does capitalism develop as a linear trajectory from national economies to the world economy. Thirdly, modernisation theory narrows the concept of development to economic growth, and technological and industrial change. Cumings (1993) criticises modernisation theory as 'technological determinism' (p.25) as the theory views technological evolution is the only driver of capitalist development and social change, one which ignores other factors.

2-1-2 Varieties of capitalism

The British model was appraised by Rostow in the 1960s, however, from the 1980s onwards, numerous comparative studies began to pay attention to other modes of national development in advanced countries, including Zysman (1983), Albert's (1993) 'capitalism vs. capitalism', Hart's (1992) 'rival capitalists', Hutton's (1996) 'world capitalisms', Whitley's (1999) 'divergent capitalisms', Crouch and Streeck's (1996) 'capitalism diversity', and Hollingsworth and Boyer (1997). These works explored the diversity of capitalism and compared different models of capitalist states

in the developed world. As such, these studies are different from Rostow, who assumed a universal model, yet they all try to identify a model to serve as a lesson for other countries. I will mainly concentrate on Zysman, Hart, Albert, Hutton, Crouch and Streeck in the following.

John Zysman (1983) distinguishes between three models of national capitalism by analysing the national financial structures and the industrial adjustment process. He focused on the capacities of various governments in advanced countries to intervene selectively in industrial performance. In particular, different structures in the financial sector reflect the different capacities of states to intervene in the economy. He identifies three models, namely the ‘state-led’ model, represented by Japan and France, the ‘market-led’ model, represented by the US, and the ‘negotiated’ model, represented by Germany (p.90-91). In the Japanese model, the financial system allocates resources through the state to facilitate industrial policy. State power is mainly controlled by the state bureaucracy in cooperation with major firms and banks. State-led policies, in combination with a credit-based, price-administered financial system, drive economic development. In contrast, the US model is a regime of market competition and price-driven adjustment with a limited regulatory function. This model, in Zysman’s view, is less efficient than the state-led and credit-based model. The negotiated model operates economic policy through political bargaining between the government, businesses and labour groups rather than through the market mechanism. This model faces problems as the environment of the international economy changes.

Hart (1992) provides more structural analysis than Zysman in discussing the different arrangements of industrial countries as he argues that only studying the role of the government limits the understanding of the different degrees of competitiveness between national states. He suggests instead that the focus should be on the how the government, the business sector, and labour are organised within these countries in pursuing international competitiveness. This is termed ‘state-societal arrangements’ in which the state (governmental bureaucracies) and society (business and organised labour) are institutionally linked (Hart 1992, p.1). In the Japanese model, the state has a strong role in leading industrial development, alongside business groups, that is, industrial groups plus major banks and informal business groups. Labour is organised at the enterprise level and has established a negotiating relationship on some issues, although the overall labour organisation is weak. In the US model, the state acts more

to serve business' interests. Governmental units (e.g. the US Chamber of Commerce, the National Association of Manufacturers, and the Office of the US Trade Representative) are required to hold discussions with business groups before finalising policies. In Hart's view, US capitalism is led by business groups, while Japanese capitalism is directed by the state or a state-business coalition led by the state. In Hart's view, Japan and Germany are better performers than the US and the UK.

For Albert (1993), there are two models of capitalism. The 'Rhineland' model of capitalism (based on industrial banking, a comprehensive welfare state, small equity markets, dynamic and research-intensive manufacturing, comprehensive training and education, strict company laws and also a tightly regulated financial sector) is superior to the 'Anglo-American' model, which is based on the principle of a liberal economy as the only market mechanism in terms of economic organisation, financial structures, and social control. Hutton (1996) compares different models of capitalism in the US, Japan, the European states, and Britain, in terms of the basic principles of market, financial system, labour market, firms, welfare system, and government policies. He argues that British capitalism is in crisis and should shift to a model of 'longtermism, commitment and co-operation without losing the stimulus of competition', as is the case with Japanese and German models of capitalism (p.285). Crouch and Streeck (1996) argue that capitalism operates via a national system, and that there is more than one system. Accordingly, what determines capitalist diversity is national, and some national systems were found to be more 'institutional' than others (Crouch and Streeck 1996, p.2-2).

The above comparative studies are only part of the wider research agenda into the varieties of capitalism. According to Hall and Soskice (2001), the approach of comparative capitalism in advanced countries has gone through three stages, beginning with Andrew Shonfield's (1969) *Modern Capitalism* as the first analytical framework to compare institutional structures of Western European capitalist states. He argued that the key to economic success is 'political will and skill' in terms of the capability of political institutions (p.63). The second framework of comparison is based on the concept of neo-corporatism in the 1970s, which focuses upon state-labour relations. Neo-corporatism views national policies as requested by and negotiated with major interest groups, especially those of the greatest economic importance: the trade unions and employers' associations. The third stage is a

comparison of the social systems of production in the 1980s and 1990s (e.g. Hollingsworth and Boyer 1997). This approach focuses on the internal structures of firms, the structures of the financial markets, education systems, industrial relations systems, and the nature of state intervention. They conclude that there are two types of social systems of production, one the social system of mass standardised production, as represented by the US model; and the other the social systems of flexible production, as represented by the German and Japanese models. Moreover, Hall and Soskice (2001) proposed a new analytical framework of comparative capitalism that tries to go beyond the above three frameworks by bringing the organization of the private sector (firms) into the centre of the analysis in order to ‘understand the institutional similarities and differences among the developed economies’ (Hall and Soskice 2001, p.1). Hall and Soskice (2001) distinguish between two types of national economies. The first type is ‘liberal market economies’ in which firms organise their activities mainly through hierarchies and a competitive market mechanism; the other type is ‘coordinated market economies’, in which firms rely heavily on non-market factors (e.g. networking, contracting) to promote their core competencies (p.8). The example of the former is the US and the latter is Germany and Japan. The new framework is referred to as the ‘varieties of capitalism approach (VoC)’; yet Hall and Soskice (2001) recognise that the new framework is much influenced by Albert (1993), Hollingsworth and Boyer (1997), Whitley (1999), and Crouch and Streeck (1996). As such, I group this literature above as belonging to the school of varieties of capitalism, although the context of comparisons is different from each other.

Huang (2002) suggests broadening the school of VoC to include other comparative approaches: (1) ‘production regime’ analysis, (e.g. Soskice 1999) which concerns the institutional framework of the production regime of the economy, including the financial system, industrial relations, the education and training systems, and the companies networks; (2) the ‘social structure of accumulation’ approach, which studies the set of social institutions that facilitate the accumulation of capital, including political and ideological structures and economic institutions; (3) ‘business system’ analysis (e.g. Whitley 1992), which argues that the way resources are organised by structured hierarchies and markets will distinguish one business system from another; (4) the ‘national system of innovation’ approach that studies organisations, institutions, and links in a country, and assumes that differences in

national competitiveness depend on the technological capabilities of firms (e.g. Bengt-Åke Lundvall); (5) the ‘regulation school’, which intends to identify different regimes of accumulation and modes of regulation in capitalist countries (e.g. Bob Jessop).

Overall, the VoC school advances Rostow’s economic growth theory in the way that recognises different national trajectories of development, whereas Rostow had only suggested a single trajectory. The VoC approach also provides detailed discussion on national differences, in particular in the comparison of institutional arrangements and state-societal relations. However, just as with Rostow’s perspective, the VoC approach only focuses on the developing experience of advanced countries and tries to identify a superior model which can serve as a lesson to both the declining model and any rising capitalist state (albeit not all VoC analysts, but those that do include Albert, Zysman, Dore, Hutton, Crouch, Streeck, and Hart). The weakness of this approach lies in the fact that it views development as mainly a national affair, and assumes that a country can improve its development once it is more competitive and improves its institutional arrangements compared to other models. As Crouch and Streeck (1996) contend, ‘what generates capitalist diversity was “national”...Some national economies were found to be more institutional than others (p.2-3).’ Yet, we need to ask why a certain kind of model or institutional arrangement (e.g. Fordism, mass production, the liberal market) was once competitive in the past but is not now? Is one model *per se* superior to another? Are there any other factors that determine the competitive nature of a model? If there is one developmental model superior to others *by its nature*, in that sense there will be no need for further research into the diversity of capitalism as the best model has already been found. This thesis argues to the contrary, that the competitive nature of a certain national model also needs to be viewed historically and put into the wider context of international political economy that goes beyond national affairs. Some literature of the VoC school (e.g. Hall and Soskice 2001) recognise that national systems experience external influence from a world economy and thus national systems can adjust themselves based on institutional differences. However, they only focus on how different national systems respond to external influences but under research the connection between these different systems. VoC analysis can be seen as an attempt to explain the patterns of Germany and Japan as emerging economic competitors to the US and the UK in the world economy during the 1960s and the 1970s. The emerging competitors (German and Japan) and

the declining models (the US and the UK) are arguably not completely two isolated patterns. For example, Japan's post-war rapid industrialisation and economic growth benefited from direct and indirect US assistance (see Cumings 1987).

Strange (1997) argued that most comparativists and state-centric theorists only pay attention to the differences between states, but ignore the similarities. As such she suggested common factors of global change, namely the theory of structural power (i.e. the structure of security, production, finance, and knowledge). However, merely focusing on similarities is also a partial approach; in reality, both similarities and differences co-exist, as long as the global framework of capitalism is recognised. These comparisons are problematic, according to Radice (2004), for two reasons: firstly, when they focus on the variety of institutional arrangements, which are linked to the conceptualization of 'embeddedness', the result is a difficulty in deploying a theoretical framework of institutional change, unless it is viewed as just an 'exogenous' force to a certain 'national' model (p.188-189). The second problem is that using the taxonomy of 'nationality' as the central analysing structure reproduces the concept of Western 'sovereign statehood', which 'underpins an implicit definition of capitalism as a system divided into distinct national capitalisms' (p.184).

In sum, I agree with the VoC approach's assumption that national developmental trajectories are diverse; yet this diversity cannot be viewed as independent national models that merely compete with each other. A "universal" model might be good *only for a time*. The mobility of ascent is possible through the structure of capitalism and within a particular domestic context; however, ascent cannot be viewed as a universal model. Varieties of national developmental trajectories should be seen as a relational concept, where one model's descent is related to another model's ascent. Thus, the trajectory of national development is not limited by national institutional arrangements or any other domestic system but is also embedded in a wider historical and international context.

2-1-3 The approaches of the East Asian NIEs developmental model

While other advanced countries may have intended to learn the "Japanese lesson" in the 1970s, the "East Asian Tiger's lesson" for other developing countries began from the 1980s. As the VoC approach attempted to explain the pattern of the rising competitors of Japan and Germany in the camp of advanced economies, several

perspectives also started to pay attention to the rise of some East Asian developing economies, the Newly Industrialising Economies (NIEs). Fruitful discussion on the successful model of East Asian development since the late 1980s, as the section will discuss, has two implications. One is that the discussion is an extension of the Japanese experience as a developmental model into the East Asian model; the other is that the discussion builds on the experiences of advanced economies into developing countries. In this respect, the discussion of the East Asian development model is not only an attempt to explain the rising East Asian economies but also a continuation of a long-term debate on national developmental trajectory.

The empirical data show that the East Asian region has had remarkable growth since the 1980s. Considering economic growth in terms of an average annual growth rate in Gross Domestic Product (GDP), countries in East Asia and the Pacific maintained a growth rate of 6.8% between 1980 and 2007, a figure notably higher than the average growth rate of the world's GDP (1.44 %), than the Organisation for Economic Co-operation and Development (OECD) countries (1.97 %), and other low-and-middle income countries (2.43 %).¹¹ Moreover, East Asia's share of world Gross National Product (GNP) increased from 13% in 1960 to 25.9% in 1999, which was in distinct contrast to other regions (Arrighi, Hui *et al.* 2003, p.3). How can East Asian countries grow while other economies remain comparatively sluggish?

Two major approaches explain the particularity of the dynamics of East Asian development. The first approach is neoclassical economics, which suggests that free market principles are major factors that drive the dynamics of industrial structure (World Bank 1993). The free market principles include (1) a virtuous circle of high investment, high economic growth, and high savings rates; (2) the increase of production efficiency via the imports of foreign capital and technology; (3) rising labour participation rates and good quality of labour (World Bank 1993). The engine of development is a 'competitive market' (especially domestic markets integrated within the international market) that acts as institutional arrangement to generate efficient resources (Wade 2004[1990], p.10). Therefore the key developmental policy is an outward oriented regime, one that encourages exports and has few impediments to imports. This approach, in Wade's view (2004[1990]), is a shift in developmental policy from the prescriptions of the 1950s and 1960s (e.g. those of modernization theory) towards a neoclassical view of markets and governments of the second half of

¹¹ Data from the World Bank (2009).

the 1970s (p.10). Todaro (2000) divides the neo-classical economics school into three areas of analysis: (1) free-market analysis, which argues that the market is efficient and perfect, and thus the analysis views government intervention as a negative impact on the self-sustaining market; (2) public-choice approach, a public policy approach that uses some of methodologies of neoclassical economics, and which argues that politicians, bureaucrats, citizens, and states all pursue their own interests and suggests, therefore, that governmental intervention should be as minimal as possible; (3) the market-friendly approach, which recognises that the market is not perfect and that government can intervene in the event of market failure. This analysis is mainly with the work of the World Bank economists. Wade categorises this approach as ‘the simulated free market theory’ (2004[1990], p.23).

Free-market analysis and a market-friendly approach are often applied to East Asian development, especially to the newly industrialising economies (NIEs) – South Korea, Taiwan, Hong Kong, and Singapore. These analyses view the successful development of East Asian NIEs as due to either the free market principle or to the export oriented strategy. Balassa (1988) argues that export-oriented industrialisation (EOI) was the main engine for growth in East Asian NIEs at first, and the growth of exports contributed to East Asian NIEs’ GDP growth; secondly, exports helped the NIEs to overcome the limitations of their domestic markets. EOI refers to an economy with industrial exports serving as the leading or main sector; import-substitution industrialisation (ISI) refers to an economy that attempts to substitute products which the economy imports so that it can reduce its dependence on imports. Balassa (1989; 1991) also contends that East Asian NIEs’ shift to free market discipline in terms of EOI in the 1960s and 1970s was a better strategy than Latin American NIEs’ strategy of import substitution industrialisation (ISI). The successful development of EOI was driven by four factors: stability of the export incentive system; limited government intervention; well-functioning labour and capital markets; and reliance on private capital (Balassa 1988, p.286-288). The World Bank (1993) terms the developing Asian countries mentioned in the previous paragraph together with Japan as ‘high-performing Asian economies’ (HPAEs) which not only implemented a stable macroeconomic policy but, more importantly, also adopted an export-push strategy. The export-push strategy means that these countries ‘moved rapidly towards international best practice, despite highly imperfect world markets for technology’ (World Bank 1993, p.358). Bhagwati (1988) argues that the government of an under-

developed country needs to maintain an export promotion strategy in order to promote economic growth, something governments in East Asian countries have done well. In a case study, Porter (1990) views South Korea as fostering a national consensus on pursuing international competitiveness by which the government has largely limited its intervention.

The second approach employed to explain East Asian NIEs' successful development, the state-centred perspective, argues that the dynamics of East Asian growth depend more on the state's vital role in guiding the economy rather than the free market mechanism. The approach has rich studies concerning the role of the state in terms of 'state autonomy', 'state capacity', or 'state intervention' in the process of East Asian economic development. According to Huang (2002), state autonomy means that the state has autonomy from other social forces (e.g. capital and labour) and hence its bureaucracy is able to design and implement long-term developmental policy; state capacity is the state's exercise of power over society; state intervention refers to the guiding and interventionist roles of the state in the national economy. These state-centred perspectives include Johnson's (1982) concept of 'the developmental state' which takes Japan as a case study, Wade's (2004[1990]) 'governing the market' which uses Taiwan as an example, Amsden (1989)'s 'getting the price wrong', Evan's (1995) embedded autonomy, Weiss and Hobson's (1995) 'governed interdependence', and Dean's (1996) 'capitalist developmental state in East Asia'. Several case studies concerning the role of the state in industrialisation were conducted in the 1980s and the 1990s, including South Korea (Haggard and Moon 1983; Koo 1984; Whang 1987), Singapore (Lim 1983; Rodan 1989), and Taiwan (Amsden 1989; Gold 1986; Wade 2004[1990]).

Johnson (1982) follows the concept of 'economic nationalism'¹², by the German historical school to study the Japanese "miracle" of the 1960s. He disagrees with the distinction between 'market rationality' and 'plan rationality', represented as liberal economies versus Communist economies (p.18). On the contrary, he argues that the Soviet-type economies are 'plan-ideological', and the real 'plan rationality' model is Japan (p.18). According to Johnson, the model has three main features. Firstly, it is the state, rather than the regulatory regime or market (e.g. the US economy) which takes on the developmental function that leads industrialisation. Secondly, the plan-

¹² The concept refers to a strong domestic control of economy, labour, and capital formation which includes protectionist measure and the ISI.

rational model addresses industrial policy in terms of promoting industrialisation through selected strategic industries. By contrast, the market-rational model does not have an industrial policy and relies on rules and the market mechanism. Thirdly, within the plan-rational model, the planning and execution are undertaken by a small elite group of high-level, well-educated, and talented economic bureaucrats, whereas within the market-rational model, the government officials are mainly composed of elected members of other professions (e.g. lawyers), and economic decision-making often occurs in the legislative chamber. Such a developmental oriented, plan-rational model is called ‘a developmental state’. Johnson (1982) argues that if one country attempts to learn from the Japanese achievement, the prerequisite for that country is to firstly be a developmental state, and then to become a regulatory state (i.e. the market-rational model) or a welfare state (p.306). Although Johnson recognises that Japan’s special historical (e.g. pre-war development, the Second World War) and social context (e.g. nationalism) are key factors in the emergence of the developmental state, he believes that other countries might be able to work out a social arrangement which is comparable to Japan’s, and then countries can adopt the abstract model of the development state. Such an abstract model (the developmental state) would have four key elements: (1) the existence of a small but elite technocracy within the system; (2) a bureaucracy which has enough autonomy to operate effectively and implement policies; (3) compliance with ‘market-conforming’ principles and state intervention in the economy; (4) a pilot organisation similar to the Ministry of International Trade and Industry (MITI) (p.315-320).

Wade (2004[1990]) develops a governed market theory (GM) in distinction to the neoclassical school’s free market theory in order to further address the role of the developmental state and the nature of the development. GM theory contends that capital accumulation is the primary force for development, and the theory explains that East Asia’s superior growth is the result of high levels of productive investment from interventionist economic policies, especially in selected strategic industrial policies, to pursue international competition. Wade distinguishes between two kinds of integration for a national economy: ‘internal integration’ and ‘external integration’ (p.xlviii). Internal integration refers to a domestic economy that has a heavy set of links between sectors, a well-filled input-output matrix, a structure of domestic demand, and strong social articulation; external integration focuses on the principle of comparative advantages and an outward-oriented trade regime. East Asian NIEs have

successfully integrated with the world market via an EOI policy, yet, from the view of GM theory, ‘the development of a national economy is more about internal integration than about external integration’ (Wade 2004[1990], p.xlviii). The most important factor to such integration is the government’s interventionist and guiding role. Wade mainly places emphasis on internal integration without making a sufficient link to larger systemic factors of change (referred to as external integration). Wade’s research on Taiwan of the 1950s and the 1960s, as Chapter Four will discuss, was in particular the period that the world-system and US hegemony provided an opportunity for Taiwan to ascend.

Amsden’s (1989) study of South Korea’s ‘late industrialisation’ argues that the key factor to South Korea’s economic achievement is that South Korea is intentionally ‘getting the price wrong’ (p.139). In her view, it is the state, rather than the market, that leads capital into selected industrial sectors and manages resource allocation. Furthermore, as a late-industrialising economy, it is essential for the government to promote technological adoption as a means of “catching-up” with advanced countries. Accordingly, any late-industrialising country should catch-up with the industrialisation process through “learning”, which is better promoted through a high degree of state intervention. Evans, Rueschemeyer, and Skocpol (1985) contend that states can be viewed as organisations that promote significant goals through official collective actions. Deans (1996) identifies five core features of a ‘capitalist developmental state in East Asia’, namely the fusing of the public and private, state ideology, developmental legitimacy, plan rationality, and a relatively autonomous economic technocracy. Chang (1999) reviews the long-established argument of previous development economists¹³ that the state can create and regulate the national economy for the purpose of accelerating industrialisation.

The two approaches are debates on East Asian developmental trajectory and about the kind of model which can be identified as a lesson for the developing world. They seem to contrast with each other - while the neoclassical school addresses market-driven forces, the state-centred approach emphasises the significance of state intervention. The now widely cited 1993 World Bank report recognises that state intervention does somehow ‘matter’ in certain selective industries, although it is only in the northeast Asian countries that this intervention has been truly successful, while

¹³Including Friedrich List (national capitalism), Alexander Gerschenkron (late development), Gunnar Myrdal (a hard state) and Simon Kuznets.

overall, according to the World Bank, the industrial policy of East Asian states does not work well (World Bank 1993). In response, Amsden (2001) argues that not only did some Asian countries, but many other developing countries¹⁴ successfully adopt certain institutional arrangements through an extended role of the government to catch-up during the 1950s to 1980s (e.g. development banking, local-content management, selective seclusion, and national firm formation) (p.125). It is noteworthy that the World Bank seemed to modify their free market dominated interpretation because of the East Asian crisis of 1997, the absence of any empirical study of China in the 1993 report, and effective criticism from state-centrist development theorists. The World Bank addressed the following opinions in their report of 2001, '*Rethinking the East Asia Miracle*':

The rich evidence from the 1990s also casts new light on the relative contribution of export-led policies and of import liberalisation to growth, and it helps to clarify key issues influencing the choices of exchange rate policies. *We now realize that an understanding of East Asian development requires that we come to grips with the political economy of change, with governance, and with the roles of key institutions.*

(Stiglitz and Yusuf 2001, preface by Nicholas Stern and Vinod Thomas, emphasis added by the author)

Thus the factors of 'governance' and 'institutions' are recognized in their new vision. What kind of governance and institutions mark East Asian development? In the 2001 World Bank report, Shahid Yusuf summarises four main strands. The first is the dedication to appropriate macroeconomic management; the second is the ability of a bureaucracy to implement the goal of a 'strong state' in order to pursue a long term development strategy; the third is to speed up industrialisation and the export-led strategy; the fourth is that such a developmental approach needs to be pragmatic, flexibly applied, and to consider practical results (Yusuf 2001, p.6-7). These four strands are similar to the core features of the developmental state. Thus, the market-friendly approach and the state-centred approach are not completely

¹⁴Including Asian countries – China, India, South Korea, Taiwan, Malaysia, Indonesia, Thailand, and Latin American countries – Brazil, Chile, Argentina, and Mexico, as well as Middle Eastern countries – Turkey.

opposed to one another; rather, they have two characteristics in common: they agree upon the necessity of some form of state/government intervention and market-orientation. Their disagreement lies in how and to what extent the state intervenes in the market. For example, in Haggard's (1990) case studies on East Asian NIEs, he argues that these economies combine market forces with strong state guidance to implement development policy when they shifted from an ISI strategy to an EOI strategy. Secondly, they both regard the East Asian experience as a successful model or lesson in national development that can be adopted by other developing countries.¹⁵ The core concern regarding development, in their view, is the matter of finding the correct fundamentals of policy and of government-business relations in order to successfully integrate into the world economy, something East Asian states do quite well.

The strength of the two approaches is that they advance the intellectual discussion on national capitalist development. Unlike modernisation theory and the varieties of capitalism school that mainly focus on developed countries, the two approaches look at the experiences of developing countries. In particular, the state-centred school is aware of the special conditions of a “late-comer” to advanced countries, and therefore they view the guiding and interventionist role of the state as a necessity. However, criticisms of the two approaches have been made. Jessop (2005, p.24-25), for example, contends that both approaches naturalise the institutional division between the state and the market. Neither can see that such a separation is socially constructed and problematic. Both approaches only focus on economic growth rather than the specific pattern of accumulation regimes which are embedded in broader economic, political, and societal context. The developmental state approach in particular ignores the political, economic, and social conditions that allowed the state to implement developmental policies. Stubbs (2005) criticises the neoclassical analysis as ahistorical because it views the efficient resources of a successful economy (e.g. capital, educated labour, technology) as pre-given. The neoclassical analysis is not interested in explaining why these successful economies have these resources, and it also underestimates the interventionist role of the state. Stubbs (2005) also points out that the state-centred approach does not provide a systematic or theoretical analysis of

¹⁵See Amsden (2001), Amsden and Singh (1994), Harrold, *et al.* (1996), Leipziger and Thomas (1994), Stiglitz (1996).

the origins of the interventionist role of the state, which the case study of this thesis attempts to do so.

Moreover, the two approaches are ahistorical and under research the international context. Other literature has examined historical and international factors, such as geopolitics or the international division of labour, that enable East Asian NIEs to implement state intervention and EOI, and these studies do not view East Asian economic growth as “miracles” (Arrighi *et al.* 1993; Bello and Rosenfeld 1990; Cumings 1987; Frobel *et al.* 1980; Gills 1993; 2000). Bello and Rosenfeld argue that three conditions enabled East Asian NIEs to be “successful” exporters, namely the political economic intervention of the U.S., dependence on Japanese firms, and the model of command capitalism rather than free market capitalism (Bello and Rosenfeld, 1990). Frobel *et al.* (1980) view the industrialisation of underdeveloped countries in Asia as only one part of the process of the new international division of labour. The other part of the process is that these countries are exploited by foreign capital through cheap labour in special trade zones. This has led to these countries serving the interest of the core economies so that the whole tendency is towards uneven development. Arrighi *et al.* (1993) argue that the rise of the East Asian NIEs is actually a single economic miracle which is due to the expansion of the Japanese multilayered subcontracting system. Cumings (1987) uses theories of product cycle, hegemony, and the world system to examine the origins and development of Northeast Asian states (Japan, South Korea, and Taiwan). He argues that a country-by-country approach is invalid; instead, a regional analysis (such as viewing the three states in the context of a hierarchical interacting unit) is needed.

Furthermore, although East Asian developmental model approach advances the debate of national capitalist development by adding models based on developing countries, they still view development as mainly a national affair. Although recognising the reality of the diversity of developmental routes among the advanced countries and East Asian NIEs, the approach nevertheless agrees that a country is able to develop once it finds a correct or fundamental policy (or mechanism). These “national model approaches” or “region-wide models” have been criticized by scholars who disagree that a model of development can be generalised and imitated in the East Asian region (Abbott 2003; Bernard 1999; Bernard and Ravenhill 1995). This thesis argues that a model cannot be generalised, not only in the East Asian region but also elsewhere, because development is never limited to national matters.

In this section, I have discussed modernisation theory, the varieties of capitalism school, and two approaches of East Asian developmental models. In general, they mainly view development as a national matter of either arranging domestic institutional frameworks (e.g. the role of the state or production system), or choosing an industrialisation policy (e.g. EOI), or adopting linear-stages of development (e.g. modernisation process). Hopkins and Wallerstein (1982) observe that such a perspective of national model of development, which they term ‘developmentalist’, views the world as consisting of a number of related but essentially ‘autonomous’ states, each on an upward trend, with a fundamentally similar route of development (p.42). The developmentalist not only pays insufficient attention to historical and international contexts, but also misunderstands the nature of capitalism. As Chase-Dunn (1989) points out, the problem with defining a national economy as a juridical unit is that in reality economic integration does not follow national boundaries (p.208). The developmentalist’s assumption is that the world economy is an ‘aggregation or interrelation of national capitalisms’ (Radice 2004, p.191). The question is, do we really have varieties of “national capitalisms” that compose an “unknown” world economy?

The term “national development” mentioned in this section, as well as in the case studies that the national model of development school adopts, only relates to “development” in terms of a rising “new” economy within the world economy. As mentioned previously, national ascent should be viewed as a relational concept because ascent or descent of a national economy is not an isolated national affair but relates to other states and the whole system. Ascent and descent also refer to the changes of resources and power that national states can control politically and economically in the world-system. I disagree with the national model of development school as their analysis is ahistorical, under researches the international context, and views the diversity of national ascent trajectories as separate patterns or models and that one rising, superior model substitutes existing models. Alternatively, this thesis argues that national ascent trajectory should be located in an international and historical context, to be precise, in the context of the capitalist world-system and domestic context. Domestic context does influence the trajectory of ascent; yet what I argue is that the domestic context is part of, but not exclusively, the key determining factor. In my view, the theoretical framework of the capitalism of the world-system perspective is very useful in providing an alternative approach that differs from the

analysis offered by the national model of development. I shall introduce the world-system perspective and how they view capitalism and national ascent.

2-2 Situate Ascent in the World-System Context: the World-System Perspective

The world-system approach emerged from within sociology in the US during the 1970s, although world-system analysts themselves consider their approach to be interdisciplinary or a ‘unidisciplinary’ approach, one that includes politics, economics, sociology, history, and anthropology (Wallerstein 1974, p.11). The approach has its own institutional support, e.g. the Fernand Braudel Centre at Binghamton University in the US., the Political-Economy of the World-System Section within the American Sociological Association, the journals *Review* and *Journal of World-system Research*. Its core concepts were informed by four major social science debates in the period between 1945 and 1970 (Wallerstein 2004). The first was the debate on the route of national development between modernisation theory and the core-periphery conception (including the United Nations Economic Commission for Latin America scholars and the dependency school). The second was the debate among communist scholars as to whether Marx’s concept of the ‘Asiatic mode of production’¹⁶ is valid or not. The third debate discussed whether the historical transition from feudalism to capitalism in Western Europe was either internally or externally driven. The fourth debate concerned the spatial-temporal viewpoint of history, and the *Annals* School in particular was influential to world-system perspectives.

The world-system perspective emerged in the 1970s when its leading scholar, Immanuel Wallerstein, published his first volume, *The Modern World-System*, in 1974. In the book, Wallerstein proposes the world-system as a theoretical framework. He argues that a world-system is a historical system¹⁷ (termed ‘historical capitalism’) which is self-contained as an ‘economic material entity’ based on extensive division of labour (1974, p.348). The term ‘world-system’ does not mean that it covers the

¹⁶ Marx and Engels argued that Asiatic society had a different development route to Western capitalism as the former had several distinct features: lack of private property, land still owned by the state, self-sufficiency of villages, unity of handicrafts and agriculture, and simplicity of production methods.

¹⁷ Wallerstein (1984) uses the term historical system to demonstrate that it is a system of historical cyclical development (i.e. the process of destruction, disintegration, transformation and close) (p.27). The term also means that all social systems or societies are ‘systemic’ and ‘historical’ (Wallerstein 2004, p.94).

whole globe but that the system is larger than any judicially-defined political unit (Wallerstein 1974, p.15). Arrighi's (1996) definition of a world-system is more clear, 'a spatio-temporal whole, whose spatial scope is coextensive with a division of labour among its constituent parts and whose temporal scope extends as long as the division of labour continually reproduces the "world" as a social whole' (p.2). There have only existed two varieties of world-system in history, a world-empire led by a single political system, and a world-economy without such a single political system. A world-economy is not 'bounded by a unitary political structure' but is a large zone within which there is a division of labour, internal exchange of basic goods, and transfers of capital and labour (Wallerstein 2004, p.23). World-economies existed prior to the modern era, but were converted into empires or disintegrated (Wallerstein 1975, p.348). The modern world-economy, the only surviving one, is a capitalist world-economy (or a capitalist world-system) which originated as a European world-economy in parts of Europe and the Americas between the late fifteenth and the early sixteenth century. Wallerstein (1974) argues that the establishment of a capitalist world-system needed three essential elements: (1) geographical expansion of the world, (2) the development of various methods of labour control for different products and for different zones, and (3) the creation of relatively strong state machineries in the core zones (p.38). For the first element, in the sixteenth century, capital expanded from Europe into the Americas. Secondly, the flow of surplus was generated via an axial division of labour between three economic zones: core, semi-periphery, and periphery. The European division of labour and the various kinds of labour controlled between 1450 and 1640 was represented as wage labour and self-employment in the core zone (Western Europe and the Mediterranean Christian world), slavery in the peripheral zone (Eastern Europe and Hispanic America), and as sharecroppers and tenants in the semi-peripheral zones (Northwest and Southern Europe). Thirdly, while economic activities were oriented towards the global scale, political activities were primarily within the state. The role of the state is a consequence of their different roles in the world-economy, and the core states are the most powerful ones. By 1640, the core states in the European world-economy were England, the Netherlands, northern France, and a declining Spain. Following a historical study of the European economies from the sixteenth to nineteenth century, Wallerstein further formulates a theoretical framework of the modern world-system (i.e. capitalism) in his various publications, and I shall move forward to discuss these theoretical concepts.

Before moving to further discussion, I should point out that different arguments over Wallerstein's analysis of the historical and spatial origins of capitalism exist within the field¹⁸, most notably Frank and Gills (1993), and Arrighi (1994; 1996). Frank and Gills (1993) view the contemporary world system as having gone through at least five thousand years, as the logic of the ceaseless accumulation of capital existed in Asia from that point. Conversely, Amin (1993) argues that the history of the world-system did not go back that far as it was brought about by the politics and ideology of the tributary (or world-empire, in Wallerstein's term) in command, not the economic law of value. Arrighi (1996) argues that capitalist production began in Italy in the thirteenth century, rather than Western Europe in the sixteenth century. His argument is based on Braudel's definition of capitalism as the top layer of world trade where large profits are made (the intermediate layer is the market economy, and the bottom layer is the elementary and self-sufficient economies). This thesis adopts Wallerstein's assumption of the spatial and temporal origins of the capitalist world-system, as I agree with his definition of capitalism and the three defining elements of the capitalist world-system.

In this respect, the world-system approach is not a homogenous one. Although world-system analysts are in agreement on the fundamental theoretical framework, there exist disagreements on definitions and arguments within each framework. The focus of research also varies, including cyclical processes in world-systems, decolonisation, cycles of war, cycles of revolution, hegemonic cycles, inequity and democracy, interactions of class and trade, the roles of women, household, and gender, race and ethnicity, commodity chains, socialism, cities, the role of culture, the environment, peasants and so forth (Hall 2000).¹⁹ I will summarise the basic theoretical frameworks in the following discussion and point out the disagreements between each framework.

2-2-1The modern world-system: Capitalism

For Wallerstein (1974), the 'secret strength' that has allowed the modern world economy to survive for five hundred years is the nature of the capitalist world economy itself (p.348). The world-system perspective defines capitalism as a modern

¹⁸ See Denemark, *et al.* (2006), Gills and Thompson (2006), Frank and Gills (1993).

¹⁹ See Hall (2000, p.9) and various issues of *Reivew* for the full references.

world-system which pursues the endless accumulation of capital. Influenced by Marx's concept, Wallerstein (1996) distinguishes capital from accumulated wealth. Capital is used with the primary aim of self-expansion (p.14). However, the world-system perspectives have developed a different analytical framework of capitalism from the Marxist perspective. Marxists view capitalism as primarily a national system that then expands to the global scale; the world-system perspective however regards capitalism originally as *a* world-system that then expanded to become *the* world-system.

Marxists claim that capitalism is a mode of production operated by a certain type of relations of production (capitalists and wage labour), that took place first in a national state (Britain) in the late eighteenth century, and then spread out across the globe during the twentieth century. Not until such relations of production become dominant in a nation-state can a nation-state be a capitalist state. Capitalism will extend such relations of production from capitalist states to "pre-capitalist" states so that finally capitalism on the one hand will overcome all other pre-capitalist relations of production, and, on the other hand, the intrinsic contradiction of the class structure as well as the contradiction between excess production and limited consumption will bring about a crisis of capitalism. The Marxist argument can be illustrated as follows:

[...] class structures, once established, will in fact determine the course of economic development or underdevelopment over an entire epoch (Brenner 1977, p.27) [...] Economic development was a qualitative process, which did not merely involve an accumulation of wealth in general, but was centrally focused on the development of the productivity of labour of the direct producers of the means of production and means of subsistence. (p.67)

Capitalism had emerged first in one country. After that, it could never emerge again in the same way. Every extension of its laws of motion changed the conditions of development thereafter, and every local context shaped the process of change. But having once begun in a single nation-state, and having been followed by other nationally organised processes of economic development [...] (Wood 2002, p.24)

For world-system analysts, Marx's original concept of capitalism is problematic. Chase-Dunn (1989) argues that Marx's abstract model in the first volume of *the Capital* is based on a closed national society without an international context. In particular, this model is mainly deduced from the conditions of nineteenth century England. Wallerstein (1991) contends that only focussing on a specific production relation, industrial wage-labour, is insufficient to analyse capitalism. He argues that Marx himself did not claim that surplus-value can only be extracted from wage labour, and neither slavery nor other non-wage relations of production are marginal to capitalism (Wallerstein 1991, p. 154-155). In addition, Wallerstein points out that Marx was not aware of the concept of 'underdevelopment' as Marx merely viewed underdevelopment as at a pre-capitalist stage. In contrast, the world-system perspective insists that underdevelopment is the 'creation of the capitalist mode of production' (p.161).

Both Chase-Dunn and Wallerstein's criticisms of Marx are not new. In my view, one of the earliest critics who shared agreement with the world-system perspective on the limits of Marx's framework was Rosa Luxemburg, although she was categorised as a Marxist. Luxemburg (1951[1913]) contends that the objective of capitalist production is the 'ceaseless expansion of reproduction', and therefore 'expansion becomes in truth a coercive law... becomes a condition of existence...a constantly flowing process of alternate appropriation and capitalisation of surplus value' (p.40-43). In sum, the aim of capital accumulation is neither the pursuit of a pure surplus-value nor of consumption; rather, pursuing an *expanding* surplus-value (capital). Furthermore, she found that the argument of capitalism was of a certain type of production relation (capital versus wage labour) and that was mainly drawn from Marx's seminal work, *the Capital* (volume one), which only analysed *individual* capital accumulation. Yet in reality, although an individual capital does exist, but individual capital accumulation does not; it is the accumulation of an aggregate of social capitals that exist in reality. Luxemburg (1951[1913]) addressed the necessity of distinguishing the two levels of analysis, and she was aware of Marx's attempt to formulate theoretical abstraction by making preconditions based on his analysis.²⁰

²⁰ Luxemburg was aware that Marx "consistently and deliberately assumes *the universal and exclusive domination of the capitalist mode of production as a theoretical premise* of his analysis in all three volumes of *Capital*" (p.348, emphasis added by the author). When Marx discussed the chapter on "the conversion of surplus-value into capital" in Volume I, he noted that, "in order to examine the object of our investigation in its integrity....we must treat the whole world as one nation, and assume that

Therefore Marx's analysis should be viewed as a good starting point for analysis rather than a 'finished' solution (Luxemburg 1951[1913]).

Finally, she found Marx's scheme of enlarged reproduction in the second volume of *the Capital* self-contradictory, because the scheme not only presents the accumulation process as being merely for the sake of production rather than for extra surplus-value, but also as one that becomes fully self-realised of surplus-value in order to solve the problem of the realisation of surplus-value of the two departments.²¹ Marx's scheme contradicts the assumption of the fundamental conflict between the capacity for consumption and production outlined in the third volume of *Capital*. Nevertheless, Luxemburg argued that the weakness of the scheme can be corrected through an excess of production of Department II, i.e. $II > I(v+s) + II(v+s)$, or through an excess of production of Department I, i.e. $I > (Ic + IIc)$. The crucial matter is, who will realise the surplus-value from either department? There has to be demand from outside the two departments; accordingly, the adding of a "third party" who is "outside" capitalist production is necessary. In light of this, she argued that capitalism from the beginning needs a "non-capitalist surrounding" and a non-capitalist method of production, and therefore capitalism cannot be limited to capitalist production (e.g. wage labour). Although Marxists recognise that capitalism needs to *expand* to the global scale, what Luxemburg (and the world-system analysts) contend is that capitalism from its birth was already a result of the interaction between the capitalist state (e.g. Britain or the core states in Western Europe) and the world. In sum, I agree with Luxemburg, Wallerstein and Chase-Dunn's critique of Marx and Marxists mentioned above. It can be concluded that: firstly, capitalism is a process of ceaseless accumulation of capital through expanded reproduction on a globe scale. Relations of production are embedded in such a process, rather than relations of production alone constituting capitalism. Secondly, Luxemburg's revision of Marx's

capitalist production is everywhere established and has possessed itself of every branch of industry."
(quoted in Luxemburg, 1951[1913], p. 331).

²¹ The scheme of reproduction has two departments, one supplies the means of production, the other supplies the whole consuming goods; both departments are composed by a certain amount of 'constant capital (c)'-land, raw material, and machinery, 'variable capital(v)'-labour power and 'surplus(s)'. It can be summarized as follows (Marx 1974, ch.xx, xxi; Luxemburg 1951 [1913], ch.iv, vi)

$$Ic + Iv + Is = \text{Department I (I)}$$

$$IIc + IIv + IIs = \text{Department II (II)}$$

In simple production, $I(v+s) = IIc$, $Ic + IIc = I$, and $I(v+s) + II(v+s) = II$. In enlarged reproduction, the formula is: $I(v+s) < IIc$, $Ic + IIc < I$, $I(v+s) + II(v+s) > II$, $I(c+v+s) + II(c+v+s) = I + II$.

analysis shows that it is necessary to bear in mind Marx's specific methodology of theoretical abstraction, i.e. temporarily excluding some factors or giving specific pre-conditions, rather than directly taking his original text as a "true" scheme of actual existing historical capitalism.²² Thirdly, since using non-wage labour is a necessary element of capitalism itself, the relationship between "capitalist society" and "non-capitalist society" is neither a relationship of temporal sequence nor a relationship of spatial spread, but rather a geographical division through exchange/trade and the division of labour as a whole at any given moment. From the world-system perspective, the so-called non-capitalist society has formed a hierarchical relation with the so-called capitalist society, which is defined as a 'core-semi-periphery-periphery' structure in the perspective.

2-2-2 Structure of accumulation: the core-semi-periphery-periphery hierarchy

Since the world-system perspective regards the dynamics of capitalism as the world-system, the accumulation of capital takes place at a global scale rather than within a national economy. This section will discuss some basic concepts and mechanisms of accumulation, as well as its cyclical movement.

The accumulation process is undertaken by a hierarchy of three economic zones, namely the core, periphery, and semi-periphery. As argued previously, the idea of capitalism's reproduction through a hierarchy of states was not an insight from the world-system perspective but was one noticed by Luxemburg. Furthermore, the specific analytical framework for the hierarchy was used by Raul Prebisch and the United Nations Economic Commission for Latin America in the 1950s. They used the concept of centre-peripheral relations to explain the uneven economic relations between the US and Latin America. In their analysis, the 'centre' was an industrialised country exporting manufacturing goods, with the 'periphery' exporting agricultural goods and raw materials. Such a relationship operates through a particular mechanism, the deterioration of trade. Their analysis, however, is limited as it only focuses on a specific period (i.e. post-war) and on a specific mechanism (i.e. trade), and does not link to the long term and the structural development of capitalism (Wallerstein and Hopkins 1982). It was the dependency theorists of the 1960s that

²²Before writing the book, Luxemburg (2000[1903]) had already criticized some Marxists' misreading of *Capital* by only paying attention to the first volume and viewing it alone.

placed the concept of centre-periphery (or metropolis-satellite) relations into the historical development of capitalism (Wallerstein and Hopkins 1982). Andre Gunder Frank argued that capitalist development is both based on the development of the metropolis countries, and the ‘underdevelopment’ of satellite countries. They are two sides of the same coin, namely development and underdevelopment, and the two cannot be analysed as separate processes (Frank 1967). Amin (1976) distinguishes between the uneven developmental routes of the core capitalist state and the peripheral capitalist state as two different national social formations.

Wallerstein adopts the concept of core-periphery²³ relations and adds another analytical unit, the semi-periphery. This is a significant difference to the dependency school as the world-system perspective views the hierarchy of accumulation as a dynamic process in which ascent and descent are possible and takes place through the role of the semi-periphery. The semi-periphery has long been in existence within core-periphery relations in order to stabilise the conflict between the core and the periphery, rather than as part of a modernisation and industrialisation process. Although the hierarchical structure is part of the capitalist world-system, the composition of each zone is not fixed. Some states ascend and some descend. Arrighi and Drangel (1986) examine this mobility in terms of gross national product (GNP) per capita for 93 countries during 1938-1983. They found that five percent of the states moved either upward or downward between 1938-1950 and 1975-1983, while the other 95 percent remained unchanged between the two periods.

The core-periphery conception is a relational pair and the distinction between these zones/areas is in their economic activities. The world-system perspective argues that the core-periphery difference is not between industrial production and agricultural production but between different levels of economic activity. Yet the definition of different levels of economic activity varies within the school. Chase-Dunn (1989) defines core activities as those which receive a high capital return, or are relatively capital intensive commodities which employ relatively skilled and highly paid labour; and the peripheral activities are the contrast. The criterion of ‘capital intensive commodities’ however is questioned by Arrighi and Drangel (1986), who disagree that capital intensive production and industrialisation are equal to core activities. Firstly, they point out that ‘non-productive’ activities (e.g. finance) are more

²³ The term ‘core’ is used instead of ‘centre’ as the former refers to an area or a zone rather than a point (Chase-Dunn 1989).

profitable than industrial production. Secondly, capital intensive production does not always bring the highest return. Thirdly, industrialisation has been increasingly located in non-core zones. As such, Arrighi and Drangel (1986) define core activity as one that receives a relatively large share of the total surplus no matter what the nature of the activity is. The nature of core-like and periphery-like activities is historically bounded and relates to current technology and product cycle. Similarly, Wallerstein's (2004) latest definition mentions a key distinction between core-like and periphery-like activities as 'the degree to which they are monopolised and therefore profitable' (p.93). I agree with the definitions of Arrighi and Drangel (1986) and Wallerstein (2004).

The definition of semi-periphery also varies. Gereffi (1990) argues that the characteristics of the semi-periphery are unclear and semi-peripheral ascent is one of the least clearly developed topics in the world-system perspective. Wallerstein (2004) contends that there is no semi-peripheral product but the semi-peripheral zone combines core-like products and periphery-like products because the semi-peripheral zone has a particular role within the world-system. Chase-Dunn (1989), however, argues that another type of semi-periphery exists, namely that which contains a level of intermediate activity between core and periphery activities (p.211-212). He further views the semi-periphery as able to play a 'revolutionary' role in changing the dynamic of capitalism via anti-systemic movement and upward mobility (Chase-Dunn 1989, p.213). Chase-Dunn and Hall (1997) conclude that five definitions of semi-periphery, based on their historical studies of various world-systems:

1. A mix of both core and peripheral activities and forms of organisation
2. Spatially located between core and peripheral regions
3. Spatially located between two or more competing core regions
4. Mediating activities linking core and peripheral areas
5. Institutional features are in intermediate form, between those found in advanced core and peripheral areas

By adding Wallerstein's discussion of semi-periphery, we can add a sixth, namely that the semi-periphery plays an intermediate role in the international division of labour. Finally, Chase-Dunn and Hall (1977) argue that a semi-peripheral country also has a GNP per capita which is intermediate between countries, but a semi-peripheral country with ascent mobility should have a higher economic growth rate.

I have discussed the hierarchical structure of accumulation; but what are the mechanisms to transfer surplus value between zones? Unequal exchange is often viewed by the dependency school and world-system analysts (e.g. Amin 1980; Wallerstein 1984; 2004) as the main mechanism to transfer surplus-value from the periphery to the core and thus to reproduce the hierarchical structure, and to incorporate the external area into the capitalist world-economy. The concept of unequal exchange was introduced by Arghiri Emmanuel in the 1950s. He contended that there exists unequal exchange between products from the periphery (i.e. low labour costs) and core-produced products (i.e. high labour costs) based on wage differences. However, two world-system scholars have different accounts of the role of unequal exchange. Chase-Dunn (1989) reviews different studies on both the problem of national development and the mechanism to reproduce core-periphery relations, including wage differentials, class-formation, trade composition, disarticulation of peripheral economies, transnational corporations, foreign equity investments, state power, power-block formation, class struggle, imperialism, and foreign aid and loans. He finds that low-wage exports cannot be viewed as a direct factor in slowing down national development, and he argues that foreign equity investment and foreign debt are more significant than other factors (p.255). Arrighi (1990) contended that unequal exchange is only one of the main mechanisms that constitute, reproduce, and deepen the hierarchical structure of capitalism. The others are unilateral transfers of labour and capital (p.12-13). Unilateral transfers of labour and capital can be involuntary through violence and threats (e.g. slavery, colonial economy) or voluntary (e.g. labour migration, capital export). Unequal exchange however has a contradictory effect on the hierarchical structure. In reality, a peripheral state can use its low-wage commodities to gain wealth. As Arrighi (1990) has argued, some East Asian states (Japan, South Korea, and Taiwan) have relied on exporting low-wage commodities to ascend since the Second World War. As such, unequal exchange can work both towards polarisation and depolarisation, as do unilateral transfers of labour and capital. The functions of the three mechanisms might not coincide with core-periphery relations, ‘depending on the particular circumstances of time and place under investigation (Arrighi 1990, p.14).’ He further contends that core-periphery relations are determined by the struggle over the benefits within world division of labour (p.15).

The final framework of capitalism's hierarchical accumulation is a cyclical rhythm. Since the accumulation of capital takes place on the global scale, the stages of development of capitalism are the cycles of accumulation of the whole world-system. The growth, stagnation, and crises of capitalism are not limited by national boundaries. Most world-system analysts adopt the concept of the Kondratief wave (K-wave, or long wave for short) as a cyclical rhythm of capitalism, although the timing and moving forces of the K-wave are still widely debated. The K-wave was named after the Russian economist Nikolai Kondratieff in 1926, and is a basic template of the cycles of price inflation/deflation and of production growth/stagnation. Kondratieff viewed the long wave as dating from the late eighteenth century. However, some economic historians (e.g. Braudel) and world-system analysts use the K-wave to analyse earlier periods (Hopkins and Wallerstein 1982). The concept of the long wave is not only used in the world-system perspective but also in other analyses, e.g. the social structures of the accumulation school and the regulation school (Kleinknecht 1992; Li, Xiao, and Zhu 2007).

According to Wallerstein (2004), the driving force of the K-wave is the evolution of leading industries. The cyclical rhythm consists of an A-phase (expansion) and a B-phase (stagnation) and lasts 45-60 years, depending on the political measures taken by the states to get out of B-phase and return to a new A-phase (p.31). Furthermore, there are two important features of the cyclical movement of capitalism. Firstly, the cyclical rhythm of the capitalist world-system does not mean that history merely repeats itself. Wallerstein (2004) argues that the end of a Kondratieff cycle does not imply a return to the same condition as at the start of the cycle (p.31). He contends the reason for this is because the limits of the world-system are changed when something has been enacted in the B-phase to leave the B-phase and return to an A-phase. Although the change solves short-term stagnation, it also starts to create problems for the structure of capitalism. Wallerstein (2004) terms the situation as 'a secular trend' (p.31). Secondly, Wallerstein (1992) points out that there is no reason to assume that state-level long wave patterns parallel the long wave world-level patterns (p.340). As we shall see in following chapters, periods of national change are not exactly the same as change in the capitalist world-system, although they generally follow a similar trend.

2-2-3 Political system: interstate system and hegemonic transition

The difference between a world-economy and a world-empire is that the former has no single political system but multiple states, and the political system in the capitalist world-system is an interstate system. In Wallerstein's (1996) account, the term interstate system is preferred to international system/relations because nations and nationalism did not effectively emerge until the late seventeenth century, but the interstate system had already come into being even before the rise of the capitalist world-system (e.g. city-states). Furthermore, the term interstate system implies that these states interact as a system, rather than only being a relationship. The national states of the sixteenth century and the ideology of absolutism are different from nations and nationalism, with the latter not emerging until the late seventeenth century²⁴ (Wallerstein 1974, p.145-146). The interstate system and the pursuit of the accumulation of wealth via international trade of the sixteenth century provided the historical prerequisites for the rise of nationalism, which led eventually to the modern sovereign state. Chase-Dunn (1989) argues that the world polity is composed of a system of 'competing states', which serve as structural support for capitalism (p.137). He clearly defines an interstate system as 'a system of unequally powerful and competing states in which no single state is capable of imposing control on all others' (p.142). Every state, even the states in the core zone, is limited by the interstate system.

Wallerstein (1996) claims that some mechanisms (e.g. the international division of labour and unequal exchange) have transferred surplus to the core, and that more capital has accumulated in the core than elsewhere. As the core has more capital than other zones, further mechanisms have been created to facilitate a strong state in the core in order to maintain a monopoly; while the reverse is the case in the periphery. Centrality in the axial economic network and centrality in the political network thus tend to coincide (Hopkins 1982, p.13). So the capitalist world-economy has a strong state mechanism at the core and a weak state mechanism in the periphery, while the states in the semi-periphery serve to stabilise the imbalance of power relations as a whole.

According to Wallerstein (1984), hegemony is where one power can enforce its rules on others through three analogous means: economy, ideology, and politics

²⁴ For the discussion of the rise of the modern state since the eighteenth century, see Mann (1993).

(including military and diplomatic). The rise of a hegemon occurs through a sequence of a core's production, commerce, and finance spheres; a hegemonic position is also lost in reverse order with finance being preserved last and longest (Wallerstein 1984; 2004). Arrighi (1994) defines hegemony as 'the power of a state to exercise functions of leadership and governance over a system of sovereign states' (p.27). Hegemony, in the world-system perspective, operates *between states* in the interstate system. The concept of hegemony is not used within a national framework, and hegemony within the interstate system is one of the dimensions that constitute the capitalist world-system. The terminology differs from Gramsci's concept of hegemony: hegemony for Gramsci is the means by which the ruling class in a national society maintains control through the use of violence, political and economic coercion, and culture (Hoare and Smith eds. 1971). These means are similar to Wallerstein's argument; yet Gramsci applies the concept to *within* the state.

The hegemonic power has a material base, namely its economic power *vis-a-vis* the ability of its enterprises in the world-system. The rise of a new hegemon is driven by its superior economic power which represents a dominant production relation that incorporates other types of production models from different zones. The three means (economy, ideology, and politics) are also similar to the mechanisms suggested in other accounts regarding hegemonic power. For example, the neo-realist Gilpin argues that the hegemonic state has 'military, economic and technological capabilities' (Gilpin 1981, p.13). Both the world-system perspective and neo-realism argue the necessary existence of a powerful hegemon in the world-system or the international system. In contrast, Keohane (1984) argues that hegemony is not necessary when it can only facilitate cooperation in the international system, as a successful hegemon depends upon asymmetrical cooperation and consensus from other states (p.46). However, from the world-system perspective, hegemony matters not only in terms of political dominance, but also in the dominance of economic power within the capitalist world-system via the production, commerce and financial spheres. Furthermore, hegemonic power can enforce its rules on other states via the exercise functions of leadership and governance rather than the direct control of other states, as a hegemon is not an empire.

Although the world-system perspective shares some similarity in its concept of hegemony with the neo-realism, the major difference between the world-system perspective and the neo-realist view of hegemony is in the "dynamics" of hegemonic

transition. In the neo-realist's view, hegemonic power exists to maintain the "stability" of the international system. The concept of hegemonic stability was raised by American economic historian, Kindleberger (1973). This concept is further used by neo-realists, such as Stephen Krasner and Robert Gilpin (Krasner and Webb 1989; Gilpin 1987). The hegemonic stability theory argues that the dominance of a single country is necessary for the stability of the international system as the single dominant state can enforce the rules of interaction among the most important members of the system. However, to the world-system theorists, hegemonic power is not static and unchallengeable. As Wallerstein (1984) notes, 'hegemonic power is not a state of being but rather one end of a fluid continuum which describes the rivalry relations of great powers to each other' (p.39). The hegemon might decline once it loses its ability to develop leading industries ahead of other competitors. When other states begin to improve their economic power in the sequence of agro-industrial production, commerce, and finance, the remaining hegemony is inevitably challenged (Wallerstein 1984; 2004). Furthermore, the hegemon does not decline absolutely but relatively, and will not fall into the periphery (Chase-Dunn 1989, p.175). The cycle of hegemonic transition is a necessity of the dynamics of historical capitalism, as the following argument proposes:

As a hegemonic power declines, there are always others who attempt to replace it. But such replacement takes a long time, and ultimately another 'thirty years' war.' The capitalist world-economy needs the states, needs the interstate system, and needs the periodic appearance of hegemonic powers. (Wallerstein 2004, p.59)

Historically, according to Wallerstein, there were three instances of hegemony: the United Provinces of Holland in the mid-seventeenth century, the United Kingdom in the mid-nineteenth century, and the United States in the mid-twentieth century (Wallerstein 1984). The hegemonic cycle is different to the cycle of accumulation (i.e. K-wave) mentioned previously. The former is about twice as long as K-waves. Most world-system analysts argue however that there is correlation between the Kondratieff cycle and hegemonic cycle (Shannon 1996; Hopkins and Wallerstein 1982). When a hegemonic power rises, the timing corresponds with a K-wave upswing (A-phase). Some other non-world-system analysts have also made a similar argument. Thompson

(2000) studied the political processes of a ‘leadership long cycle’ and argues that it has a tight connection with the economic process of K-waves. He defines ‘leadership’ as something similar to the term hegemony, although his analysis covers a longer period, 930-1973.

Table 2-1: the period of K-wave and hegemonic cycle

Kondratieff cycle	Hegemonic cycle
A: 1575-95	The Dutch: ascending (1575-1590)
B: 1595-1621	victory balance (1590-1620)
A: 1621-50	maturing (1620-1650)
---	declining (1650-1700)
A: 1780/1790 – 1810/17	UK: ascending (1798-1815)
B: 1810/17 – 1844/51	victory balance (1815-1850)
A: 1844/51 – 1870/75	maturing (1850-1873)
B: 1870/75 – 1890/96	declining (1873-1897)
A: 1890/86 – 1914/20	US: ascending (1897-1913/20)
B: 1914/20 – 1945/49	victory balance (1913/20-1945)
A: 1945/49 – 1967/73	maturing (1945-1967/1973)
B: 1967/73 –	declining (1967/1973)

Source: Hopkins and Wallerstein (1982)

2-2-4 Anti-systemic movements

The world-system perspective is not the first one to conceptualise capitalism as constituting a form of social relations, and there is a resistance force in society to counter the logic of capitalism. Marx and Engels (1848) argued that the working class sells labour power for wages but do not own the means of production, and therefore it is the mission of the working class to replace capitalism with socialism. In Polanyi’s analysis of capitalism in England in the nineteenth century, he argued that the necessity of capitalism is to transform all elements of industry in a society into commodities including land, labour, and money. These commodities are fictitious as they were not produced at all and were not for sale initially (p.10). A society based on these fictitious commodities is the one that ‘subordinates the substance of society to the laws of the market (p.71).’ Polanyi argued that the explosion of market capitalism

will be disruptive socially. The concept of ‘countermovement’, then, is a movement against market forces using ‘the principle of social protection aiming at the conservation of man and nature [...] using protective legislation, restrictive associations, and other instruments of intervention as its methods (p. 132).’

Although the world-system perspective has a different definition from Marx and Polanyi, the perspective also views that capitalism cannot be separated from society as capital is a form of social relations; and there is a counter force against the logic of capitalism in order to protect society and change the current system into a different system. Such a counter force is an ‘anti-systemic movement’. The term ‘anti-systemic movement’ was coined by Wallerstein in 1984, and refers to two counter-movements that emerged during the nineteenth century and that represent models of resistance to the capitalist world-system, namely social movements and national movements. Historically, the main issue of a social movement was class conflict, while national movement refers to ethno-national struggles. He argues that the two types of movement actually share some similar features between 1850 and 1970 (Wallerstein 2002). The two types of movement both regarded themselves as revolutionary, they were politically weak, and they both went through debates over attitudes towards the state, whether to adopt a state-oriented strategy or to view the state as an enemy. Eventually the state-oriented strategy won out in both of the two movements. Social movements sometimes included a nationalist strategy, while nationalist movements sometimes pursued a social component. The two movements both engaged in popular mobilisation. They both struggled with the debate between ‘revolution’ and ‘reform’ as a mode of transformation. Finally, both movements experienced the same problem that, once they had come to state power, they found that state power was more restrictive than they thought. In sum, Wallerstein argues, both types of movement might have had different views towards the world, but their strategies and evolutionary processes look alike, namely a state-oriented strategy. Arrighi, Hopkins, and Wallerstein (1989) argue that although the organised social and national movements have set some limits on capital accumulation from the mid-nineteenth century, their overall influence remained confined to within the national state. The ‘old’ social movement (in particular the labour movement), was successful in strengthening the power of the state yet at the same time failed to reduce the conflict of interstate competition.

The period 1967 to 1973 was not only a turning point in the cycle of capitalism but also in anti-systemic movements. The world revolution of 1968 marked the beginning of a different kind of anti-systemic movement which shared two basic arguments: they opposed both US hegemony and the Soviet Union as a superpower, and they criticised the old anti-systemic movements that mainly focused on state power. According to Wallerstein (2002), the new anti-systemic movements went through four attempts and some are still ongoing at present. The first are multiple Maoisms²⁵ in some developing countries, which have very little significance today. The second are the 'new' social movements that combine environmentalists, feminists, workers, and racial or ethnic minorities. This type of movement is stronger in Western Europe than elsewhere. These are suspicious of the state-oriented strategy suggested by the old anti-systemic movement and the new social movements reject state power as the most important object. They take a new form of an anti-systemic movement to challenge the logic of capitalism, namely a different ethnic and gender composition, a different way of organising, and an increase in the capability to cross national boundaries (Arrighi, Hopkins, and Wallerstein 1989).

The third type is the human rights organisations located in the core zone. They try to implement their campaigns in other zones. The final one is the anti-globalisation movements, which were termed as such during the protests at the Seattle WTO ministerial meeting in 1999. Following Seattle, this type of social movement maintained their campaigns and networks through protests against intergovernmental meetings and via the establishment of the World Social Forum in 2001. For Wallerstein (2002), this final type of anti-systemic movement seeks to bring together all other types of anti-systemic movements at all levels of activist (local, national, and international). More importantly, the movement seeks to bring together social movement activists from different zones within a common framework and belief that another world is possible. In sum, the anti-systemic movement has shifted from a national movement and a (national) social movement to new forms during the B-phase. In particular, the most effective and powerful one to resist the capitalist world-system is the one that brings together different resistances from different zones and sectors. In this respect, while I will discuss the role of organised labour in Taiwan, I

²⁵ Inspired by the political revolution and cultural revolutions implemented by Mao Zedong in the 1960s and the 1970s. Today in Nepal and India there are numerous active and also armed maoist movements.

will see if Taiwan's organised labour's resistance has connected with other sectors and other states.

In conclusion, most world-system analysts agree that the fundamental feature of world-system analysis, namely capitalism, is a world-system rather than a national model; that the accumulation structure of capitalism is a hierarchy of a core, semi-periphery and periphery; that the political system of capitalism is an interstate system rather than a nation-state; that there is a hegemonic power within the interstate system; that there is a cyclical rhythm of accumulation and hegemonic transition; and that there is the possibility of anti-systemic movements to counter the logic of capital accumulation. However, there have been some disagreements within each analytical framework, e.g. the types of world-system; the origins and location of the capitalist world-system; the definition of semi-periphery; the role of unequal exchange; and the measurement of cyclical rhythms. This is one of the reasons that the approach is more often called a perspective or an analysis rather than a theory (Hall 2000). Moreover, one reason why the perspective is rarely described as a 'theory' is that some world-system analysts (e.g. Wallerstein) claim that the approach is 'not a theory about the social world, or about part of it.' The approach is instead 'a protest against the way in which social scientific inquiry was structured for all of us at its inception in the middle of the nineteenth century' (Wallerstein, 1991, p.237). Generally, the approach should not be viewed as a homogenous theory but as loosely connected perspectives that share the same primary theoretical and analytical framework about capitalism.

2-2-5 Criticism of world-system perspective

Apart from the criticism of Marxists mentioned in section 2-2-1, other critiques, including the state-centred theorists such as Skocpol (1977) and Evans (1995), also challenge the perspective. Evans (1995) questions the world-system perspective's assumption that national development is only determined by its position in the international division of labour and therefore has no room for agency. Instead, Evans (1995) argues that 'state involvement needs to be taken as one of the socio-political determinants of what niche a country ends up occupying in the international division of labour' (p.11). Skocpol (1977) also criticises Wallerstein's theoretical framework as based on a two-step reduction: 'first, a reduction of socio-economic structure to

determination by world market opportunities and technological production possibilities; and second, a reduction of state structures and policies to determination by dominant class interests' (p.1079). Skocpol's argument of the first reduction is similar to Evans'; both are unsatisfied with the overestimation of the determination of the world-system over the state and the socio-economic structure by world-system analysts. I will discuss the issue below. As for the second reduction, Skocpol argues that Wallerstein only relies on economic and class factors to explain the degrees of state strength and state economic policies, and ignores other factors. In response, Arrighi (1996) contends that Skocpol misunderstands Wallerstein's analysis for three reasons: firstly, Wallerstein does not reject the importance of nation-states in shaping the world-systemic process but de-emphasises national states as a 'unit of analysis' (p.3); secondly, Skocpol's argument is based on the state-centric approach that ignores 'systemic sources' of state strength (e.g. geopolitics, world money); thirdly, Skocpol actually recognises that Wallerstein's analysis of an interstate system is compatible with the importance of politico-military competition among emerging European states in facilitating the emergence of the capitalist world-system (p.3). However, despite agreeing with the world-system approach's primarily theoretical framework, I agree with some of the criticism, in particular that the world-system perspective ignores domestic factors such as the role of the state or socio-economic structure, and I will propose a new position in the next section.

There is another problem with the world-system perspective, namely the role of the semi-periphery. The complex and interrelated relationships between the structure of accumulation and the interstate system is only addressed clearly in the framework of hegemonic power. The relatively strong power of the core zone and the weak power of the peripheral zone are also discussed, but the role of semi-peripheral zone in both the interstate system and the structure of accumulation of capital are not well elaborated. The features of the semi-periphery are still unclear and ambiguous, for example, different definitions of core-like and periphery-like activities can lead to different definitions of the semi-periphery, as the latter is the mix of the former. The role of semi-peripheral zone is situated in the structure of accumulation but it plays a political role, so whether to locate countries based on a global division of labour or on their positions in the interstate system is another problem. As Martin (1995) notes, 'whether and to what extent interstate system may specify a semi-peripheral status or be utilized to move between zones of the world-economy remains very much a

contestable issue' (p.6). The semi-peripheral process (either descent from the core or ascent from the periphery) is at tensional crossroads between interstate state struggle and global accumulation. For example, semi-peripheral states may find forward movement blocked by the very forces that generated their membership in the zone (Martin 1995, p.8). It is also dangerous to generalise a universal pattern of the semi-periphery, for example, Chase-Dunn (1989) argues the possibility of a counter-system revolutionary role for a semi-peripheral state. Yet, a revolutionary semi-peripheral state is not possible without a revolutionary social formation. In my view, the best way to develop a clear analytical framework of semi-peripheral development lays in the research on various semi-peripheral states, and this thesis will contribute a case study.

Above all, there have not been many studies based on the world-system perspective that examine semi-peripheral development²⁶. As Martin argues, it is important to understand how and why the semi-periphery has functioned as a 'primary locus for social, labour, nationalist, and anti-systemic movements?' (Martin 1995, p.5). Therefore he claims that the reason to study individual states is to explore the semi-periphery by analysing the interstate struggle to maintain and ascend beyond semi-peripheral status and not decline within the capitalist world-system. This is what the case study will contribute towards.

2-3 Bringing in Domestic State-Capital-Labour Relations

2-3-1 Ascent as national social formation

Wallerstein (1974) argues that three elements are essential to establish the capitalist world-system, namely geographical expansion of capital at the global scale, various methods of labour control for different zones, and the creation of relatively strong states in the core zone. These three elements demonstrate the significant roles of capital, labour, and the state. However, apart from the lack of semi-peripheral studies as criticised in section 2-2-5, another weakness of the world-system perspective lays in the lack of sufficient analysis of social formation, in particular the domestic social

²⁶ There are two collections of semi-peripheral studies: Martin, W. (1990) eds. *Semi-peripheral States in the World-Economy*, London: Greenwood; Owen Worth and Phoebe Moore (eds), *Globalization and the 'New' Semi-Peripheries*, Palgrave Macmillan 2009

relations of capital accumulation, although Chase-Dunn (1989) notes that one of the world-system perspective's research agendas is, in fact, to study the effect of changes in the world-system on national development. Yet most world-system studies pay more attention to the "big picture" of the world-system. The accumulation structure and the interstate system influence national development, but these are not all of the determining factors. Does capitalism as a world-system itself fully explain the ascent trajectory of an individual state (e.g. from periphery to semi-periphery and from semi-periphery to core)? What kind of factors, opportunities, and obstacles cause a country to (or not to) ascend? When and how does a country ascend? Although by analysing the macro-level of capitalism an understanding of the whole picture of the current dynamics of world-system can be gained, such an analysis cannot demonstrate the ascent trajectory of each state and how domestic social relations impact upon this development path.

Both the national model of development approach and the world-system perspective place insufficient emphasis on the analysis of domestic social relations. The former approach, although it gives attention to the role of the state and the institutional framework, views the state as a pre-given and a neutral institution rather than as a consequence of a power struggle between social forces, and between national and interstate power; the latter approach, although recognising the significant role of the state in the semi-peripheral zone and argues that an anti-systemic movement or nationalist movement can act as a social force in the capitalist world-system, it does not provide sufficient discussion on the origins of anti-systemic movements and how they affect semi-peripheral ascent. The world-system perspective has done well to place national ascent in the context of the capitalist world-system; yet, the approach lacks viewing ascent as a national social formation and thus embeds the forces of anti-systemic movements. Accordingly, this section will discuss the concept of ascent in terms of national social formation.

I shall clarify what I mean by the terms "social formation", "social relations" and "social forces." The term "social formation" was introduced by the French Marxist, Louis Althusser, who used the term as a substitute for the term 'society' (Althusser and Balibar, 1968). He argued that social formation is a dynamic and complex process which is based on a determinate model of production that integrates economic, political and ideological relations at a certain stage of development (Althusser and Balibar, 1968, p.313). By contrast, Amin's (1976) analysis on peripheral economies

uses the term social formation to refer not only to a structure that is dominated by a determinate mode of production, but also for a structure connected with other economies. As such, there are different social formations between national states depending on their positions in core-periphery relations. Amin (1976) argues that the core zone's social formation is similar to Marx's abstract model of a capitalist state, but that the peripheral zone's social formation is more complicated and diverse. For example, he points to four features of the social formation of the peripheral zone: (1) agricultural capitalism has a dominate role; (2) a large share of local commercial capitalist class which has strong links with the core's capital; (3) a developing special form of bureaucratic system; (4) non-complete proletarianisation.²⁷ These features can be observed in Taiwan in the pre-1987 period, as Chapter Four will illustrate. I agree with Amin's usage, as he argues that the economic system and social formation of the peripheral zone cannot be realised only by itself but needs to be understood as a part of the wider global social structure, an assumption which is compatible with the world-system perspective.

To analyse social formation, as Amin (1976) suggests, it is necessary to examine the method of producing surplus value, the transfer of surplus value, and the distribution of surplus value among social classes (the defined nature of class is a relational concept which is based on its position in the production and ownership of the means of production, e.g. slave, peasant, industrial worker, capitalist, and landowner). The term "social relation" is the relationship between these social classes depending on the context of social formation. For example, the dominant social relation of a peripheral society, whose main production method is agriculture, is the landowner versus peasants or slaves. For a society which relies more on industrial production than agricultural production, its main social relation is capital versus industrial labour. The social relation of a national state is not a static, ahistorical, abstract structure, but a dynamic process depending both on the links of the state with the capitalist world-system and on changing social formation. Moreover, the concept of 'class' in Marx's analysis is not only a structural position in the societal division of labour but is also a force or actor for social change through class struggle. As Ougaavd (2004) argues, a group or individuals might not constitute a social force even if they are in the same position of production. Only if the group shares a

²⁷ Proletarianisation refers to the social process whereby people move from being either an employer, or self-employed, or peasant to being employed as wage labour by an employer.

collective interest and has the capacity for collective action can it be called a social force (p.153). I will use the case of Taiwan to examine this point in Chapter Seven. Let me summarise the three terms. A national social formation is constituted by a specific social relation of capital accumulation. The context of social formation and its associated changes are determined by its position within the world-system and by its social relations of capital accumulation. The power relation of social forces plays a significant role in shaping the pattern of the social relations, and therefore influencing national social formation.

But why is it important to research social relations in regard to the dynamics of capitalism? Capitalism is defined (by Wallerstein and the thesis adopts the definition) as a historical system of the ceaseless accumulation of capital. How can capital be accumulated ceaselessly? Capital must produce something larger than itself: in Marx's (1956[1983]) argument, it is the labour power among all the production factors (the land, the machinery, and raw materials) that produces surplus-value for capital, as labour always produces more than it needs to live. As such, capital accumulation is not merely a material action or one of existence (e.g. investment, production, finance), it is also a configuration of social relations, in particular the relations between capital and labour. Wallerstein (2004) agrees with Marx's idea that the nature of capital is a social relation of production, but he views social relations as not being limited to the relationship between capital and industrial wage labour. For Wallerstein, there are different models of relations of production (understood as models of 'labour control' to appropriate surplus-value) that co-exist in different zones of the capitalist world-system (e.g. slaves for sugar plantation, serfdom for grain cultivation and wood harvest, tenant farmers for cash-crop operation, wage labourers for some agricultural production, yeoman farmers and intermediate personnel in others) (Wallerstein 1974, p.86). For example, Wallerstein illustrates the division of labour between forced labour (slavery), serfdom, and coerced cash-crop labour in Hispanic America and Eastern Europe; yeoman farmers in northwest Europe; and skilled labour and wage labour in sixteenth century Western Europe. Since capitalism is a world-system, the variety of forms of production in this world-system are all forms of capitalist production, and he argues that 'not all these capitalist forms were based on 'free' labour, only those in the core of the economy... Free labour is indeed a defining feature of capitalism, but not free labour throughout the productive enterprises' (Wallerstein 1974, p.126-127). As I will discuss in Chapter Seven, even

in a semi-peripheral state such as Taiwan since 1987, Taiwan's labour force is not all 'free': there are some low-skilled, un-free migrant labour existing in Taiwan. As such, the method of labour control, presented as a type of relations of production, varies depending upon their links within the capitalist world system. In this sense, non-waged-labour relations of production in the form of agricultural labour, house workers, irregular labour, and so forth, are also part of the overall relations of production in the capitalist world-system.

I have explored how capital-labour relations constitute capital accumulation, but what is the role of the state? From the context of the capitalist world-system, a competitive interstate system is a necessity to prevent the world-economy from becoming a world-empire. As stated before, states within the interstate system are not equally powerful, but the hegemon and the core zone tend to be relatively stronger than others. This is the context where a state is related to other states; however, what is the role of the state within the domestic context? In Wallerstein's (2004) description, 'a state is a bounded territory claiming sovereignty and domain over its subjects, now called citizens...A state claims the legal monopoly over the use of weapons within its territory, subject to the laws of the state' (Wallerstein 2004, p.97). I agree that the state acts as a 'legal monopoly', and 'national-legal, administrative agency of coercion' (Wallerstein 2004, p.97; Woo 1991, p.6); however, I do not view these functions of a state as pre-given and static, as the ability of the state is both constrained by its position within the interstate system and its relations with other social forces (i.e. capital and organised labour). The "state" in this thesis is a concept related to two aspects: the interstate system and domestic social relations. In this respect, my perspective is different from the state-centred approach discussed in Section 2-1-3, which views the state as having pre-given autonomy over society and the economy.

The world-system perspective develops analysis for the interstate system, the structure of capital accumulation, households, modes of labour control, and anti-systemic movements. Nevertheless, the world-system perspective has not yet elaborated a complete analytical framework on the social relations of capital accumulation and on national social formation. The perspective explains well the hierarchical structure of capitalism. However, to understand why some states ascend and others decline needs historical studies on national developmental trajectory. While researching national ascent, the world-system perspective's lack of sufficient

analysis on national social formation inevitably leads to the impression that the perspective only addresses the effects of the capitalist world-system.

2-3-2 Determining aspects of national ascent trajectory

In this sense, national ascent is not only a changing position within the capitalist world-system and accumulation of capital and wealth, but also a changing national social formation. Ascent is affected by the logic of capital accumulation and the politics of the interstate system, as well as by the power struggle of domestic social forces. In other words, to understand national ascent or descent, it is necessary to study its structural position within capital accumulation; restrictions or opportunities offered by the interstate system; and domestic state-capital-labour relations.

These aspects are interrelated and intersect with each other. The structure of capital accumulation and the interstate system are “external” factors to national economies, while domestic social relations are “internal” factors. However, these divisions are not isolated. Domestic social relations are influenced by the power struggle among social forces, but are not a completely separate national affair. As we shall see in the case of Taiwan, the capability or autonomy of the state over domestic social forces in post-war industrialisation has much to do with the support from the interstate system. Similarly, capital and labour cannot be limited to national affairs. The movement of capital and labour has occurred across national boundaries since the birth of capitalism. The power of capital and labour within social relations is therefore also influenced by the structure of capital accumulation within the world-system. In other words, what we see as domestic social relations is actually a configuration of the power struggle between social forces and the structural effect of the capitalist world-system. The totality of these aspects (interstate system, structure of capital accumulation, and domestic social relations) is the nature of the national development trajectory.

The structure of capital accumulation and the interstate system were discussed in Section 2-2. I shall discuss the domestic state-capital-labour nexus. The role of the state in a society with respect to capital and labour has no universal pattern but needs to be examined through its position in the capitalist world-system and its relations with social forces. However, the case study in this thesis is a semi-peripheral state. World-system analysts argue that semi-peripheral states strongly put forward

protectionist and interventionist policies (Wallerstein 2004). The interventionist role of the state is thus a key factor in encouraging ascent and preventing descent. However, the strong role of a semi-peripheral state does not mean that it also has a strong role in the interstate system. State autonomy that is effective domestically does not necessarily mean that the state increases as equally autonomous within the interstate system. It is important to include the constraints or opportunities provided by the interstate system (in particular the hegemonic power) as a key factor in influencing the role of the state domestically. The case study on Taiwan will illustrate the argument.

Secondly, I define capital as both material action and a social relation. The dynamics of capital takes various forms depending on various functions in the process of accumulation, and different kinds of social relations exist in various forms. Capital is agricultural or industrial capital when it produces agricultural or industrial goods; capital is financial capital when it functions to earn interest. Thus, the social relation of agricultural capital is that between landlords and peasants or slavery; the social relation of industrial capital is the industrial capitalist and industrial workers; the social relation of financial capital is between the finance capitalist and financial service workers. While I discuss social relations as capital-labour, the term ‘capital’ is often used to mean “capitalists”, as the owners of capital are capitalists.

My research did not study all forms of capital; rather, I focussed on the dynamics of industrial capital and financial capital as they represent the dominant forms of capital in Taiwan during the post-1987 period. To be precise, the two types of capital are the defining features of semi-peripheral social formation; agricultural capital dominates peripheral social formation, as discussed in Amin (1976). Niggle (1988) points out that several economists (including Karl Marx, Thorstein Veblen, Rudolph Hilferding, and John Maynard Keynes) have identified the difference between the two types of capital. Following the insights of these economists, Niggle defines financial capital as the part of total capital that finances the position in financial assets for the purpose of earning interest or capital gain; industrial capital as the part of total capital that uses real assets (e.g. material, land, goods) to purchase labour power in order to produce for sale. This is a clear distinction; yet he ignores the discussion, mainly in Marx and Hilferding, of the link between the two types of capital.

My distinction between the two forms of capital is drawn from Marx and Hilferding’s analysis of loan (or interest-bearing) capital and functioning capital, as

well as from world-system perspective's discussion of hegemonic cycles. The original function of financial capital is discussed in Marx's Capital Volume Three. He did not develop a theoretical framework of financial capital, yet he distinguished 'loan capital' (or 'interest-bearing capital') from 'functioning capital' (Marx 1956[1894]). The former is part of money-dealing capital and the latter includes industrial capital (the function of production) and commercial capital (the function of circulation). The loan capitalists obtain ownership of the loan capital but transfer the use of loan capital to the functioning capital to earn interest. As such, the *ownership* and *use* of loan capital is separated. Yet, Marx had not seen the great development of financial capital that leads to a break in such a separation. Hilferding (1981[1910]) advanced Marx's idea by developing the concept of 'finance capital.' He argued that the expansion of financial capital and credit, together with the concentration of industrial capital in capitalist development,²⁸ leads to a breakdown in the separation between industrial capital and financial capital. Therefore, a combination of the two types of capital emerged, namely 'finance capital', as a dominant force in the capital accumulation process.

The world-system perspective does not develop a framework of these various forms of capital, nor does it provide a clear framework for the analysis of financial capital. However, it views industrial capital which controls industrial production as the primary force for hegemonic ascent. The role of financial capital and the degree of its expansion are significant both to national capitalist development and to a semi-peripheral state's ascent trajectory. The core zone is defined as the countries which control the most profitable and highest capital-return activities. Financial services have been one of the most profitable activities during the B-phase. As the next chapter will explore, the core zone has turned to de-industrialisation and increased financial activities in order to slowdown the declining profit rates in the industrial sector. In this respect, development of the financial sector is a key for semi-peripheral ascent. Moreover, the cycle of hegemony and the challenges from new economic powers to

²⁸ The following quotation describes the distinction between financial and industrial capital, as well as the formation of finance capital: "An ever-increasing part of the capital of industry does not belong to the industrialists who use it. They are able to dispose over capital only through the banks, which represent the owners. On the other side, the banks have to invest an ever-increasing part of their capital in industry, and in this way they become to a greater and greater extent industrial capitalists. I call bank capital, that is, capital in money form which is actually transformed in this way into industrial capital, finance capital" see Hilferding (1981[1910]).

the existing hegemon is through the sequence of agro-industrial production, commerce, and finance (Wallerstein 1984; 2004). This means that the core zone and the hegemony must have financial superiority to dominate the capitalist world-system.

Furthermore, in Arrighi's (1994) account, the role of financial expansion is not only necessary to ascend to the core, but also implies a crisis for the existing hegemon-led order. Based on a different account of the cyclic movement of the capitalist world-system from Wallerstein, Arrighi developed a framework of 'systemic cycles of accumulation' which is composed of four cycles (Genoese cycle, Dutch cycle, British cycle, and the US cycle) since late-medieval Europe to the present day US-led cycle. These periods are characterised by an expansion of production and trade, which then lead to over-accumulation that causes high competition and financial expansion. The expansion of finance, however, will break down the existing structure of capital accumulation. Arrighi (1997) borrowed an argument from Braudel: 'these periods of intensifying competition, financial expansion and structural instability are nothing but the "autumn" of a major capitalist development'. In this respect, the process of financial expansion during the K-wave is not only a new way to accumulate profits, but also a symptom of crisis in the capitalist world-system and implies the relative decline of the current hegemon.

Thirdly, the role of labour in the state-capital-labour nexus has a double meaning: one as the producer of value and the other as a social force. To examine its dual role one can realise on the one hand how labour contributes to national ascent and on the other hand how organised labour can resist the logic of capital accumulation as part of an anti-systemic movement. Labour is first to be understood as the producer of value (including surplus-value) but neither as 'using' nor 'owning' surplus-value.²⁹ The appropriation of surplus-value from labour is only possible when labour is collectively *subordinated* to capitalists in a firm, in a society, and in the world-system as a whole. Such subordination is the core feature of the social relations in capitalism. If labour attempts to change its subordinate role, its needs to be *organised* into a *collective* form as the capital accumulation process engages with a collective labour force in a firm, a sector, a country, and the world-system. Here emerges the second concept of labour, one where organised labour is a social force.

²⁹ Although the self-employed, yeoman, and some tenant peasants, own their own means of production; however, their labour value (i.e. products) need to be realised in the market, and their surplus-value is extracted by capitalists through the market mechanism in society as whole.

Empirically, O'Brien (2006) suggests that a labour group can influence the global order through four methods: (1) by influencing state policies; (2) by acting upon the rules of international governmental institutions; (3) by affecting the structure of the market; (4) by linking up with other social movements that can challenge global governance rules (p.222). From studying the case of the US labour movement, Herod (1997) argues that organised labour, as an agent, can be actively involved in the economic globalisation process by challenging the global scale of transnational corporations. I agree with their analysis; yet my view of organised labour is slightly different from theirs. Firstly, not all labour in relations of production can be, or wants to be, transformed into organised labour. In other words, labour can be, but is not necessarily, a social force. Only when labour has 'class consciousness' (i.e. an understanding of its subordinate status) is this transformation possible. Radical intellectuals and labour movement leaders thus play important roles. Secondly, organised labour can take the form of trade unions, civic associations, and community organisations. Organised labour has the potential power to challenge capitalists and the state, and to challenge labour's subordinate status. It should not be limited to a national framework because the dynamics of capitalism acts as a world-system. Not only are the links between different kinds of industrial labour necessary, the interaction between agricultural labour and industrial labour can also be part of a broad "anti-systemic" movement. However, thirdly, not all organised labour has class consciousness and the ability to act as an agent in the national and global political economy, as will be discussed in Chapter Seven in Taiwan's case.

Conclusion

The general question of this thesis is: how can we study national capitalist development? Is there an alternative approach that breaks the dichotomy between an approach which mainly considers the domestic context (i.e. the approach of national model of development) and an approach which focuses most of its attention on the international context (i.e. the world-system perspective)? To answer this question, the chapter has developed a specific analytical framework that combines the basic principles of the world-system perspective with analysis of the domestic state-capital-labour nexus. National development and ascent need to be viewed both as a relational concept (i.e. change of structural position within the world-system) and as a change of

national social formation (i.e. change in social relations). In this respect, the literature that assumes national development to be mainly a national affair, based on finding a particular model, misleads the analytical method of development. Although the world-system perspective rightly provides an alternative approach in examining the role of national states within capitalism, it is unsatisfactory with regard to the political dynamics of social relations in the process of capital accumulation. In sum, this chapter suggests that the structure of capital accumulation, the interstate system, and the domestic state-capital-labour nexus, are the keys to understanding the nature of national ascent trajectory. I will use this framework to study the case of Taiwan in the following chapters. Accordingly, the specific framework to rethink national capitalist development in this thesis will contribute to the literature which concerns national capitalist development and the literature of the world-system perspective. In addition, the case study is a semi-peripheral state; the examination of Taiwan's ascent trajectory will also contribute to the world-system perspective with regard to the role of semi-periphery.

Chapter Three:

The Transition Age: Global Changes of the Capitalist World-System (1967/1973-2007)

Introduction

After developing the analytical framework of the case study, Chapter Three will concentrate on the structural changes to the capitalist world-system in a particular period (1967/1973-2007), which will be referred to as the Kondratieff wave B-phase. As national ascent trajectory needs to be first situated in the context of structural changes to capitalism, we need to understand the content of the structural change and then analyse how these changes condition, constrain, and facilitate national change in the case study of Taiwan, in the following chapters. How does the world-system perspective analyse capitalism during this period?

The analysis of structural change of capitalism is mainly focused on the shift in the structure of capital accumulation and changes to the interstate system, as the two cycles are the primary dynamics of capitalism. In the period 1967/1973-2007, capitalism experienced a downturn phase in terms of the decline of profit rate in the industrial sector and sluggish economic growth in the core zone. In order to prevent the decline of profit rates in the industrial sector, the centre of capital accumulation expanded from the core to the semi-periphery and periphery (in particular to the East Asian region) via global industrial restructuring³⁰, and from industrial sector to financial sector via the process of financialisation. Through the two processes, the US is able to transform into a global financial entrepot (Silver and Arrighi 2005). The relative decline of US hegemonic power in economic and financial areas is in accordance with the B-phase, and has indirectly facilitated the rise of East Asian economic power. The East Asian region is now a new centre of capital accumulation (in addition to the EU and North America), but it is not yet a world political-military centre. Furthermore, the complex political and economic relationships between the East Asian region and the US also impose uncertainty to the future hegemonic order. These changes will be discussed in this chapter in the following manner: firstly, I will

³⁰ Industry restructuring refers to activities that re-organise and re-structure firms and industries, such as investment in new plant and equipment overseas, mergers and acquisitions, cessation or downsizing of operations and the forging or termination of commercial alliances with other firms (OECD 2002).

review the basic assumption of the cycle of capital accumulation and hegemonic order. Secondly, I will discuss the trend of decline in profit rates of the industrial sector in the core zone and how the core zone responded to the trend via industrial relocation and financialisation. Thirdly, I will analyse another consequence of the decline in the profit rate of the industrial sector in the core zone, namely the relative decline of US hegemony, in particular in the economic area. Accompanying, this decline is the rise of the East Asian region as a rising centre of capital accumulation.

3-1 ‘The transition age’- Kondratieff wave B-phase

‘We are located in age of transition, transition not merely of a few backward countries who need to catch up with the spirit of globalisation, but a transition in which the entire capitalist world-system will be transformed into something else.’ (Wallerstein 2007, p.401)

Wallerstein contends that the K wave B-phase since 1967/1973 is a transition age, a transition that is not one of developing countries “catching up” in terms of economic growth, but a transition of the whole capitalist system. To understand what the “transition” means and what has led to the transition, it is necessary to summarise the concept of cyclical change in the capitalist world-system and of hegemonic transition. The movement of capitalism is cyclical change of the world-system, and each cycle of the capitalist movement goes through stages of growth and expansion, stagnation and crisis. Although the beginning of the cyclical movement is still a matter of debate³¹, the regularity of the intervals of the cyclical movement is agreed upon by world-system analysts, other political economists and Marxists (e.g. Schumpeter 1939; Mandel; Gordon 1980). The mechanism of cyclical change is also debatable, although some attribute it to technological factors (e.g. Schumpeter 1939, Tylecote 1992). Kleinknecht (1992) argues that although Schumpeterians and the theorists of the social structure of accumulation suggest two different mechanisms, these mechanisms are actually linked to the role of profit rate as the determining factor (p.6). Mandel (1992) contended that it is the increase of profit rate, rather than technological

³¹ Schumpeter (1939) suggested that the long cycles started in Europe during the late seventeenth century. Kondratieff argued that the first long cycle began at the end of the 1780s. The difficulty of arguing for a historical existence of long wave before the seventeenth /eighteenth century lies in the lack of historical empirical data on the world economy, see Wallerstein (1992).

progress, which triggers the expansion of the long wave. He described the sequence as the increase of profit rates that triggers a growth of capital accumulation, and which then stimulates the finance for technological change (Mandel 1992, p.325). By contrast, Wallerstein (2004) considers the development of a new leading industry as the main mechanism that leads to the expansion of capitalism. In my view, technological progress, the rise of profit rates, and a new leading industry are all related to the expansion of capitalism and it is hard to argue that each factor can function alone. With capital accumulation to pursue the increase in profit rate as its principle purpose, technological progress gives rise to a new leading industry which brings higher profits and capital return.

The cyclical rhythm does not mean that history merely repeats itself. Wallerstein (2004) argues that the end of a Kondratieff cycle does not mean a return to the same condition as at the start of the cycle (p.31). He contends the reason is because the limit of the world-system was changed as a result of actions taken in the B-phase to leave the B-phase and return to an A-phase. These changes, although solving short-term stagnation, also start to create problems for the structure of capitalism. Wallerstein terms the situation as ‘secular trends’ (p.31). Furthermore, the cyclical movement is not limited by national or political boundaries. National change might reflect changes in the world-system, but we cannot assume that national change and the changes to capitalism are completely the same pattern. As such, Wallerstein argues, ‘there is no systematic comparison of the differential effect of long waves on core and periphery. There is no reason to assume that state-level patterns would all be parallel with world-level patterns’ (Wallerstein 1992, p.340).

Each cycle of the K-wave has an A-phase as the upturn stage and a B-phase as the downturn stage. The most recent cycle, which started in 1945, had its A-phase from 1945 to 1967/1973, and the B-phase has continued since then. The year 1945 is taken to mark the start of an A-phase as it was the end of the two world wars and the beginning of post-war reconstruction. In particular, the world economy entered a sharp upward boost after the 1950s. From table 3-1 below, it can be seen that the world economy grew most rapidly during the period of the 1950s to the early 1970s. However, the post-war economic boom only lasted for two to three decades. In the early 1970s, the world economy entered a downturn stage. Global GDP per capital growth was more than three percent in the 1960s, yet the growth rate has decreased to less than two percent since the early 1970s. Among the high-income countries, there

was also a decrease of GDP growth per capita growth since the 1970s (from more than four percent to less than three percent). The growth rates of fixed capital stock in the industrial countries decreased from 5% in the 1960s to 3.3% in the 1990s. During 2000-2004, the Triad had a growth rate of less than 3% (Glyn 2006, table 4.2). Furthermore, the annual growth rate in world trade reached its highest level during 1960-1973 (8%); the figure in 1973-1979 was only 4.5% and in 1980-88 was 4% (Satoshi Ikeda 1996, p.71). Between 1990 and 1997, as well as 2000 and 2007, the annual growth rate of the world's merchandise exports and imports was 3% and 5.5% respectively (WTO 2008). In other words, the annual growth rate of world trade declined in the B-phase. Patomaki (2006) found that the decline of world economic growth and the increase in global inequalities are two main features of global changes since the 1970s. He argues that these features can be explained using the long wave cycles analysis, meaning that the world economy has entered a downturn stage since the 1970s.

Table 3-1: Past average annual economic growth rates for world and world regions

	1500-1820	1820 - 1870	1870 - 1913	1913 - 1950	1950 - 1973	1973 - 1998	1999-2007
West Europe	0.4	1.6	2.1	1.2	4.8	2.1	-
USA	0.9	4.2	3.9	2.8	3.9	3.0	-
Japan	0.3	0.4	2.4	2.2	9.3	3.0	-
World	0.3	0.9	2.1	1.8	4.9	3.0	3.0

Source: Maddison (2001). *The World Economy: A Millennial Perspective*. Paris: OECD, P. 262; WTO (2008, table A1b)

In parallel with the cycle of capital accumulation is the cycle of hegemonic transition. As discussed in Chapter Two, the hegemonic cycle is different to, but correlates with, the cycle of capital accumulation (i.e., the K-wave). The former is about twice as long as a K-wave. Most world-system analysts argue that there is correlation between the Kondratieff cycle and hegemonic cycle (Shannon 1996; Hopkins and Wallerstein 1982). The rise of a hegemonic power coincides with a K-wave upswing (A-phase). Some other non world-system analysts also have made a similar argument. For example, Thompson (2000) studies the political processes of the 'leadership long

cycle' and argues that it has a tight connection with the economic process of K-waves. What he means by 'leadership' is similar to the term 'hegemony' although his analysis covers a longer period, 930-1973. Historically, there were three instances of hegemony: the United Provinces of Holland in the mid-seventeenth century, the United Kingdom in the mid-nineteenth century, and the United States in the mid-twentieth century (Wallerstein 1984). The rise and maturing of US hegemony corresponds with a K-wave A-phase.

The heyday of US hegemony in terms of political, economic, financial, military, and cultural power coincided with the post-war A-phase (1945-1967/1973). In the interstate system, the US is one of the world's superpowers and has the most advanced military equipment. During the Cold-War period, the US had military presence in allied states. The US's industrial capability, exports, outflow FDI, and transnational corporations dominated the global economy and facilitated the economic expansion of the A-phase. Its ideology of capitalism and anti-communist campaign led all its bilateral and multilateral allies. Finally, the Bretton Woods system (BWS) gave the US and US dollar unique roles in the world financial system. The BWS was an international monetary arrangement in terms of the arrangement of foreign exchange rates and balance of payments adjustment in order to prevent instability in the world's financial system (Llewellyn and Presley 1995). Within the system, par value of the exchange rates of all currencies were to be fixed against gold, with pressure on balance of payments adjustment, and the provision of international liquidity through the IMF if necessary. Exchange rates were fixed to the US dollar but were adjustable in the event of disequilibrium. In other words, the BWS was a system that tried to find a balance between the rigidity of the gold standard and the instability of a floating exchange rate. Forty-four nations agreed to fix their currencies to the US dollar, and linked the dollar to gold, with the dollar pegged to gold at a rate of 35 dollars per ounce. They also agreed to use the US dollar as a transaction currency to adjust exchange rates. As such, from the end of the 1950s, the dollar replaced sterling as the dominant reserve currency. As the dominant international currency and the major unit of account for trading, the US dollar dominated the Eurocurrency markets and served as the major international store of value so far.

However, US hegemony declined in relative terms during the B-phase, as the rest of the chapter will discuss. The hegemonic transition matters to the study of capitalism because it reflects the power relations of the hierarchy of capital

accumulation. The hierarchy of capitalism is also about the distribution of political forces/resources. In particular, the relative decline of US hegemony has not occurred in all areas. The US is still the centre of political-military strength, although its economic and financial power has declined. For example, according to SIPRI (2006; 2008), the top largest supplier of arms transfer between 1976 and 2005 was the US, accounting for US\$ 307,469 million. After the collapse of the USSR, the military capability of the US was far more than those of the European Countries and China. The share of military expenditure to GDP in the US increased between 3% and 5.7% between 1989 and 2005 while the share in China was between 1.7% and 2.8% (*ibid*). In 2007, 45 of the top 100 arm producing companies were from the US, while another 42 were from the EU.

In Arrighi's (1994) view, the particularity of relatively declining US hegemony, namely the decline of economic power while retaining political-military power, places some uncertainty to the future. Furthermore, the interstate system and the structure of capital accumulation do not completely match with each other, in particular in the case of the East Asian region. Although Japan is a core state, its political-military strength is weaker than China's, which is still struggling to ascend from the periphery. In sum, the world-system has entered the downturn B-phase since 1967/1973. The phase has gone through more than sixty years and has experienced a global crisis during 2007-2009. It is not clear whether the global economy will recover from the depression and enter another A-phase in the next few years, or remain in the current downturn phase. Yet at the time of writing, a gradual trend towards economic recovery has been seen in the East Asian region (Wassener 01/08/2009; Tosutzai 07/10/2009; IMF 29/10/2009).

3-2 The Main Changes of the Capitalist World-system during the B-phase

As analysed previously, there has been a downturn phase since the late 1960s and the early 1970s. As Hopkins and Wallerstein (1996) argue, the years 1967/73 were chosen as the starting point of the B-phase for several historical incidents that implied a downturn trend of capitalism: In 1968, The US announced that they would no longer directly intervene in Asian affairs following the failure of the Vietnam War (see Nixon's article in Foreign Affairs in 1967). Meanwhile the US began to normalise its diplomatic and economic relations with China. In 1973, the US announced that the

US dollar would no longer be linked to the value of gold, which marked the end of the Bretton Woods System. Finally, the oil crisis increased the production costs of the industrial sector and caused a sharp growth in the international financial flow from oil-exporting countries.

The main argument of this thesis is that the trajectory of national ascent is determined by the structure of the capitalist world-system and by the domestic state-capital-labour nexus. This chapter's concern is with what has happened during the B-phase. The topic of global changes during the last three decades is very broad, and a great number of studies from different disciplines have covered this. Here I shall limit the discussion to the world-system school's viewpoint and elaborate how they view global changes during the B-phase. Hopkins and Wallerstein (1996) conclude their analysis with three main political economic changes that have occurred (1) in the fall of the profit rate in the production sector, (2) the relative decline of US hegemonic power, and (3) the attack on state power. In my view, the third feature is a consequence of the first feature. In sum, the main change of the B-phase in terms of the capital accumulation process is **the decline of the rate of profit and the sluggish economic growth in the core zone**. The main change in the interstate system is **the relative decline of US hegemony**. These two changes are not separate but are related to each other. The US was the dominant economic power in the A-phase. US hegemony facilitated the upturn of the A-phase, and it was the main core state that has experienced the fall in profit rates in the production sector. The starting of the B-phase is associated with the relative decline of US hegemony. In other words, the current cycle of K-wave (since 1945-to the present) is related to the fluctuations of US hegemony.

3-2-1 The decline of the rate of profit in the production sector

Hopkins and Wallerstein (1996) argue that since the 1970s, growth in global production has slowed, and with a sharp rise in oil price led to a decrease in the profit rate of the production sector. Three studies support the trend of a declining profit rate (Glyn 2006; Dumenil and Levy 2005; Lee and Sutch 1985). Firstly, an earlier empirical study by OECD scholars demonstrate that the gross rates of return, gross profit share, and total factor productivity annual growth rates for 11 OECD countries

showed a more remarkable decline during the period 1973-1982 than the period 1960-1972³², as the table below shows (Lee and Sutch 1985).

Table 3-2: Some economic indicators in the manufacturing sector of 11 OECD countries (Unit: percentage)

Eleven OECD countries	1960-1972	1973-1981
Gross rates of return	17.55- 16.19 (The decline rate: 7.7%)	16.19- 11.45 (The decline rate: 29.3%)
Profit share	36.44- 32.73 (the decline rate: 10.2%)	32.73- 27.72 (The decline rate: 15.3%)
Total factor productivity annual growth rate	4.76	1.78

Source: Lee and Sutch (1985)

Secondly, drawing on data from US Bureau of Economic Analysis, the Japanese Annual Report on National Accounts, and Several National Statistics of European countries, Glyn (2006) finds that the profit rate of the non-financial sector in the US, Japan, and some European countries (the UK, West Germany and Italy) decreased after the late 1960s (except in the UK, which experienced growth after the 1980s). Finally, according to data from Dumenil and Levy (2005), in the US, the profit rate after the payment of real interest³³ of nonfinancial corporations reached its peak in 1965 (near 7.5%) but has declined since then. In 2003, the figure was less than 4.5%. In France, the profit rate also reached its peak in the late 1960s (nearly 12%) but gradually decreased to less than 3% in 2001.

The empirical data above demonstrates the declining rate of profits in the industrial sector during the B-phase. As a result of this, several strategies were adopted by the core zone to tackle the crisis. Two of the most important ones are: (1) the restructuring of the industrial sector from the core zone to overseas in order to reduce

³² The profit rate is measured by operating surplus unadjusted for depreciation divided by a measure of gross capital stock at current costs. Gross profit share is the share of gross operating surplus in gross value added. Total factor productivity is all of the factors that influence the inputs, including labour and capital productivity (the ratio of gross value added to gross capital stock). The 11 OECD countries include the US, Japan, Germany, France, the UK, Italy, Canada, Belgium, Finland, Norway, and Sweden.

³³ Profit is defined as net product minus the cost of labour, business and profit taxes, and the payment of real interest.

production costs; (2) the increasing crucial position of finance as a means to circumvent the economic crisis and to ‘create’ more profit (Hopkins and Wallerstein 1996; Foster and Magdoff 2009). The two features bring about the restructuring of industrial capital, the increasing dominance of financial capital, and the growing power of transnational capital. Consequently, there is an attack on state power in order to reduce the barriers to international trade, investment, and financial flow. Most importantly, the restructuring transforms the US into a global financial entrepot (Silver and Arrghi 2005, p.174). In a comparative study of the British and US hegemony, Silver and Arrghi (2005) find that Britain played the role of global financial entrepot at the peak of its industrial domination, but the US during its period of hegemony did not. Only since the late 1960s when US corporations were challenged by other competitors had they heightened liquidity preference. Meanwhile the US government adopted fiscal and monetary policy to attract mobile capital from the world, and with the rise of economic liberalism, the US is able to transform itself into a global financial entrepot.

(1) Industrial relocation and the transnationalisation of capital³⁴

Several studies on post-war industrialisation point out that there a shift has occurred since the 1960s, namely the *old* international division of labour (OIDL) has been replaced by a *new* international division of labour (NIDL) (Hoogvelt 2001; Jenkins 1992; Gereffi 1995; Dicken 2004). The old international division of labour during the pre-war period was one where manufacturing was dominated by the core while other zones mainly undertook raw material and agricultural production (Hoogvelt 2001; Jenkins 1992). The order of OIDL was imposed via colonialism. For example, data from League of Nations shows that during 1926-29, nine advanced countries (the US, the UK, Germany, France, Italy, Canada, Belgium, Sweden, and Japan) manufactured about 80.6% of world industrial production (Hoogvelt 2001). In 1966, the advanced countries still accounted for 71.2% of world industrial production (Jenkins 1992). The pattern has changed since the first few export processing zones (EPZs) were set up in India in 1965 and in Taiwan in 1966. The function of EPZs in developing countries was to provide a friendly investment environment for transnational corporations (TNCs) (e.g. tax-free, a geographical cluster, cheap labour, transportation access, and

³⁴ The subtitle is borrowed from Hoogvelt (2001, p.73).

simplified administrative procedures), and to direct a developing country's industrial policy towards export-led industrialisation. According to the ILO database, there were 79 EPZs in 25 countries in 1975, and the number increased to 3,500 EPZs located in 130 countries, employing 66 million workers, by 2006 (Boyenge 2007). The number employed in EPZs in 2006 was equal to 82% of the TNCs employment in 2007. The development of EPZs facilitates the growth of TNC activities.

As such, world manufacturing production is increasingly directed towards the developing countries. By the end of the 1970s, the value of manufacturing products exported from the developing countries surpassed that of their food and raw materials exports (Dicken 2003). Between 1953 and the late 1990s, the developing economies' share of world manufacturing output increased from 5% to 23% (p.37). The manufactured *exports* from developing countries grew from 6% in 1963, to 10.8% in 1980, and were nearly 27% in 2007. Industrial relocation thus has an effect on the international trade. As Held et al. (1995) argue, the structural change of international trade is due not only to the decrease of trade barriers and transportation costs, but also to the 'changing structure of global production' (p.175). For example, manufacturing only accounted for 20 % of total exports in 1960 but increased to nearly 70% in 2007 (WTO 2008).

There are two other important features about the NIDL. The first is the uneven development within the developing countries. Such unevenness is not only based between the semi-periphery and periphery, but between different regions. East Asian NIEs and China are the only few countries that have engaged with the NIDL successfully. As I will discuss later, in the last two to three decades, the East Asian region had the highest annual growth rate of GDP in the world. The East Asian NIEs and China have benefited from the NIDL since the mid-1960s and the 1990s respectively. For example, in 1981, four East Asian NIEs' share of all developing countries' manufacturing exports was nearly 48% (Hoogevlt 2001, table 4.1). Since China has engaged in EOI, its share of manufactured exports of world merchandise exports grew from 2.5% in 1993 to 11.9 % in 2007, surpassing the US (9.6%) and Japan(6.7%) (WTO 2007, table I.6). In 2006, 60 % of EPZs employment was located in China (Boyenge 2007). However, it would be partial to argue that the industrial relocation from the core since the mid-1960s is either beneficial or exploitative to all developing countries. Both East Asian NIEs and China have a very different developmental outcome compared to the rest of the developing world. As Held et al.

(1995) argue, ‘the new international division of labour embodies a polarisation of economic fortunes in the global economy and [a] new pattern of stratification (p.173).’

The second feature that should be added to the discussion of the NIDL is that the semi-peripheral zone in East Asia has also relocated industries to the peripheral zone, especially to China, since the 1990s. From 1988, investment by NIEs in China has exceeded that of both Japan and America (Clark and Kim 1995, p.254). The share of NIE-based foreign direct investment (FDI) in China among China’s inflow of FDI was as high as 54.7% in 2008 (Japan only accounted for 3.95%, while the US accounted for 3.19%, and major European countries accounted for 5.41%) (MOFCOM 2009). The increasing importance of East Asian NIEs’ outflow of FDI is related to the restrictions on exports of East Asian NIEs to the North American and European markets (Clark and Kim 1995). Investment in Southeast Asian and China has thus become an alternative route for trade expansion (Clark and Kim 1995, p.254). The new wave of NIDL is much more complicated than ever, and it is not only between the core and the semi-peripheral zone, but also between the semi-peripheral zone and the peripheral zone. In this respect, the economic integration of the capitalist world-system since the 1990s is deeper than that in the previous period. Again, not all peripheral states can ascend from the new wave of restructuring, although China is an exception. Several data demonstrate that China’s economic performance is now in the top four countries in terms of GDP, the top third trading country, the top sixth FDI inflow country, and China has the highest foreign exchange reserves (National Bureau of Statistics of China 2008). In 1990, China’s GNI per capita was nearly the same as low income countries; in 2007 the figure (US\$ 2360) was between the level of low- and-middle income countries (US\$2337) and of middle-income countries (US\$ 2872) (National Bureau of Statistics of China 2008). China has ascended from the periphery to somewhere in between the periphery and the semi-periphery.

I have discussed the general features of industrial relocation since the B-phase, and I will analyse the movement of TNCs and FDI to demonstrate the dynamics of industrial relocation. According to Dicken (2004), a TNC is a corporation that coordinates and controls its operations in more than one country. FDI is only one of the TNC’s activities. The TNCs have played ‘a significant and dominant role in the relocation of industrial activity from the old industrial centres to the new’ (Hoogvelt 2001, p.73). TNCs are the ‘primary shaper of the contemporary global economy’

(Dicken 2005, p.198), are the ‘chief economic organising agent of the global capitalism’ (Gereffi 1995, p.13), and are the dominant force restructuring new relations of production with labour and new power relations with states.

Empirical data demonstrate the significance of the role of TNCs and FDI in the current period of capitalist accumulation, world production, and the process of economic integration. Firstly, according to Fortune’s list of Global 500 TNCs, the revenue of the Global 500 TNCs in 2009 is equal to **41.4%** (US\$ 25175.47 billion) of the world’s GDP by 2008 (US\$60689.81 billion). The figure was only 28% in 1998 and 15% in 1982 (Kentor 2005). Secondly, by taking FDI stock as a share of the world’s GDP, the share was 27.9% by inward FDI and 28.9% by outward FDI in 2007 (UNCTAD 2008). Furthermore, in value-added activity (gross product) by the foreign affiliates, TNCs accounted for 11% of the world’s GDP in 2007. Sales amounted to \$31 trillion, about 20% of which represented exports, and the number of employees reached nearly 82 million (UNCTAD 2008). Thirdly, in terms of geographical spread and trans-nationalisation of operation, the largest 100 TNCs have affiliates in 41 foreign countries (UNCTAD 2008). UNCTAD has developed a ‘Transnationality Index’ (TNI) which is composed of three ratios: foreign assets to total assets, foreign sales to total sales, and foreign employment to total employment. The TNI value of the world’s top 100 TNCs was nearly 62% in 2006. UNCTAD also found that more than 70% of affiliates of the world’s top 100 TNCs are located abroad. Finally, Intra-firm trade accounts for between 25% and 33% of total trade (Held et al 1999). The importance of TNCs has been addressed; we will now look at the movement of the TNCs in order to understand the dynamics of industrial relocation.

Firstly, it was not during the A-phase, but during the B-phase, that TNCs and FDI have increased sharply. The A-phase of capitalism in the first two to three decades after the end of the Second World War did not see as much TNC and FDI activity as in the pre-war period. According to Jones (2005), the post-war TNCs came to fruition only after the 1980s due to several ‘shocks’, namely the end of the European colonial empires, the spread of Communism, and growing state intervention in economies. From the table below, it is clear that TNCs have experienced remarkable growth during the B-phase.

As noted previously, the growth rate of GDP and of the profit rate in the B-phase is less than it was in the A-phase. Accordingly, the increase of TNCs and FDI do not bring about an *absolute* expansion of capitalism (in terms of global GDP growth rate and the rise of the profit rate), but rather brings about the concentration of capital power to the core (i.e. stronger growing TNCs) and the redistribution of world production geographical locations (i.e. thus some developing countries' GDP growth rate, due to manufacturing exports, is higher than some core countries'). As such, the increase of TNC and global economic activity cannot reduce global inequality between the core and other zones, but only increase the gap. In 1960, GNP per capita for all developing countries as percentage of the core's GNP per capita was only 5%, and the share was exactly the same in 1999 (Wade 2005).

Secondly, I argue that the increase of TNCs and FDI are reflections of the increase in concentration of the core zone's capital power. This is because the majority of TNCs are from the core zone and the trend has not changed significantly. In 2004, 85% of the top 100 TNCs had their headquarters in the 'Triad' (the European Union, Japan and the United States). However, there is a change in the leading TNCs during the B-phase, which is related to the distribution of economic power within the core. In the 1950s and the 1960s, US Corporations were the only leading actor in the expansion of international business. Until the 1980s, the US was the top FDI outflow country (around 45.7%-65.9% of total outflow FDI) in the world (Dicken 2004). Since the 1980s, Western European FDI has surpassed the US's, and is now the top FDI outflow region.³⁵ In 2007, the share of outflow FDI from the advanced countries accounted for 84%, of which the European Union, the US, and Japan accounted for 57.2%, 15.7%, and 3.6% respectively (UNCTAD 2008, Annex table B.1). The table below also shows the change in the leading TNCs from different home countries.

³⁵ It is noteworthy that Japan surpassed the US to be the country with largest outflow of FDI between 1988 and 1990

Table 3-3: Nationality breakdown of the world top 500 industrial corporations

	1975	1985	1990	2009
USA	241	212	164	140
EU	168	168	168	163
Germany	38	33	30	39
Japan	54	82	111	68
Asia NIEs	0	10	12	23
China	0	0	0	38
Total	500	500	500	500

Source: Fortune, 2009; Ikeda 1996

The change in the leading TNCs has another two implications. The first is a reflection in the shift of the leading method of industrial organisation and management, for example, from a US-led Fordism to a Japanese-led post-Fordism.³⁶ The different performances of TNCs from the US, Western Europe, and Japan have led to a number of debates about the diverse performances of capitalist states and varieties of capitalism, which I discussed in Chapter Two. The second implication relates to the relative decline of US hegemony, which will be discussed in the next section.

Thirdly, East Asian NIEs and China not only play important roles as manufacturing exporters, but also become important for outward FDI since the 1990s. Between 1985 and 1989, less than 4% of outflow FDI was from the developing countries; however, during 2004-2006, nearly 9% was from the developing countries (UNCTAD 2008). It is Asian FDI that has dominated this increase. In 2007, among outflow FDI from developing countries, four Asian NIEs accounted for 36.4% and China accounted for 8.8% (UNCTAD 2008, Annex table B.1.) In 2004, Asian TNCs accounted for 38 of the top 50 TNCs from developing countries. Of the top 100 TNCs that are from developing countries, 76 are from East Asia. From the table below, it can be observed that in East Asia, outward FDI stocks as a share of GDP showed a remarkable growth between 1990 and 2007, and the growth rate surpassed the growth rate of inward FDI. East Asia's pattern is different to other developing counties but is

³⁶ For example, see the discussion on Japanese flexible manufacturing in Bernard, M. (2000) Post-Fordism and Global Restructuring, in Stubbs, R. and Underhill, G. eds. Political Economy and the Changing Global Order,

similar to advanced countries. It demonstrates the increasing importance of East Asian outward FDI to domestic and international economies.

Table 3-4: FDI stock as a share of GDP, 1990, 2007, by region and economy (%)

	1990		2007	
Region	inward	outward	Inward	outward
World	9.1	8.5	27.9	28.9
Advanced countries	8.5	9.5	27.2	33.9
Developing countries	13.6	4	29.8	16.5
-East Asian	25.9	5.4	35	28.4

Note: *FDI stock* is the value of the share of capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise. *Inward stock* is the value of the capital and reserves in the economy attributable to a parent enterprise resident in a different economy. *Outward stock* refers to the value of capital and reserves in another economy attributable to a parent enterprise resident in the economy

Source: UNCTAD 2008, Annex table B.3

Fourthly, within manufacturing, several industries are particularly favoured by the TNCs, including electronics, oil and petroleum, motor vehicles, chemicals, and pharmaceuticals. These are the top industries in which the top 100 non-financial TNCs had the most foreign assets in 1992 and in 2007 (UNCTAD 1994; 2008). In 2007, the above industries, together with telecommunications and utilities, accounted for 55% of the activities of the largest TNCs. Furthermore, UNCTAD (2008) argues that TNCs from developing countries have increased their foreign employment due to their ‘externalisation of productive activities in labour-intensive industries’ (UNCTAD). Electrical and electronic equipment manufacturing in particular is the top industry for the 50 TNCs from developing countries.

To take the industries above as examples, they show the complexity of international division of labour and the dynamics of TNCs in the world’s industrial production. I shall discuss the concepts of ‘*production chain*’, ‘*value-added chain*’ and ‘*production network*’ as they are key concepts to understand the dynamics of industry, and I will use these concepts to analyse Taiwan’s industrialisation in Chapters Four and Five. According to Dicken (2004), a ‘*production chain*’ is the production process of any goods or service that has a ‘linked sequence of functions in

which each stage adds a value (p.14).’ The production is linear and demonstrates the sequence of operations to produce and distribute the good and service. Within the chain, a backward integration occurs in the upstream sector (e.g. raw materials), and a forward integration occurs in the downstream sector (e.g. finished goods). Another term has the same definition, according to Pass, Byran, and Davies (2000): a ‘value-added chain’ is a chain of vertically linked activities that each adds value in production and distribution, for example, in the petrochemical industry, where the upstream sector is a raw material (oil), the intermediate sector is ethylene and PVC, and a finished product may be plastic kitchenware. In this thesis, I shall use the term ‘production chain.’ Several production chains are structured in a wider production network of inter-firm relationships, and ‘each production network has spatiality’ which means the network has geographical division (Dicken 2004, p.19).

In the automobile industry, the production chain can be divided into engines and transmissions, components, bodies, and final assembly. In 2001, the majority of car production was dominated by the Triad, accounting for 80% of the world’s automobile output (Dicken 2004). In 2000, the top motor vehicle producing countries were the US (21.9%), Japan (17.4%), and Germany (9.5%) (OICA 2000). There has been a significant shift in the industry since 2000: China in particular rises to be a major car producer base. In 2008, the top three countries are Japan (16.4%), China (13.3%), and the US (12.3%) (OICA 2008). Germany only accounted for 8.6% of the world’s car production. It is noteworthy that by including other East Asian countries (South Korea, Thailand, Taiwan, and Malaysia), East Asia’s production accounted for 38% of global motor vehicle production in 2008, surpassing North America (15.2%) and Western Europe³⁷ (21.2%). Furthermore, for the first time, China rose to be the top market for the automobile in December 2008 (Hogg 10/02/2009). Although China has become the main producer, the top manufacturing companies are still dominated by the Triad. The top ten automobile manufacturers accounted for nearly 68% of the world’s automobile production: in 2008, four were Japanese firms, three were Western European, two were American firms, and one was South Korean (OICA 2008). The top Chinese car company (FAW) only ranked at thirteenth on the same list (OICA 2008). The pattern in the electronics industry is much more complicated. The industry can be generally divided into semiconductors, electronic components

³⁷ North American region includes the US and Canada, the Western European region includes Germany, the UK, Belgium, France, Italy, Spain, Portugal, Netherlands, and Austria.

(connectors, PCBs, etc.), consumer electronics, and electronic equipment (computer equipment, communication equipment and consumer electronics (TVs, radios, etc.). The last three subsectors can be referred to as electronics systems manufacturing (Luthje 2006). Similar to the automobile industry, the US, the EU, and Japan dominated global electronics production in the B-phase but East Asian NIEs and China have gradually increased their production in the industry. The EU, the US, and Japan accounted for 23.1%, 28.3%, and 25.7% respectively of the world's electronic production in 1992.³⁸ By 2005, their share had been reduced to 15.9%, 20%, and 13.6%, respectively. On the other hand, East Asian NIEs and China increased their share of production to 14.1% and 18.4% in 2005, respectively. In the semiconductor industry, in 1978, TNCs from the US, the EU and Japan were the top ten producers and the top ten semiconductor manufacturers dominating 52% of the world's semiconductor production (Dicken 2004). This figure however decreased to 35% in 2008.³⁹ On the other hand, South Korean and Taiwanese semiconductor companies have risen as new competitors since the 1990s, and two South Korean and one Taiwanese company accounted for 15% of the world's semiconductor production in 2008. In other areas of the electronics industry, TNCs from the US and Japan have dominated the industry since the 1960s. East Asian NIEs, however, have gradually emerged to become important players in the industry. For example, of the world's top twenty electronics firms ranked by revenue, the US (8), Japan (7), and EU (3) accounted 18 of them, while the other two were from South Korea and Taiwan (Beutler 2007).

Although the US, Japan, and the EU still lead the global electronics industry in terms of production, sales and revenues, some East Asian NIEs and China have now emerged as new players. It is noteworthy that within these East Asian countries, different paths were taken to join the global competition. As I will discuss in Chapter Five, Taiwanese electronic firms (both in semiconductor and electronics systems manufacturing) tend to serve as contract manufacturers in the supply chain for top brands. It is also the route that Chinese electronics firms follow. On the other hand, South Korean firms tend to develop vertically integrated manufacturers of semiconductor and world brands (e.g. Samsung, LG). In the following chapters on

³⁸ The following data is drawn from Yearbook of world Electronics Data in 2006.

³⁹ The 2008 semiconductor sales was US\$248.6 billion (HIS 2009), the amount of sales of the top ten semiconductors is from Electronic Research Network (2009).

Taiwan, it will be seen clearly that the internationalisation of the electronics industry has played an important role in Taiwan's industrial development. The industry was the top source of inward FDI in Taiwan before the 1980s, and has become Taiwan's top outward FDI since the late 1980s. The industry has become exclusively dominated, both in Taiwan's domestic economy and in its outward investment during the last two decades. This shows how Taiwan's industrial development and capital accumulation have been influenced by the overall dynamics of global restructuring and TNCs/FDI.

In general, the discussion above demonstrates that during the B-phase, in order to accumulate more capital and to reduce the decline in the rate of profit, a new international division of labour has occurred since the late 1960s and a second wave of the NIDL has also occurred since the 1990s. First, the core zone, and then the semi-peripheral zone, has increased their relocation of manufacturing to other zones. However, such relocation has been concentrated in the East Asian region, and the region has thus become an important manufacturing production base and traders for these core countries. Although there is a change within the core zone in terms of the leading TNCs, overall the core zone still dominates the major activity of the TNCs and FDIs.

(2) Financialisation - the dominance of financial capital

Another significant attempt to reduce the decline of the profit rate in the core zone is to find a new sector that has a higher profit rate than the older traditional sectors. As Foster and McChesney (2009) argue, there is a symbiotic relationship between stagnation and financialisation. The financial sector serves as the most profitable sector during a downturn B-phase. Compared with the decline of the profit rate in the industrial sector, there has been a sharp increase in the rate of profit in the financial sector. In the US, aggregate profits of financial corporations rose from 20%, comparable to non-financial profits in the 1970s and the 1980s, to 50% since 2000 (Glyn 2006, p.52). According to Dumenil and Levy (2005), the profit rate of financial corporations in the US has experienced remarkable growth since the early 1970s, from less than 1% to 7% in 2002. In France, the figure has also grown since 1975, from minus 7.5% to more than 10% in 2001. The increase in the profit rate of the financial sector, the emergence of the Eurocurrency market, the end of the Bretton Woods system and the oil crisis in the 1970s, have led to dramatic growth in

international financial flows. For example, the daily volume of foreign exchange transactions was only US\$15 billion in 1973, and this has increased by more than six times between 1989 and 2007, from US\$570 billion in 1989 to US\$3.2 trillion in April 2007 (Epstein 2005; BIS 2008).

The emergence of the financial sector as a profitable sector leads to the rising dominance of financial capital. There are no statistics on financial capital but we can observe the growth from other data. The following data demonstrate that the profits of the financial players, as a share of GNP, are now higher than the share of the non-financial sector to GNP. Epstein and Jayadev (2005) define a 'rentier' as an active agent in the financialisation process, to obtain profits from the financial sector such as banks, stockbrokers, and insurance companies. They find that the rentier income as a share of GNP was higher in the 1980s and the 1990s than in the 1960s and the 1970s in 15 OECD countries.⁴⁰ In the 1960s, the share of the non-financial sector's profit to GNP was higher than the rentier share, yet the situation has been the reverse since the 1970s. In the 1990s, the average rentier share of the 15 OECD countries was 20%, higher than the share of the non-financial sector's profit (10%). Furthermore, rentier income does not include capital gains on financial assets, as a cross-country sample on the latter is very hard to obtain. We can estimate that the financial capital's profit is much larger than the rentier income.

The pattern of pursuing more profits from the financial sector and the increase in financial activities can be called 'financialisation.' Broadly, this refers to 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Epstein 2005). Foster and Magdoff (2009) argue that the emergence of financialisation is related to the decline of US economy. Financialisation serves as a 'solution' to the crisis of long-term stagnation in the US. They argue that speculative finance has become 'the secondary engine for growth given the weakness in the primary engine, productive investment' (p 18). The system is now 'more and more dependent on a series of financial bubbles to keep it going, each one bigger than the last (p 18)'.

In general, financialisation covers three main trends: *the concentration and consolidation through merger and acquisition; the trans-nationalisation of operations;* and diversification into new product markets (Dicken 2004). I would argue that the

⁴⁰ The data Epstein and Jayadev collect includes from Australia, Belgium, Denmark, Finland, Germany, Italy, Japan, Korea, Mexico, Holland, Norway, Spain, Sweden, UK, and USA between 1960 and 2000.

third trend should be termed as *the development of “non-productive finance”* due to it being unlinked with real production and having grown to such a stage where it is beyond the control of any single national government. With respect to the first trend, mergers and acquisitions (M&A) activity in the financial industry has been a global phenomenon since the 1990s, and around 20% of all M&A has occurred in the financial sector globally, especially in the advanced countries (Amel *et al.* 2004). There were 15,502 cases of financial M&A (8,144 were between banks) between 1990 and 2001 (Amel *et al.* 2004).

Secondly, following the increase of TNCs in manufacturing, the expansion of transnational banking has also occurred since the 1960s (Dicken 2004). According to Dicken (2004), initially the transnational operation of US banks was to finance US TNCs in the 1950s and the 1960s. After the establishment and growth of the Eurodollar market, US banks increased their operations to include Europe. In the 1970s, the financial flow from Organization of the Petroleum Exporting Countries (OPEC) and the deregulation of exchange controls on capital movements gave transnational banks more “resources” with which to develop transnational operations. The foreign affiliates of banks increased from 202 in 1960 to 1,928 in 1985, and the number was 13,173 in 2008 (accounting for nearly 65% of the total affiliates of the top fifty financial corporations) (Dicken 2004, p.454; UNCTAD 2008).

Thirdly, the increase of non-productive finance is through so-called financial innovation activities that de-link finance from industrial production. Strange (1998) argued that financial innovation is different from industrial innovation. The former needs the authority of government, but the latter does not (p. 26-27). It may be argued that the major difference is that financial innovation only creates “liquidity of capital” in terms of credit availability, rather than real value. This is why financial innovation has become one of the causes of ‘the casino economy’ (Strange 1998), as well as indicating that the financial innovation boom is a ‘bubble’ (Xie 06/08/2007). Sweezy did predict ‘the triumph of financial capital’ in the way that the development of financial capital is no longer a reflection of the expansion of real economy, but to feed a stagnant economy (cited from Foster and McChesney 2009). There are two types of innovative, non-productive, financial products: financial derivatives and asset securitisation (financial assets and real property). The derivative market has sharply

grown globally since the late 1990s. The notional amounts⁴¹ in the global derivatives markets outstanding increased from US\$72 trillion in June 1998, to US\$516 trillion in June 2007 (BIS 2008). The latter is approximately seven times the amount of world GDP (US\$65.8 trillion) in 2006.

The process of financialisation is dominated by the US and the EU in terms of the composition of the top financial corporations, the leading role in the innovation of non-productive finance, and the dominance of the world's financial centre. In 2008, 43 of the top 50 financial corporations were from the EU and the US. By ranking the competitiveness⁴² of financial centres, based on assessments 26,269 financial centres, eight were located in Europe and the US, one in Singapore and one in Hong Kong.

Financialisation is also the other side to the pattern of deindustrialisation of the core zone. In other words, although the core zone relocates manufacturing to other zones, they can obtain their profits mainly from the process of financialisation and the dominance of TNCs/FDI in world production and trade. The two attempts to prolong the decline of the profit rate in the core zone discussed above have inevitably influenced national development trajectories, both in the core zone and other zones. Such an influence is however not wholly negative to all developing countries - it depends on the country's position in the capitalist world-system. Industrial relocation is also a means, although unintentionally by the core states, of shifting capital accumulation from the core to the semi-periphery, from Western Europe and North America to East Asia. The East Asian region is the only region that benefits from such a global restructuring. Taiwan is one of these cases. In the following chapters, I will discuss how Taiwan's industrialisation has been affected (and to some extent benefitted) by the relocation of industrial manufacturing from the core zone, and by Taiwan's own industrial sector as a capital-exporter to other peripheral countries. Taiwan's domestic economy has also experienced financialisation in terms of the increasing importance of the role of financial capital, growth of non-productive finance, and the concentration of financial capital.

⁴¹ The nominal amount is used to calculate payments made on swaps and other risk management products. This amount generally does not change hands, and is thus referred to as notional. See <http://www.investordictionary.com/definition/notional+amount.aspx>

⁴² People, business environment, market access, infrastructure, and general competitiveness.

(3) Neo-liberalism and economic globalisation: the attack on state powers

While TNCs have increased their influence and power in the capitalist world-system (i.e. production, trade, and finance), the situation inevitably challenges the power of national states in the way that the state acts as the primary regulator in a national economy. Some scholars argue that TNCs are acting as a ‘transnational hegemony’, a ‘transnational capitalist class’, or a ‘transnational managerial class’ (Robinson 2004, p.54; Cox 1981). However, the increasing power of TNCs is not from the activities of TNCs alone; the policy and institutional support from the core states cannot be ignored.

The policy and institutional support is referred to as ‘neo-liberalism.’ A great number of studies (e.g. Robison and Hewison 2005; Cerny, Menz, and Soederberg 2005; Harvey 2005) have researched the cause and the framework of neo-liberalism, as the following discussion will show. Neo-liberalism is viewed as having two dimensions. One is the neo-classical economic belief in market fundamentalism, namely that economic efficiency is delivered by self-regulating markets, where prices can respond to the laws of equilibrium and ensure the efficient allocation of resources (Robison and Hewison 2005, p.186). Such economic thinking is promoted by economists, such as Hayek, Friedman, and the Chicago school. The other dimension is the implementation of the thought into practice, which challenges the previous Western state-centred Keynesian demand policies and development practice in developing countries. For example, Cerny, Menz, and Soederberg (2005) argue that neo-liberalism is ‘the assertion that the market is the core institution of modern capitalist societies and that both domestic and international politics and policy-making is (and should be) primarily concerned with making markets work well (p.12).’ As such, the aim of neo-liberalism is to establish institutions and practices which are ‘market-based’, ‘market-led’, ‘individualistic’, ‘market-orientated’, and ‘market-friendly’ (p.12). Under this assumption, barriers to international trade and capital flows need to be removed. Furthermore, others view neo-liberalism as a political project or agenda associated with the policies implemented by Ronald Regan and Margaret Thatcher, and policies imposed by the IMF as the regulator of the debt crisis (Kiely 2005, p.95). Many associate neo-liberalism with the concept of the ‘Washington Consensus’ (e.g. Robison and Hewison 2005; Harvey 2005). The term was coined in 1989 by John Williamson to summarise a common framework and

common policies suggested by Washington-based institutions (e.g. the IMF, World Bank, and US Treasury Department) to developing countries, including (1) fiscal discipline and a balanced budget; (2) a redirection of public expenditure priorities towards areas offering both high economic returns and improved income distribution; (3) tax reform, to a tax system with a broad tax base and moderate marginal tax rates; (4) interest rate liberalisation; (5) a competitive exchange rate; (6) trade liberalisation; (7) liberalisation of FDI inflows; (8) privatisation; (9) deregulation; (10) secure property rights.

In my view, neo-liberalism does not bring about the market-led system; capitalism does. Neo-liberalism as an economic thought is not significantly distinct from the economic liberalism in the eighteenth century, such as Adam Smith's idea of 'the invisible hand' and Ricardo's trade theory. The logic of capitalism is market-led and crosses political boundaries from where it originates. Free international trade and less state intervention in the domestic economy are not new, but can be observed during British hegemony in the eighteenth and nineteenth centuries. What the core zone imposed on other zones before the Second War was more aggressive than at present, as the other zones did not have state sovereignty but served as colonies. In sum, neo-liberalism or economic liberalism is not something completely new to the capitalist world-system, but is re-introduced.

The re-introduction of neo-liberalism is related to the overall decline in the profit rate of the industrial sector in the core and the increasing power of transnational capital. Without removing barriers to trade, investment, capital flow, finance, and domestic regulation, the relocation strategy and the process of financialisation could not be fulfilled. The re-introduction is also a response to the previous developmental paths where the power of states reached their peak when the system of states was born. According to Wallerstein (1996), the power of states vis-a-vis their relations with social forces and the structure of the interstate system existed before the creation of capitalism, and arrived at an 'exceptional' peak in the post-war A-phase. It can be observed in the Keynesian economic system⁴³ of advanced countries; in the use of state machinery to promote development in developing countries; and in the

⁴³ An economic system that was based on John Keynes' ideas, namely that the government and public sector should take an active role in the national economy via the monetary policy, fiscal policy, and macroeconomic policy.

authoritarian regimes of East Asia. The state not only ran several key enterprises but was also committed to provide basic services to its citizens.

With the previous developmental paths in the core zone were in decline, neo-liberalism was seen to be a solution. As Harvey (2005) argues, neo-liberalism is a 'political project to re-establish the conditions for capital accumulation' (p.19). The practices of neo-liberalism are mostly covered by the Washington Consensus mentioned above, in sum, to reduce state intervention in the domestic economy and to reform institutional frameworks for transnational capital. It is ironic to see that since the global financial and economic crisis occurred during 2007-2009, the assumption and practice of neo-liberalism is held back and the practice of state intervention has again been re-introduced to solve the crisis.

Neo-liberalism is the policy of institutional support for transnational capital in the process of global industrial restructuring and financialisation. Furthermore, the consequence of the process is "economic globalisation", in terms of the lifting of barriers to trade, investment, and finance, facilitating the increase of economic interaction globally. Globalisation is a contested concept, and has political, economic, social, and cultural definitions. Here I only refer it to as an economic term. Economic globalisation and regionalisation mean that there is an increase of economic activities in interaction, integration, connection, and interdependence between national states globally and regionally. From a national perspective, the national states need to adopt a policy of liberalisation (including deregulation and privatisation) to engage in economic globalisation, and therefore challenging state power.

A number of studies have assumed the inevitable trend of globalisation (e.g. Ohmae 1990, Robertson 1992; Reich 1991; Friedman 1999). However, several scholars have questioned the existence of economic globalisation and argue that (1) inter-nationalisation is a more accurate description than globalisation (Hirst and Thompson 1999; Wade 1996); and (2) regionalisation in the so-called 'triadisation' areas is more integrated than global integration (Boyer and Drache 1996; Hirst and Thompson 2003; Ruigrok and van Tulder 1995). Some scholars, although recognising the trend of globalisation, argue that the nation state still does, and should, matter significantly to globalisation (Berger and Dore 1996; Gilpin 2003a; Mann 2003; Weiss 1997; Wood 2002b).

Another viewpoint about economic globalisation, with which my thesis agrees, regards current globalisation as one of a number of historical processes - probably the

most intensive one. From a world-system perspective, economic globalisation is neither a completely new “stage” of capitalism nor a new phenomenon since the 1970s. The dynamics of capitalism have been working towards the economic integration of the world for about five hundred years, since the beginning of capitalism. The difference between the B-phase and previous periods is that the current integration has been the most intensive, in terms of production, investment, finance, trade, labour migration. It is important to analyse the current economic globalisation in the context of the B-phase, that is, the increasing integration is for the purpose of solving the downturn and economic crisis in the core zones. In this respect, it is not surprising to find that the core zone (the governments, the corporations and international institutions which are mainly dominated by the core states such as the IMF and the World Bank) are the main promoters of the process of economic globalisation, as they encourage the financialisation and transnationalisation of capital, and neo-liberalism can serve as a useful body of thought and practice to impose economic policies and practices on developing countries.

3-2-2 The relative decline of US hegemony

Coinciding with the decline of the profit rate in the industrial sector and the stagnation of economic growth in the core, US hegemonic power has also experienced relative decline. In Chapter two (section 2-2-3), I have discussed the concept of hegemony and why I chose the world-system perspective to view hegemonic transition. As discussed in Chapter Two, the cycle of hegemonic transition correlates to the cycle of capital accumulation as the hegemon of each cycle is the strongest core of capital accumulation. The rise and the maturity of a hegemon correspond with an A-phase of capital accumulation and the decline of the hegemon corresponds with a B-phase: the correlation is shown in Chapter Two. As such, the relative decline of US hegemony is not a unique case historically. The current cycle of hegemony is US-led hegemony, and it has entered a period of relative decline during the B-phase of capitalism. A great deal of literature from different perspectives has discussed the relative decline of US hegemony since the failure of the Vietnam War;⁴⁴ here I will only focus on the body of literature from the world-system perspective.

⁴⁴ For example, see Arrighi (1994), p.27; Hopkins and Wallerstein (1996); Gilpin (1981); Keohane (1984); Du Boff (2003). However, some literature disagrees with the declinist literature but argues that

The US rose to be one of the candidates for hegemon status in the 1870s when the British hegemon entered a B-phase. The US's other competitor, Germany,⁴⁵ failed during the two World Wars, and thus the US became the only country, whose industrial power benefited from the two World Wars. By 1948, US national income was more than twice the total national income of France, Germany, Italy, and the UK; and more than six times of that of the USSR (Silver and Arrighi 2005, p.168). As the first section noted, the US was the dominate source of outflow FDI and TNCs in the post-war A-phase. It was also the creditor country to Western Europe and Japan. It dominated world production, and its specific organisation of enterprises became a model of mass production, namely Fordism. The US's industrial production was deemed to be the most capable and efficient one in the capitalist world-system during the A-phase. In other words, the US was the main contributor to economic expansion of the A-phase.

The US soon transformed such an economic advantage into political, military, and cultural advantages. One of the main causes of the transformation was the Cold War. Wallerstein (1996) argues that the USSR-US Cold War was not only about the competition between two superpowers, but was a special condition that enabled the two powers to exercise a strong control in their own spheres of influence. He contends that neither the US nor the USSR were willing to engage in full-scale warfare with the other, as can be observed by three incidents: the Berlin Blockade in 1948, the Korean War in the 1951-1953, and the Cuban crisis of 1962 (Wallerstein 2004, p.26). In other words, neither side was really ready to be the world's only hegemon. Wallerstein (2004) describes the Cold War as being 'cold indeed in terms of direct conflict between the two superpowers' (p.26). For the US, political-military alliance with Western Europe, Japan, and East Asia are examples of these. Not only through political-military alliance, but the US also provided economic assistance or advantages via the program of massive reconstruction to its allies, first in Western Europe and then in East Asia, as Communist China was seen as a threat to US strategy. As such, the US, not only through its own political, military, and economic

the Post-Cold War order retained unipolarity, and the US dominated the order as single power: see the discussion in Krauthammer (2002).

⁴⁵ According to Wallerstein (2004), Germany rose after it achieved unification and defeated France in war. Before 1873-1914, Germany and the US outdistanced the UK in the share of production of the world, and the two countries had the leading sectors: steel, automobiles for the US, and petrochemicals for Germany.

strength, but also through the Cold War, matured to become a hegemon in the capitalist world-system (except in the Communist states).

In this respect, the USSR might have challenged the US's intention to be a true world hegemon, but it actually facilitated the strength of US power *within* its own alliance. Furthermore, the USSR was not an alternative hegemon candidate to the US as it only had political and military strength, but lacked the most important strength, economic power. Such power is the determining force for a semi-periphery rising to the core, and for a country in the core wishing to rise to be the hegemon. What challenged US power or caused US hegemony to decline was not the USSR and the Cold War, but the emergence of other economic competitors.

Hopkins and Wallerstein (1996) argue that two major factors, both economic, caused US hegemonic power to decline relatively from 1967/1973. The first was the challenge from other core economies, namely Japan and West Germany, in terms of productivity efficiency and economic growth.⁴⁶ US manufacturers saw a decrease of more than 40% in the rate of capital return between 1965 and 1973; however the US adjusted to the crisis by the devaluation of the US dollar against the Japanese Yen and the German Mark during the late 1960s and early 1970s (Silver and Arrighi 2005, p.170). According to So and Chiu (1995, p.219), in the 1970s, the US's growth rate in GNP per capita (2.42%) and labour productivity in manufacturing (1.14%) was much lower than that of Japan (5.05% in GNP per capita and 2.75% in labour productivity) and of West Germany (2.98% in labour productivity). By 1977-1980, the US's ratio of net exports to total manufacturing trade began to be negative since 1940 (Bernstein and Adler 1994 p.20). All these data demonstrate that the US has lost its strength and dominance in the industrial sector.

The second factor is the change of world financial structure. The US's hegemonic position had been supported by the dollar being used as a reserve and transaction-currency, and therefore the dollar's status provided the US with the rights of 'seigniorage' (IKenberry 2007, p.47). The emergence of Eurodollars meant that the US dollar was only physically located in Europe but was actually not under US government's control.⁴⁷ Furthermore, the sharp increase in the outflow of US gold

⁴⁶ For a detailed discussion of the US's decline in economic power since the 1970s up to present, see Du Boff (2003); Bernstein and Adler (1994).

⁴⁷ Eurodollars are deposits denominated in US dollars at banks outside the US (including Europe, Asia, and elsewhere outside the US), and therefore are not under the control of the Federal Reserve.

stock (due to the trade imbalance⁴⁸), US Marshall Aid, and heavy capital outflow due to Vietnam War-related expenditure led to a shortage and loss of gold from the US. To prevent the outflow of gold from the US, in 1973, the US announced that the dollar was no longer to be freely convertible into gold. The system of global fixed exchange rates of gold to the dollar was ended. The US not only decreased the value of its own currency but also lost its *direct* control over the world monetary system. Liewellyn and Presley (1995) conclude that the consequences of the collapse of the BWS was that, firstly, the US's hegemonic role became less acceptable than before to other countries, in other words, in Wallerstein's (2004) terms, the 'moral legitimacy of its dominance' was questioned by other countries. Secondly, the dollar itself became vulnerable and its role in acting as the hegemonic currency was also doubted. Other consequences included the decision-making process of the world financial structure that was no longer decided by the US unilaterally but by the core zone: an example was the first annual meetings of Finance Ministers of the Group of Seven (as it then was) in 1977 (Wallerstein 1996). Finally, the US shifted from being the main source of world liquidity and outward FDI in the 1950s and 1960s, to be the main debtor nation and the largest recipient of foreign capital from the 1980s (Silver and Arrighi 2005, p.173).

Above all, the most important consequence of the relative decline of US hegemony was the rise of East Asian economies in the capitalist world-system. This might be an "unintentional" consequence but the US did contribute to the rise of East Asian economies during the B-phase, as will be discussed later. In the historical process, a declining hegemony is inclined to 'tie their fates to the next hegemonic power as junior partners - the United Provinces to Great Britain; Great Britain to the Untied States' (Wallerstein 2004, p.24). Will it be the same route for the US hegemony?

A rising economic power centre: the East Asian economies

While the capitalist world-system has entered the downturn B-phase and the core zone has suffered a decline in the rate of profit of the industrial sector, the East Asian region has experienced rapid economic growth and is increasingly important globally

⁴⁸ Since 1971, the US has had a trade deficit that has increased year by year, and in 2007 the trade deficit was as high as US\$ 700 billion (US Census Bureau 2008).

in terms of manufacturing, trade, and outflow FDI. The trend implies that a new economic power has recently ascended while the rest of the world and the core zones have descended. In my view, the rising economic power will play an important role to facilitate another upturn phase of capitalism - if another upturn is possible.

With respect to economic growth in terms of the annual growth rate in GDP, most developing countries in East Asia have remained at between five percent and eleven percent during the last two decades, a figure higher than the average growth rate of world GDP (1.81% to 2.88%) and of OECD countries (1.12% to 2.22%) (World Bank 2005). By percentage distribution of global GDP at PPP in 2007, the Asian and Pacific region is the top region (32.7%), surpassing the EU (29.3%). Exports from East Asia have also had remarkable growth. The share of East Asian exports in world trade increased from 15.3% in 1980 to nearly 28% in 2007 (Urata, 2004; WTO 2008). In particular, manufacturing exports have dominated Asia's trade, for example, nearly 82% of Asia's trade was manufacturing exports in 2007 (WTO 2008). The share of East Asia's⁴⁹ manufacturing exports of total global manufacturing exports was 17.7% in 1980, and this figure grew to 30.8% in 2007 (WTO 2008). Furthermore, by 2007, China was the leading exporter of manufactured goods, and its share of the world's manufacturing exports was nearly 12%, surpassing the US (9.6%), Japan (6.7%), and any single country in the EU. Only seven years ago, the US was the top leading exporter of manufactured goods, with a share that was nearly 14%, compared to China's 4.7% (WTO 2008).

Chapter Two reviewed some of the development literature with regard to the factor that facilitated the East Asian region's ascent. Most national model approaches believe that the role of the state, or its institutional framework, or its internal integration (see the discussion in Chapter One) is the key factor. However, I have criticised their lack of attention to the international context, which I will discuss here. The relative decline of US hegemony and global industrial restructuring mentioned above are the key factors that have contributed to the rise of East Asia. During the heyday of US hegemony, Japan and some Asian NIEs' industrialisation benefited from US support in terms of economic aid, outward FDI, and the establishment of an economic planning mechanism. With the official end of economic aid, the US suggested a policy of export-led industrialisation (EOI) as a means to reduce the costs of retaining hegemonic power in East Asia (Gills 1993). The US opened its domestic

⁴⁹ Japan, China, East Asian NIEs, Malaysia, and Thailand

market for its East Asian trading partners. Such a shift of regional economic policy by the US thus encouraged some East Asian states' export-led industrialisation, such as Japan, South Korea and Taiwan.

The fast growing exports from East Asian states to the US caused serious trade deficits between the US and its main East Asian partners, and domestic US products could not compete with cheap imports from these countries. For example, between 1978 and 1987, Taiwan's trade surplus with the US increased from US\$0.2 billion to US\$16 billion (CEPD 2008, Table 11-9a). US-Taiwan trade relations will be further discussed in Chapter Five. Under pressure from US industries, the US requested that its East Asian trading partners reduce their exports to the US, and most importantly, to appreciate their national currencies. Since the mid-1980s, East Asia's second post-war wave of industrial restructuring has occurred, after the Japanese currency was put under pressure by the US to appreciate its currency, in the Plaza Accord of 1985 (the first wave occurred when TNCs began to establish the EPZs in Asia in the 1960s). The Japanese Yen appreciated by 31.19% between 1984 and 1988. Consequently, Japanese outflow of FDI increased sharply, from US\$6.4 billion in 1985, to US\$44.2 billion in 1989 (UNCTAD 1991). Japanese FDI in Asian NIEs increased from US\$718 million to US\$4.9 billion from 1985 to 1989 (MOF Japan 2005). Thereafter, the US raised a variety of trade issues with East Asian NIEs, such as opening their services market, the protection of intellectual property rights, trade-distorting investment laws, specific industrial targeting, and most importantly, the appreciation of Asian currencies (Bernard and Ravenhill 1995; Haggard and Cheng 1989). The South Korean Won appreciated by 20.54% from 1987 to 1989, and the New Taiwan Dollar appreciated 30.19% between 1986 and 1989.⁵⁰ Both South Korea and Taiwan also became capital-exporting countries during this period.

Meanwhile, the US had changed its relations with Communist China and shifted its regional strategy in East Asia to less intervention, as US President Richard Nixon put it in Foreign Affairs in 1967, 'in a design for Asia's future, there is no room for heavy-handed American pressure; there is need for subtle encouragement of the kind of Asian initiatives that help bring the design to reality' (Nixon 1967). There are many factors that caused the US to decide on rapprochement with China in the late 1960s and early 1970s, such as the failure of the Vietnam War, the burden of

⁵⁰ The data for Japan and South Korea is from the IMF's International financial statistics database. Taiwan's data is from CEPD (2008).

economic assistance to the US's anti-communist allies in East Asia, and the opportunity to create conflict between the USSR and China. Whatever the case, the US's change of East Asian regional strategy has had a strong influence on East Asian states, in particular on China and Taiwan. China was the first Communist state to be offered an opportunity to integrate into the capitalist world-system, although integration has only gathered pace since the early 1990s. The beginning of China's integration into the capitalist world-system also benefited the whole East Asian region as China provides a huge cheap labour force and land for investment and production.

As such, the US initially attempted to increase the production costs of these East Asian countries in order to reduce its trade deficits; however, the pressure unintentionally became the major "push" factor, first for Japan, and then for East Asian NIEs, to export capital and relocate their production overseas. On the other hand, the start of China's integration into the world-system has played a "pull" factor in attracting East Asian outflow FDI. A division of labour of manufacturing among East Asian states has thus formed to serve as the production base for the world.

However, according to Arrighi (1994), the decline of US hegemony does not mean that there will be another new hegemon to replace the US soon; instead, there will be some uncertainty about the next cycle as the current cycle has a specific feature that has not occurred in the previous historical cycles. The US still acts as the centre of political-military strength in the capitalist world-system, although there is a rising centre of capital accumulation in East Asia. Such a separation places uncertainty to the next cycle (Arrighi 1994). I would add two other factors that contribute to such uncertainty.

Firstly, the East Asian region still relies on the US market. The empirical data demonstrates that the share of intra-regional trade in East Asian trade grew from 34.97% in 1980 to 55.56% in 2006 (ARIC various years; Fouquin *et al.* 2006, p.1). Several studies⁵¹ reveal that the growth of intra-industry trade, in terms of trading

⁵¹A study by the Japanese Ministry of Economy, Trade and Investment (METI) reveals that the trade value of intermediate goods (e.g. parts and materials) increased faster than the value of finished goods between 1990 and 1998 in Asia, see METI (2001). The Asian Development Bank's (2008b) report also shows that the percentage of parts and components trade in the total manufacturing trade grew from 24.3% to 29.4% between 1996 and 2006. The IMF's Asia-Pacific Regional Outlook in 2005 also makes a similar argument.

intermediate goods and vertical specialisation⁵², has driven East Asia's intra-regional trade. If the intermediate goods' final destination is taken into account, the Asian Development Bank- ADB (2008b) estimates, in 2006, that eventually 67.5% of Asian exports, direct and indirect, are to outside the regional market and 32.5% within the regional market, although Asia's intra-regional export was 51.8% (p.72). What the data above tell us is that the increase in intra-regional trade of the East Asian region is due to the increase of intra-industry trade. The East Asian region still relies on an external market, especially the US market. Although from historical perspective, the core zone or the hegemon may have relied on an external market (e.g. the Netherlands, Britain), this was due to their own natural territorial limits. In the case of East Asia, in particular of China, the reliance on an external market is due to the low capacity of domestic mass consumption. In my view, China's ascendance to the core (not as a hegemon) is only possible when it controls the key sectors in industry and finance, and serves as the world's market (not only the world's factory) to solve the crisis of over-production in capitalism. Palley (2006) argues that China needs to shift from export-led growth to a domestic-demand developmental strategy in order to solve the contradiction of China's reliance on the US market (for example, recession in the US market will eventually impact on China's growth).

The other factor in the uncertainty is the complex relationship between East Asia and the US in the financial sector. East Asia's financial capital has limited capability to dominate the global financial sector, although the East Asian region has obtained a huge trade surplus, foreign reserves and made net savings. East Asian countries generate net savings (domestic saving exceeds domestic investment) but do not manage it on their own; rather, financial investors/institutions from the EU and North America serve as financial intermediaries for Asia (Crowen *et al.* 2006). Some evidence of this weak capability is as follows:

- Although Asia's cross-border portfolio investment increased sharply during 2001-2004, only a small share of this was intra-regional. Asia's foreign portfolio liabilities and assets are mainly from the US and the EU-15 regions (in other words, this is capital inflow from outside Asia) (Crowen *et al.* 2006,

⁵² Vertical specialisation is the industrial restructuring of production chains, such that different stages of the production chain are controlled by different firms, rather than being vertically integrated within a single firm (Hummels, Rapport, and Yi 1998).

p.9).

- Asian holdings of US assets and US holdings of Asian assets continue to rise recently; the US has also been the main source of foreign portfolio investment in East Asia (36% to 37% during 2001-2006) (ADB 2008b, p.124-126).
- Asian countries rely on bank borrowing and lending more from US and EU-15 banks than from regionally based Asian banks. The claims of US and EU-15 banks on Asia were larger and increased faster than Asian banks claims on Asia (Crowen *et al.* 2006, p.10).
- Among the top 50 financial TNCs in 2008, only four were from Asia (two from Japan, one from Hong Kong, and one from Singapore). The others were mainly from North America and Western Europe (UNCTAD 2008).

Apart from the lack of capability of financial capital, Asian economies have remained interdependent with the US economy through links between their currencies and the US dollar. The US dollar has long stood as the world's major reserve currency, even though its share of global allocated foreign exchange reserves decreased from 80% in the mid-1970s to 63.9% at the end of 2007 (IMF 2008; The Economist 04/12/2004). Many East Asian countries have long maintained direct or indirect pegs of their currency to the US dollar, thus enabling the US to adjust their trade imbalance by pressurising these countries, including Japan, the NIEs, and China, to appreciate their national currencies. Because the US market serves as the largest destination for East Asia's final products, East Asia on the one hand has a huge trade surplus with the US; and on the other hand, this trade surplus is presented as East Asia's official foreign reserves, nearly 88% of global foreign reserve holdings.⁵³ Most of East Asia's foreign reserves are in the form of US dollars. The situation has several implications.

Firstly, East Asian countries need to purchase the US dollar when their national currencies appreciate, in order to prevent Asian export-oriented industries being greatly damaged, something which also works to stabilise the price of the US dollar. Second, most of the East Asian foreign reserves are invested in US governmental

⁵³ In 2006, the amount of East Asia's foreign reserve was US\$2,944, 397 million, the world's foreign reserve was US\$3,348,120 million (The share of the holding to East Asia's holdings, top three holders: the PRC accounted for 36.2%, Japan 29.8%, Taiwan 9%). See Dent (2008), p.160; IMF (2008).

securities and the financial market,⁵⁴ with the result that the inward foreign capital flow balances the capital account of the US. This is why the US has huge trade deficits and fiscal deficits while also having a capital account surplus. Third, cheap and abundant imported goods from East Asia has enabled the US to consume more than they produce (i.e. GDP) and maintain a low growth rate in the consumer price index (CPI),⁵⁵ which, together with their capital account surplus, allows US interest rates to remain lower than elsewhere.⁵⁶ As such, on the one hand the US has facilitated East Asia's export-oriented industrialisation. On the other hand, the domination of the US dollar and cheap imports from East Asia have alleviated the weakening productivity of the US. Such a relationship ties Asian countries to the US dollar and US economy. This also becomes a dilemma for East Asian countries, for example, whether or not to diversify their main currencies making up their foreign reserves, although this idea would be strongly opposed by the US.

Conclusion

The capitalist world-system has experienced a significant change in the post-war B-phase, a change that is neither one of capitalism expanding from a national economy to economic globalisation, nor from state-led development to neo-liberalism. It is a transition of the industrial centre shifting from the core zone to the semi-peripheral zone and to a few countries in the peripheral zone (most notably China). It is a transition resulting from the relative decline of US hegemony and rising capital accumulation centre in East Asia. The core zone instead now pursues profit and capital accumulation through financialisation. In Arrighi's view, the future is uncertain as the centre of political-military centre is different from the rising economic centre. The rising economic centre also has a complicated political economic relationship with the current hegemony.

⁵⁴ In summer 2005, foreigners held a quarter of the bonds issued by the US and more than 50% of the US Treasury bond market. East Asia has been a significant region in investing in the US bond market, see Warnock (2006).

⁵⁵ The US CPI of all items has been lower than EU 15 and Japan since the 1980s, See OECD, *Main Economic Indicators*, various years.

⁵⁶ (1) Between 1980 and 2004, the US received net foreign capital and financial inflows. (2) If the CPI remains low, the pressure of inflation is low. For this reason, the Federal Reserve can keep interest rates low and even reduce them.

Taiwan's change in the past two to three decades has been significantly influenced by these changes. As the next chapter will show, Taiwan's post-war peripheral ascent was supported by US hegemony, the US's regional strategy and the new international division of labour in the 1960s. As these two factors have changed, Taiwan's capitalist development inevitably changed. Taiwan is affected by the shift of the industrial centre from the core to the semi-periphery and from the semi-periphery to the periphery; the rising of a new economic centre; the process of financial expansion; the emerging policy and practice of neo-liberalism and the attack on state power; and the relative decline of US hegemony. In sum, Taiwan's ascent trajectory in the B-phase has benefited from and been constrained by the noted changes above.

In the following chapters, I will discuss in detail how Taiwan's domestic state-capital-labour nexus has interacted with these influences to shape Taiwan's particular ascent trajectory. Before entering into the discussion, however, it is important to examine Taiwan's peripheral ascent trajectory: how did Taiwan ascend to become a semi-peripheral state, and what did Taiwan achieve before the B-phase?

Chapter Four: Peripheral Ascent: Historical Study of Taiwan's Capitalist Development before 1987

Introduction

In the early seventeenth century, Taiwan was inhabited only by several ethnic groups of Malay-Polynesian origin, and they were engaged in a primary economy to sustain living. Thereafter, Dutch hegemony, the Chinese Qing Empire, British hegemony, and Japanese imperialists subsequently paid attention to the small island. By the end of the Second World War in 1945, Taiwan had a serious monetary crisis (inflation) and its GNP per capita in 1952 was only US\$186. Even in 1970, its GNP per capita (US\$390) was still less than other developing countries, such as Brazil (US\$420) and Mexico (US\$670) (Hsu 2002). However, Taiwan's current economic performance (per capita GNP, world trading status, and economic structure) has become, in the World Bank's classification, a high-income developing country. This chapter argues that Taiwan ascended from the periphery to the semi-periphery in the 1970s, as Taiwan has developed both export-led industrialisation and domestic production chains in main industries. After the late 1980s, Taiwan advanced its semi-peripheral status (but not yet part of the core) by exporting capital, and relocating industries to peripheral countries. The question in this chapter is: how did Taiwan ascend from the periphery to the semi-periphery? The chapter will focus on Taiwan's capitalist development from the seventeenth century to the pre-1987 period, and Chapters Five to Seven will mainly discuss Taiwan's upward trajectory since 1987.

As discussed in Chapter Two, various development studies, in particular with East Asian political economy concerns, have examined in detail the factors of economic success of East Asian NIEs. The neo-classical school and World Bank scholars contend that the correct strategy, export-led industrialisation, is a key to such a success. The state-centric school however argues that the function of state-guiding in the domestic economy is a significant factor. The study of Taiwan's capitalist development was engaged in the core of the debate. This chapter will however, adopt a different perspective to re-examine Taiwan's ascent trajectory, namely to study Taiwan's capitalist development from the context of the capitalist world-system (the

structure of capital accumulation and the interstate system), and from the domestic state-capital-labour nexus.

In the first section of the chapter, I will discuss the timing of Taiwan's peripheral ascent based on the definition of semi-periphery as discussed in Chapter Two. Then the historical study will be presented in the sequence of (world and regional) hegemonic order which once dominated Taiwan's political economy, as Table 4-1 shows, from the Dutch occupation of Taiwan in the seventeenth century, the Qing Empire's rule from the seventeenth to nineteenth centuries, the British influence in the nineteenth century, Japanese colonialism from 1895 to 1945, and US influence in the post-war period. I will discuss how the hegemonic order and the capitalist world-system shaped Taiwan's capitalist development. Taiwan is an interesting case, because a small island like Taiwan experienced the maturing and decline of hegemonic transition in the capitalist world-system as Table 4-1 shows. Taiwan's capitalist development reflects regional and global changes. Finally, the chapter will analyse the special feature of Taiwan's peripheral ascent (from a periphery to a semi-peripheral) by adopting the analytical framework as discussed in Chapter Two.

Table 4-1: The periods of Taiwan's changing structural position within the capitalist world-system

Hegemonic order	Period	State Authority	Methods of inclusion into the world-system	Industry	Main production relations
The maturing of Dutch hegemony (1620-1650)	1624-1662	Dutch colony	<ul style="list-style-type: none"> • Maritime Transfer base for international trade • Natural resources • Trade: exporting buckskin, venison, dried fish, sugar to Japan, China and Persia; importing silver from Japan 	The primary sector	Primitive economy, landlord-tenant
The decline of Dutch hegemony (1650-1700)	1662-1683	Zheng's Family	<ul style="list-style-type: none"> • Trade: exporting rice, sugar, buckskin, silk, herbal medicine to Japan; importing cooper, lead, weapons and other military materials from Japan and Southeast Asia 	Agriculture	Landlord-tenant
	1684-1857	Qing Empire's affiliate	<ul style="list-style-type: none"> • Trade: exporting sugar, rice, jute, rattan, camphor wood to the Mainland; importing industrial products (cotton fabric and cloth, silk, paper, porcelain) from the Mainland 	Agriculture (sugar, rice)	Large landlord-small landlord-tenant
The maturing of British hegemony (1850-1873), the decline of British hegemony (1873-1897)	1858-1894	Politically belongs to the Qing Empire; Economically influenced by European Powers	<ul style="list-style-type: none"> • Trade: exporting sugar, tea, camphor to Europe, Mainland, the US, and Japan; importing opium from Europe, raw materials from Mainland • Finance: British financial capital 	Agriculture (sugar, rice, tea, camphor)	Large landlord-small landlord-tenant
Japanese regional imperialism	1895-1945	Japanese colony	<ul style="list-style-type: none"> • Exporting sugar and rice to Japan; • Importing manufacturing goods from Japan 	Agriculture, light	<ul style="list-style-type: none"> • Agriculture: landlord-tenant

			<ul style="list-style-type: none"> • Japanese inward FDI • Japanese financial capital 	industries, heavy chemical industries (from the 1930s)	<ul style="list-style-type: none"> • Industry: handicraft, wage labour
The maturing of US hegemony (1945-1967/73)	1945-1949	The KMT	Exporting sugar to Mainland	Agriculture, light manufacturing	Agricultural: landlord-tenant
	1950-1965	The KMT	<ul style="list-style-type: none"> • Trade: exporting sugar, rice and processed food to Japan; importing raw materials from the US • Inward FDI: Overseas Chinese and US FDI • US aid 	<ul style="list-style-type: none"> • Agriculture • light manufacturing (food processing, textiles) 	Agriculture: smallholders Industrial: Wage labour
The decline of US hegemony (1967/73-)	1966-1986	The KMT	<ul style="list-style-type: none"> • Trade: exporting textile, plastics and electronics products to the US; importing capital goods from Japan • Inward FDI: Japanese and US electronics FDI 	Light manufacturing, heavy- chemical industries, electronics assembly industries	Wage labour, home-based labour

Source: Conducted by the author

4-1 From the Periphery to the Semi-periphery

When did Taiwan ascend to the semi-periphery? Greenhalgh (1988) argues that Taiwan ascended to the semi-periphery in the early 1970s, due to Taiwan's exports shifting from low-waged, low-skilled and labour intensive products to high-waged, high-skilled and capital intensive products, and due to Taiwan building up its periphery in Southeast Asia. However, Taiwan's official statistics show that, before 1987, there were only a few cases of outward Taiwanese investment (less than 50 cases) and most of them invested in the US. In the 1960s and the 1970s, food processing and textile products were still the main products and exports. Not until 1988 did the electronics and electronic equipment sector become the top exporting sector (Liu 1995[1992]). As such, Greenhalgh's argument cannot be used to support assertion that Taiwan ascended to be semi-periphery in the early 1970s. A similar concept to semi-periphery is the term Newly Industrialised Countries (NICs), which was created in 1979 by the OECD. The OECD defines NICs in three aspects: (1) Fast growth in both the absolute level of industrial employment and the share of industrial employment in world total employment; (2) A rising share of exports of manufacturing; (3) Fast growth in real per capital GDP such as the country was successful in narrowing the gap with advanced countries (Chowdhuy and Islam 1993). Under this definition, four Asian economies (Taiwan, South Korea, Hong Kong, Singapore), Spain, Portugal, Greece, Yugoslavia, Mexico, and Brazil were on the NICs list. Industrialisation is the key to the status of the NICs. Yet what kind of industrialization trajectory is it? The definition above is too narrow and it only focuses on export-led industrialisation.

One of the definition of semi-periphery as discussed in Chapter Two was in terms of a mixture of both core and peripheral activities. In the 1970s, Taiwan not only developed labour-intensive export-led industrialisation, but also developed an integrated domestic production chain by developing its heavy-chemical industries, such as petro-chemical, iron, and steel sectors. In terms of the international division of labour and the link between the core and the periphery, Taiwan's semi-peripheral status is more profound since the late 1980s, when Taiwan exported capital, and the main exports shifted from textile products to consumable electronic products. In sum, Taiwan's capitalist development ascended to the semi-periphery after the 1970s through a mixture of core and peripheral activities; since the 1980s, Taiwan has

advanced its status (although not yet to the core) through the export of capital to peripheral countries. Taiwan's ascent from periphery to semi-periphery occurred in the heyday of US hegemony during the A-phase.

4-2 Dutch Hegemony

4-2-1 The maturing of Dutch hegemony: Taiwan transformed into a trade oriented economy (1624-1662)

Before the Han Chinese migrated to Taiwan in the seventeenth century during the Ming Dynasty, the aboriginal inhabitants consisted of several ethnic groups of Malay-Polynesian origin (also referred to as Austronesian) (Hsiao and Hsiao 2002, P.167). Their main productive activity was to cultivate grain crops (especially rice and foxtail millet planted in dry fields) and hunting; immigrant Chinese were mainly engaged in trading (Shepherd 1993). This division was because Taiwan's aboriginal people's production was only for subsistence rather than the investment of labour for increased production (Shepherd 1993). The isolation changed with the 1624 Dutch occupation.

During the seventeenth century, European states competitively searched for lucrative overseas colonies, especially in seeking to control or gain access to their natural resources and raw materials. Dutch hegemony arose in the sixteenth century and Holland became one of the major seafaring and economic powers in the seventeenth century. Dutch traders dominated international trade, and the Dutch were briefly the most important trading and financial centre in the seventeenth century in European capitalist world-system (Shannon 1989). In 1602, the Dutch East India Company (*Verenigde Oostindische Compagnie*) was founded, which had the right to sign foreign treaties with trade zones (*octrooigebied*)⁵⁷, enlist its own army and navy, and wage a defensive war to prevent other European nations from entering its area. Its trade zones included Coromandel coast of India, Pulicat, Bengal, Ceylon, Japan (Deshima), Taiwan (where it established a trading post), China, Persia, and Arabia (Vries and Woude 1995[1997]).

It was at the peak of its hegemony (1620-1650) when the Dutch occupied Taiwan. In 1622, The Dutch East India Company first occupied Penghu, (also called the Pescadores, a small group of islands near Southeast China, now affiliated to Taiwan)

⁵⁷ The information about the trade zones is from <http://www.tanap.net/content/voc/tradezone/tradezone.htm>

to use it as a maritime transfer base for international trade within the Far Eastern region (i.e. entrepot trade with Japan and China). After negotiating with the Chinese Ming Empire, the Dutch gave up Penghu and instead invaded Formosa (Taiwan) in 1624. The Dutch controlled both northern and southern Taiwan after they defeated the Spanish in the north of Taiwan in 1626. The Dutch occupation marked Taiwan's first direct link with the emerging European capitalist world-system. The Dutch imposed trade duties and monopolised Taiwan's trading channels. They deposed all landlords and placed the land into the (Dutch) King's ownership, encouraged Chinese emigrants from the mainland, and rented land to these Chinese as tenants, the so-called 'wang-tian' system. Through the wang-tian system, the Dutch could make use of the landlord-tenant system to extract and increase agricultural products. By 1649, Taiwan was the second largest Dutch trading post in terms of trading volume (the largest was Japan) of its Asian trading zones (Hsiao and Hsiao 2002). Taiwan's trading network involved trade in luxury goods and in bulk goods. Taiwan exported buckskin, venison, dried fish, sugar, tea, camphor and copper to Japan, China, and Persia; it imported silver, raw silk, silk and satin, herbal medicine, porcelain and gold from Japan and China (Hsiao and Hsiao 2002). For Wallerstein (1996), the distinction between trading in luxury goods and in bulk goods is that the former is trade within a world-system but the latter between world-systems. In this respect, Taiwan's trading network was both within and between the world-systems. In sum, the Dutch occupation transformed Taiwan from a self-subsistence primitive economy to an outward-trading oriented economy, from an isolated economy to one interacting with regional and world economies.

4-2-2 The decline of Dutch hegemony and the rise of Chinese influence on Taiwan (1662-1857)

The Dutch entered a period of decline in 1650, as the British overtook them as a trading and financial centre (Shannon 1989). At the same time, the Dutch lost its control over Taiwan. In 1660, the Chinese Ming loyalist Zheng Cheng-gueng fled to Taiwan after losing control of the mainland to the Manchu Qing dynasty. In 1662, the Dutch were defeated by Zheng. The Zheng regime adopted the previous Dutch economic system, except changing ownership of the land from the Dutch king to the Zheng regime, and forbidding Taiwan's trade with China and the Dutch (Hsiao and Hsiao 2002). By excluding China and the Dutch, the British replaced the Dutch as

Taiwan's major European trading partner; they signed three commercial treaties (Taiwan was called the Kingdom of Formosa) with the Zheng family and established a trading house in Taiwan (Hsiao and Hsiao 2002). Japan became Taiwan's main trading partner. As will be shown later, Britain and Japan showed more interest in Taiwan in the following decades. The Zheng family governed southern Taiwan until 1683 when the Qing army attacked and conquered the island. In general, the achievement of the Zheng's regime was to improve agricultural production and deepen Taiwan's trading-oriented primary economy, although it replaced China and the Dutch with Britain and Japan as its main trading partners. Taiwan exported rice, sugar, buckskin, silk, and herbal medicine to Japan, and imported copper, lead, weapons and other military materials from Japan and Southeast Asia.

From 1684, Taiwan remained affiliated to the Manchuria Qing Empire for the next 211 years (1684-1895), first as part of Fujian province (1684-1986) and then as the province of Taiwan (1887-1895). During this period, the Qing Empire discouraged migration to Taiwan from the Chinese mainland for the sake of national security. Many mainlanders nevertheless emigrated, particularly from south eastern China to Taiwan, thus increasing the growth of Taiwan's agricultural cultivation. In 1725, the Qing ended the ban on rice imports from Taiwan and, as a result, Taiwan's rice production and exports grew (Duan 1999). According to Duan, sugar and rice were the two main products and exports until the re-opening of Taiwan's harbours to the West in 1858. Rice was mainly exported to the Mainland, and sugar to both Japan and the Mainland (Duan 1999). These exports were mainly produced by the landlord-tenant system which had been introduced with the immigrant Han Chinese in the seventeenth century. In particular, landlords were divided into large and small landlords, the former obtaining land from the Qing authority and renting it to the latter, who in turn rented their land to tenants. However, Taiwan's rice exports declined sharply after the 1850s, because of the forced opening of China's ports that introduced competition in rice imports from other Asian countries (Duan 1999). In other words, Taiwan's rice lost the Mainland market after China was forced to open its markets. With regard to Taiwan imports, the import of consumer products was mainly from mainland China (e.g. cotton, ironware, groceries, and handicraft industrial goods), yet this source also changed to Britain and Japan after the opening of Taiwan's ports (Duan 1999).

In sum, under the Qing Empire's rule, Chinese immigration facilitated the growth of agricultural products in Taiwan and the Mainland was the main trading partner. During this period, Taiwan did not have direct links with the European-led world-system but was within the Sino-centric economic system. Taiwan mainly exported sugar, rice, jute, rattan, and camphor wood to the Mainland and Japan, and imported industrial products (cotton fabric and cloth, silk, paper, porcelain) from the Mainland (Duan 1999). With its inclusion into the Qing Empire, Taiwan's further development was significantly changed by the Qing Empire's later evolution.

4-3 British Hegemony: Opening to the British-led World-system (1858-1894)

After the decline of Dutch hegemony, Britain rose to be the hegemon in the late seventeenth century, reaching its peak between 1850 and 1873. Britain expanded its role as a central commercial and financial entrepot of the world via its overseas colonies and commercial networks. The key to the British hegemonic role in the world-economy was 'unilateral free trade' promoted by Britain (Silver and Arrighi 2005, p.164). In Asia, the British and French defeated the Qing Empire in the second Opium War in 1858 that forced the Qing Empire to sign the unequal treaty of Tientsin with the British and the French. Accordingly the southern ports of Taiwan were required to be opened for trading. Two years later, the Qing Empire signed another unequal treaty, the Treaty of Beijing, which forced the opening of the northern ports of Taiwan to European traders. The two treaties had a significant influence on Taiwan's economy in terms of towards to be a more export-led economy. As the data shows, after the opening of Taiwan's ports, Taiwan's exports grew tenfold between 1865 and 1893, and the export balance increased from a trade deficit of 480,000 Qing Kuping taels, to a surplus 4,613,000 Qing Kuping taels⁵⁸ (Liu 1992[1975], Table one).

The British influence was different from Dutch dominance as the latter occupied Taiwan as a colony while the former influenced Taiwan via "free trade" and British financial capital. Between 1868 and 1894, Taiwan's major exports were sugar, tea, and camphor, with tea and sugar on average accounting for more than 85% of total exports during this period.⁵⁹ The export-led production of tea and sugar was initiated and financed under the influence of British capital, through loans and control of

⁵⁸ According to the Treaty of Shimonoseki, one Kuping tael weight about 37.3 grams of gold.

⁵⁹ The author's calculation from Ho (1978).

trading channels (Yanaihara 1985[1934], p.34). After 1860, local export associations could not compete with British trading companies, so local trading companies were established (Hsiao and Hsiao 2002). These Han Chinese trading companies gradually evolved into money lending businesses and thus came to play the role of loan capital.

In the financial sector, there were no formal financial institutions (i.e. banks) set up in Taiwan during the late nineteenth century. Taiwanese tenants obtained funds mainly from two areas: one was their landlord and the other was from merchants. The key funding source behind Taiwan's domestic merchants was European banks, through intermediaries such as '*ma zhen guan*' (merchants), and '*yang hang*' (foreign trading companies) (Liu 1992[1975], p.16-17). The biggest financial institution behind the *yang hang* for loans was the British owned Hong Kong and Shanghai Bank (HSBC). However, the HSBC did not establish branches in Taiwan, but required the *yang hang* to serve as the representatives to distribute loans to local Taiwanese/Chinese merchants, and then from the merchants to local trading companies, and finally to farmers (Lai 1997; Liu 1992[1975]). The circulation of tea and sugar commodities moved in a reverse direction, i.e. from farmers to *yang hang*.

Around 80% of sugar production was for export, with Japan and north China the destinations; tea was 'developed as a direct consequence of the opening of trade with the West', and went to Europe, America and Southeast Asia (Ho 1978, p.16-20). Taiwan was also the largest camphor producer in the world (Hsiao and Hsiao 2002). Meanwhile, opium accounted for nearly 60% of Taiwan's imports by 1880 (Sumiya et al. 1995[1992]). The division of labour in the production of tea and sugar was as follows: Han Chinese tenants produced tea and sugar,⁶⁰ Han Chinese merchants dominated domestic trade, and Western capitalists (in particular the British, Germans, and the Americans) dominated external trade and the financial arena through trading companies and providing loans. The state (the Qing Empire) played little role.

In sum, this was the second period of Taiwan's direct link to the European-centred capitalist world-economy. This time, however, the link went further. British capitalists had no interest in changing the mode of production in Taiwan (e.g. they did not introduce wage labour). Instead, they made use of the indigenous production relations of the landlord-tenant system (which I described previously as larger and small landlords versus tenants). British capitalists dominated the external circulation and

⁶⁰ It was a plantation export economy of 'sub-tropical' type (i.e. tenant labour), similar to a Caribbean economy but without slave labour.

financial arenas to obtain surplus value. Finally, Taiwan's agricultural production was heavily export-oriented and mainly concentrated on sugar and tea.

4-4 Japanese Colonialism (1895-1945)

After the Qing Empire was defeated by Japan in the first Sino-Japanese war of 1894-95, China agreed to cede Taiwan and the Penghu islands to Japan. Taiwan was therefore placed under direct Japanese colonial rule from 1895 until 1945, when Japan was defeated in the Pacific War. Taiwan's economy under Japanese colonialism was fully integrated into a Japanese-led regional sub-system, in an international division of labour between Japanese manufacturing and Taiwanese agriculture through trade, investment and finance. Taiwan was further developed towards an export-oriented agricultural economy. For example, the share of exports to GDP ranged from 35% to 53.9%, between 1905 and 1939, a level which was not regained until the 1970s (Scott 1979; Sumiya et al. 1995[1992], Table 0-4). The majority of Taiwan's exports and imports were in trade with Japan⁶¹. Sugar and rice were the two main exports, and their share of total exports increased from 51% in the 1900s to 72.7% in the 1930s (Ho 1978). Japanese colonialism differed from the Dutch and the British in the following ways: firstly, Japan attempted to use Taiwan to pursue its semi-peripheral ascent strategy; in contrast, the Dutch and the British mainly sought profits. Secondly, Japan introduced the production relations of capital and wage labour in some industrial sectors while the other hegemons did not. Thirdly, Japan established a complete framework of bureaucracy, as well as industrial and financial systems that were taken over by the KMT later. The other two hegemons did not do so. These differences inevitably led to a distinctive influence on Taiwan's capitalist development. The following section will discuss these points in detail.

Before discussing the influence of Japanese colonialism, it is important to put Japanese colonialism in a wider context. Japan-Taiwan colonial relations were not a unique case. As Moulder argues (1977), Japan's wider colonization of Taiwan, South Korea, Southern Sakhalin, the Ryukyus, and some parts of North-eastern China, facilitated Japan's industrialisation in several ways: (1) it provided a market for

⁶¹ Eighty-four percent of Taiwan's exports went to Japan (mainly sugar and rice) during the period 1897-1939; while 77% of Taiwan's imports were from Japan (mainly manufactured goods, chemicals, and processed foods). The data is drawn from Ho (1978). However the data does not cover each year between 1897 and 1940. Rather, it shows only selected years during this period.

Japan's growing industries; (2) it provided raw materials; (3) it contributed to Japan's shipping industry; (4) it brought indemnities and colonial taxes, in particular Chinese indemnities, making up around one-third of Japan's GNP (Moulder 1977 p.184-188). However, this Japanese-led regional sub-system was still subject overall to the West. Japan was not fully independent from the West's influence in Asia and did not recover its full tariff autonomy until 1911 (Winckler 1990; Halliday 1975). During the period of "unequal treaties" with the West (1858-1910), Japan needed to import manufacturing goods from the West and to export raw silk, tea, coal, and other semi-finished goods. In other words, Japan occupied at the semi-periphery status in the capitalist world-system and acted to integrate the regional division of labour in the rest of East Asia.

During the first ten years (1895-1904) of Japanese colonialism in Taiwan,⁶² Japan's aim was to build and 'modernize' the basic infrastructure:⁶³ including the use of land surveys and land reform, the reform of the monetary and financial system, the control of customs and fiscal authority, and the establishment of modern transportation facilities. In the second period (1905-1934), Japan further developed Taiwan's sugar and rice export-led agriculture. In the sugar sector, Japanese capitalists first invested in Taiwan by establishing factories and introducing new machinery in 1900, with the support and protection of the Japanese colonial administration in Taiwan. Before 1924, Taiwanese were not allowed to establish factories, unless the factory was a joint-venture with Japanese (Ho 1978, p.38). As such, Japanese capitalists dominated the sugar sector and increased its productivity.⁶⁴

However, this was only for sugar-processing. As for direct sugar-production, the major supply of primary sugar to the new sugar factories still came from tenants

⁶² Here I draw on Liu (1995[1992])'s division of Japanese colonisation into three sub-periods.

⁶³ Those who argue that Japan's colonialism promoted Taiwan's modernisation and development often address Japan's effort to build such infrastructure (e.g. Wade 1990; Ho 1978; Amsden 1985). There is no doubt that Japanese colonialism transformed Taiwan's economy; however, the historical legacy before Japanese colonialism cannot be ignored. For example, although Taiwan's productivity pre-1895 was less than during Japanese colonialism, its economy was already export-led because of the prior domination of the Dutch and the British. The Qing Empire tried to build upon certain areas of the infrastructure after the French signalled their intention to seize Taiwan in 1887. Some measures were successful; some were not, but were nevertheless carried further by the Japanese, e.g. the land reform abolishing large landlords.

⁶⁴ There were many joint-venture companies owned by Japanese and Taiwanese, although such companies were dominated by Japanese. For example, Japanese ownership accounted for 90.7 % of all joint stock manufacturing companies in 1929, see Ho (1978).

(Sumiya et al. 1995[1992]). Similarly, in the rice sector, Taiwanese tenants produced rice, while Taiwanese capitalists dominated the process of rice processing and domestic circulation, and Japanese capitalists dominated external circulation through trading companies (*ibid*). For example, in the late 1930s, 90% of Taiwan's rice export to Japan was controlled by four Japanese trading companies; Japanese sugar companies also exported 88% of Taiwan's sugar production to Japan (Hsiao and Hsiao 2002). In sum, the above discussion shows how Japanese colonialism moved Taiwan's economy further towards an export-led production of sugar and rice by making use of the indigenous methods of production (i.e. landlord-tenant relations). There was no 'indigenous capitalist class', but rather a class of colonised commercial capitalists and Japanese capitalists, who dominated the industrial production sector and trading sectors. Under such social relations of capital accumulation, Taiwan contributed both to the supply of large amounts of sugar and rice to Japan⁶⁵ and to the consumption of Japan's manufacturing goods (i.e. served as a market for expanding Japanese industrial production).

During the third period of Japanese colonialism in Taiwan (1935-1945), Japan attempted to ascend to the core via expanding their regional leadership ambitions to Southeast Asia to achieve its goal of a 'Greater East Asia Co-Prosperity Sphere' (Halliday 1975, p.116-140; Gordon 2000). This was a colonialist proposal, made in the name of Pan-Asianism. Taiwan's geo-strategic position and financial support became significant to Japan's invasion plans of Asia. Accordingly, Japan began to develop Taiwan's (and Korea's) heavy chemical industries in the mid-1930s. A new set of industries besides food processing were now invested in e.g. cement, chemicals, pulp and paper, fertilizer, petroleum refining, and metallurgy. Taiwan imported many older-generation machines from Japan, and this diversified industrialisation was Taiwan's first experience with import-substitution industrialisation (ISI). I shall summarise the ISI again here. ISI attempts to produce substitute products which the economy imports so that it can reduce its dependence on imports. Structurally, Taiwan's ISI was driven by the second phase of Japan's own product-cycle, that is, one based on steel, chemicals, armaments, and automobiles (Cumings 1987, p.45). However, the real motivation was not an economic one, but rather a geo-political one. Taiwan's ISI served the military needs of the Japanese Imperial Army's invasion

⁶⁵ For example, in the sugar sector, Taiwanese sugar held a major share of the Japanese domestic sugar market, i.e. 81% in 1911 and 75% in the 1930s Ho (1978), Sumiya, *et al.* (1995[1992]).

strategy of the Asian region. In sum, under Japan's regional imperialist strategy, Taiwan's status ascended from periphery to semi-periphery in the Japanese-led regional sub-system, in the way that Taiwan advanced industrialisation and engaged in a regional division of labour with Japan and Southeast Asia.

In this context, what was the domestic state-capital-labour nexus? Even as Taiwan increased industrialisation, the manufacturing sectors were still dominated directly by Japanese capitalists, in particular by the four great *zaibatsu* - Mitsui, Mitsubishi, Yasuda, and Sumitomo⁶⁶ (Ho 1978, p.87). For example, Liu showed that in 1941, the Japanese share of capital was 91.1 % of stock companies in Taiwan (whose assets were more than 0.2 million Japanese Yen) (Liu, 1995[1992], p.25). The expansion of Japanese monopoly capital to Taiwan first began with the domination of the sugar sector, and then increased through investment in other sectors from the 1930s onward.

Japanese monopoly capital not only dominated the production and trading sector, it also controlled major finance channels. The financial control of the British imperialists was replaced by the Japanese colonial government. After Japan formally colonised Taiwan from 1895 onward, the Japanese colonial government established official monetary and financial institutions. The monetary system linked Taiwan's currency to Japan's (and delinked from the Chinese Qing Empire). The formal financial institutions enabled the transfer of Taiwan's savings into industrial and commercial loans. The division of labour among financial capital was: the colonial authority set up the Bank of Taiwan to serve a similar function as a central bank; Japanese capitalists established twelve commercial banks (or branches); Taiwanese commercial capitalists and landlords organised local credit associations (Lai 1997). One noteworthy point, however, is that during the Japanese colonial period, the level of internationalisation of Taiwan's banks was very high. For example, in 1943, the number of overseas branches of Taiwan's banks was sixty-one (there were eighty in 1995), of which twenty-seven were located in Mainland China (there were seven in 2007) (Lai 1997, p.13).

In the employment sector, by the skill division of labour between Japanese and Taiwanese male labour, more than 80% of the technicians, trade and professional employees were Japanese males in 1943; the majority of Taiwanese working males

⁶⁶According to Sumiya (1989), the 'zaibatsu' were family owned holding companies, in the financial form of monopoly capital, and had their own related general trading companies. In 1945, the "big four" zaibatsu (Mitsubishi, Mitsui, Sumitomo and Yasuda) owned around one quarter of the Japanese private sector's total paid-up capital (p.111-112).

(nearly 70% during the period 1905-1930) remained in the agricultural sector (Ho 1978). Social relations during the Japanese colonialism were not harmonious, as there was organised resistance among Taiwanese peasants, workers, indigenous people, and the Taiwan Communist Party, who all attempted to resist Japanese rule; they were heavily oppressed by the colonial government (Chan 2001; Wong 1992).

In conclusion, the division of labour between Japanese capitalists, Taiwanese commercial capitalists and landlords, and Taiwanese tenants under the Japanese colonial order, created Taiwan's capital accumulation and export surplus, which accounted for 26% to 30% of total exports from 1905 to 1944 (Ho 1078; Sumiya et al. 1995[1992]). Taiwan's agriculture was already export-oriented from the 1860s (rather than just during the Japanese colonial period), when Taiwan was being integrated into the European-centred capitalist world-system. Yet, specifically in the Japanese colonial period was that the capital/wage-labour mode of production was introduced directly in the sugar-processing sector. The development of other manufacturing sectors was accommodated by the pace of Japan's industrialisation and Japan's imperial expansion within East Asia. This specific historical evolution forms the setting of Taiwan's contemporary post-war capitalist development.

4-5 Post-war Peripheral Development and the US Hegemony

Taiwan's capitalist development entered another phase in the post-war period. Japan was defeated by the Allied powers in the Second World War and in 1945 Taiwan was re-affiliated to mainland China. The ruling party, the Kuomintang (KMT), took over Japanese properties and reorganised them into state-owned enterprises (SOEs). Taiwan briefly re-connected with the mainland economy in 1945, but disconnected again following the KMT administration move to Taiwan in 1949. After that, Taiwan's economy was again delinked from mainland China and re-connected eventually with Japan.⁶⁷ Overall, the US and Japan both played significant roles in Taiwan's post-war capitalist development. Taiwan's economy was integrated into the US-led hegemonic order through trade (exporting agricultural goods to Japan, and importing raw materials and aid commodities from the US), inward foreign direct

⁶⁷ As Liu (1992[1975]) notes, the export destination of sugar shifted from Shanghai to Japan in 1949, when the ROC signed a trade accord with Japan in September 1950. Muraoka (2002) points out that Taiwan's rice and sugar exports to Japan were a means of obtaining foreign exchange before the arrival of US aid.

investment (mainly from the US), and direct US aid.⁶⁸ Japan's role had two dimensions. The first was the Japanese legacy from the colonial period which served as the foundation of Taiwan's state-owned enterprises and state financial capital, while the second dimension was inward FDI from Japan and capital goods imported from Japan that facilitated Taiwan's export-led industrialisation, as will be discussed later.

4-5-1 The Japanese legacy: the foundation of Taiwan's SOEs and financial capital (1945-1949)

The Japanese-owned enterprises that dominated processed food and other manufacturing sectors in the colonial period were taken over by the KMT and were organised into state-owned enterprises⁶⁹ and KMT-owned enterprises.⁷⁰ The KMT administration also incorporated many Japanese small- and medium-sized enterprises into two state-owned enterprises. The significance of this "takeover" was that the KMT and the new Taiwanese state inherited the legacy of capital accumulation during the Japanese colonial period, and incorporated them into new state-owned enterprises. The take-over served as the main mean of transferring surplus to mainland China during the civil war period (1945-1949), and the main means of facilitating Taiwan's economic development after the 1950s.

Accordingly, between the 1950s and the 1970s, the share of public enterprises in total output and investment in Taiwan was one of the largest outside the communist world and Sub-Saharan Africa.⁷¹ The function of the SOEs was very significant to Taiwan's economy, and it should be viewed as part of the vital role of the state in Taiwan's capitalist development. The SOEs provided basic infrastructure (e.g. water,

⁶⁸ US\$5.7 billion in aid arrived in Taiwan between 1950 and 1968; it comprised of military aid, economic aid, a development loan fund, and surplus agricultural commodities under Public Law 480 (CEPD 2008, p.252).

⁶⁹ This included financial institutions and the petrol, aluminium, power, sugar, fertiliser, camphor, shipping, machinery, cement, pulp and paper enterprises.

⁷⁰ The KMT administration took over Japanese public property (1.1 billion old Taiwanese dollars), Japanese private enterprises (of 860 companies, 775 were controlled by Japanese and 85 were by Taiwanese) and personal property (1.1 billion old Taiwanese dollars), and Japanese private lands (257,608 hectares) (Taiwan Provincial Consultative Council n.d.)

⁷¹ The amount of public enterprise output in GDP at Factor Cost and in Gross Fixed Capital Formation from the 1950s to 1970s was 13% and 32% respectively, see Wade (2004[1990]).

electricity, gas, public transportation), stabilised consumer prices, and offered a means of financial control (e.g. the banking sector), managed exporting in the 1950s (e.g. sugar), and undertook the function of import-substitution industrialisation in the 1970s (e.g. petroleum, iron, and steel). As Wade (2004[1990]) also points out, many SOEs formed a vertically integrated system that offered a foundation for Taiwan's defence industry.

In the financial sector, a similar characteristic to the industrial sector can be observed, namely, the foundation of Taiwan's post-war financial capital was mainly inherited from the Japanese legacy and emigrant mainland financial capital. Lai (1997) proposes that Taiwan's financial pattern (before the 1990s) originated from three sources: the first source was the financial institutions left from the Japanese colonial period; the second was domestic banks established in Mainland China but which later moved to Taiwan with the KMT in 1949; the third was the financial institutions which were newly-established in Taiwan after 1950. Financial institutions inherited from the colonial government were reorganised into state-owned commercial banks, state-owned medium and small business banks, and community banking institutions (i.e. credit cooperatives, and farmer/fishers' associations). Financial institutions that moved from the Mainland to Taiwan served as specialist banks or as development banks. The financial institutions established after 1950 were mainly commercial banks and regional medium-and-small business banks, and branches of foreign banks.

In sum, the architecture of Taiwan's financial and industrial sectors was based on the two inheritances of Japanese legacy and immigrant capital. These two inheritances also enabled the KMT party-state to dominate the industrial and financial sectors and to act as industrial and financial capitalist.

4-5-2 US hegemonic influence: US aid and inward FDI (1950-1965)

As discussed in Chapter Three, US hegemony began to mature from the end of the Second World War. At first, in East Asia, the US's regional strategy was not that clear. For example, the US tended not to intervene in the issue of the divide between the PRC and the ROC. However, the Korean War in June 1950 caused the US to shift its position and to incorporate Taiwan into its anti-communist alliance in East Asia (Lin 1992). Not only Taiwan, but also Japan and South Korea received US aid, for

example, Japan's payment for imports from Taiwan came out of its US aid.⁷² When the US decided to intervene in Taiwan following the outbreak of the Korean War, Taiwan's capitalist development was incorporated into the maturing US-centred world-system via US aid, trade, inward FDI, and political and military assistance. Taiwan's peripheral development needs to be viewed in the context of the peak of US hegemony and its regional strategy in East Asia. Subsequently, US\$5.7 billion in aid arrived in Taiwan between 1950 and 1968; it comprised of military aid, economic aid, a development loan fund, and surplus agricultural commodities under Public Law 480 (CEPD 2008, p.252).⁷³

US aid was a means to solve the problem of surplus agricultural products from the US. About 29% of US aid commodities were US surplus agricultural commodities (CEPD 2008). The significance of US aid to Taiwan is a key point often taken up in the literature in the study of Taiwan, including the fact that US aid helped the KMT administration to control inflation; filled the foreign exchange gap (it contributed more than 90% of the deficit in Taiwan's international balance of payments, see Li 1988); financed domestic revenues, and contributed to domestic investment (it provided one-third of capital investments, see Li 1988); supplied necessary food and raw materials; financed land reform; provided a channel for the transferral of technology; facilitated the guiding function within the state; and strengthened the private sector (Cumings 1987; Ho 1978; Jacoby 1966; Li 1988; Liu 1992[1975]; Wade 2004[1990]). Apart from these contributions, from the viewpoint of Taiwan's capitalist development, US aid (and other US economic measures) was significant as (1) it developed Taiwan's economic planning mechanism, which was viewed by the national model approach as a vital role in guiding Taiwan's capitalist development; (2) encouraged export-led agriculture so Taiwan was able to export agricultural products and earn foreign exchange, and thus promoted industrialisation; (3) incorporated Taiwan into the US-economic dominated world-system via trade and FDI. These points will be discussed as follows.

⁷² Japan and the US signed the Government and Relief in Occupied Areas and Economic Rehabilitation in Occupied Areas between 1945 and 1952 (Muraoka 2002, p.233).

⁷³ US aid was officially phased out in June 1965, yet the ROC requested an extension of two more years. See Li and Liu (2005).

(1) US aid developed Taiwan's economy planning methodology

Taiwan's post-war economic planning mechanism originated from the body controlling the use of US aid.⁷⁴ US aid was first launched in mainland China in 1949 when the ROC established the Council for U.S. Aid (CUSA), soon after signing the Sino-American Aid Agreement in Nanking. CUSA moved to Taiwan and became the major unit to implement policy planned by the new Economic Stabilisation Board (ESB) until 1958.⁷⁵ When the US signalled its intention to cease its aid program in 1963, CUSA was reorganised into the Council for International Economic Cooperation and Development (CIECD). In the 1970s, CIECD was in turn reorganised into the Economic Planning Council (EPC), and was later merged with other units to create the Council for Economic Planning and Development (CEPD). Economic policy and planning was undertaken through the Four-Year Economic Development Plans, which were planned by the above units. The first three Four-Year Plans (1953-1956, 1957-1960, and 1961-1964) were to apply for US aid (CEPD 2005/02/17). The function of economic planning was indeed created by US aid. Li Kwo-ting, the governmental officer strongly involved in the aid programme, clearly pointed out the major function of US aid:

'I feel strongly that the most significant contribution of the aid programme was not the material aid per se but rather the programme's spin-offs. In co-ordination with the programme we developed the basics of economic planning and programming methodology. Directional planning and objective budgeting, among others, were introduced into the country and were firmly established. The most striking evidence of this was that, two years before our emergence from the aid programme the Chinese agency handling aid funds was

⁷⁴ Liu (1992[1975]) argued that the US formulated three mechanisms to guide Taiwan's development: the Blue Print System; the Uses of Local Currency AID Fund; and the Special Matching Fund. According to the Economic Aid Agreement between the Government of the United States of America and the Government of the Republic of China (03/07/1948), the ROC needed to promptly deposit an amount of Chinese currency equivalent to the US aid imported into the special account. In 1965, the Special Fund was reorganised as the Sino-American fund for Economic and Social Development, and the amount of the fund was NT\$ 32.96 billion (US\$ 824.08 million).

⁷⁵ According to Li (2005), ESB was responsible for planning and coordinating the US aid program, CUSA took charge of implementation. However, ESB was abolished in 1958 and its role was transferred to the CUSA.

reorganised and integrated into our economic planning and implementing machinery.' (Li 1988, p.219, emphasis added)

(2) US aid facilitated export-led agriculture

During the period of US aid, agricultural products and processed agricultural products were the two main exports.⁷⁶ Agricultural production grew annually at a rate in excess of 5%, and remained at around 30% of GDP throughout the 1950s (CEPD 2008; Ho 1978). The importance of agricultural products was, as Liu analysed, that they (1) supported military finances through government's levy of large amounts of rice;⁷⁷ (2) facilitated industrialisation by exporting agricultural products and earning foreign exchange. The annual amount of sugar and rice for export was around US\$100 million, as much as the annual US economic aid; and (3) stabilised the domestic consumer price and the food-supply (1995[1992], p.80).

Several factors contributed to this increase in agricultural productivity. Firstly, it was based on the historical legacy of export-led agricultural production and agricultural processing industries. Secondly, the land reform implemented by the KMT administration between 1951 and 1953⁷⁸ increased agricultural productivity. Land reform and other agricultural policies were guided by the ROC-American Joint Commission on Rural Reconstruction (JCRR), an institution established under the Economic Aid Agreement between the US and the ROC in 1948. Thirdly, according to Thorbecke (1979), US aid was initially largely directed towards agriculture and provided related resources (p.172). The assistance and guidance from the US to implement land reform, as well as to finance the military sector, was not unique to Taiwan, as South Korea also had a very similar experience (Cumings 1987).

⁷⁶ Before 1960, the main exports were rice and sugar, which accounted for around 74 % of total exports in 1952 and 66 % in 1956. Between 1961 and 1966, the main exports were sugar, textile products and canned food. See Hsueh, *et al.* (2001).

⁷⁷ The share of rice levied and bought by the government was around 30% of total rice production between 1951 and 1965.

⁷⁸ For an introduction to land reform, see Ho (1978), Thorbecke (1979). The most important was a 'land-to-the-tillers' programme, where the landlord-tenant system was abolished as this program allowed each landlord to own a mere three chia (2.907ha) of medium grade paddy field, the excess part of their lands being purchased by the Taiwanese government and resold to the tenants.

(3) Incorporation of Taiwan into the US-Japan economic relationship

With the increase in agricultural productivity, agricultural exports balanced Taiwan's current account and facilitated labour-intensive industrialisation. Taiwan's trade relations from the 1950s to the mid-1960s were mainly characterised by the export of agricultural products to Japan (accounting for 49-65% of Taiwan's exports) and the import of raw materials from the US (accounting for 70-80% of Taiwan's imports) via aid⁷⁹ (CEPD 2008). Taiwan's strong economic ties with Japan and the US from the 1950s to the 1980s, as Gills argues, presented a 'triangular pattern of industrial restructuring' (Gills 1994, p.213). The US not only financed Taiwan via US aid, but also via its outward FDI. Taiwan's post-war inward FDI began with the relaxation of US-based FDI. The Investment Guarantees Agreement was signed by the ROC and the US in 1952.⁸⁰ From 1955, US private capital was invested in Taiwan. US and Japanese FDI accounted for around 85% and 11% of total inward FDI (excluding overseas Chinese investment), respectively (Investment Commission 2001).⁸¹ The largest investment by sector was in electronic and electric appliances, which accounted for around 27% of total FDI.

4-5-3 Domestic state-capital-labour nexus: the domination of bureaucratic-corporate capital

Apart from the influence of US hegemony and the Japanese legacy, the special role of the KMT regime also significantly shaped Taiwan's capitalist development. The dominating role of the state in Taiwan has been termed as a 'developmental state', or 'bureaucratic capitalism' (Amsden 1985, p.362), 'bureaucratic-authoritarian industrial regime' (Cumings 1987, p.71), and the Taiwanese liberal economists' 'party-state capitalism'.⁸² However, another term, 'bureaucratic-corporate capital' is more precise

⁷⁹ The pattern of trade relations, however, changed dramatically in the mid-1960s, namely, Taiwan exported light manufacturing products to the US and importing capital goods from Japan (i.e. forming a structural trade deficit with Japan and a trend to a surplus with the US).

⁸⁰ It was extended to the Statute for Investment by Foreign Nationals in 1954 and to the Statute for Investment by Overseas Chinese in 1955.

⁸¹ FDI by foreign nationals accounted for 69% of total FDI between 1952 and 1967, while the rest was overseas Chinese investment. Between 1952 and 2007, overseas Chinese investment only accounted for 4.3% of total inward FDI.

⁸² Six liberal economics professors from *Cheng-She*, a liberal society, published a book entitled "*The Capitalism of the Party-State*" in 1991, in which they criticise the monopoly of public enterprises

as it points to a special pattern of state-capital relations. The term was coined by Liu Jin-qing, a Taiwanese economist who obtained his PhD, and taught, in Japan, in his thesis of 1971 (published in 1975). Liu argued that Taiwan's public enterprises, owned by the KMT-state (the traditional and semi-feudal regime in Liu's view), were neither competitors, nor the opposite of the private enterprises owned directly by business (the private capitalist regime). Rather, Taiwan's KMT-state bureaucrats and private capitalists were combined together as 'bureaucratic-corporate capital' (*guan shang z ben*)⁸³ that dominated the industrial and financial sectors (Liu 1992[1975], p.279-280). Taiwan's capital-accumulation structure between 1945 and 1965, presented as bureaucratic-corporate capital, externally depended on the US and Japanese economy, and internally exploited small agricultural landholders and low-wage workers.

The dominance of bureaucratic-corporate capital was not only due to inherited Japanese owned enterprises, as noted previously, but also due to the security concerns of the KMT regime. The share of SOEs capital in Taiwan's total capital formation was 50.3% and 58.7% in 1954 and 1966, respectively (Liu 1992[1975], p.111). The SOEs were exclusively controlled by the state under the KMT authoritarian regime. Compared with SOEs, Taiwan's private capital was relatively weaker. Although the US intended to encourage the development of Taiwan's private enterprises rather than SOEs, the KMT was cautious and wished to prevent 'indigenous Taiwanese industrial capitalists'⁸⁴ from dominating the economy (Ellison and Gereffi 1990, p.387), so as to keep political control over the 'native Taiwanese' and a monopoly of emigrant KMT cadres. Similarly, one of the main purposes of highly controlled financial institutions was to prevent the rise of indigenous private financial capitalists and industrial capitalists (Chen 2004), given that such a class could be viewed as a potential threat or rival to KMT political power in Taiwan.

controlled by the KMT and intervention in the free market, thereby highlighting the necessity of liberalisation and privatisation.

⁸³ 'Guan shang z ben' had been translated into several different terms: bureaucratic-corporate capital, bureaucratic-business capital, and the bureaucratic-merchant capital. Here I use the first translation, drawing from Hsu (2002).

⁸⁴ The Chinese who immigrated to Taiwan during the Qing period are called 'native Taiwanese' (*ben sheng ren*) although there were real "indigenous people" living in Taiwan before these Chinese arrived who are now called 'aborigines'. The Chinese who moved to Taiwan with the KMT in 1949/1950 are referred to as Mainlanders (*uai sheng ren*).

The state profoundly intervened in the private industrial sector and financial sectors. The major private industrial sectors were food-processing and textile products. The former, based on pre-war development, was the main source of exports (together with direct agricultural products) in the 1950s and the 1960s. The latter, the textile sector, was “protected to develop” by the government via ISI. The protectionist measures⁸⁵ of the textile sector predated the First Four-Year Plan because this industry came over from mainland China with the KMT in 1949. This industry was mainly “mainlander capital”. The state’s fostering of the textile industry enabled this industry to become the major exporter in the 1960s and the 1970s, eventually superseding exports of rice and sugar.⁸⁶

In the financial sector, the domestic full-service banks were mainly state-owned (twelve of sixteen). The other four⁸⁷ were non state-owned, as three of them were established by overseas Chinese capital. The consequence of the nationalisation of the banks was that the state could use the banking sector to mobilise national savings and allocate banking loans to the industrial sector on a “selective” or strategic basis. The interest rates and foreign exchange rates were also directly determined by the government until 1989. In other words, the state acted as “financial capitalist”, specifically to guide industrial capitalists (either state-owned enterprises, or private enterprise managed ‘special permission’ businesses). Apart from the monetary institutions (banks, local branches of foreign banks, and local financial institutions), other financial institutions were also established: (1) the postal savings system (PSS)⁸⁸

⁸⁵The ISI policy included regulating the entry of new factories, adopting multiple foreign exchange rates (1951-1957), implementing high tariff-protection and import controls.

⁸⁶Textile products were the dominant export in the 1960s and the 1970s, while electrical machinery and apparatus was the second largest export commodity in the 1970s (Taniura 2003[1988], Appendix 2-8)

⁸⁷The Industrial and Commercial Bank of China (ICBC) was renamed from the Bank of China, and it was privatised in 1971, due to ROC’s withdrawal from the United Nations. When the PRC replaced the seat of the ROC in the United Nations in 1971, all overseas property with the same title as PRC’s overseas property would be taken over by the PRC government. So the ROC government changed the name of ‘Bank of China’ to ICBC and privatised it in 1971.

⁸⁸The PSS accepts saving deposits and arranges life insurance business through their branches (post offices), but the PSS was prohibited from lending. All their deposits are re-deposited with the Central Bank of China (CBC). As such, the CBC can use the PSS deposits to implement selective credit accommodation. After 1982, the re-deposit policy was changed so that four specialised banks plus the CBC could accept the re-deposits of the PSS (Shea, 1994). The share of the deposits of the PSS of all financial institutions was around 13% in 1981 (Lai, 1997).

and (2) investment and trust companies (ITC).⁸⁹ The community banking institutions were privately owned by co-operative members and farmer/fishing associations. Their leaderships were either close to the KMT or members of the KMT. It is clear that the KMT party-state had the power to channel financial capital to specific industrial capitalist projects.

4-5-4 The end of US aid and US-China rapprochement

Although the US had a strong influence on the Taiwanese state, their interests were not the same. For example, during the US aid period, US officials continued to put pressure on Taiwan to develop private enterprises and to implement economic liberalisation (Li and Liu 2005). Yet the Taiwanese state responded by maintaining a large share of SOEs while choosing some Taiwanese capitalists to manage “special permission businesses”. For example, the Formosa Plastics Corporation, Taiwan’s largest plastics corporation to date, was founded in 1954 and was supported and funded by the government through US aid.⁹⁰ Another example was that the KMT administration planned to “recover mainland China,” in the 1950s, so a large defence expenditure was allocated.⁹¹ The US, however, tried to change the KMT’s plans in favour of developing Taiwan rather than returning to China (Hsueh *et al.* 2001, p.21).

The situation of competing concerns and interests between the US and Taiwan became more obvious in the 1960s. In 1959, the Director of the International Cooperation Administration of Mutual Security Mission to China, Wesley Haraldson,

⁸⁹ These act as trustees to manage trust funds and trust property, mainly utilised for loans, and securities investment. The Taiwanese government did not allow newly established private banks, but they allowed the establishment of private investment and trust companies (Lai, 1997). In the early 1970s, seven ITCs and one state-owned ITC were set up, and then the licensing of new ITCs was soon suspended due to the fierce competition. The share of loans provided by ITCs, as a proportion of all financial institutions, in 1981 was 4.17% (see Lai, 1997). Nowadays, only two ITCs exist, as the other ITCs were either transferred to or merged with commercial banks, or withdrew.

⁹⁰ The Industrial committee of Economic Stabilisation Board initially proposed a production plan of polyvinyl chloride (PVC) undertaken by state-owned enterprise; however, the facilitator of the committee, Yin Chung-long, argued that such an industry should be produced by private enterprise. Accordingly, they negotiated with Wang Yung-ch’ing (who later founded the Formosa Plastics Corporation) to execute the plan and applied for a loan from US aid for him. See Gold (1986), Li and Liu (2005).

⁹¹ According to Ho, the share of defence expenditure of general government expenditure was 65.8% in 1955 and 65% in 1960 (1978, Table7.1).

proposed eight reform points⁹² to the Vice President of the ROC (Li and Liu 2005). Later the ‘Nineteen-Point Program for Economic and Financial Reform’ was drafted by Taiwan. This plan was approved in January, 1960. It was a response to the US’s proposal and ‘accepted the main points put forward by the USAID director in essence’ (Hsueh *et al.* 2001, p.22). The real issue of the 19 Point Reform, however in Hsueh *et al.*’s account, was to pursue self-sufficiency, namely to search for alternative resources instead of relying on US aid (2001, p.24-25). As such, the multiple foreign exchange rates system was completely adjusted to a single rate system in 1960, and the Central Bank was re-established in 1961. The Statute for Encouragement of Investment legislation drafted from the 19 points, was promulgated in September 1960, and aimed to increase investment, domestic savings, and encourage export through tax relief.⁹³ Taiwan was not a unique case in shifting to encouraging exports under US pressure. As Gills (1994) argues that in both Taiwan and South Korea, the timing of the shift to EOI, under political pressure from the US, was synchronised (Gills 1994). Taiwan’s economic policy change needs to be seen as part of the overall shift of US East Asia strategy from aid to EOI promotion.

Thereafter, the US not only changed their regional strategy from aid to EOI promotion, but also changed its geopolitical strategy in the late 1960s. Amongst other things, the US decided upon rapprochement with Communist China, which thus impacted on Taiwan. I should briefly review the complicated US-China-Taiwan nexus here. After Japan was defeated by the Allied Alliance in 1945, Taiwan was temporarily under the governance of the Republic of China led by the Kuomintang (ROC-KMT). With US support, the ROC was also one of the founding members of the United Nations (UN) and obtained a permanent seat in the UN Security Council in 1945. However, domestic political conflict within China was severe in the late 1940s. The ROC-KMT was defeated by the Communist Party of China (CPC), and thus moved to Taiwan in 1949. The ROC also left the General Agreement on Tariffs and Trade (GATT) in 1950. The legitimacy of the ROC-KMT’s governance of Taiwan

⁹²(1) to transfer new GDP to productive investment instead of military expenditure; (2) to control inflation; (3) to reform the tax system for enterprise development; (4) to unify the foreign exchange rate system; (5) to prevent the use of the foreign exchange rate system to control imports; (6) to set up a committee examining the price of public enterprise services; (7) to set up a stock market; (8) to privatize public enterprises; see Li and Liu (2005), Appendix Four

⁹³The package included income tax holidays, business income tax, tax exemption for undistributed profits, tax deduction of exports, exemption of stamp tax, and tax reduction of foreign currency debt. See Kuo, *et al.* (1981)

remained unresolved, as Japan officially repudiated Taiwan in the San Francisco Peace Treaty⁹⁴ on 8 September 1951, without mentioning which authority would succeed the right to govern Taiwan. This controversy was due to two authorities announcing that they represented China and assuming Taiwan to be part of China: one was the PRC-CPC; and the other the ROC-KMT. The US intervened by pressuring Japan to sign another peace treaty with the ROC-KMT (the Treaty of Peace between the ROC and Japan)⁹⁵ on 28 April 1952, rather than with the PRC-CPC.⁹⁶ The ROC-KMT was soon incorporated into the US's anti-communist regional alliance in Asia, receiving political, military, and economic aid from the US between 1950 and the mid-1960s.

However, the US shifted its Asian strategy in the late 1960s, and began to contact the communist PRC. This rapprochement produced three communiqués⁹⁷ in 1972, 1978, and 1982 respectively, in which the PRC announced the 'one China policy' (namely, that there is only one China and Taiwan is part of China) and the US recognised this policy. In this context, the PRC replaced the ROC's seat in the UN in 1971, causing the ROC to withdraw from the UN in 1971. In 1979, the ROC's strongest supporter, the US, broke off diplomatic relations with the ROC and approved the Taiwan Relations Act.⁹⁸ This Act mentions that 'the absence of diplomatic relations of recognition shall not affect the application of the laws of the US with respect to Taiwan prior to January 1, 1979.' Yet, under the Act, all US policy and official exchanges will no longer take place through official departments but are to be carried out through the American Institute in Taiwan (AIT), a non-profit corporation. Although US-Taiwan political and economic exchanges could be operated through special 'non-official' relations after diplomatic relations were

⁹⁴ For the full original text see (http://www.uni-erfurt.de/ostasiatische_geschichte/texte/japan/dokumente/19/19510908_treaty.htm)

⁹⁵ For the original text see (<http://www.taiwandocuments.org/taipei01.htm>)

⁹⁶ Several studies analyse how the US intervened into this controversy see Richard Bush, *At Cross Purposes: US-Taiwan Relations since 1942*, (London: M.E.Sharpe, 2004); Matake Kamiya, 'Japanese Politics and Asian Policy', in Ezra F. Vogel, *et al.* (ed.), *The Golden Age of the U.S.-China-Japan Triangle 1972-1989*, (Cambridge and London: Harvard University Asia Center, 2002), 52-75; Man-houng Lin, 'E-news No.40: Future Possibilities for the Relations between Taiwan and the UN', 01/11/2007, (<http://newsletter.sinica.edu.tw/en/file/file/4/434.pdf>, 20/09/2008).

⁹⁷ The Shanghai Communique in 1972, the Normalization Communique in 1978, and the Arms Sales Communique in 1982

⁹⁸ The following discussion about the Taiwan Relations Act is drawn from the original text, (http://www.ait.org.tw/en/about_ait/tra/).

broken off, other countries did not act the same way as the US. The ROC's diplomatic allies reduced from 59 in 1971 to just 23 in 2008.⁹⁹

In sum, the US played a significant role in deciding Taiwan's international status and cross-strait relations. The controversy over Taiwan's legal status in the 1940s and the 1950s was "solved" by the US; yet when the US and China reached agreement on the Taiwan question in the 1970s, Taiwan was only "informed" by the US. In other words, it was the US and the PRC who negotiated the status of Taiwan. Such characteristics remain a core principle in the US-Taiwan-PRC nexus to date. Moreover, Taiwan's dependence on the US did not decline when US aid officially ended in 1965, or when the ROC-US diplomatic relations ended in 1979. On the contrary, in the Taiwanese government's view, the US is a necessary third party for cross-strait relations. For example, former President Lee Teng-huei argues that if Taiwan planned to sign a peace accord with the PRC, the accord would not be legitimate unless the US signed jointly (Ho 30/04/2008)

4-6 Ascended to the Semi-periphery: (1966-86)

From 1966 to 1986, Taiwan ascended from the periphery to the semi-periphery. The features of the ascent can be observed in three points. Firstly, Taiwan shifted from an export-led agrarian economy, to an export-led industrialising economy in a mere 20 years from 1945. In particular, inward FDI from the US and Japan played key roles. The share of agricultural goods (23.6%) of GDP was exceeded by industrial products (30.2%) in 1965 (Sumiya *et al.* 1995[1992], p.350).¹⁰⁰ The export of light manufacturing products (e.g. textile, electronics) increased from 8.1% of total exports in 1952 to 62.7% in 1966 (CEPD 2008). In the export-led sectors, it was the FDI and Taiwan's small- and medium-sized enterprises (SMEs) undertaking much of the activity. Secondly, the outcome of EOI was not only the development of industrialisation, but also a growth of capital surplus. In 1977, Taiwan's current account recorded a surplus (CEPD 2008). Taiwan's foreign exchange reserves was less than US\$700 million in 1972, a figure that increased to US\$11,859 million by 1983 (Department of Investment Services 2007). Within just a decade, the foreign

⁹⁹ MOFA, Foreign Policy Report, 7th Congress of the Legislative Yuan, 1st Session (Taipei: Ministry of Foreign Affairs, ROC (Taiwan), 05/03/2008).

¹⁰⁰ However, the agricultural labour force was not overtaken by the industrial labour force until 1973, which implies a surplus agricultural labour force. I will discuss this in the following chapter.

exchange reserves grew by nearly 17 times. Thirdly, Taiwan not only developed export-led industrialisation, but also attempted to establish domestic production chains by developing upstream heavy chemical industries in the 1970s. The bureaucratic-corporate capital, which includes state-owned enterprises and certain large private enterprises, undertook the job to develop domestic production chains.

As such, Taiwan ascended to the semi-periphery through the special dual industrial trajectories, EOI and ISI. The two trajectories were not completely separated, but were related to each other via division of labour among SOEs, large private enterprises, and SMEs. The upstream and intermediate stream of Taiwan's production chains (e.g. petro-chemical, steel and iron, transportation equipment) were mainly SOEs and large private enterprises, and they focused on ISI and produced for the domestic market. The downstream (e.g. textile, clothing, plastics products) sector was mainly SMEs, and they focused on the EOI. The only exception was in the electronics industry, the second largest exporting sector in this period, as it was an FDI-dominated industry (mainly US and Japanese FDI) from the beginning of its development in Taiwan. The industry, however, turned into the primary engine for Taiwan's semi-peripheral upward mobility from the late 1980s.

The neo-classical school argues that the EOI was the main engine in promoting Taiwan's development; however, the reality is that Taiwan's peripheral ascent was facilitated by both the EOI and ISI. In a comparative study of East Asian and Latin American NIEs, Gereffi and Wyman (1990) contend that it is an over-simplification to regard ISI and EOI as being strictly separate. These two industrialisation paths have indeed been 'complementary and interactive' in Taiwan's capitalist development (p.18). Taiwan's EOI during 1966 and 1986 was light manufacturing, that is, end-use products; accordingly, the EOI of end-use products was not in conflict with the formation of domestic production chains. Taiwan retained features of EOI-led industrialisation after 1987; however, the EOI is the exporting of intermediate goods, for the purpose of joining a global production chain in the electronics industry.

The state-centric school's argument is partial by viewing the guiding role of the state as the main actor in Taiwan's economic success. The role of the state and bureaucratic-corporate capital was crucial in the integration of Taiwan's domestic production chains. However, EOI cannot be ignored and it was mainly developed by SMEs and FDI which received little support and guidance from the state. The success of Taiwan's EOI needs to be placed in the wider international context, namely

Taiwan's links with the capitalist world-system and the influence of US hegemony. In general, Taiwan's peripheral ascent needs to be analysed through an understanding of the two industrial trajectories, the domestic and international context. The following sections will discuss the factors that drove Taiwan's peripheral ascent, through the analysis of Taiwan's links with the capitalist world-system, domestic production chains, and state-capital-labour nexus.

4-6-1 The Success of the EOI: the context of the capitalist world-system

Why was EOI successful? As noted previously, the EOI strategy was not a sudden shift in policy. Since British hegemony opened Taiwan's trade in the mid-nineteenth century, Taiwan has been an export-led economy, and Taiwan simply shifted from an export-led agricultural economy to an export-led industrialising economy in the post-war period. The EOI policy emerged due to the changes in US aid policy in the early 1960s. Most importantly, Taiwan's EOI was constituted for a triangular international division of labour with the US and Japan, through trade and FDI. The process can be viewed as a 'development of invitation', namely the opportunity of development is offered by the capitalist world-system and the core zone (Wallerstein 1979, p.80). As discussed in Chapter Three, the core zone has entered a downturn phase since 1967/1973, and one of the strategies to prevent the decline in the rates of profit in the industrial sector is to relocate industries abroad, which brought about the process of industrialisation in some chosen developing countries; Taiwan was one of these chosen countries. Not only did the US and Japan relocate their light industries to Taiwan, but the US also opened its market for Taiwan's light manufacturing exports. Without the opening of the US market to Taiwan, the import of Japanese capital goods, the inward US and Japanese FDI, and the US's push on Taiwan's policy shift, there was no possibility of Taiwan's EOI being successful. In other words, Taiwan's EOI was guided and influenced by the US and Japanese economies. The detailed relationship among the triangular nexus via trade and FDI is as follows.

Firstly, the triangular pattern was that Taiwan exported textile products, electronics, and consumer manufactures to the US.¹⁰¹ Taiwan imported machines, electrical

¹⁰¹These three exports accounted for 62.7% of Taiwan's total exports to the US in 1966, and increased to 78.8% in 1975, see Baldwin, *et al.* (1995).

machinery, apparatus, and transportation equipment (i.e. capital goods) from Japan (Baldwin *et al.* 1995). More than 50% of Taiwanese total exports and imports were traded with the US and Japan, which was consistent with the previous period.

However, the US became the main export destination in 1967, and Japan became the largest source of imports in 1964 (CEPD 2008). In 1977, Taiwan's current account recorded a surplus, and this continued to increase sharply from then on. Specifically, Taiwan's exports to the US reached a surplus in 1968, and remained as high as 40-50% of Taiwan's total exports until 1988. The reduction of the trade surplus during the 1980s was due to the US's bilateral political pressure on Taiwan to improve the trade balance - this will be discussed further in Chapter Five. On the other hand, Taiwan's imports from Japan did not show a significant change, and have remained as high as 26%, up to the present. This phenomenon needs to be discussed with the composition of exporting commodities.

Secondly, textile products were the dominant export during the 1960s and the 1970s, while electrical machinery and apparatus was the second largest export commodity in the 1970s (Taniura 2003[1988], Appendix 2-8). The increase in textile exports from Taiwan to the US was as a result of the protectionist measures imposed by the US on Japanese cotton textiles in the 1950s (Baldwin *et al.* 1995), and Taiwan's inclusion into the US's Generalised System of Preference (GSP) between 1976-1989. In other words, Taiwan's textile exports were strongly influenced by the shift in the US's international economic policy. As for the electronics sector, it was FDI-led and export-led. For example, a share of 81.9% of Taiwan's electronics exports was from Taiwan's inward FDI in 1975 (Chu and Amsden 2003, Table 2-19). In sum, FDI played a crucial role in the export-led electronics industry, together with the export-led textiles industry, and drove Taiwan's EOI development in the 1960s and the 1970s.

Thirdly, the key contributor to the EOI via inward FDI was mainly from the US and Japan. Although the ratio of FDI to Taiwan's gross domestic capital formation figure was only between 3% and 10% in the 1970s (Wade 2004[1990], p.149),¹⁰² it would be misleading to argue that FDI was not important. The state-centric approach argues that inward FDI played little role in Taiwan's peripheral ascent (e.g. Wade). The specific role of inward FDI in Taiwan needs to be analysed in the context of

¹⁰² According to author's calculation from CEPD (2008) and Investment Commission (2008), the share of all inward FDI to gross domestic capital was only 5.3% and 6% in 1986 and in 1987.

sector and investing countries. First of all, Japanese (29.9%) and US FDI (38.4%) accounted for **68.3%** of total FDI by amount (excluding overseas Chinese investment) between 1968 and 1986 (Investment Commission 2008). Secondly, during the same period, the electrical equipment sector accounted for 36.5% of total investment, followed by chemical materials (17.8%), and the machinery and equipment sector (12.7%). Thirdly, FDI was export oriented, for example, about 20-25% of Taiwan's total industrial exports were from FDI in the 1970s, and the share was as high as 39% in 1987 (Kuo 1991; Wade 2004[1990]).

Moreover, the FDI-led, export-led electronics industry established the foundation for its successor, the export-led Taiwanese hi-tech electronics industry in the 1980s and the 1990s. The model of promoting EOI was also inherited by the latter, namely from the Export Processing Zones (EPZs) to the new form of science-based industrial parks. An EPZ is a special production zone to promote export-led industrialisation, and it provides a geographical cluster, transportation access, simplified administrative procedures, and tax-free environment. In 1966, the first EPZ was established near Kaoshiung harbour, which was 70% funded by US aid. Two further EPZs were subsequently established in 1970. In the 1970s, around 80% of investment in EPZs came from foreign-owned companies (60%) and from joint venture companies (20%) (Hsueh *et al.* 2001, Table 2-8). The main investors were Japanese and American. For example, Japanese FDI and US FDI accounted for about 38% and 16% respectively of total investment in 1972. The electronics and electrical machinery industries accounted for 76% of the EPZs investment during the period 1966-2001 (EPZA 2001, p.40). The EPZs present a miniature pattern of FDI in Taiwan. Although exports from EPZs, as a share of Taiwan's total exports, were only 7% to 8% in the 1970s and the 1980s,¹⁰³ they were responsible for 19.44% of Taiwan's total trade surplus during 1966-2001 (EPZA 2001). Moreover, the development of EPZs brought about the growth of small-and-medium sized enterprises (SMEs). According to EPZA, more than twenty thousand satellite plants were either outsourced by EPZs or established by ex-employees from EPZs. Specifically, in 1972, the Taiwanese government mobilised a mainly female, home-working labour force to be used by EPZ enterprises, through the policy of "the living room is a factory." The influence of EPZs on Taiwan's economy and employment was far more than EPZs *per se*.

¹⁰³Author's calculation from Li and Chen (1987, Table 5-5), CEPD (2005, Table 11-4).

Another key factor in the success of the EOI, apart from FDI, was the Taiwanese SMEs.¹⁰⁴ Before the late 1980s, the SMEs were export-led, but importantly, they began to be oriented towards the domestic market after 1988.¹⁰⁵ The point shows that the SMEs were export-led only for a time. To take some export-led industries in the 1960s and the 1970s as examples: the share of SMEs by numbers was 97% in the plastic products industry; 58% of those enterprises had fewer than ten employees (Chou and Lin 1999, p.62). In the textiles industry, 85% were SMEs in 1976 (p.65). However, SMEs had industrial links with state-owned enterprises (SOEs), large private enterprises, and TNCs through subcontracting and outsourcing. For example, the statistical data compiled by the Ministry of Economic Affairs in 1988 showed that around 11.6% of the gross profit of the manufacturing industry was created by subcontracting arrangements (Hsiung 1996, p.54). As such, Shieh (1992) argues that the flexibility of the subcontracting system made the effective response to rapid and wide fluctuations of exports possible, and this flexibility was a major contributor to the success of Taiwan's export-led industrialisation (p.161).

Compared with large private enterprises, SMEs have received less support from the state, especially in their financing methods. Although the state dominated the financial sector, they channelled most of their capital to state-owned enterprises and to the large private enterprises.¹⁰⁶ Within private enterprises, the data for 1983 provided by Shea and Yang show that only enterprises with more than 10 employees had more than 50% of their domestic borrowings from financial institutions (Shea and Yang 1994, p.213). In other words, SMEs needed to seek other funding apart from the formal financial institutions. Here, then, enters the informal financial market, which refers to the financial borrowings and loans which are not from official financial institutions and the capital market but from informal methods, including credit rotation clubs, trade credit, deposits with enterprises, moneylenders, pawnbrokers, leasing companies, instalment credit companies, investment companies, and credit unions (Wang 2001).

¹⁰⁴ The role of SMEs in Taiwan has been significant from the early stages of industrialisation to the present. In 1971, SMEs (with less than 30 employees) made up of 86.7% of the total number of factories (Hsiung 1996). By 2001, this portion had increased to around 90% (DGBAS various years-a).

¹⁰⁵ More than 50% of SMEs' products have been oriented towards the domestic market since 1988, whereas the figure was only 24.1% in 1982, see Chou and Lin (1999). In 2005, the share of domestic sales of total SMEs' sales was 78 %, see SMEA (2006).

¹⁰⁶ For example, around 95% of SOEs relied on loans from financial institutions, while only 60% of all private enterprises received loans from financial institutions (Shieh 1992).

Between 1964 and 1987, 25.3% of business financing was from the informal financial market (Shea and Yang 1994, p.203). Of private enterprises 35.2% made use of the curb market, especially SMEs with fewer than ten employees. Some scholars have termed the pattern of co-existence between the informal financial market serving SMEs and the official financial institutions serving SOEs and large private enterprises as ‘financial dualism’ (Chou 1995; Yu and Wang 2005). The term, however, is misleading, as the two systems are not in fact truly separate. For example, in Tang’s study (1995), trade credit between enterprises either took the form of ‘supplier’s credit’ or the form of ‘upstream firms provide loans to downstream contractors’ (p.849). Many cases also show that the upstream and intermediate stream enterprises obtained loans from the banks and then extended credit/loan further downstream to small firms at higher interest rates (*ibid.*) As such, the informal financial market was neither replaced by the formal financial market, nor a true competitor. Rather, they played a complementary role vis-a-vis each other. The relationship between official financial institutions and informal financial market is a reflection of the complementary relationship between SOEs, private large enterprises, and SMEs. This is due to Taiwan’s dual industrial trajectories. I have discussed the EOI which was undertaken by TNCs and SMEs, and I will now introduce another trajectory.

4-6-2 Domestic production chains via the development of heavy-chemical industries and industrial financing

While Taiwan pursued EOI, it also promoted another trajectory, namely to build up domestic production chains via the development of heavy-chemical industries (HCI). While light manufacturing (e.g. textile, plastics) was developed from the mid-1960s, there was an insufficient supply of intermediates (e.g. Polyvinylchloride-PVC) from domestic firms, although four PVC firms were established in the 1950s and 1960s. As such, the Taiwanese state fostered import-substitution industrialisation in “basic heavy industries”, such as chemical wood pulp, petrochemical intermediates, and large-scale integrated steel production (Ministry of Economic Affairs 1961, cited from Wade 1990, p.87). Not only for the purpose of reducing import intermediates, the state viewed that industrial development in the long-term needed to be centred on export products based on the development of both ‘forward and backward industries’ (Ministry of Economic Affairs 1961, cited from Wade 1990, p.87). As discussed in Chapter Three, to form a production chain, the forward sectors (e.g. finished goods)

and the backward sectors (e.g. raw material) need to be integrated. As such, the state attempted to build domestic production chains by developing the upstream and intermediate stream sectors. In particular, the two oil crises of the 1970s (1974, 1978) and the downstream demand for plastics and manmade fibre textiles led the Taiwanese state to develop backward industries and infrastructure. The security factor also counted, because Taiwan lost its UN seat in 1971, the US reduced its arms sales to Taiwan, and in 1972 began withdrawing its military personnel (Gold 1986, p.99; Hsueh *et al.* 2001, p.37). The ‘Ten Major Development Projects’ were launched in 1973. These projects included: implementing import-substitution in heavy industries, such as petrochemicals, steel, and shipbuilding via state-owned enterprises, for example China Petroleum Corporation, China Steel Corporation and China Shipbuilding Corporation. As such, major industries in this period (1966-1986) were not only food processing, textiles, electronics, but also chemical and plastic products (Sumiya *et al.* 1995[1992], Table 2-11).

The domestic production chains in the upstream petro-chemicals, intermediate stream chemical material and products, and downstream plastics products and synthetic fibre textiles were vertically integrated. Another example of a production chain was the upstream iron and steel industry (SOEs), intermediate stream transportation equipment manufacturing (ships and automobiles), and downstream machine processing industry. The major partners who assisted such integrated projects were American petroleum and chemical giants (Gold 1986).¹⁰⁷ However, this hierarchical structure was also built through state intervention: the upstream was monopolised by state-owned enterprises until 1986, while the intermediate stream was dominated exclusively by four private plastics enterprises (Formosa Plastics Corporation, Cathay Plastics Corporation, China General Plastics Co., and Ocean Plastics), and the downstream was occupied by numerous SMEs which pursued export (Hsueh *et al.* 2001; Taniura 2003[1988]).

Industrial financing support

The state helped to form domestic production chains via several strategies, e.g. trade protection, the establishment of SOEs, tax incentives, technology imports, entry restrictions, and infrastructure establishment. The most important strategy was

¹⁰⁷ Therefore chemical products became one of the few areas in which the US surpassed Japan to become the biggest importer (Baldwin *et al.* 1995).

industrial financing support via interest rates policy, foreign exchange rates policy, selective credit accommodation, export and import financing, and development banking. It is noteworthy that this industrial financing support was aimed at both the EOI and the ISI sectors.

(1) *Interest rate policy and foreign exchange rate policy.* The government determined the interest rates by setting a high interest rate on saving deposits to encourage high domestic savings,¹⁰⁸ and by providing a ‘concessional’ rate on loans financing targeted industries or sectors.¹⁰⁹ Taiwan’s national savings rate was as high as 24.34% between 1971 and 1988, most of which were household savings (Shea and Yang 1994). Interest rate policy thus served as a tool to channel household savings into the industrial sector. As for the foreign exchange rate, in the 1950s and the 1960s the government implemented a multiple exchange rate system to encourage both the export sector and the import-substitution sector (Wen 1996). From 1970, the system changed to a fixed exchange rate system by pegging the NT at 40 dollars to one US dollar. The consequence of a fixed exchange rate was to keep the NT dollar devalued so as to allow Taiwan’s export-led industries to remain at an international competitive price.

(2) *Selective credit accommodation by the CBC.* The special loans policy had provided agricultural and strategic industrial sectors with capital for export activity and investment. The special loan rediscounts (i.e. the interest rate charged by the CBC for rediscounting special loans offered by domestic banks) as a share of total claims of the CBC on monetary institutions was around 52% between 1962 and 1988 (Shea and Yang 1994). Several types of selective credit accommodation were provided by the CBC to banks (CBC 1996, p.172-174): export accommodation¹¹⁰, the special fund for medium-and long-term credit¹¹¹, and loan accommodation.¹¹²

¹⁰⁸ The nominal interest rate on one-year deposits averaged 10.28% between 1961 and 1988; and interest on savings held for two-years was tax-free (Shea and Yang 1994, p.205).

¹⁰⁹ The interest rate for lending money to the export sectors was 11.88%-13.32% between 1956 and 1967, while the interest rate to other industries was 19.8%-13.32% (Chang, Chiu, and Tu 2005).

¹¹⁰ From 1971, the Central Bank accommodated export loans to domestic and foreign banks. The accommodation interest rate (6.75%-11.25% between 1979 and 1984) was lower than the temporary accommodations rate (10%-17%) and the rediscountrate charged by the CBC to the banks (7%-13.25%) (Wang 1996). This policy was abolished in 1991.

¹¹¹ In 1966, some of the postal savings re-deposits were used to set up the Special Fund to accommodate banks’ medium-and long-term loans, e.g. basic infrastructural projects.

¹¹² From 1973, the banks could apply to the CBC for accommodation for loans for the imports of machinery, to technology-intensive industries, and short-term loans to SMEs.

(3) *Export and import financing.* In the 1960s, the state offered a preferential interest rate to the export sector and to the industries which imported machinery. The interest rate for export firms was much lower than the minimum rate for secured loans.¹¹³ However, Chou argues that the interest rate subsidy to export loans was not actually much when compared with the contribution of exports to the GNP. In other periods the share of export loans to the total of short-term secured loans was mostly less than 10% (Chou 1995, p.99). This was because most export-led SMEs could not obtain loans from the banks, as was discussed previously.

(4) *Development banking.* The majority of commercial banks normally do not attempt to provide loans for long term investment. The function of development banking is to provide long-term credit to industries. In Taiwan, the government directed different specialist banks to provide special credit loans for various sectors (Amsden 2001). Accordingly, after the amendment of the Banking Act in 1975, six state-owned banks were either established or appointed to finance particular sectors.¹¹⁴

In conclusion, under the two industrial trajectories, SMEs and TNCs dominated the external exports market, while SOEs and large private enterprises dominated the domestic market (Baldwin *et al.* 1995, p.10). As Baldwin *et al* argue, ‘the former enterprises (SMEs plus TNCs) were highly competitive and market driven, while the latter (SOEs plus LEs) were oligopolistic and state directed’ (1995, p.11). High tariffs and import control measures coexisted with export promotion measures in the 1960s. The export incentives remained in place while the government adopted import-substitution in the 1970s (*ibid*). The Taiwanese state was able to implement industrial policy not only because the US supported Taiwan’s policy shift, but also as the KMT party-state controlled both the political and economic system (e.g. politically it was an authoritarian regime; economically the KMT developed the SOEs and controlled the financial institutions). However, private industrial capital gradually increased in

¹¹³ During 1974-1989, the difference between secured loans and export loans had ranged from 2.3% to 6.3% (Wen 1996). The policy of low-interest rate export loans was abolished in 1989, when the liberalisation of interest rates was completed.

¹¹⁴ The Farmers Bank of China (agriculture), The Land Bank (real estate), Medium-and Small Business Banks (medium and small business loans), The Export-Import Bank of ROC (export-import enterprises), as well as the Industrial Bank of China, and the Chiao Tung Bank (medium and long term loans to industry).

number. Private enterprises grew dramatically between the mid-1960s and the 1970s. According to Liu (1995[1992]), only 56.2% of manufacturing GDP was produced by private enterprises in 1965, but the figure had grown to 85.8 % by 1975 (ibid, Appendix 1-7). This share did not exceed 90% until 1996 (CEPD 2005, Table 5-4). It is evident that this period was very significant in the growth of private manufacturing enterprises, especially the growth of the SMEs and large enterprises in mid-stream sectors.

4-6-3 How did labour contribute to Taiwan's peripheral ascent?

The specific role of state-capital relations, in terms of bureaucratic-corporate capital in the industrial and financial sectors in promoting the two industrialised trajectories, was not the full story of Taiwan's peripheral ascent. As the thesis argues, labour was a necessary part of social relations for capital accumulation. So how did labour contribute to Taiwan's ascent, and did organised labour as a social force resist Taiwan's ascent? This section will discuss a specific labour pattern that contributed to Taiwan's peripheral ascent trajectory, in particular in the export-led sectors, namely, a flexible and unprotected labour market, and the "feminization" of labour. As Chapter Seven will show, in Taiwan's overseas employment since the 1990s, we find that Taiwan's specific labour pattern in the pre-1987 period is similar to Taiwan's overseas employment since the 1990s, and this demonstrates that a peripheral ascent needs a particular labour pattern. Furthermore, as we saw in the previous discussion of peripheral social formation, Amin (1976) argues that one of the features is 'non-complete proletarianisation,¹¹⁵ a feature that can be observed in Taiwan's specific labour pattern during the pre-1987 period.

The division of labour between different types of industrial capital (SOEs, private enterprises, and SMEs) reflects the pattern of labour and labour's working conditions. The following discussion will show that more female labour than male labour worked in the export-led sectors; by contrast, male labour dominated the upstream and intermediated stream sectors (e.g. petrochemical, steel, transportation manufacturing sectors). Thus, a gender division in labour occurred in accordance with the division of labour between different types of industrial capital. Working conditions in the

¹¹⁵ Proletarianisation refers to the social process whereby people move from being either an employer, or self-employed, or peasants to being employed as wage labour by an employer.

upstream and intermediate sectors were also better than that in downstream export-led sectors as the former required skilled labour and paid higher wages than other sectors (as the following table shows), and these enterprises were under labour protected by Taiwan's labour law. Taiwan's labour regulation (e.g. Trade Union Law) was only aimed at those enterprises employing more than 30 workers. However, nearly 60% of employees worked in export-led SMEs during the 1960s and the 1980s (Chou and Lin 1999). A complete framework of labour regulation for all industrial workers (i.e. Labour Standards Law) was not promulgated until 1984. In other words, the main characteristic of labour's working conditions during Taiwan's peripheral ascent period was a lack of labour protection and regulation. In the following section, I will mainly discuss the labour pattern in the export-led sectors as they were the majority in employment and represented the specific labour pattern of peripheral ascent.

Table 4-2 : Some indicators of key industries during 1973-1987

key industries	number of male workers	number of female workers	male workers' wage (NT\$)	female workers' wage (NT\$)
the total manufacturing sector	1,033,189	972,592	9,651	6,596
textile industry	82,401	149,334	9,862	7,003
electronics component industry	44,180	90,162	14,352	8,701
Petroleum refining industry	10,024	1,101	14,334	12,427
chemical industry	25,735	12,247	11,925	8,401

Source: DGBAS (various ears-b), Time Series of Earning and Productivity Statistics Tables

The flexible and unprotected labour market

I have shown how the state promoted industrialisation (both EOI and ISI) and helped to integrate domestic production chains through its domination of the industrial sector (the bureaucratic-corporate capital) and of the financial sector (state financial capital). Nevertheless, those firms that received least protection and promotion by the state, i.e. the SMEs, had a profound development role in export-led sectors. I have discussed the situation whereby the SMEs were at the bottom of the domestic industrial linkage

and relied on the informal financial market for financing. In such a tough environment, how could they maintain export competitiveness? A significant factor behind their success was their special pattern of labour. This section will first discuss the two characteristics of the labour pattern in the SMEs, namely a flexible and unprotected labour market, and the feminization of labour.

The labour patterns that are categorised by Harrord (2006) as ‘least protected’ are peasant, casual labour, enterprise labour (mainly referring to non-unionised and small enterprises labour), self-employed labour, and household labour (p.42). All of these unprotected labour patterns could be observed in Taiwan, and were in fact the major labour pattern.

In addition to the high numbers employed by SMEs, there was a high share of self-employed labour in Taiwan, accounting for more than 20% before 1985.¹¹⁶ Two types of labour contribute to this pattern: the small subcontracting workshop, and home-workers. Shieh’s (1991; 1992) study of Taiwan’s subcontracting network explores four types of labour: (1) unpaid family members; (2) hired wage-labour; (3) mixed family members and wage-labour; (4) neither wage-labour nor family labour. The first and fourth are counted as self-employed labour. They primarily use family members as the labour force because the latter can provide ‘elasticity, flexibility, and low-labour cost’ (1992, p.138-139). There were two types of wage system in subcontracting: one was the piece-rate system, which is the same system as for home-workers; the other was the time-wage system, in which the employers pay a basic wage¹¹⁷ plus some allowances and bonuses (p.133-135). Moreover, enterprises which employed less than five employees were not required to offer labour insurance.¹¹⁸ This feature of export-led SMEs, the flexibility of the subcontracting system and the low-labour costs created opportunities for new entry to small enterprises. Thus, many manufacturing workers might shift to being the subcontractors of a new enterprise. The pattern of “black-hands” (i.e. manufacturing workers) becoming “boss” was a significant feature before the late 1980s (Chou and Lin 1999; Shieh 1991; 1992). A sample survey revealed that around 35% of the labour force had set up their own

¹¹⁶ See Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C (2003) Yearbook of Human Resource Statistics

¹¹⁷ Before the enforcement of the Labour Standards Law in 1984, the basic wage regulated by the government was around 40 to 50 percent of the average wage of the manufacturing workers.

¹¹⁸ Before the enforcement of Health Insurance in 1994, it was Labour Insurance that covered all functions of social insurance.

businesses between 1979 and 1987 (cited from Shieh 1992, p.177). It was a high level of SME entrepreneurship which added a difficulty to organised labour's resistance, as labour might shift to being "the boss" of an SME.

In terms of state regulation, before the promulgation of the Labour Standards Law in 1984, factory working conditions were regulated by the Factory Law and by the Labour Insurance Act. The former only covered labourers who worked in factories and excluded home-workers and self-employed labour. The Labour Insurance Act merely covered enterprises which hired more than five employees. The legal working hours were forty-eight hours per week; however, overtime could extend working hours by up to four hours as long as the total overtime working hours did not exceed 46 hours per month. In general, the legal working hours plus overtime hours were between 194 and 238 hours per month (48-59 hours per week). There were no regulations for severance pay or retirement funds for labourers. Factories were also allowed to employ workers as apprentices, who were more than thirteen years old,¹¹⁹ thereby including child labour of school age.

Femalisation of labour in the export-led sectors

In Taiwan, several studies noted that the participation of female workers sharply increased during the 1960s and the early 1970s (Cheng and Hsiung 1992; Greenhalgh 1985, p.273). In particular, between 1965 and 1973, female participation in the labour force grew from 33.1% to 41.5%¹²⁰ (Cheng and Hsiung 1992, p.324). It is notable that until 1973 the share of the labour force in the manufacturing sector did not exceed the primary sector, agricultural and mining (Taniura 2003[1988], p.246).¹²¹ Combining these data, the major factor in the change in the labour force between the two sectors is the participation of female labour. In other words, Taiwan's transformation from an export-led agricultural economy to an export-led industrial economy was accompanied by an increase in the female labour force. Kung's 1973 data, drawn from the Taiwanese government, shows that female labour was concentrated in key

¹¹⁹ The Factory Law defined workers aged between 14 and 16 years old as "child labour", and they were not allowed to work overtime or at night.

¹²⁰ Meanwhile, the male labour force participation rate reduced from 82.6% to 77.1%. In the 1970s, the female labour participation rate was slightly reduced due to the development of heavy-chemical industries, the rate then increased to 42.1 percent in 1983.

¹²¹ The share of the labour force in the primary sector decreased from 46.6% in 1965 to 30.5% in 1973 ; whereas, the share of the labour force in the secondary sector grew from 22.3% in 1965 to 33.7% in 1973.

sectors: it made up 85% of the labour force in the apparel industry; 79% of workers in the textile industry; 65% of the labour force in electrical equipment and supplies; and 59% of the workers in the food processing industries (Kung 1984, p.109).

The feminization of labour occurred both in the SMEs and their subcontracting system, and in the EPZs and transnational corporations' employment patterns. Young, unmarried women were particular preferred by TNCs in EPZs. By looking at the female labour force participation rate at different ages in 1966 and in 1974 respectively, we see that the female labour force participation rate aged between 15-19 years old was greater than 50%, both in 1966 and 1974; and the rate at ages 20-24 years old was 46.6% in 1966, and 54.3% in 1974 (Cheng and Hsiung 1992, p.326).

These were all major export processing sectors. According to Ge (1978), more than 80% of EPZ employees were female between 1967 and 1976. Around 57% of EPZ employees were young (mainly unmarried) women (Ge 1978, p.61). Some empirical studies concerning female workers in the large garment or electronics factories correspond with the above argument (Arrigo 1984; Diamond 1979; Kung 1976; 1984).¹²² Many women from rural areas began to work in assembly factories after graduating from primary school or junior high school. The recruiting managers had contacts in the junior high schools of rural areas and were able to recruit either full-time employees or apprentices.

Why did factory employers prefer young and unmarried females? One major reason is that these female workers' wage rates were far lower than that of the male workers. Female workers had a lower wage rate because, firstly, they were unmarried females and society regarded men as the major bread winners; secondly, female labour was concentrated in downstream export-led and labour-intensive sectors, sectors that are less capital-intensive and technology-intensive than up- and intermediate-stream sectors, where labour was paid a higher wage; thirdly, female workers from rural areas still partially depended on agricultural income. The wage of EPZ female workers was lower than the average wages of male and female employees in the manufacturing sector as the following table shows. The following table also shows clearly that the EPZ workers' wages were the lowest, and much lower than the

¹²² Most of the empirical studies in the 1970s and 1980s were by American sociologists and ethnologists, their primary concerns were more or less the debate about whether industrialisation and modernisation brought about women's emancipation or changes to the Chinese family structure, and took Taiwan (a "traditional" Chinese society) as a case study.

average manufacturing male workers wage: less than 70% of the average male workers' wage (Table 4-3).

Table 4-3 : Average wages of manufacturing workers in the 1970s (unit: NT\$, %)

	A: male workers	B: female workers (B/A as a percentage)	C: EPZ workers (C/A as a percentage)
1973	2,468	1,879 (76%)	1,715 (69%)
1974	3,301	2,497 (76%)	2,189 (66%)
1975	3,881	2,927 (77%)	2,317 (61%)
1976	4,507	3,545 (79%)	3,136 (69%)

Source: DGBAS, Time Series of Earning and Productivity Statistics Tables

(<http://win.dgbas.gov.tw/dgbas04/bc5/earning/ht456e.asp>); Ge (1978), Table 5-13

Note: 1. Data from DGBAS is the August data of each year. 2. NT\$ 40 = one US dollar

Invisible female labour in the satellite factory system

Another feature of the SME subcontracting system in Taiwan, apart from an unprotected and flexible labour pattern, was that many married women served as home-based workers or workers in small factories in export-led industries. Hsiung's ethnographical study of Taiwan's satellite factories found that Taiwan's married female workers mainly worked in small factories with less than thirty employees (Hsiung 1996, p.76). For example, the government's data shows that between 1979 and 1987, about 55% of married female labour worked in small factories with fewer than thirty employees, but about 66% of unmarried female labour worked in larger factories with more than thirty employees (ibid. p.76-77).

In 1972, the 'living room is a factory' programme (i.e. home-based contract work) was promoted by the government. The plan was in fact a means to encourage housewives to engage in processing work at home for export-led industries. These subcontracting workshops were located in former military bases, residential communities, and rural villages (Shieh 1991, p.155). According to an official survey in 1982, 46% of 1,526 randomly selected residents responded that this programme had been organised in their community (Hsiung 1996, p.52). Local government offered loans for families to do processing work at home and sometimes local

officials (e.g. village heads) served as a contractor acting between factories and families (Hsiung 1996, p.53-54). The payment was based only on the number of processed products, i.e. a piece-rate basis.

According to Huang's survey of 1986, the home-workers' average working hours were 7.2 hours per day (cited from Shieh 1991, p.164-165). Some 75.2% of home-workers earned less than one US dollar per hour (*ibid*), while a manufacturing worker's average hourly wage was US\$1.8 (DGBAS various years-b). In other words, the hourly wage gap was nearly 50%. Furthermore, there were neither allowances/bonuses nor holiday if the product deadline was urgent (Shieh 1991). These home-workers were at 'the bottom of the subcontracting system' and served as an 'invisible workshop' (Shieh 1991, p.155-161). Huang's survey also shows that nearly 90% were involved in exporting (cited from Shieh 1991, p.164-165). In sum, the programme offered the export-led sector very low-cost and flexible labour, which was also feminised labour.

'Silent' and 'disciplined' labour

I have discussed the particular features of the labour pattern that contributed to Taiwan's peripheral ascent in the pre-1987 period. Did any form of organised labour or collective resistance exist in order to change labour's working rights and status, and challenge the logic of capital accumulation? According to the official statistics between 1949 and 1965, there were only 520 cases of labour dispute (Chang 1991). Thereafter, the number of disputes remained below one thousand a year prior to 1980 (Kleingartner and Peng 1991). The economic factors that caused the 'silence' of organised labour included: the typical managerial features of SMEs; a majority of young female labour in the export-led sector; manufacturing labour's reliance on the agricultural economy (as many SMEs were located in the rural areas); and the relatively fair distribution of income equality (cited from Hsu 1989; Kleingartner and Peng 1991). A great deal of literature mentions political factors; such authors discuss how the state (i.e. the KMT administration) controlled the labour regime and organised labour (Buchanan and Nicholls 2003; Deyo 1989; Frenkel *et al.* 1993; Ho 2006; Hsiao 1992a; Hsu 1987; Kleingartner and Peng 1991; Kong 2005; Minns and Tierney 2005; Rice 2006; Wang and Cooney 2002). In particular, a study by Deyo (1989) of East Asian labour movements (including Taiwan) argues that 'East Asian development is associated with the continued vitality, and indeed the expansion, of

employment relations based on patriarchal, paternalistic, and patrimonial systems of labour control' (p.8).

Under Martial Law, other forms of labour and citizens organisations, apart from the officially recognized trade unions, were forbidden. Martial Law was declared in 1948 after the "228 incident" ¹²³ of 28 February, 1947. Taiwan's citizens were forbidden from organising political parties; freedom of speech, assembly, association, and communication (including the media) were banned. Security agents (the Taiwan Garrison Command) could arrest citizens and put them on trial in military courts, and many emergency decrees were promulgated. Another instance of large scale arrests by the KMT government of citizens occurred during the "White Terror" of the 1950s. These arrests targeted those who were suspected of being communists, including many trade union activists. Taiwan's labour movement before the end of Martial Law (1987) was therefore severely oppressed. It has been estimated that of 140,000 people who were involved, 29,000 cases of political persecution occurred during the 40 years of Martial Law (Huang 20/05/2005)

Another feature of the organised labour movement that has had a very significant impact was the absence of industrial unions in the trade union structure. The state (i.e. the KMT) rigorously controlled organised labour by setting up a weak trade union structure and controlling the leadership of trade unions. The official trade union organisation was an arm of the KMT. According to the Trade Union Law, the structure of trade unions was established on the basis of the dual industrial structure. Each state-owned-enterprise (SOE) had an enterprise-based union. Workers in private enterprises that employed more than thirty employees had a plant/factory-based union, so a large private enterprise that had fifteen plants may therefore have had fifteen separate trade unions. Enterprises that employed fewer than thirty employees were unable to organize plant-based unions. In other words, the Trade Union Law excluded 85-90% of the total labour force from organising a trade union at all. However, there

¹²³ When the KMT took over Taiwan in 1945, they did not interact well with Taiwanese; on the contrary, their 'corrupt bureaucracy, economic hardship, and a deteriorating sense of public security' dissatisfied Taiwanese. On 27 February 1947, an old lady who sold illegal cigarettes was hit on her head by a policeman, and the incident escalated to a conflict between people who witnessed the incident and policemen. The next day, those angry crowds presented a petition to Governor-General Chen Yi; yet they were shot at by military force. Thereafter unrest was widespread in other cities, and Chen Yi even requested that the KMT government (then in mainland China) to send more troops to control the unrest. The 2-28 Museum estimates that between 10,000 and 20,000 people were killed during the 2-28 Incident. See 2-28 Museum (n.d.), Kerr (1965).

was a third type of labour union, the craft/occupational unions, which were made up of workers without a fixed employer. This type was not a real trade union, but rather a labour association sponsored by the government to implement labour and health insurance for their membership. SMEs with fewer than thirty employees usually joined a craft union because the monthly fee paid to the social insurance was cheaper through the craft union than through joining the social insurance system as an individual. As such, the unique and fragile trade union structure of Taiwan was an enterprise-based union in the SOEs; a plant-based union in private enterprises with more than thirty employees; and a craft union where the workers were in small enterprises that had fewer than thirty employees.¹²⁴ The trade union movement, after the late 1980s, was led by the SOEs' enterprise-based unions and the private enterprises' plant-based unions. However, as we will discuss in the following chapter, SOEs have declined since the late 1980s while the large private enterprises grew. Taiwan's trade union structure has been unable to transform itself in parallel with industrial transformation, e.g. no single industrial union has been formed to date.

Conclusion

This chapter has analysed how Taiwan ascended to the semi-periphery, from a long-term historical perspective from the seventeenth century to 1986. I argue that Taiwan's capitalist development is better understood in the context of the capitalist world-system and domestic social relations, rather than regarding Taiwan's case as national stages of development from a pre-capitalist agricultural society to a capitalist industrial society. This chapter also demonstrates how Taiwan's historical capitalist development through several hegemonic influences drove Taiwan's post-war peripheral ascent.

Firstly, Taiwan developed export-led agriculture and had been linked with the European-centred world-system (first under Dutch hegemony, and then under British hegemony) and the Qing Empire, through both trade and finance. The Europeans were more interested in monopolised trading channels and financial loans rather than changing Taiwan's indigenous production system. Secondly, during Japanese

¹²⁴ For the detailed discussion of Taiwanese trade union's structure, please see Chang C.L. (2002), *The Politics of Regulation: Globalisation, Democratiation, and The Taiwanese Labour Movement. The Developing Economies*, 305-26

colonialism, Taiwan further developed its export-led agriculture, started its industrialisation, established a central-planning economic framework, and was integrated into Japan's semi-peripheral strategy. Japan also dominated the trade and finance sectors. Unlike the Europeans, Japan introduced industrialisation and a capital/wage labour production mode. Japanese capitalists controlled not only commercial and financial capital but also industrial capital. Thirdly, after the KMT migrated to Taiwan, they took over the Japanese legacy of capital accumulation and tied Taiwan's economy into the US-led capitalist world-system through trade, inward FDI, and US aid. The KMT-led bureaucratic-corporate capital (including industrial and financial capital) monopolised the domestic economy in order to deepen export-led agriculture and develop industrialisation. Under the auspices of US hegemony and links to the US and Japanese economies, Taiwan shifted from being an export-led agrarian economy to export-led industrialisation.

Finally, Taiwan was able to ascend from the periphery to the semi-periphery through two trajectories: export-led industrialisation, which benefited from the support of the US (policy support; the opening of US market; inward FDI) and from the Japanese economy (technology and imports of capital goods; inward FDI); in other words, it is a development by invitation in the way that Taiwan was invited by the core zone into the new international division of labour since the 1960s. The success of EOI can also be attributed by a special state-capital-labour nexus in which SMEs and FDI capital took the leading role with a flexible, disciplined, unprotected, and 'silent' labour force.

The other trajectory is the success of the integration of domestic production chains. The US played a key role in the technology transfer to the petrochemical industry, but most importantly, it was the KMT state and authoritarian bureaucratic-corporate capital that guided the direction of domestic industrial integration. In general, Taiwan's peripheral ascent demonstrates Amin's (1976) argument of the four features of peripheral social formation, that agricultural capitalism has a dominate role; a large share of the local commercial capitalist class has strong links with the core capital; the development of a special form of bureaucratic system; and an incomplete proletarianisation. Firstly, Taiwan's agricultural capital was significant via production and exports until the 1960s when Taiwan shifted to be an export-led industrialising economy. Secondly, EOI enabled Taiwan's capital links with capital from the US and Japan. Thirdly, the authoritarian bureaucratic-corporate capital and an unprotected,

flexible, feminized, and incomplete proletarianised labour force facilitated Taiwan's peripheral ascent.

In general, the historical study of Taiwan's capitalist development and the factors contributing to Taiwan's peripheral ascent demonstrate the central argument of the thesis: to understand national capitalist development, it is necessary to study both the context of the capitalist world-system and the domestic state-capital-labour nexus. Since Taiwan has ascended to the semi-periphery and the capitalist world-system has experienced several changes (as discussed in Chapter Two), what has been the impact on Taiwan?

Chapter Five: To Remain at the Semi-periphery or Move towards to the Core? The Transformation of Taiwan's Industrialisation

Introduction

The chapter will discuss the changes to Taiwan's industrial sector since 1987/88. In the previous chapter, I argued that Taiwan's peripheral ascent represented the development of two industrialising trajectories. The two trajectories have now changed. Changes to the industrialising trajectories are also shifts in the ascent trajectory. Since the 1980s, Taiwan has moved upwards in its position in the structure of capital accumulation, and in the international division of labour. Taiwan's links with the capitalist world-system has also changed, from being tied to the US and Japan to becoming closer to the East Asian economies (in particular China). It is Taiwan's industrial capital which has advanced Taiwan's position within the capitalist world-system (through capital exporting) and changed Taiwan's links with the capitalist world-system. In other words, the change of the dynamics of the industrial sector reflects the shift of ascent trajectory. As such, this chapter will focus on the dynamics of the industrial sector and it will discuss how the changes to the capitalist world-system, as examined in Chapter Three, and the state-capital relationship influenced the dynamics of Taiwan's industrial sector.

The chapter is as follows: the first part will examine the impact of the changing capitalist world-system on Taiwan's industrial sector, namely neo-liberalism (liberalisation, deregulation, and privatisation) and its attack on state power. The bureaucratic-corporate capital collapsed, and with the rise of private industrial capital, the industrial capital began to relocate production overseas. Secondly, I will discuss the rise of the electronics industrial capital being as the dominant industrial capital in Taiwan's capitalist development after the collapse of bureaucratic-corporate capital. Taiwan's two industrialising trajectories in the previous period have merged into one, export-led industrialisation. In particular the electronics industry is a microcosm of Taiwan's ascent strategy. It means that Taiwan no longer promotes domestic production chains led by bureaucratic-corporate capital, but pursues integration into global production chains. Taiwan's position in the global electronics industry has changed from one of peripheral production to one acting in semi-peripheral production. Furthermore, Taiwan's further integration into the global production

chain in the electronics industry and Taiwan's rise as a capital-export economy are two sides of the same coin as Taiwan's industrial capital makes use of overseas relocation to ascend its position in the capitalist world-system. The electronics industry is Taiwan's leading sector, exporting capital and relocating production to peripheral economies. In particular, China has become a primary trading partner and production base for Taiwan's electronics industrial capital. The third section will therefore discuss the changes of Taiwan's links to the capitalist world-system, from being tied to the US and Japanese economies to increased interaction with China. The trend coincides with the rise of East Asian economies as a centre of capital accumulation. However, the increase of cross-strait interdependence presents a new dilemma for Taiwan. The dilemma is represented as the state's choice of priority between economic globalisation and economic regionalisation, but in fact the real dilemma is the conflict between cross-strait political tensions and cross-strait economic interaction.

5-1 Neoliberalism, the Decline of US Hegemony, and the Collapse of Taiwan's Bureaucratic-corporate Capital

In Chapter Three, I discussed the main changes to the capitalist world-system during the B-phase, including the decline in the rate of profit of the industrial sector in the core zone, the rise of neo-liberalism and its attack on state power, the relative decline of US hegemony, and the rise of the East Asian economies as a new centre of capital accumulation. These changes have all influenced Taiwan's capitalist development since the late 1980s. As I argued in Chapter Three, the re-introduction of neo-liberalism is related to the overall decline in the profit rate of the industrial sector in the core zone and the increasing power of transnational capital. The current economic globalisation is to alleviate the downturn and economic crisis in the core economic zone. Thus, the core zone (the governments, the corporations and international institutions which are mainly dominated by the core states) is the main promoter of economic globalisation, and neo-liberalism can serve as a useful body of thought and practice with which to impose economic policies and practices on developing countries. As a newly semi-peripheral state, the development of Taiwan's industrial sectors was limited through such pressures to adopt neo-liberal practice. The pressure was mainly from the US via bilateral and multilateral trade talks for more than two

decades. From the US's side, such neo-liberal practice can both expand their market of industrial and financial capital and reduce the light manufacturing imports from Taiwan. The next section will examine in detail how US hegemony and the WTO are key actors in imposing neoliberal practice on Taiwan.

5-1-1 The foundation of neo-liberalism: US-Taiwan bilateral trade talks in the 1970s and the 1980s

From the mid-1970s to the 1980s, the KMT administration began debating economic liberalization¹²⁵ and in 1984 the government proposed a clear new direction for economic reform. Premier Yu Kuo-hua stated three basic policy directions that needed to be followed, namely economic liberalisation, internationalisation, and institutionalization.¹²⁶ However, Taiwan's overall economic liberalisation should not be understood as a result of domestic policy choice, but rather as an inevitable consequence of the impact of neo-liberalism in terms of pressure of the bilateral Taiwan-US trade talks, and Taiwan's accession to the GATT/WTO. The US has played a key role in Taiwan's capitalist development, both in the process of Taiwan's peripheral ascent and liberalisation. The US once supported Taiwan's EOI industrialization yet they restricted Taiwan's light manufacturing exports from the late 1970s. The situation demonstrates that semi-peripheral development is not unlimited, as their development might be restricted by the core zone.

The US and Taiwan have held long term dialogue aimed at negotiating economic affairs ever since the first US aid to Taiwan in 1950. As noted in Chapter Four, the US pushed Taiwan towards being a more economically liberal regime following the end of US aid in 1965. After Taiwan adopted EOI in 1965, the US became the top destination for Taiwan's industrial exports, which contributed to Taiwan's trade surplus.¹²⁷ Taiwan's exports to the US began increasing remarkably from the 1960s

¹²⁵ Between 1978 and 1984, the government frequently held 'Financial and Economic Symposia' to discuss the economic reform policy. President Chiang Ching-kuo first addressed the issue of further liberal economic reform (e.g. reducing import barriers and reducing the trade surplus) in the symposium in 1983.

¹²⁶ 'Liberalisation' means that the government should follow 'the market' and reduce its direct intervention; 'internationalisation' means reducing the barriers for capital, goods, services and cultural arenas; 'institutionalisation' means to establish transparent governance.

¹²⁷ Taiwan began to have a trade surplus in 1977. The overall export value increased eleven-fold, from US\$5.3 billion in 1975 to US\$66.3 billion in 1989 (CEPD 2008). The significant growth in Taiwan's

onwards, owing to the reduction of US tariffs agreed in the Kennedy Round of the GATT (1964-1967) (Baldwin *et al.* 1995). Taiwan's inclusion in the Generalized System of Preferences (GSP) of the US between 1976 and 1989 was another significant factor that contributed to the growth of exports to the US. For example, Taiwan was the largest single beneficiary of the US-GSP (in terms of tariff benefits) in 1979 (Sapir and Lundberg 1984). Compared to the level of Taiwan's exports to the US in 1960 (US\$18.9 million), the amount in 1980 (US\$6.7 billion) had grown 357 times (CEPD 2008).

Textile products were the dominant exports in the 1960s and the 1970s (Baldwin *et al.* 1955). Taiwan's textile exports became a target for US-Taiwan bilateral trade talks in the late 1970s. To understand this, we need to examine the history of international textile trading arrangements. In the 1950s when the US was confronting the Japanese challenge, under pressure from US cotton and textile industries,¹²⁸ Japanese cotton textile exports to the US market were first restricted through the voluntary export restraint (VER) imposed by the US government in 1955-1956 (Pai 1988; Baldwin *et al.* 1955). A VER is a bilateral arrangement where an exporting country voluntarily restricts exports so that the importing country does not need to use quotas, tariffs or other import controls (WTO glossary). Accordingly, other Asian developing countries' cotton exports to the US grew (Baldwin *et al.* 1995). When the increase of Asian NIEs' textile exports became a problem for the US cotton industry, the Short Term Arrangement regarding International Trade in Cotton Textiles (STA) and the Long Term Arrangement regarding International Trade in Cotton Textiles (LTA) were launched by the GATT Cotton Textile Committee in 1961-1962 as the 'global cartel arrangement' to regulate cotton textile exports and reduce trade conflicts. During the period the LTA was implemented, textile exports shifted from cotton, to wool and synthetics.¹²⁹ Given this situation, a more general framework

trade surplus was due to its increasing exports to the US in the 1970s and the 1980s. For example, between 1983 and 1987 over 40% of Taiwan's exports were to the US. Between 1978 and 1987, Taiwan's trade surplus with the US increased eighty fold from US\$0.2 billion to US\$ 16 billion (CEPD 2008, Table 11-9a).

¹²⁸ For example, the American Textile Manufacturers Institute organized a lobby group to pressure US government and US Congress; they also acted as government consultants to attend international negotiation meetings between the US and their trading countries (Pai 1988).

¹²⁹ For instance, Taiwan's production of manmade fibre increased sharply from the late 1960s, with the export of manmade fibre, synthetic fibre and their production, as a share of total textile and apparel exports growing from 15% in 1961 to 67% in 1970 (Hsueh *et al.* 2001).

including all textile products replaced the LTA in 1975, namely the Multi-Fibre Agreement (MFA).

In this context, US-Taiwan trade talks during the 1970s were mainly concerned with the restriction of Taiwan's textile exports.¹³⁰ Taiwan was not a unique case, as other Asian countries such as South Korea and Hong Kong were also being requested by the US to limit their cotton textile exports.¹³¹ However, because Taiwan left the GATT in 1950 and the United Nations in 1971, thus Taiwan was not included in the multilateral frameworks above. Nevertheless, Taiwan's cotton, wool, and manmade fibre textile exports were restricted by the bilateral US-Taiwan textile agreements.¹³² Moreover, bilateral US-Taiwan trade negotiations in the late 1970s also aimed at establishing a new official trade dialogue after formal US-ROC diplomatic relations were broken off in 1979. Under the Taiwan Relations Act, the Agreement on Trade Matters between the Government of the USA and the Government of the ROC was signed on 29 December, 1979. It stated that in its bilateral relations with the U.S., Taiwan would enjoy the rights, and would need to respect the responsibilities, as decided in the GATT Tokyo Round (1973-1979).¹³³ Although Taiwan left GATT in 1971, its bilateral relations with the US enabled Taiwan to adopt the outcome of GATT (e.g. tariff reduction by the US and the international textile trading arrangement), because the US-Taiwan bilateral trade negotiations was based on the liberalising framework of GATT.

In the 1980s, with the growth of Taiwan's trade surplus, US-Taiwan bilateral trade talks became more intense, and included annual meetings to review the trade imbalance, and irregular meetings to negotiate specific trade topics. Around twenty-two sets of trade talks were held between the two countries during the 1980s. The

¹³⁰ Besides the textile products, the US imposed some restrictions on Taiwan's other exports, e.g. footwear, and colour television sets. Yet textile exports was the main concern of the US.

¹³¹ The author interviewed Eric Chiang on 27 March 2006, Eric Chiang was Director of the Second Bilateral Trade Division (the Americans, Europe and Asia), Ministry of Economic Affairs when the author conducted the interview. Also see Baldwin, *et al.* (1995), Ch.7. The following discussion about the global textile arrangement is drawn from the same source.

¹³² Several agreements between the US and Taiwan were signed, including the following: the cotton textiles arrangement (1973-1974), the wool and manmade fibre textiles arrangement (1971-1974), and the cotton, wool and manmade fibre textiles arrangement (1975-1980).

¹³³ The original text can be seen in Yen (1987). One official document on 24 October 1979 also shows that 'with regard to tariff measures referred to in this letter, both sides shall have the same rights a GATT Contracting Party would have with respect to articles bound in the GATT...' See Gibert and Carpenter (1989).

agenda of the above trade negotiation meetings was largely set by the US. Taiwan was not unique in being requested by the US to engage in such bilateral trade dialogues. As discussed in Chapter Three, the US changed its regional economic strategy from encouraging EOI and offering access to the US market, to restrictions on East Asian exports and promoting liberalisation. In Gilpin's (2000) view, the change of American's economic strategy was from an open and multilateral trade policy to a 'much more parochial and nationalistic foreign economic policy' (p.227). He argues that such a shift was a result of several factors, including a growing concern about American industrial decline; the trade deficit with Japan; the increase of regionalisation in Western Europe; public support for trade liberalisation; and President Regan's policy preference. In this context, as Haggard and Cheng (1989) point out, the US raised specific trade issues with several East Asian NIEs, such as opening trade in services; the protection of intellectual property rights; the reform of trade-distorting investment laws; curtailing specific industrial targeting; and modifying exchange rates. The 'new bilateralism'¹³⁴ imposed by the US led to East Asian NIEs' further economic liberalisation.

In the case of Taiwan, the US had several complaints about Taiwan's economic and trade systems: (1) many restrictions on domestic market access; (2) a high tariff rate which restricted foreign imports; (3) an unreasonable tariff rate system; (4) inappropriate restrictions to FDI; (5) insufficient protection of intellectual property rights; (6) insufficient protection of workers' rights; and (7) inappropriate intervention in the foreign exchange rate system (Taniura 2003[1988], p.314). For this reason, Taiwan was investigated in seven cases of unfair trade practices under Section 301 of the Trade Act (Smith 1997). The issues that concerned the US in its trade relations with Taiwan included tariff rates, market access, the foreign exchange rate system, the labour regime, intellectual property rights, public procurement, and non-tariff trade barriers, among the agricultural, industrial, and banking sectors, with the following aims (Baldwin *et al.* 1995; Yen 1987; Prybyla 1989): (1) to reduce Taiwan's exports

¹³⁴ The term was used by Haggard and Cheng, refers to a change from multilateralism to a more aggressive bilateralism imposed by the US on its East Asia trading partners (Japan, South Korea, and Taiwan) during the second Reagan administration. The term has also been used to refer to the George W. Bush administration's trade diplomacy in recent years.

to the US¹³⁵, (2) to increase US imports and US FDI to Taiwan¹³⁶, (3) to implement protectionist measures on intellectual property rights.¹³⁷

After several rounds of negotiation, Taiwan agreed to most US requests, and several agreements were signed during the 1980s. In regard to reducing Taiwan's exports to the US, firstly, the US required Taiwan to remove the imposition of an 'export performance requirement'¹³⁸ on inward FDI in the automotive industry; and Taiwan agreed to do so.¹³⁹ As such, Taiwan abolished the export performance requirement by amending its Automotive Industry Development Plan in September 1986. The US also requested that Taiwan implements a voluntary export restraint on machine tools and steel in 1987; thus an agreement on certain machine tools was signed between Taiwan and the US on 16 March, 1989 and on 30 June, 1992. Taiwan agreed to limit the amount of exports of machine tools to the US to less than 90% of that in 1985. Furthermore, in 1989, after the appreciation of the NT dollar forced by the US, Taiwan's foreign exchange rate system was changed from one of 'soft-pegs'¹⁴⁰, to a 'managed floating' exchange rate system. The exchange rate of the NT dollar against the US dollar increased from NT\$37.8 in 1986 to NT\$26.4 in 1989, an appreciation of

¹³⁵ (1) restrict Taiwan's exports to the US (e.g. rice, textile products, machine tools, and steel); (2) appreciate the New Taiwan dollar against the US dollar (i.e. make Taiwan's exports more expensive), and request Taiwan's foreign exchange policy be oriented towards free market principles; (3) implement a labour protection law so that Taiwan's exporting sector would not be able to make use of cheap labour for reducing costs.

¹³⁶ (1) open Taiwan's market access for US goods (e.g. agricultural goods, tobacco, alcohol, soda, midstream petrochemicals products, communication equipment) by removing non-tariff barriers (e.g. quotas, import licensing systems, sanitary regulations, prohibitions) and reducing Taiwan's import tariffs; (2) open Taiwan's market access for US-based FDI (e.g. automobile, banking and insurance, and retail); (3) increase public procurement from the US.

¹³⁷ The US requested Taiwan to sign an agreement that the copyright of American publications (published after 1955) should be protected for 30 years.

¹³⁸ Export performance requirement is a requirement to FDI on the proportion of export of the FDI's production.

¹³⁹ A Letter of Exchange on export performance requirement in the automotive sector was signed by the US and Taiwan on 9 October, 1986.

¹⁴⁰ According to the IMF (27/11/2007), soft pegs includes a single currency or a composite of currencies, the conventional fixed pegs and crawling pegs; managed floating includes managed floating and independently floating.

27 percent.¹⁴¹ The government also relaxed the controls on foreign exchange and capital movement. Thus, Taiwan has become a capital exporting country since 1988.¹⁴² Finally, Taiwan's Labour Standard Law was announced in 1984, providing a legal framework related to working conditions (e.g. working hours, wages, employment contract, retirement system, and so on).

With regard to the issue of increased US imports and US-based FDI: Firstly, during the trade talks of 1978-1989, the US requested a total of 1,807 items for tariff reduction, and Taiwan granted 1,314 concessions (a success rate of 72.7%) (Chen and Liu 1985). Notably, Taiwan agreed to remove licensing controls on the import of US commodities (especially agricultural goods). Taiwan thus became the third largest buyer of US corn, barley, and soybeans (Prybyla 1989). Furthermore, under pressure from the US and its business lobby, Taiwan's state-owned airline (China Airlines) decided to procure six Boeing 754-700 aircraft in 1987 (Chieh 2005). Secondly, in 1988 Taiwan also changed its inward FDI policy from a "positive list" to a "negative list", so that 207 sub-sectors were further opened to US FDI. Thirdly, the Taiwanese government also organised a "buy American mission" and made purchases of around US\$11 billion during the trade talks of 1978-1987 (Prybyla 1989, p.66).

Consequently, Taiwan's average nominal tariff rate was sharply reduced from 31.1% in 1980 to 9.7% in 1989 (Figure 5-1) (Dept. of Customs Administration (DOCA) 2004). Meanwhile, custom revenues as a share of government revenues, declined from 33.4% to 17.3% (Figure 5-1). Non-tariff barriers¹⁴³ were also reduced (e.g. permitted import items) as a share of total items, grew from 57.1% in 1970 to 97% in the late 1980s. In particular, the percentage of items that were "free from import licenses" of total import items increased from 10.5% in August 1983 to 66.2% by the end of 1989 (Smith 1997). Local content requirements¹⁴⁴ in machinery,

¹⁴¹ It was a common situation that East Asian NIEs were pressurised by the US to appreciate their currency, the percentage change for the South Korean won and Singapore Dollar against the US Dollar between 1986 and 1990 was 19.71% and 16.77% respectively. See Hsing (1998).

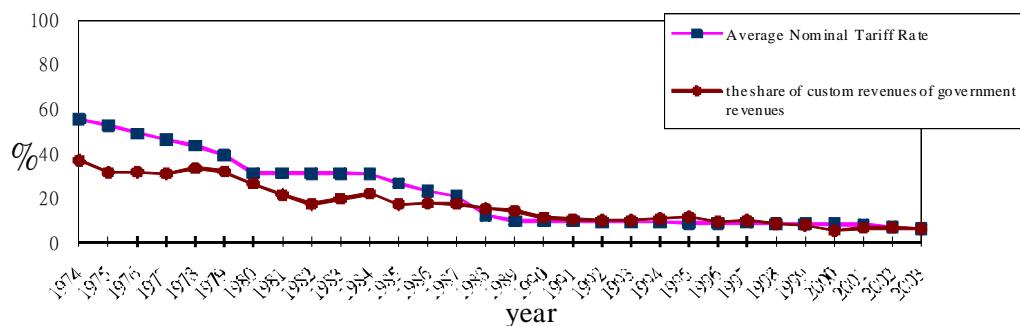
¹⁴² There are two different sets of data regarding the timing of when Taiwan's net outward investment exceeded net inward investment. According to the data from the Central Bank, it was 1988; the data from the Investment Commission, Ministry of Economic Affairs, shows that it was 1991. See Lin, *et al.* (2003) about the comparison of the two sets of data.

¹⁴³ According to glossary from the WTO, NTBs are non-tariff measures such as quotas, import licensing systems, sanitary regulations, prohibitions

¹⁴⁴ Local content requirement is a requirement that the production chain needs to include some local produced raw material or components.

electrical equipment and transport equipment (perceived by the US as non-trade barriers) were abolished, except in the automobile industry (Smith 1997).

Figure 5-1: The Change in Taiwan's Tariff Rate¹⁴⁵



Source: DOCA (2004)

Empirical studies above show that the US obtained a great deal from Taiwan through their bilateral trade talks. This is evident in the lack of growth in Taiwan's bilateral trade surplus with the US since 1987. On Taiwan's side, the government became concerned that some protectionist measures by the US might damage the advantages enjoyed by Taiwanese exporters. Taiwan also proposed the establishment of a dispute settlement mechanism to deal with trade disputes, but this proposal was refused by the US. There was no trade dispute mechanism in the bilateral negotiation. The US was both the negotiator and the arbitrator, which caused the bilateralism to be unilateralism in effect, imposed by the US. In general, the Taiwanese government was in a defensive position during negotiations. Taiwan's formal chief negotiator Vincent Siew, has stated, 'our main strategy was to strive for a longer period for implementing US's requests... We did not have the leverage during the negotiations.'¹⁴⁶ Taiwan's powerless position during the negotiation process can be explained by the uncertainty and weakness of the legitimacy of Taiwan's (the ROC) statehood after its withdrawal from the UN. It seems that the US was the only country that continued trade negotiations with Taiwan. The reality, however, was quite opposite. The US supported the statehood of the ROC on Taiwan, rebutting the PRC until its

¹⁴⁵ Nominal tariff rate is the rate of duty leveled on the gross value of a product.

¹⁴⁶ The author interviewed Vincent Siew on 11 April, 2006. Vincent Siew was the chief negotiator of ROC-USA trade talks between 1972 and 1988, former Premier between 1997 and 2000. Since May 2008 he has been Vice President of the ROC.

rapprochement with the PRC in the early 1970s. When the US changed its East Asian regional strategy, in particular by normalising relations with the PRC and imposing a new bilateralism with East Asian NIEs, Taiwan was inevitably influenced. As being a semi-peripheral economy (i.e. increased industrial capacity but facing challenges from the core zone) and a state in a weak position within the interstate system, Taiwan was powerless to resist US pressure for liberalisation. As such, Taiwan sought to join the multilateral trading system (GATT/WTO) in the 1990s, to improve the asymmetric relations with the US and to gain access to the dispute settlement mechanism.

In conclusion, Taiwan's bilateral trade negotiations with the US in the 1970s and the 1980s demonstrated how Taiwan's economic system was pressurised by the US to liberalise. The experience of bilateral trade talks not only contributed knowledge and experience to Taiwan's accession to the WTO in the 1990s, but also indirectly links Taiwan's liberalisation to the multilateral frameworks of liberalisation, such as the GATT. As the former chief Taiwan trade negotiator, Siew, claims: 'Taiwan's connection to the international regime and the rules of the game were established in the period of US-Taiwan trade negotiations.... without such experience, the Americans would not like to help Taiwan join GATT/WTO while under the pressure from the PRC.'¹⁴⁷ Moreover, the liberalisation policies under US-Taiwan trade talks have had a significant influence on Taiwan's capitalist development. Firstly, Taiwan shifted to a capital-export economy when the NT dollar was sharply appreciated. Secondly, those exports (textile, consuming electronics, light manufacturing) that were restricted by the US thus experienced decline, some industries began to relocate production to Southeast Asia (e.g. textiles), and some industries reduced inward FDI (e.g. consumer electronics).

5-1-2 Accession to the GATT/WTO and TIFA

Taiwan re-applied for GATT membership in January, 1990. However, due to pressure from China, Taiwan's application was postponed until 29 September, 1992, when the GATT Council established a working party to examine its application (Chang and Goldstein 2007, p.6). Taiwan obtained observer status on this date. Following a lengthy negotiating process, the Working Party finalized Taiwan's accession

¹⁴⁷ Author's interview Vincent Siew, in Taipei, on 11 April, 2006. He mentioned that the US assisted Taiwan to join the APEC and GATT/WTO in the 1990s.

documents on 18 September, 2001. Following formal approval during the WTO Doha Ministerial Meeting during November 2001, Taiwan became the 144th member of the WTO on 1 January, 2002. After 12 years of talks, Taiwan successfully entered the WTO.

Taiwan submitted its first draft schedule in 1994 and conducted bilateral negotiations with 26 countries.¹⁴⁸ By 1998, Taiwan nearly finalized the process by signing agreements with 24 countries, including an agreement with the US on 2 February 1998 (Taiwan WTO Centre n.d.). Taiwan already fulfilled the requirements of accession in 1998.¹⁴⁹ Additionally, Taiwan's commitments were more liberal than other developing countries (e.g. South Korea).¹⁵⁰ In terms of the negotiation procedures and the commitments of market access, there was no apparent reason to delay Taiwan's entry to the WTO.

The major factor for the delay in Taiwan's accession was political, namely Taiwan's statehood status and cross-strait relations. The PRC decided to apply for (or "resume" membership to) GATT on 10 July 1982, formally applying on 10 July, 1986. Its GATT working party was established on 4 March 1987. While the Tiananmen Square massacre of 1989 caused its examination to cease temporarily (Liang 2002), in 1992 China reached consensus with the US about its accession to GATT, on the condition that the PRC could not block Taiwan's application.¹⁵¹ The PRC further requested to enter the WTO earlier than Taiwan, and GATT endorsed this request.¹⁵²

¹⁴⁸ In practical terms, an accession case is negotiated in a working party by "consensus decision-making", so that accession agreements are negotiated between the applicant country and any incumbent member who is interested in the accession case Charnovitz (2006). These agreements are included in the "Protocol" and are enforceable under WTO dispute settlement (p. 406). Two kinds of issues are negotiated during accession negotiations: one is the applicant member needs to guarantee they will fully apply WTO rules, the other about market access commitments for incumbent members by applicant members, see Langhammer and Lucke (1999).

¹⁴⁹ The author interviewed John Deng in Geneva on 6 and 8 June 2006. John Deng was the Deputy Permanent Representative of the Mission of TPKM to the WTO from 2002 to 2006; he has been the Trade Representative and Deputy Minister of Economic Affairs since 2008.

¹⁵⁰ For South Korea's status, see WTO (1996). For example, South Korea's industrial tariff rate (6.7% in 2004) and agricultural tariff (52.2% in 2004) was higher than Taiwan (4.16% in industrial tariff and 13.46% in agricultural tariff). See South Korea's 2004 trade policy review report in WTO (18/08/2004).

¹⁵¹ Interview with John Deng in Geneva on 6 and 8 June 2006. Also see Liang (2002).

¹⁵² When the GATT Council meeting discussed the accession of Taiwan on 29 September 1992, the chairman stated: "All contracting parties had acknowledged the view that there was only one China, as expressed in the United Nations General Assembly Resolution 2758 of 25 October 1971. Many contracting parties, therefore, had agreed with the view of the People's Republic of China (PRC) that

However, China was not very active in negotiating with other countries, and experienced difficulties in adjusting its non-market economic regime until Chinese Premier Zhu Ron-gji visited the US in April 1999.¹⁵³ China eventually signed a negotiation agreement with the US in November 1999. Consequently, the incumbent members and Taiwan had undertaken the negotiation process slowly in order to wait for China's progress. One of Taiwan's negotiators for the financial services sector in the 1990s, Sean Chen, mentioned that Taiwanese negotiators intended to conduct the agreements slowly and sometimes repeated negotiation of the same issue.¹⁵⁴

When the PRC's accession was approved by the WTO on 10 November 2001, Taiwan's accession was agreed one day later. The consequence of the waiting process indirectly gave Taiwan eight to twelve years, from when Taiwan first submitted a draft of the lists of commitments in 1994 to adjust its economic regime to fit the WTO rules and Taiwan's commitments. In other words, Taiwan did not request a longer time period for implementing the WTO agreements and their list of commitments, but the waiting-time in the accession process, which was due to political factors, in practice provided Taiwan a much longer time period for implementation. Taiwan's major commitments to the WTO accession are summarised in the following:¹⁵⁵ (1) Reducing the average normal tariff rates in agricultural and manufactured products¹⁵⁶; (2) Reducing non-trade barriers on agricultural and industrial products¹⁵⁷; (3) Opening service-sector markets (committed to 123 out of 155 sub-sectors); (4) Acceding to the Agreement on Government Procurement. Taiwan would open government procurement contracts worth some US\$6 to \$8 billion a year to bidding; (5)

Chinese Taipei, as a separate customs territory, should not accede to the GATT before the PRC itself', see GATT (27/10/1992).

¹⁵³ About Zhu's visit to the US, see Lai (2001).

¹⁵⁴ Author's interview with Sean Chen, in Taipei on 22 March, 2006. Sean Chen was Deputy Minister of Finance between 1998 and 2002.

¹⁵⁵ The following summary is drawing from CEPD (2002).

¹⁵⁶ The agricultural the tariff rate would reduce from 20.2% to 14.01% in 2003, and then to 12.86% in 2011 (the reduction is 35.76%). The manufactured product tariff rates would reduce from 6.03% to 5.78% in 2003, and then to 4.15% in 2011 (the reduction is 31.17%).

¹⁵⁷ Including the removal of most of the import controls on agricultural products; replacing the area restrictions on the importation of small passenger cars and light commercial vehicles by a tariff rate quota system; eliminating the local content and sourcing requirements applied to the production of automobiles and motorcycles; permitting the importation of motorcycles larger than 150cc and small diesel passenger vehicles; adjusting downward the automobile commodity tax and eliminating the 3% commodity tax offset on locally designed automobile and motorcycle bodies, engines and chassis; permitting access to the tobacco and alcohol markets.

Implementing the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

In general, many of the above issues had been implemented before 2002. The US pressurised Taiwan to change its economic and trade systems in the 1980s, and pushed the liberalisation of Taiwan's market in agricultural and industrial goods, as well as the issue of intellectual property rights. The WTO introduced the General Agreement on Trade in Services on (GATS) that had been agreed during the Uruguay Round of trade negotiations (1986-1994). As such, Taiwan's application to the WTO led to the liberalisation of its service sector, as well as expansion of Most-Favoured-Nation (MFN)¹⁵⁸ status towards all WTO incumbent members (only the US and some Western European countries obtained MFN from Taiwan in the 1980s). This illustrates that bilateralism imposed by the US on Taiwan in the 1970s, and the 1980s was a foundation that pushed Taiwan to adopt a neo-liberalism.

Although the multilateral trading framework enabled Taiwan to develop trade talks with other countries, it did not reduce the asymmetric power relations between the US and Taiwan. The US requested more aggressive commitments than other incumbent members, in particular by asking Taiwan to "pay the down-payment."¹⁵⁹ The US argued that since Taiwan would eventually gain access to the WTO, it should have no difficulty in implementing some commitments in advance.¹⁶⁰ The Taiwanese government viewed the US-Taiwan accession negotiation as the final significant step towards its accession. Accordingly, Taiwan agreed to reduce tariffs on 33 agricultural products in 2000, two years earlier than its accession.

Similar to other weaker countries, Taiwan lacked negotiation capability, and the Taiwanese negotiators were government officials without professional negotiation skills.¹⁶¹ However, there is one distinct difference between Taiwan and other weak countries: pressure from China. The US had played an important role in cross-strait relations since 1950, protecting Taiwan from China, and so Taiwan relied heavily on the US during its WTO accession process.

¹⁵⁸ According to the glossary from the WTO, the MFN is the requirement that one country cannot discriminate different trading partners.

¹⁵⁹ The following discussion about US-Taiwan accession negotiation is from United Daily: United Daily (10/02/1998, 12/02/1998, 13/02/1998, 16/02/1998, 22/02/1998, 06/05/1998).

¹⁶⁰ Author's interview with Sean Chen in Taipei on 22 March 2006.

¹⁶¹ Author's interview with Sean Chen in Taipei on 22 March 2006; author's interview with John Deng in Geneva on 6 and 8 June 2006.

Moreover, US bilateralism with Taiwan did not disappear when Taiwan entered the WTO. Such a situation needs to be examined in the broad context of the US's economic bilateralism strategy of recent years. Several studies have elaborated upon the pattern of bilateralism in Asia-Pacific, in which some Asia-Pacific countries have promoted FTAs since the late 1990s (Ravehill 2003; Desker 2004; Dent 2003).

According to the Asian Development Bank (ADB), by the end of 2007, of a total of 134 FTAs, 44 had been concluded, 49 were under negotiation and 41 were proposed (ADB 2008). The US recognised its absence in the global trend of bilateral FTAs since the 1980s, and former US Trade Representative Robert B. Zoellick called for action to 'clear the way for American's international trade leadership and economic interests' during US President George W. Bush's first administration (Phillips 2007, p.162). As such, the US actively signed FTAs and Trade and Investment Framework Agreements (TIFAs) with East Asian countries.

In this context, the first meeting of the TIFA between the US and Taiwan was held in September 1994, and two follow-up meetings were held in February 1997 and January 1998.¹⁶² During TIFA meetings, Taiwan tried to discuss a plan to sign an FTA with the US, but the latter made no attempt to reciprocate. Instead, the US made specific trade requests through TIFA, including issues relating to Taiwan's protection of intellectual property rights; more imports of rice from the US;¹⁶³ the protection of pharmaceutical patents in Taiwan; and further access to fixed-line telecommunications. In the latest meeting held in July 2007, some of the above issues were addressed,¹⁶⁴ but the issue of signing a FTA was again disregarded by the US. It is noteworthy that the US began to make active use of the TIFA to deal with US-Taiwan trade issues corresponding with the sluggish progress of the Doha Round of the WTO (the Doha Round is now not able to be concluded). However, the asymmetric power relations between the US and Taiwan has not changed significantly. Similar to the situation before the trade talks in the 1990s, the agenda for TIFA meetings was mainly decided by the US. Taiwan's core concern (e.g. FTA) has not

¹⁶² Between 1999 and 2003, the TIFA meetings were suspended by the US because the US was occupied in negotiations regarding China's accession. In April 2004, the TIFA annual meetings resumed (Author's interview with Eric Chiang in Taipei on 27 March 2006).

¹⁶³ Taiwan agreed to open the rice import up to 144,720 tonnes, of which 75 percent is from the US. The US still pushes Taiwan to increase import amounts.

¹⁶⁴ For example, pharmaceutical pricing and regulations, IPR protection, and imports and exports of agricultural products, see Huang (20/07/2007).

been included at the TIFA meetings. Moreover, when the latest TIFA meeting was held in Washington in July 2007, the Taiwanese trade representatives attended the meeting with a procurement proposal of around US\$4 billion (Huang 20/07/2007). Such a strategy (i.e. a pre-negotiation offer) to reduce the US's aggressive requests was commonly used during the pre-1990s US-Taiwan trade talks. In sum, the WTO and the TIFA have remained the main forces to push Taiwan's liberalisation to date.

5-1-3 Privatisation and democratisation

While the US pressurised Taiwan to liberalise its economic and financial systems in the 1980s, they also pressurised Taiwan to liberalise its political system. In 1987, the KMT government lifted Martial Law and then lifted the ban on visits to mainland China by Taiwanese citizens. Several factors pushed the KMT government to lift Martial Law. Firstly, the growing opposition political movement¹⁶⁵ (called '*tangwai*', meaning that they were outside the KMT party) together with social movements had mobilised several massive, illegal gatherings from the late 1970s onward. In September 1986, the *tangwai* movement decided to form an illegal opposition party, the Democratic Progressive Party (DPP) (Tsang 1999); secondly, President Chiang Ching-kuo made a general move¹⁶⁶ towards the relaxation of the domestic political economy in the 1980s.¹⁶⁷ The proportion of Taiwanese in the KMT Central Standing Committee increased from just 14% in 1973 to 52% in 1988 (Tien 1992). Finally, international pressure from the US Congress and the US media pushed for the end of Taiwan's authoritarian regime (Chieh 2005; International Committee for Human Rights in Taiwan 1987).

In the background, with the abolition of martial law announced by the ruling KMT regime in 1987, the newly-established opposition DPP called upon the government to liberalise the state-owned-enterprises and open up the "special permission" industries. In other words, they requested the state to open the upstream and intermediate sectors

¹⁶⁵ Some scholars have viewed the emergence of the opposition movement as stemming from the supplementary elections of members of The National Assembly and Legislative Yuan in 1969 when some non-KMT candidates were elected, see Cheng and Haggard (1992).

¹⁶⁶ For Chiang's role in political democratization, see Tien (1992).

¹⁶⁷ For example, Chiang began to talk about an economic liberalisation policy, he also marginalised the extreme right-wing faction (e.g. General Wang Sheng) within the KMT, and he appointed Taiwanese elites (i.e. non-mainlanders) into the government and party leadership, including the vice-president Lee Teng-hui.

of domestic production chains. As noted in Chapter Four, some Taiwanese liberal economists criticized the monopoly of SOEs controlled by the KMT as ‘party-state capitalism¹⁶⁸’ and argued that SOEs should be deregulated and liberalised. This assumption has since become the economic foundation of DPP policies. Economic liberalisation and deregulation did not contradict the democratic ideology of the DPP. On the one hand, the DPP called for political democracy; on the other hand, they called for economic liberalisation. The domination of bureaucratic-corporate capital and state finance capital together with the KMT’s authoritarian regime became a joint target for the political opposition, social forces (peasants, labour, and environmental movements) and Taiwanese SMEs. Furthermore, privatisation has been narrowly viewed by the DPP as selling or transferring the shares of state-owned enterprise to private owners, the DPP was concerned with political favouritism in the way the KMT tried to transfer shares to their party-affiliated enterprises or specific private capitalists. Indeed, the DPP only criticized the process of privatisation, rather than privatisation itself. In fact, the DPP continued to implement liberalisation and privatisation policies when it came to power itself.

Accordingly, after the first official unit to promote privatisation was established on 25 July 1989, 36 SOEs were privatized¹⁶⁹ and 17 were closed at the end of 2007 (CEPD 18/03/2008). Half of them were either privatised or closed during the DPP’s administration. The government prepared a further 13 enterprises to be privatised. As such, the percentage of SOEs in gross capital formation was down from 31.4% in 1983 to 7.7% in 2007 (CEPD 2008, p.66). Furthermore, private enterprises in the intermediate stream sector are able to enter the upstream sector and become the dominant force for capital accumulation. For example, the largest intermediate stream private enterprise, Taiwan Formosa Plastics Co., was allowed to manufacture crude oil refining and petroleum products in 1986, and to establish a power plant in 1996. The Taiwan Formosa Plastics Co. business group formed a production chain from upstream to downstream sectors, and this industrial conglomerate has been called “the petro-chemical kingdom.” In sum, the process of privatisation not only broke down

¹⁶⁸ Six liberal economics professors from *Cheng-She*, a liberal society, cooperated to publish ‘*The Capitalism of the Party-State*’ in 1991. They criticized the monopoly of public enterprises controlled by the KMT and intervention in the free market, thereby they highlighted the necessity of liberalisation and privatisation.

¹⁶⁹ In which, there were 8 banking enterprises, 5 insurance and trust firms, 4 petrochemicals, 3 transportation, 2 steel & machinery, 1 construction, and others.

bureaucratic-corporate capital, but also encouraged the development of private industrial capital.

In conclusion, US hegemony has played a key role in pushing Taiwan's adoption of neo-liberal practice, and the Taiwanese state has been powerless to resist such pressure. The case of Taiwan shows that although semi-peripheral development was supported by the core zone for a time, such support may turn out to be restriction. During the US-Taiwan trade talks and Taiwan's accession to GATT/WTO, Taiwan's export-led light manufacturing industries (i.e. labour-intensive, located in the downstream of domestic production chains) faced a crisis, for example, the reduction of state promotion, the sharp increase of the NT dollar's foreign exchange rate against US dollar, the increase of labour costs, and the reduction of US market access quotas (i.e. the end of GSP). From the late 1980s, the declining industries either closed factories, or requested permission to import low-skilled migrant labour, or increase overseas investment to Southeast Asia and to China. In the up- and intermediate stream sectors, the upstream SOEs were privatised and their business was deregulated, thus providing an opportunity for private industrial capitalists to expand. The domestic production chains that were dominated by the bureaucratic-corporate capital had hence collapsed by the late 1980s.

As such, in terms of industrial structure, the consequence of Taiwan's adoption of neo-liberalism is that Taiwan's two industrialising trajectories broke down. Taiwan's private industrial capital replaced declining bureaucratic-corporate capital to be the main capital accumulator. Chapter Seven will discuss the impact on employment, and how the government promoted labour flexibility policies and imported migrant labour in order to help Taiwan's industrial capitalists reduce labour cost.

The impact of neo-liberalism is however one side of the story; on the other side, Taiwan developed another industrialising trajectory which also changed Taiwan's links within the capitalist world-system, namely, the Taiwanese-led, export-led electronic industry. The industries affected by neo-liberalism (e.g. the labour intensive and export-led light manufacturing industries, SOEs) have been termed by the government as "traditional industries," in contrast to the "hi-tech electronics industry", which developed since the 1980s. While the traditional industries have declined, the Taiwanese-led, export-led, hi-tech electronics industry has grown.

5-2 Development of Taiwanese-led and Export-led Electronics Industry

As discussed in Chapter Three, the industrial centre shifted from the core to some selective semi-peripheral states (e.g. NIEs) in the 1960s and the 1970s, and then to some selective peripheral states (e.g. China) since the late 1980s and the early 1990s. The electronics industry is increasingly the case. In the 1960s and the 1970s, US and Japanese firms dominated electronics production, both relocated industrial production via outward investment to developing countries (Borrus 2000). Japanese producers gradually took the lead in consumer electronics and components technologies (e.g. displays, precision mechanical parts, and semiconductor memory), which challenged the competitiveness of US firms (Borrus 2000). However, US chip and semiconductor producers regained the leading role by 1994 (*ibid*). According to Borrus (1997), the success of the US semiconductor industry can be attributed to the growth of technical sophistication and Asian-based production networks which occurred during the 1980s. A number of studies have focused on how the Asian production network of the electronics industry contributed to Asian economic regionalisation and the development of the industry.¹⁷⁰ In this context, the development of Taiwan's hi-tech electronics industry is influenced by such a global shift. The section will briefly review how Taiwan's electronics industry was started by inward FDI from the US and Japan. Then, I will discuss how the Taiwanese state is keen to promote the industry (although with limited resources, under the pressure of neo-liberal policies) to participate in global production chain.

The dynamics of the electronics industry can demonstrate Taiwan's semi-peripheral development as it represents Taiwan's industrialised trajectory during the period, and the industry dominates production, trade, overseas investment, and employment (both domestic and overseas). The electronics industry became a major producer and exporter during the 1980s. In 2006, a 55.7% share of Taiwan's exports were integrated circuits (IC) and information technology (IT) electronic products; 34.7% of domestic manufacturing production by value was in the sector (Hung 2007). Between 1993 and 2007, 41% share of Taiwanese outward FDI was in the electronics industry (Investment Commission 2007). Excluding overseas production, there were

¹⁷⁰ For example, see Borrus, Ernst, and Haggard (2000) eds., *International Production Networks in Asia: Rivalry or Riches?* London: Routledge; Dicken, P. (2004) *Global Shift: Reshaping the Global Economic Map in the 21st Century, fourth edition*, London: SAGE

Twenty-four Taiwanese products that held the top three world market share in 2006 (CEPD 2007, Table 4-b), and the majority were IC and IT related products. How have the two main factors mentioned above (state promotion and the global production chain of the electronics industry) driven such development? What is the implication for Taiwan's semi-peripheral development? Before discussing these points, it is necessary to review briefly the evolution of the electronics industry up to the late 1980s.

5-2-1 Historical condition: FDI-led, export-led electronics industry

Before the 1960s, the share of electronic and electronic communications equipment in Taiwan's manufacturing GDP was less than 2% (Tu 2001). The electronics industry became the largest recipient of FDI from the mid-1960s to the mid-1980s. Around 36% of FDI was concentrated in this industry between 1952 and 1986, in particular from the US and Japan (Investment Commission 2008). This industry was FDI-oriented and export-oriented, and Taiwan served as a major assembler for TNCs. As discussed in Chapter Four, FDI played a crucial role in the export-led electronics industry, together with the export-led textiles industry, and drove Taiwan's EOI development in the 1960s and the 1970s.

Between the 1960s and the early 1970s, the main electronic assembly products were black-and-white televisions, radios, transistors, and integrated circuits¹⁷¹ (Tu 2001). Japanese and American electronics TNCs played important roles in this industry in terms of FDI and technology transfer. For example, one of the top Taiwanese enterprises specialising in consumer electronics, the Tatung Company, began importing electronic components from Japan in 1961. It formed a joint-venture company with Toshiba - a Japanese TNC - in 1964, to assemble transistor radios and televisions, and it became an OEM¹⁷² for Japanese companies. IBM, an American TNC, set up a computer manufacturing factory in Taiwan in 1962, followed by General Instruments in 1964 and the Radio Corporation of America (RCA) in 1967. The American TNCs mostly invested in the assembly of black-and-white televisions. Apart from household electronic appliances and computer products, the US TNCs

¹⁷¹ It was undertaken by US companies, e.g. Texas Instruments (1958), General Electric (1964) and RCA, see Chu and Amsden (2001, p.49).

¹⁷² The original equipment manufacturer (OEM) mainly undertakes mass production for their customers; they outsource assembly to small-scale subcontractors.

introduced the integrated circuit (IC) industry to Taiwan in the 1960s. The industry can be divided into three stages: design, fabrication, and testing and packaging. Taiwan was merely at the downstream sector, the testing and assembly work for the US TNCs.

In the 1970s, cassette recorders, colour televisions, electronic calculators, and digital watches became the main products (Tu 2001). The last two were linked to the IC products. The share of FDI in electronics exports was as high as 81.9% in 1975 (Chu and Amsden 2003). However, the share of FDI in electronics exports reduced dramatically to 35.7% by 1985, when the main electronic products shifted to integrated circuit packages, microcomputers, telephones, monitors, and computer terminals (Chu and Amsden 2003; Tu 2001). These new leading IC and IT products are manufactured by Taiwanese firms. How did this happen?

5-2-2 State promotion: IC and IT industries as strategic industries

The first factor to drive this development was state promotion. Industrial policy has had a long history in Taiwan's post-war capitalist development, although the term 'strategic industries' first appeared in the 1976-1981 Six-year Economic Development Plan¹⁷³ (Hsueh *et al.* 2001). In Chapter Four, I demonstrated how the state favoured the textile industry through import-substitution measures (e.g. regulating the entry of new factories, adopting multiple foreign exchange rates (1951-1957), implementing high tariff-protection and import controls) and by encouraging export policies in the 1950s and the 1960s, and then the state promoted heavy chemical industries through the establishment of SOEs in the 1970s. Most importantly, the state financed these specific industries through state-owned banks. However, most of these measures, which served as the government's policy instrument to promote specific industries, have now been abolished or reduced due to the economic liberalisation as discussed in 5-1. The state's major tools are now limited to fiscal methods through tax incentives, encouraging R&D, and indirect industrial financing. In this context, the idea of a 'strategic industrial policy' is neither a new policy nor a strengthening of state-intervention. The key point is that, since the 1980s, the state's

¹⁷³The Economic Development Plan by CEPD had lasted for four years per term between 1953 and 1993. An exception was the seventh term (1976-1981), which lasted six years as part of the government's response to the oil crisis in the late 1970s.

promotion has been exclusively focused on the electronics industry, hence the concentration of the government's resources directed Taiwan's industrialised trajectory towards EOI.

The first step of state promotion was to target specific industries. According to Luthje's (2006) definition, the hi-tech industry includes the production of microchips (semiconductors and related devices) and electronics systems manufacturing (computer related electronic components, communications equipment, and consumer electronics). These industries are all selected by the state as strategic industries and have become the major products and exports (mainly IC fabrication and PC systems) from the 1990s up to the present¹⁷⁴.

Furthermore, the state helped to develop R&D technology by establishing state-sponsored science-research institutes, financing private enterprises, and assisting the purchase of technology from US and Japanese TNCs. In 1973 and 1974, the Industrial Technology Research Institute (ITRI) and the Electronics Research and Service Organisation (ERSO), under the Ministry of Economic Affairs (MOEA), were established, respectively. In 1976, the ERSO purchased production technology of Complementary Metal Oxide Semiconductor (CMOS) from RCA, a US electronics TNC.¹⁷⁵ The United Microelectronics Corp (UMC), using the above technology transfer, was established in 1980. It was the first Taiwanese private integrated circuits company to produce CMOS, although it in fact was a "spin-off" of the ERSO. The government owned a 55% share of the UMC (Chen and Wang 1999). However, competition in semiconductors intensified due to major South Korean firms also entering the industry (Dicken 2004). Like Taiwan, South Korea established the Korea Institute of Electronics Technology (KIET) in 1976, which acts in a similar way to Taiwan's ITRI and ERSO. From the 1980s, South Korea also became a global major semiconductor producer.

As such, another "spin-off" from ERSO, was the Taiwan Semiconductor Manufacturing Company (TSMC), the first dedicated foundry company in the world,

¹⁷⁴ In the second National Economic Conference in December 1981, the information electronics industry and the machinery industry were chosen as 'strategic industries'. In 1989, the information technology (IT) sector, consumer electronics sector, telecommunication sector, automation sector, and the materials sector were the five strategic industries. In the 1980s, the third term of the Statute for Encouraging Investment gave tax holidays to capital and technology-intensive industries.

¹⁷⁵ According to Tu (2001), bringing in such technology cost NT\$489 million (around US\$ 12.9 million).

founded in 1987. This company is mainly funded by the government through the National Development Fund (49% of the shares), and by Philips (the Dutch TNC) (27.5% of the shares). Since the TSMC was established, Taiwan's foundry industry has moved towards specialising in the so-called "pure-play foundries" rather than the integrated device manufacturers (IDM) mode. In the model of pure-play foundries, the only devices manufactured are under contract by other companies, without designing them. On the other hand, the IDM model is a vertically integrated production of ICs which includes design, fabrication, and test/assembly processes. It was mainly adopted by the US, EU, Japan, and Korea, which dominated the IC industry in the 1980s (Dicken 2004). Thereafter, UMC shifted from the IDM mode to the pure-play foundry mode. Taiwan's semiconductor industry (pure-play foundries) thus adopted a different trajectory from South Korea (IDM).

In the IT industry, ITRI and ERSO co-operated with eight Taiwanese electronic firms to begin researching IBM-compatible PCs in 1982, when IBM PC computers were the major products in the world market (Chang 1992). ERSO transferred key technologies to Taiwanese PC enterprises, and some ex-ERSO engineers formed a new enterprise, ACER. ACER has since become a leading brand computer in Taiwan and in the world. In cooperating with ITRI, ACER developed 16-bit and 32-bit PC computers in 1984 and in 1986 (Chu and Amsden 2003, p.50). In sum, the significance of the state's R&D support is mainly through the research agency in forming a division of labour with private firms, in which the research agencies act as a 'main provider of R&D in the industrial system' as well as an 'important channel for foreign technology' (Brenzitz 2005b, p.211).

Besides R&D, the state also established a special industrial park for the electronic industry, the same as the EPZ for export-led industries in the 1960s. The proposal to establish a Science-based Industry Park was included in the Six-year Economic Development Plan in 1976. Hsinchu Science Park (HSP) was launched in December 1980, located near to Taiwan Taoyuan International Airport with two leading universities in science and engineering. According to Taniura (2003[1988]) and Tu (2001), HSP was an imitation of the US's Silicon Valley. HSP was initially planned to target the semiconductor industry. Currently six industries are permitted in the HSP: integrated circuits, computers and peripherals, telecommunications, optoelectronics, precision machinery and materials, and bio-technology. The integrated circuits (IC) industry has been the largest in terms of both investment and sales. Despite being

eligible under the *Statue for Encouraging Investment* (1980-1989) and the *Statue for the Upgrading of Industry* (1990-to the present), the enterprises in HSP also enjoyed the following inducements:¹⁷⁶

- Duty-free imported machinery for self use, raw materials, fuel, material and semi-finished goods. Park enterprises that export products or labour services are not subject to enterprise tax.
- Additional tax incentives e.g. no enterprise tax for five years.
- Foreign investors enjoy national treatment. Foreign investors can hold 100% equity in park enterprises, and can seek the government of the Republic of China and local enterprises as joint investors.
- Investors can apply for government participation in investments, with the maximum investment amount by the government capped at 49% of principal capital.
- Scientific industry enterprises may apply for low interest loans from the Chiao-tung Bank for the purposes of acquiring machinery and equipment or building plant facilities.

Strategic industries versus traditional industries

The state also provides tax incentives to IC and IT industries. The state has offered these tax incentives to selective industries since the 1960s; yet, only since the 1990s has the state exclusively allocated these tax incentives to the IC and IT industries.

Most of the regulations on tax incentives were addressed in the *Statue for Encouraging Investment* (SEI) which was promulgated in 1950. The *Statute for Upgrading Industries* (SUI) was launched in 1991 to replace the SEI. Between 1961 and 1990, most of the new investment enterprises covered by the SEI enjoyed exemption from the business income tax, and some other incentives. However, in the SUI, only strategic industries can enjoy the five-year exemption from business income tax or investment tax credit. The “traditional enterprises” (non-strategic industries) can only enjoy tax incentives when they invest in R&D, personnel training, and new equipment or technology. Accordingly, based on the SUI, Taiwan’s industries are

¹⁷⁶These incentives were from the version of the Statute for the Settlement and Management of Science-based Industry Park of 1979. The current incentives can be seen at http://investintaiwan.nat.gov.tw/en/opp/locations/science_parks.html

divided into two groups: traditional industries, which obtain *functional* incentives, and strategic industries, which obtain *general* incentives.

What strategic industries are covered by the SUI? As mentioned above, five industries were chosen to be strategic industries in the 1980s. From 1991 based on the SUI, ten industries were identified as ‘newly emerging important technologies industries.’¹⁷⁷ After 2000, the ten industries were extended to eighteen ‘newly emerging, important and strategic industries’ (strategic industries for short).¹⁷⁸ According to data from the Ministry of Finance, the amount of tax reduction due to the implementation of the SUI, increased from NT\$5.9 billion in 1993 to NT\$83.2 billion in 2005 (MOF 2006, Table 17). Nearly half of the amount of tax reduction was concentrated in the strategic industries. For example, in 2005, there were four to five hundred enterprises enjoying tax reductions of NT\$42.3 billion; however, the other 650,000 enterprises that do not belong to the strategic industries obtained just NT\$40.9 billion (MOF 11/03/2005). The MOF criticized the huge uneven distribution between the traditional industries and the strategic industries. In 2000, the government debated whether the promotion of ‘newly emerging, important and strategic industries’ through the SUI should remain or not.¹⁷⁹ The conclusion was that such promotion should remain until the review of SUI by the end of 2009, but the sub-sectors of the strategic industries would be reviewed every two years.

5-2-3 Global production chain of the electronics industry

From the context of state promotion, the development of Taiwanese private enterprises in the IT and IC industry is viewed by Chu and Amsden as a success story of a government-led industrial-network, which is a main characteristic of a ‘neo-

¹⁷⁷The communications, information, consumer electronics, semiconductors, precision machinery and automation, aerospace, advanced materials, specialty chemicals and pharmaceuticals, medical and health care and pollution control and treatment industries.

¹⁷⁸The information software, computer, communication, consumer electronics, semiconductors, precision machinery equipment and automation, aerospace, bio-medical, specialty chemicals, green technology, advanced plastic materials, electronic materials, advanced amalgamation materials, advanced fibre materials, special alloy materials, precision ceramics materials, medical and health care and pharmaceutical industries.

¹⁷⁹Interview with Chen, Hua-yin, Assistant Director of Division of Industrial Policy, Industrial Development Bureau , Ministry of Economic Affairs, on 24 April 2006

developmental state'¹⁸⁰ (Chu and Amsden 2003, p.199). The discussion above makes it very clear that the state has strongly fostered this industry. However, the context of the global production chain of the electronics industry cannot be ignored. Borrus (2000) argues that the development of the electronics industry in East Asia has strong links with the development and redevelopment of the US semiconductor industry from the 1980s. He further identifies three stages of how US electronics firms make use of such a 'regional production network' in East Asia: the first stage was to establish overseas branches in Asia through outward FDI in the 1960s and the 1970s; the second stage was that these Asian affiliates developed local relationships via technology transfer and the establishment of local supply-chain during the 1980s; the third stage was that these Asian affiliates extended production networks to more and more capable local Asian producers via sourcing and contract manufacturing since the 1990s. As Borrus (2000) describes it, 'by the early 1990s, the division of labour between the US and Asia, and within Asia between affiliates and local producers, deepened significantly, and US firms effectively exploited increased technical specialisation in Asia (p.73)'. It is within such an international context that Taiwan's export-led and hi-tech electronics industry develops.

The IT industry's contract manufacturing process can be summarised as shown in Table 5-1 below. According to Luthje (2002) and STPI (24/06/2005), the broad production chain of the electronics industry includes: branding, marketing, product design, product development, mass production, assembly, distribution, after-sales service, and product repair. Among these processes several types of contract manufacturing play important roles. Firstly, the original equipment manufacturer (OEM) mainly undertakes mass production for their customers; they outsource assembly to small-scale subcontractors. Secondly, the original design manufacturer (ODM) provides design services with production and was mainly based in Taiwan after the 1990s. Thirdly, the electronics manufacturing service (EMS) and the contract manufacturer (CM) emerged in the 1990s, integrating the intermediate stream of the production chain, and representing a pattern of 'network-based mass production' (Luthje 2006, p.22). The definition of the CM varies. Some studies argue that ODM plus EMS are the CM (Sturgeon and Lee 2005); some define the CM as a new type in-between these contracting networks (Luthje 2002). Here I adopt Luthje's definition,

¹⁸⁰The literature of how the 'neo-developmental state' promotes the IT industry development can be seen in Breznitz (2005a), Breznitz (2005b), Mathews and Cho (2000), O'Riain (2000), O'Riain (2004).

which is that the CM excludes production design. Lüthje (2002) estimated that the CMs accounted for 15-20% of the value-added of the global electronics industry. The EMS is mainly located in North America and the majority of CMs are Taiwanese companies.

Table 5-1: Different types of contract manufacturers in the global IT industry

Contract manufacturing	OEM	EMS	CM	ODM
Own brand				
Marketing				
Product design				
Product development				
Mass production				
Global assembly				
Logistics/ distribution				
After-sales service				
Product repair				

Sources: (Luthje 2002; STPI 24/06/2005)

In the past, Taiwan's traditional export-led industries (e.g. textile and plastic products) developed domestic production chains with SOEs and large private enterprises.

However, the electronics industry has been developed within a global production chain since the early stages. During the 1960s and the 1970s, Taiwan served as either the assembly base for electronics FDI, or OEMs, or subcontractors to the factories of the above. After the 1980s, Taiwanese enterprises entered the IT and IC industries through the mode of pure-play foundries and being OEMs. The two industries both depend on foreign technology transfer and foreign buyers (Fuller 2005). After two decades, although Taiwan shifts from being OEMs to being ODMs and CMs, the modes of subcontracting and outsourcing still dominate in these two industries.

Taiwan “upgrades” its position in the international division of labour of the electronics industry but remains reliant on the technology transfer and production chains of leading TNCs.¹⁸¹

¹⁸¹See Bernard and Ravenhill (1995) who discuss the cases of the electronics industry in Taiwan and in South Korea. Also see Fuller's (2005) analysis of how Taiwan's IC fabrication and PC systems have been heavily dependent both on 'technology transfer' from foreign firms and on 'foreign customer

According to Sturgeon and Lee (2005), the majority of Taiwan's IT hardware products are the 'ODM-type' and accounted for a large share of the world market (p.47).¹⁸² An estimation of the share of various kinds of contract manufacturing of Taiwan's IT hardware production was as high as 91% in 2002, therefore the pattern was termed by Sturgeon and Lee (2005) as 'supplier-oriented industrial upgrading'(p.50). Between 1998 and 2003, the top five buyers of Taiwan's IT hardware products were HP/Compaq (34%), DELL (16%), Sony (9%), Apple (7%), and the IBM (6%), most of them were US brands (Sturgeon and Lee 2005). The situation is as I have discussed earlier, where US electronics TNCs have made use of an Asia-based production network to increase their competitiveness. In 2006, four of the top ten CMs in the world were Taiwanese enterprises (Hon Hai Precision, Asuster, Quanta, Inventec), and they accounted for 55% of the top ten's 2006 revenue (EDN 27/09/2007). On the one hand, the CMs act as a "one-stop shop" for transnational brand companies, OEMs, ODMs and EMS customers from the core and semiperipheral zones; on the other hand, they outsource downstream assembly to local small-scale subcontractors in peripheral countries. According to Lüthje (2006), 'the fastest growing players have been the CMs from Taiwan, which are said to be most efficient in exploiting the economies of low-cost manufacturing in China' (p.25). China's Guangdong province is estimated to be the largest concentration of Taiwanese corporations' subcontractors (*ibid*).

The above discussion reveals that Taiwan's IT hardware industry has developed through a global production chain and links with core and peripheral economies. A similar pattern can be observed in the IC industry. Taiwan's semiconductor industry is also a kind of contract manufacturing that produces pure-play foundry. In 2006, three of the world's top 10 pure-play foundry companies were Taiwanese companies,¹⁸³ which accounted for 71% of world pure-play foundry production (Insights 07/08/2006). Taiwan's foundries industry is as Dicken (2004) describes, 'the workshops of the electronic world' (p.432). However, the mode of pure-play foundry

base' (p.141). Ernst (2000) examines how Japan's change of regional division of labour after the late 1980s has had significant consequence on its East Asian network in the electronics industry. South Korea and Taiwan become competitors for OEM contractors and act as suppliers of precision components (p.98).

¹⁸² In 2002, Taiwan producers accounted for 61% of global production of notebook PCs, 23% of desktop PCs, 61% of LCD monitors, 75% of motherboards, 51% of CRT monitors and 45% of optical disk drives.

¹⁸³ The others were two Singaporean companies, a South Korean firm and three Chinese firms.

is less profitable than IDM semiconductor production. According to iSuppli's estimation of world semiconductor revenue in 2007, Taiwan only accounted for 4.5%, far less than the US (46.2%), Japan (23.8%), South Korea (11.1%) (iSuppli 27/11/2007). This figure is a huge contrast to Taiwan's pure-play foundries' market share in the world (71%). Fuller (2005) states that Taiwan's fabrication firms are still small, for example, the total fabrication revenue of Taiwan's 16 semiconductor companies was smaller than the revenue of Samsung (a South Korean firm) in 2000. He argues that this is due to Taiwan's tight credit system (no option into high debit/fund investment) that led to a lack of patent capital and innovation in Taiwanese firms (Fuller *et al.* 2005). In sum, Taiwan's IC and IT industries have seen a remarkable growth since the 1980s, from an FDI-led to Taiwanese-led development due to state promotion and a global production chain; however, the growth should not be overestimated as the position of Taiwan's industrial capital in the global production chain is as contractor that supplies for the world top brands from the core, and outsources to subcontractors from peripheral companies.

The electronics industry as top overseas investment sector

By analysing the position of Taiwan's electronics sector, it is not surprising that these electronics industries became Taiwan's largest overseas investment and trading goods sectors. Before 1992, Taiwan's outward electronics FDI, as a share of Taiwan's outward manufacturing FDI, was 33%,¹⁸⁴ but the figure increased to nearly 61% between 1993 and 2007 (Investment Commission 2007). Increasingly, Taiwanese electronic exports are produced abroad. For example, before 1997, 98% of Taiwanese electronic exports to the US were exports from Taiwan: this figure dropped to 67% in 2002 (i.e. 33% of exports to the US were produced and shipped from third countries). The Taiwanese government has tried to reduce hi-tech industrial investment in China. However, it is the electronics and electrical appliance sectors that are the largest source of Taiwanese FDI in China and accounted for 34.79 % of Taiwan's total investment in China between 1991 and 2005 (Taiwan Economic Research Institution 2008). Furthermore, by dividing Taiwan's electronic exports to China into finished goods, hi-tech intermediate goods, and ordinary intermediate goods, the share of export of *hi-tech intermediate goods* to China increased from 24.4% in 1990 to 67.5% in 2002 (Lin *et al.* 2003, Table 5-2) while the percentage of other goods decreased.

¹⁸⁴The following data are drawn from Lin, *et al.* (2003).

This shows that in the electronics industry, there is a division of labour between Taiwan and China in the way that Taiwan exports intermediate goods to China for further processing. This also served as the foundation of Taiwan's contract manufacturing's expansion in the world market.

In conclusion, state promotion only partially explains the development of Taiwan's IT and IC industry after the 1980s. The state has tried to foster targeted/strategic industries since the early stages of industrialisation. Before the 1980s, the targeted industries were able to integrate a domestic production chain from upstream to downstream. However, after the 1980s, the new strategic industries were integrated globally with leading electronics TNCs and downstream subcontractors in peripheral countries (mainly in Southeast China). Taiwan, then, is in an intermediary position, although its contract manufacturing products (both in IT hardware and in pure-play foundries) are now the leading ones in the world market. Taiwan's electronics industry shifted from a downstream position (i.e. assembly for FDI) in the 1960s and the 1970s, to an intermediate position after the 1980s. Taiwan has also successfully shifted from the EOI of light manufacturing to the EOI of the hi-tech electronics manufacturing. However, such a development does not mean that Taiwan has ascended to the core. Taiwanese electronics enterprises, on the one hand served as the contractors for leading branded TNCs. On the other hand, they established a production base in peripheral countries by exporting Taiwanese capital and re-exporting production. The overall industrial upgrading strategy (an upgrade in the position in the global production chain and an upgrade from light manufacturing to hi-tech manufacturing) is actually a process of deepening Taiwan's semi-peripheral position, rather than a process of becoming a core economy.

The previous two sections examined how changes to the capitalist world-system have influenced Taiwan's industrialised trajectory. Under the pressure of neo-liberalism, Taiwan's bureaucratic-corporate capital and two industrialised trajectories collapsed. The labour-intensive industries started to relocate production overseas. On the other hand, Taiwan private industrial capital made use of the global production chain to upgrade its electronics industry. Thus the electronics industry becomes Taiwan's dominant production, export, trade, and overseas investment. In sum, Taiwan has abandoned the strategy to form domestic production chains led by bureaucratic-corporate capital, and shifted to an export-led electronics industry led by

Taiwanese private industrial capital. Taiwan's private capital has hence become the main capital accumulator, rather than the bureaucratic-corporate capital, since the late 1980s. Such a change is not only a domestic shift, but it has also transformed Taiwan's integration within the capitalist world-system. Between 1945 to the late 1980s, Taiwan's capitalist development was tied to the US and Japanese economies via aid, trade, inward FDI, and technology transfer. However, since the late 1980s, China has increased its influence on Taiwan's capitalist development, and has become Taiwan's leading trading partner and overseas production base. The next section will discuss the change.

5-3 Increasing Economic Interaction with China

In Chapter Three, I discussed the rise of the East Asian economies as a new centre of capital accumulation. Taiwan's industrial capital is a key contributor in the rise of East Asian economies. Taiwan benefited from industrial relocation by the US and Japan in the 1960s and the 1970s; since the 1980s, Taiwan further shifted to export capital and relocate production to other East Asian peripheral countries. For example, in 2006, the share of exports to East Asia reached nearly 62% of Taiwan's total exports; while imports from East Asia accounted for 54% of total imports (CEPD 2007). Behind Taiwan's integration within the East Asian economies is Taiwan's increased economic interaction with China via outward investment and trade.

5-3-1 The rise of capital exporting¹⁸⁵

Taiwan's outward FDI is the key factor in Taiwan's increasing economic ties with China. This section will examine the dynamics of Taiwan's outward FDI.¹⁸⁶ Taiwan began to invest overseas in the late 1970s and the 1980s; however, the amount was not significant until 1988, as Figure 5-2 shows. The first reason as to why this period is significant relates to financial liberalisation. The full framework of financial liberalisation will be discussed in next chapter; here I will only address the point

¹⁸⁵In this section, Taiwan's outward FDI excludes investment in China. Data is from Investment Commission (2008).

¹⁸⁶In this chapter, FDI only refers to foreign investment that does not include overseas Chinese investment. The following data regarding inward FDI is from Investment Commission (2008).

related to foreign exchange rate policy. Before 1987, Taiwan's major controls on financial accounts were mainly on outward capital flow, owing to the government's intention to accumulate foreign exchange reserves.¹⁸⁷ Taiwan's foreign exchange reserves accordingly grew dramatically in the 1980s, from US\$22.05 billion in 1980 to US\$76.7 billion in 1987, nearly three-and-a-half times, and was had the second largest foreign currency reserves in the world (Department of Investment Services 2007). Meanwhile, Taiwan was under US pressure to appreciate the NT dollar, which was a result of the US's economic bilateralism in the 1980s to push some leading export countries into appreciating their currencies. The exchange rate of the NT dollar against the US dollar increased from NT\$37.8 in 1986 to NT\$26.4 in 1989, an appreciation of 27 percent.¹⁸⁸ In order to adjust Taiwan's international balance of payments and to reduce the impact of the appreciation of the NT dollar on Taiwan's international export competitiveness, the only solution was to loosen the controls on outward capital flows.¹⁸⁹ A similar pattern occurred in Japan in the mid-1980s and in South Korea in the late 1980s. As such, since 1987, the foreign exchange control of current account transactions were partially liberalised¹⁹⁰ except where short-term capital movement exceeded the accumulated remittance amount annually¹⁹¹ which still needed prior approval from the Central Bank (CBC 2004). Taiwan thus became a capital exporting country from 1988.¹⁹²

Meanwhile, Taiwan's inward FDI also experienced a significant change due to financial liberalisation. Although inward FDI increased during the late 1980s, due to Japan's strategy of industrial relocation to Taiwan (in particular in the electronics

¹⁸⁷ The author's interview with Maggie Lin (no. 14) on 21 March 2006. She is a senior specialist from the Dept. of Foreign Exchange, the Central Bank of China (Taiwan).

¹⁸⁸ It was a common situation that East Asian NIEs were pressurised by the US to appreciate their currency, the percentage change for the South Korean won and Singapore Dollar against the US Dollar between 1986 and 1990 was 19.71% and 16.77% respectively. See Hsing (1998).

¹⁸⁹ The author's interview with George A-Ting Chou (no.12) on 21 March 2006.

¹⁹⁰ There were four main deregulating measures: (1) Exporters and importers do not need to declare their foreign exchange earnings or payments; (2) exporters were free to hold or utilize any foreign exchange they obtained through their exports; (3) individuals and companies were free to purchase foreign exchange; (4) Unused foreign exchange previously purchased do no need to be remitted. See the detail in Shieh (1996).

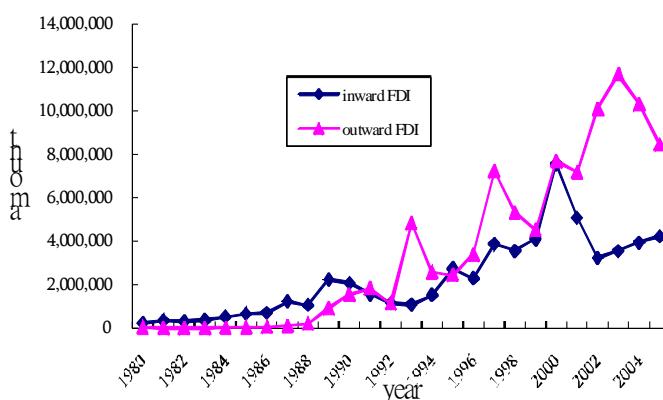
¹⁹¹ US\$5 million by a natural person or US\$50 million by a juridical person.

¹⁹² There are two different sets of data regarding the timing of when Taiwan's net outward investment exceeded net inward investment. According to the data from the Central Bank, it was 1988; the data from the Investment Commission, Ministry of Economic Affairs, shows that it was 1991. See Lin, *et al.* (2003) on the comparison of the two sets of data.

industry), overall Taiwan's inward manufacturing FDI has declined since the 1990s and inward services FDI (in particular finance and trade-related) has became the main field to attract foreign investment. Financial inward FDI, mainly from the US and the EU, grew sharply after 1998 and has become the top source of inward FDI since then. The phenomenon indicates that Taiwan no longer serves as a production base for FDI, and the pattern of FDI-led and export-led industrialisation is changed. On the other hand, Taiwan is now involved in the process of financialisation as Chapter Six will discuss.

As such, considering the similarity in the timing of the increase of inward FDI to Taiwan in the late 1980s (see Figure 5-2), the pattern of industrial restructuring that occurred in Taiwan since the late 1980s can be seen, and Taiwan has thereby become one of the key actors contributing to the economic integration process in East Asia, as Taiwan's main outward FDI goes to East Asia.

Figure 5-2: Taiwan's inward and outward FDI (1980-2005) (unit: US\$1, 000)



Source: (Investment Commission 2008)

Apart from the factor of financial liberalisation discussed above, the second factor regards the US's liberalisation requests on Taiwan's labour-intensive and export-led industries. As mentioned in the first section, the US ended Taiwan's inclusion of the GSP (General System of Preference) in 1989 and restricted Taiwan's exports to the US market. In addition to the sharp appreciation of the NT dollar, Taiwan's exports confronted a serious challenge. The increase of labour costs was also a factor that pushed Taiwan's industrial capital to relocate their labour-intensive industries to other peripheral countries. As the Labour Standard Law was implemented in 1984, labour

costs and labour disputes have thus increased sharply since then. According to a DGBAS survey, the percentage of labour costs to Taiwan companies increased from 12.75% in 1981 to 14.36% in 1986 (DGBAS various years-a). Therefore, pursuing a cheaper labour-supply, which includes overseas relocation and imports of migrant labour, becomes a strategy of industrial capital. In general, Taiwan's shift to export industrial capital not only reflects industrial capital strengthening its power from domestic economy to international economy, but also reflects the change in Taiwan's financial and labour sectors.

With regard to the destination of outward capital flows, it is necessary to divide the period into two, from 1988 to 1992 and 1993 to 2007, as Taiwanese business began investment in mainland China only after 1992, due to the Taiwanese government lifting the ban on investments in China in 1992.¹⁹³ In the period from 1988 to 1992, the major destination of Taiwanese outward FDI (measured by volume) was Southeast Asia¹⁹⁴ (35%), the US (30%), and Bermuda and the British overseas territories of the Caribbean (19%). This outward FDI was overwhelmingly manufacturing-based, and accounted for nearly 89% of total outward FDI. It included the plastics products sector (26%), the textiles sector (25%), and the wood and bamboo sector (18%). These industries are the ones that were under US pressure to restrict their exports from Taiwan. Further, it is noteworthy that Taiwanese FDI in the British overseas territories of the Caribbean and Bermuda is quite different from the investment sectors in other areas.¹⁹⁵ In Southeast Asia, 69% of Taiwanese FDI was in the manufacturing sector. The figure was 57% in the US. However, in the British overseas territories of the Caribbean and Bermuda, 77% of Taiwanese outward FDI was in the financial sector. According to Tung (2003), the majority of Taiwanese FDI in the British overseas territories of the Caribbean (e.g. the British Virgin Islands and the Cayman Islands) was to make use of tax-havens, for re-investing in Mainland China. It is also the reason why this area is among the top three origins of inward FDI to Taiwan. Currently, we do not have statistics or an official survey regarding the re-

¹⁹³ The PRC government announced the '*Regulations for Encouraging Investment by Taiwan People*' on 7 July 1988, and established a Taiwanese Affairs Office under the State Council (MAC 2008). In 1992, the Taiwanese government approved the '*Statutes Governing Relations between Peoples of the Taiwan Area and the Mainland Area*'.

¹⁹⁴ Indonesia, Malaysia, the Philippines, and Thailand.

¹⁹⁵ The following data in this paragraph is from 1952 to 2007, because official statistics do not combine area, year, and sector in one table.

investment destination of Taiwan's FDI in that area.¹⁹⁶ The PRC's official data shows that the Virgin Islands and the Cayman Islands accounted for 18% of China's inward FDI in 2005. In sum, Southeast Asia was the top destination for Taiwan's outward FDI from 1988 to 1992, in particular in the manufacturing sector.

Increasing economic interaction with China

As for outward FDI between 1993 and 2007, China was clearly the major destination for Taiwanese outward FDI, and accounted for nearly 52% of Taiwanese FDI, as Table 5-3 shows. Taiwanese FDI shifted remarkably to China from other Asian countries¹⁹⁷ after 1993. Taiwan's investment in Southeast Asia reduced from 35% to less than 13% between these two phases. In the distribution of investment by sector, the electronics industry was dominant, accounting for 41%; the other sectors were all less than 10% individually.

¹⁹⁶This is one of the reasons why statistics regarding Taiwan's investment in Mainland China are sharply different between the Taiwanese government and the PRC government.

¹⁹⁷The 'Asian area' refers to the area of Northeast Asia plus Southeast Asia, including Japan, South Korea, Hong Kong, Singapore, the Philippines, Indonesia, Thailand, Malaysia, Vietnam, and other Asian countries.

Table 5-3: The amount of Taiwanese FDI from 1993 to 2007 (unit: US\$1,000; %)

Year	(1) Other Asia	(2) Mainland China	(3) Total (including China)	Asia: (1)+(2)/(3)	China (2)/(3)	Other Asia (1)/(3)
1993	663,514	3,168,411	4,829,346	79.3	65.6	13.7
1994	559,471	962,209	2,578,973	59.0	37.3	21.7
1995	467,743	1,092,713	2,449,591	63.7	44.6	19.1
1996	661,717	1,229,241	3,394,645	55.7	36.2	19.5
1997	818,743	4,334,313	7,228,139	71.3	60	11.3
1998	580,819	2,034,621	5,330,923	49.1	38.2	10.9
1999	836,378	1,252,780	4,521,793	46.2	27.7	18.5
2000	851,065	2,607,142	7,684,204	45.0	33.9	11.1
2001	814,981	2,784,147	7,175,801	50.2	38.8	11.4
2002	530,055	6,723,058	10,093,104	71.9	66.6	5.3
2003	1,063,915	7,698,784	11,667,372	75.1	66.0	9.1
2004	1,275,089	6,940,663	10,322,685	79.6	67.2	12.4
2005	430,673	6,006,953	8,454,402	76.1	71.1	5.1
2006	1,390,621	7,642,335	11,957,761	75.5	63.9	11.6
2007	2,366,606	9,970,545	16,440,522	75	60.6	14.4
Total	10,944,784	54,477,370	114,129,261	64	51.8	13

Source: (Investment Commission 2008)

Note: 1. Hong Kong is included in (1) the Asian area.

2. The investment amounts in China in 1993 and 1997 were unusually high because in many of the cases, outward investment did additionally supplement procedures during the two years.

The above data shows clearly that mainland China has emerged as Taiwan's top FDI destination since 1993. In the manufacturing sector and in the electronics industry in particular, the tendency is more intense than in other sectors. *74.5% of Taiwan's outward manufacturing FDI and 74.1% of Taiwanese electronics outward FDI were located in mainland China during the period from 1988 to 2007* (Investment Commission 2008). The figures for other Asian countries were only 10% and 9%, respectively. The big contrast between Taiwanese FDI in China and other Asian locations shows that Taiwan's economic interaction with the East Asian region in terms of its outward investment is mainly driven by investment in China. Accordingly, Taiwan's electronics outward FDI contributes to the development of China's electronics industry as the industry is both export-led and FDI-led in China (Jin 2006), as was the case with Taiwan in the 1960s and the 1970s. In 2005, the share of FDI of

China's total in the sales, added value, profits, and exports by amount in the electronics industry accounted for 77%, 77%, 77%, and 87% respectively.

In sum, Taiwan's interaction with the East Asian economies in terms of outward investment has had a remarkable development since 1988. The first stage between 1988 and 1992 concentrated in Southeast Asia and the US. Since 1993, however, when the Taiwanese government allowed Taiwanese businesses to invest in mainland China, China has received most of Taiwan's FDI. Even though Taiwan's official statistics have revealed Taiwan's strong economic ties with China, the real situation is far more than the statistics show. Taking into account that Taiwan's outward FDI in the financial sector in Bermuda and the British overseas territories of the Caribbean Sea, and Hong Kong, might be re-invested in China, the share of Taiwanese FDI to China will be far more than the apparent 52% (between 1993 and 2007).

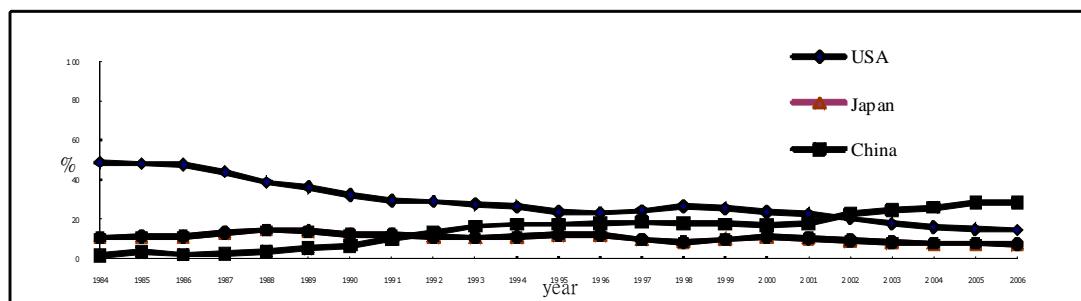
China has not only been Taiwan's leading outward FDI's destination since 1992, it has also become Taiwan's leading trading partner. Similar to the pattern in Taiwanese outward FDI, East Asia has become Taiwan's top trading region since the late 1980s. In 1980, Taiwan's exports to and imports from East Asia accounted for only 29%, and 37%, of total exports and imports, respectively. In 2006 however, the share of exports to East Asia reached nearly 62 % of Taiwan's total exports, while imports from East Asia accounted for 54% of total imports (CEPD 2007). However, by analysing the destination of Taiwan's trade with East Asia, it can be seen that Taiwan's trade with Hong Kong also experienced a remarkable growth. The share of exports to Hong Kong of Taiwan's total export increased from 7.7 % in 1987 to 19% in 1991, and the average share between 1993 and 2006 was 21% (CEPD 2007, Table 11.9f). In other words, about one-fifth of Taiwan's export has gone to Hong Kong since the 1990s. It is therefore evident that Taiwan's trade with Hong Kong is a main contributor to Taiwan's increasing of trade within East Asian region.

Transit trade with Mainland China, via Hong Kong¹⁹⁸, was the main contributory factor for this increase. According to statistics from the Hong Kong Census and Statistics Department, Taiwan's re-exports to mainland China from Hong Kong, as a share of Taiwan's exports to Hong Kong, increased from 19.1% in 1984 to 80.6% in

¹⁹⁸According to the Regulations Governing Permission of Trade Between Taiwan Area and Mainland Area, Article Five states, 'Trading activities between Taiwan Area and Mainland Area shall be executed in an direct manner, whereby the buyers or the sellers shall be the traders in the Mainland Area, *but the goods/articles involved in such transactions shall be transshipped via third territories or the off-shore shipping center.*' Most of the transit trade is via Hong Kong.

2007 (Taiwan Economic Research Institution 2008). In terms of imports, the percentage grew slightly from 20.5% in 1984, to 43% in 2007. Due to the partial openness of trade with China, there are different results between Hong Kong Customs', Taiwanese Customs', and Chinese Customs' statistics regarding cross-strait trade. In 2007, according to an estimate by the Mainland Affairs Council, the share of cross-strait trade of Taiwan's total trade was 30.1% by export and 12.8% by import¹⁹⁹ (Taiwan Economic Research Institution 2008). China has become the largest single destination for Taiwan's exports, greater than the US, since 2002 (Figure 5-4). Moreover, after 2004, the share of exports to China measured by volume was more than that to the US and Japan combined.

Figure 5-3: The share of Taiwan's export by destination (1984-2006)



Source: (CEPD 2007; Taiwan Economic Research Institution 2008)

In fact, the number of imports from China could be higher if the Taiwanese government did not impose restrictions on Chinese imports. On 7 July, 1988, the KMT approved 'the Mainland Policy at the Current Stage', and the government began to allow 50 items of agricultural and labour-intensive imports from Mainland China from August 1988. In 1996, the government opened up to more imports by changing the criteria to a "negative list" basis.²⁰⁰ During that year, two thousand items were allowed to be imported from Mainland China. The proportion of Chinese imports to Taiwan's total imports was 52.5% in 1996. Around half of all Chinese goods remained prohibited from even being imported indirectly to Taiwan. In 2002, when both Taiwan and China entered the WTO, Taiwan further opened its markets to more Chinese imports. The proportion of permitted indirect Chinese imports increased to

¹⁹⁹ The figure was only 3.7% and 16.5% in 1988 and 1993 by export; less than one percent and 1.43% in 1988 and 1993 by import.

²⁰⁰The data related to restrictions on Chinese imports is from the Bureau of Foreign Trade (2006).

nearly 80% (8,718 items) in 2007. Since 2006, China has become the second largest source of imports to Taiwan (12.2%), greater than the US (11%) (CEPD 2007).

Following the discussion about Taiwanese FDI in Section 5-3-1, Taiwan's increasing economic interaction within the East Asia region has been driven mainly by cross-strait economic interaction. China has become a new major trading partner to Taiwan in addition to the US and Japan. This high economic interdependence has, however, become a very controversial and challenging situation for Taiwan. In order to understand the controversy, I will outline cross-strait political relations in next section.

5-3-2 Political context of cross-strait relations

Taiwan's increasing of economic interaction with China cannot be understood without analysing the political context of cross-strait relations and Taiwan's democratisation process. I have discussed the significant role of US hegemony in cross-strait relations in Chapter Four, namely the US-Taiwan-PRC nexus. Here I will briefly examine the political evolution of cross-strait relations since it opened-up in the early 1990s. Before 1987, the KMT's mainland policy was both the "three noes - no contact, no compromise, and no negotiation" and the "unification of China under Sun Yat-sen's three principles of the people."²⁰¹ On 13 January 1988, Lee Teng-hui became the first non-mainlander President after the death of Chiang Chin-kuo. Lee is the key person in the evolution of Taiwan's mainland policy as he had a different attitude towards China compared with in the KMT leadership. Lee's power struggle within the KMT leadership thus influenced the KMT's mainland policy.

During the early Lee administration, he was involved in tense relations and a power struggle within the KMT for the leadership of the party. The KMT was split into two factions: the "mainstream faction" led by Lee, and the other the "non-mainstream faction", led by mainlanders. These two factions had different attitudes towards constitutional reform, the presidential electoral system, and relations with the DPP (Lu 2002). Firstly, due to opposition and student movement campaigns, members of National Assembly who had come with the KMT in 1949 were in 1991 required to retire and new members were elected. Secondly, the new National

²⁰¹ These three principles indicate the importance of nationalism, democracy, and welfare.

Assembly held a Second Congress in 1992 and a proposal for a direct presidential election²⁰² was approved. This proposal originated from the DPP, but soon became part of Lee's reform agenda. This peaceful process of democratisation (i.e. without severe unrest) is viewed as part of Lee's strategy to manoeuvre public opinion and the opposition political movement as part of the power struggle within the KMT.²⁰³ No matter what the motivation or strategies Lee may have used, in the 1990s the consequences of peaceful democratisation were that the KMT mainland leadership became marginalised, Lee's power was strengthened, and the DPP has had an ambiguous relationship with Lee since then. The above context is significant in understanding the change in the KMT's mainland policy during the 1990s.

In Lee's early administration, while he still struggled over the leadership within the KMT, he gradually opened cross-strait political exchange. Firstly, in September 1990, the government established the National Unification Council (NUC), which served as an advisory unit to the President. Secondly, in January 1991, the Mainland Affairs Council (MAC) was set up to tackle all mainland affairs. The Straits Exchange Foundation (SEF) was established under MAC in February 1991 as the negotiation body representing the Taiwanese government. On the other side, the PRC government established the Taiwanese Affairs Office under the State Council in 1988, and the Association for Relations across the Taiwan Strait (ARATS) in 1991.²⁰⁴ Thirdly, on 30 April, 1991 the Lee administration removed 'the period of mobilisation for the suppression of Communist rebellion', from the ROC constitution, which meant that the CCP was no longer viewed by the Taiwanese government as a 'rebellion' rather as a 'confrontational competitive regime' (MAC 1994; Sheng 2003, p.8).

While President Lee started to approach the PRC, he also attempted to change assumptions about Taiwan's sovereignty, from "being part of China" to "one of representative of China." For example, the ROC's constitutional amendments from 1991 to 1992 divided China's territory into the "free" area and "mainland" area (Article 11 of 1991 amendment),²⁰⁵ the members of the Legislative Yuan and the National Assembly are elected only from the Taiwan area (Article 1 and 3 of 1991 amendment), and the President and Vice-President are directly elected by the people of the Taiwan area (Article 2 of 1992 amendments). Such changes indirectly asserted

²⁰² Previously the President of ROC was elected by the National Assembly.

²⁰³ See Lu (2002) for the detailed discussion of Lee's strategies.

²⁰⁴ From 1992 to early 1995, there were 15 rounds of negotiations between the SEF and the ARATS.

²⁰⁵ Before the constitutional amendments, the ROC constitution covered mainland China.

that the government in Mainland China does not have legitimacy to govern the Taiwan area and the assumption became the foundation of Lee's 'two states' theory in the late 1990s.

The "friendly" atmosphere of cross-strait exchange suddenly changed, however, in May 1995 when President Lee Teng-hui was granted a US visa to visit his alma mater (Cornell University), and where he made a speech during his visit.²⁰⁶ From July 1995 to March 1996, the PRC held a military exercise and missile tests near Taiwan.²⁰⁷ The cross-straits negotiation meeting (SEF-ARATS talk) was terminated by the PRC. The increasing tensions over the Taiwan Strait influenced East Asia's political order. It led to the US Clinton administration sending two aircraft carrier battle groups to the area on 11 March, 1996. Additionally, the Guidelines for Japan-US Defence Cooperation were revised²⁰⁸ and the US-Japan bilateral political relationship was thus strengthened. After Lee won the first presidential election on 20 March 1996, anxiety over cross-strait relations gradually eased for a few years. The chair of SEF, Koo Chen-fu, was invited to visit China, and Taiwan also planned to host the chairman of ARATS, Wang Daohan's visit to Taiwan. However, Lee's statement of his 'two states' theory in an interview conducted by a German radio station on 9 July 1999, eight months before the 2000 presidential election, froze cross-straits relations again. In the interview, Lee says,

‘The 1991 constitutional amendments have placed cross-straits relations as a state-to-state relationship or at least a special state-to-state relationship,

²⁰⁶ This was a result of a successful lobby of the US Congress by the Cassidy Company hired by the Taiwanese government between 1994 and 1996 and with fees amounting to US\$45 billion being paid to the company. The amount of money paid by the Taiwanese government to the Cassidy Company as reported by the United Daily (25/03/2007) and by one of my interviewees. My interviewee (interview list no. 22) also noted that Taiwan paid much more money (US\$15 billion per year) than other countries (e.g. Saudi Arabia only paid US\$6 billion a year.)

²⁰⁷ During the presidential election, Lee revealed that the missiles China had fired in the Taiwan Strait were dummies; Lee's information was from a PRC general: see Tung (03/03/2006).

²⁰⁸ The new Guidelines for US-Japan Defence Co-operation on 23 September 1997 were the first revision since the original version of 1978. In the former, Japan's Self Defence Force (SDF) and US military forces in Japan were limited to issues of Japan's territorial defence. In the 1997 revision, however, the scope was extended to "areas surrounding Japan", which is "situational" rather than "geographical" (Department of Defence 1998, p.21). In particular, the new guidelines cover not only an actual security threat but also an "expected" threat (Katzenstein and Okawara 2004, p.113). The new guidelines have given Japan more autonomy to engage in regional security.

rather than an internal relationship between a legitimate government and a renegade group, or between a central government and a local government. Thus, the Beijing authorities' characterization of Taiwan as a "renegade province" is historically and legally untrue.' (Deutche Welle 09/07/1999).

Before Lee's statement, the cross-strait negotiation meeting was based on 'the governments on the two sides of the Strait were both political entities with de facto authority' (MAC 1994). Sheng (2003) argues that Lee's ambitious announcement was a strategy to establish a framework of cross-strait relations and Taiwan's legal status for Lee's successor. After his statement, which the PRC strongly opposed, other major countries re-affirmed their support for the one-China policy, and the US pressurised President Lee to give up such policies (p.35). The SEF-ARATS talks were terminated once again in October 1998 (but re-started in June 2008). Lee responded that the media had misinterpreted his argument, that he did not mention the 'two states' theory and that his mainland policy had not changed. However, Lee did make it clear in an article published in *Foreign Affairs* that cross-strait ties now form a 'special state-to-state relationship' (Lee 1999). Currently, the 'two states' theory is no longer mentioned in any of Taiwan's official documents, since Lee has ended his presidential term. No matter what Lee's exact wording may have been, the concept of the ROC (Taiwan) as an independent sovereign state was followed by the new DPP President, Chen Shui-bian. After 2000, one of Lee's core political staff (Tsai Ying-wen), who also contributed to the draft the legal issues of the two-state theory, became the chairperson of MAC in Chen's administration, and in May 2008 became the chairperson of the DPP.

President Chen Shui-bian was in power between early 2000 and early 2008. In his first presidential term, he showed an open attitude towards the PRC. For example, in his inauguration speech on 20 May, 2000, Chen announced the 'five nots': he would not declare independence, he would not change the national title, he would not push for the inclusion of the state-to-state concept into the Constitution, he would not promote a referendum to change Taiwan's status quo, and he would not abolish the NUC and the Guidelines (Dumbaugh 20/04/2007, p.6). In 2001, Chen also expanded cross-strait economic relations by suggesting a new approach, i.e. 'active opening and effective management' for cross-straits economic exchange. The new approach corresponded with entry into the WTO by both Taiwan and the PRC in 2001/2002.

This was the main reason why cross-strait trade and investment increased so sharply at that time.

However, Chen's attitude began to change in August 2002, when he stated that the relationship between the PRC and the ROC is 'one side, one country' (*yi bian yi guo*) during a video conference. From 2002 to 2007 (especially in Chen's second term), cross-strait relations were increasingly tense. Chen suggested two referendums during two important elections (during the legislative election in 2004 and during the presidential election in March 2008).²⁰⁹ Chen announced that the NUC was to be abolished on 27 February, 2006; this was in response to the PRC's approval of an anti-secession Law on 14 March, 2005. During Chen's presidential term, the PRC did not use military exercises as it had before. On the contrary, they adopted a more "flexible" strategy. The PRC required the US both to re-confirm publicly the one-China policy and to pressure the Chen administration. Under US pressure, Chen changed the wording from "abolishing" the NUC to saying that it would "cease to function". He also changed the referendum question in 2004 to a non-controversial one. The evolution proves that the US is a key actor to in cross-straits political relations.

In conclusion, although Taiwan's industrial capital has increased economic interaction with China, Taiwan's political relationship with China has however been tense and uncertain (although sometimes gradually opened). The uncertain and unstable situation places the Taiwanese state in a dilemma, and constrains the development of Taiwan's industrial capital and financial capital in particular.

²⁰⁹ The two referendums both had less than a 50% turnout, which invalidated the result. The first referendum in 2004 asked two questions: (1) The People of Taiwan demand that the Taiwan Strait issue be resolved through peaceful means. Should Communist China refuse to withdraw the missiles it has targeted at Taiwan and to openly renounce the use of force against us, would you agree that the Government should acquire more advanced anti-missile weapons to strengthen Taiwan's self-defense capabilities? (2) Would you agree that our Government should engage in negotiation with Communist China on the establishment of a 'peace and stability' framework for cross-strait interactions in order to build consensus and for the welfare of the peoples on both sides? The second referendum in 2008 asked: In 1971, the People's Republic of China joined the United Nations, replacing the Republic of China and causing Taiwan to become an orphan in the world. To strongly express the will of the people of Taiwan to enhance Taiwan's international status and participation in international affairs, Do you agree that the government should apply for UN membership under the name 'Taiwan'?

5-3-3 The China factor: the dilemma for the state's semi-peripheral ascent strategy

Within this political context, the Taiwanese state has tried to restrict Taiwan's industrial capital investing in China and it has tried to direct outward FDI towards Southeast Asia rather than to China. The Lee Teng-hui administration first implemented a 'Go-South Policy' in 1994, which encouraged Taiwanese business investment in Southeast Asia. He also promoted the 'no haste, be patient' policy on cross-straits relations in 1996. In 1997, three kinds of investment were forbidden in Mainland China, namely (1) IC and key hi-tech industries, (2) investment of more than US\$ 60 million or exceeding 40% of the company's capital, and (3) basic infrastructure industry. After President Chen Shui-bien came to power in 2000, he relaxed slightly these restrictions (the so-called 'active opening; effective management') by increasing the investment amount to US\$80 million, and he allowed three IC companies manufacturing eight-inch and below semi-conductor wafers to invest in China.

Yet, Chen still claimed that Taiwan's outward investment should go to Southeast Asian countries rather than relying too much on China's economy. Furthermore, the government proposed a 'Global Investment Arrangement' in March 2006 to encourage Taiwanese business investment in Southeast and South Asian countries, some East European countries, and the twelve Latin American countries that then maintained diplomatic relations with Taiwan. In sum, although the control of outward capital was lifted in 1987 due to financial liberalisation, the investment of the Taiwanese outward capital was still controlled and regulated by the state. Further, Taiwan's outward investment in China is regulated by the Mainland Affairs Council rather than by the Ministry of Economic Affairs, which means that investment in China is not only an economic affair but of political concern to the Taiwanese state. Thus, the state has two different frameworks of regulation towards Taiwan's outward investment, one for China and the other for elsewhere. The state has also developed two different ascent strategies for Taiwan's integration into the capitalist world-system, as I will discuss in the following section.

Two semi-peripheral ascent strategies: Asia-Pacific Regional Operations Centre and Global Logistics Centre

The China factor has caused the state not only to have two different attitudes towards the destination of Taiwan's outward investment, but also caused the state to have two different ascent strategies for Taiwan's integration into the world-economy: one tries to specifically to integrate into the East Asian regional economies (i.e. Asian economic regionalisation) and the other attempts to generally integrate into the global economy (i.e. economic globalisation).

As discussed previously, during his term of office in the early 1990s, President Lee Teng-hui actively promoted cross-strait negotiations. The growth of China's economic power and of the pattern of economic regionalisation caused the Taiwanese state to consider a regional strategy, via the Asia-Pacific Regional Operation Centre (APROC), in the early 1990s.²¹⁰ Recent reports reveal that the idea was actually suggested by Ohmae Kenichi, a Japanese business strategist, who was appointed advisor to the APROC project in the early 1990s (Hsiao 17/06/2008). Whilst the South Korean government pursued a 'full globalisation of the Korean economy' in 1994-1995 by introducing twelve tasks,²¹¹ the Taiwanese government proposed a regional strategy in the early 1990s.²¹²

On 13 December 1994, the chairman of CEPD, Vincent Siew, said that 'an offshore transhipment centre' would be planned to increase cross-straits trade. In the centre, trading goods would not need to go through customs clearance. In January 1995, the CEPD proposed, 'developing Taiwan to be the Asia-Pacific Regional Operations Centre (APROC)', which was to strengthen Taiwan's competitiveness under the conditions of increasing economic regionalisation and cross-straits economic interaction. The Coordination and Service Centre for Asia-Pacific Regional Operations Centre (APROC Window for short) was established under the CEPD, and took charge of coordinating inter-Ministerial action to promote the project. It was planned that the APROC would develop six operations centres.²¹³ In the official report, they stated that one of the main advantages for Taiwan as the APROC as follows:

²¹⁰ Interview with Vincent Siew on 14 March 2006.

²¹¹ For the details about the South Korean government's policies, see Gills (1996).

²¹² Taiwan's regionalist strategy was proposed earlier than South Korea who started a regional hub plan in 2001, see Scofield (06/03/2004).

²¹³ 'the Manufacturing Centre'; 'the Sea and Air Transportation Centres'; 'the Financial Centre (this will be analysed in Chapter Six)'; 'the Telecommunications Centre'; and 'the Media Centre'

‘Taiwan firms have vast and wide-ranging investments in mainland China. Business links across the Taiwan Straits are already extensive and steadily being reinforced. Our businessmen have unmatched knowledge and experience of doing business in the mainland China market. Taiwan firms have also been major investors in Southeast Asia, and have close ties with the economically powerful overseas Chinese communities across the region.’ (CEPD n.d.)

The APROC can be viewed as the Taiwanese state’s ascent strategy in conditions of an increasing trend towards economic regionalisation and globalisation as a whole.²¹⁴ It is noteworthy that the government viewed the increasing economic interaction between China and Taiwan *positively*. Moreover, the state sensed the potential significance of the ‘great Chinese economic circle’ by linking Taiwanese FDI with overseas Chinese investment.

However, the “big strategy” was suspended, due to increasing tensions in cross-straits relations from the mid-1990s. President Lee gave a speech to the Congress Assembly on 14 August 1996, and suggested the idea that making use of the Mainland as the ‘hinterland’ of the APROC should be modified (Lee 15/08/1996). In September 1996, President Lee claimed that Taiwanese businessmen who intended to invest in China should have ‘no haste; be patient.’ Nevertheless, the APROC Window coordinated the enactment, revision, or abolition of 90 laws, 158 administrative orders, and 101 administrative measures (CEPD 2003). In January 1998, Premier Vincent Siew²¹⁵ determined that the APROC project could keep planning, but implementation would be suspended until national security and cross-strait relations improved (The Centre for Economic Deregulation and Innovation n.d.).

²¹⁴In the interview with Vincent Siew (14/04/2006), he notes that the APROC project was Taiwan’s ‘big strategy’ to accompany the tendency towards globalisation and regional integration. When I asked about any specific development within the region in the 1990s, he said that the rise of China was the main factor to think about such a ‘big strategy’.

²¹⁵It might be an interesting point that Vincent Siew proposed the APROC proposal when he was the chairman of CEPD in 1995, but claimed to suspend the plan when he became the Premier after September 1997. In the eyes of the media, the change in the APROC plan was mainly due to President Lee’s decision alone. See Lee and Liu (15/08/1996). In my interview, Mr. Siew did not talk too much about the background of suspending the plan; yet he did address the idea that it was because the ‘economy was influenced by politics’.

The APROC project did not come back to the policy agenda again until the KMT regained power in 2008. In January 2000, another proposal for developing Taiwan as a global logistics centre was put forward and further discussed in the Executive Yuan. After the DPP came into power on 20 March, 2000, the APROC Window was renamed the Centre for Economic Deregulation and Innovation (CEDI Services for short) on 11 October, 2000. Thus, the Taiwanese state's *regional* strategy had shifted to develop as a *global* logistics centre.

In the official report, the government argues that Taiwan could be an international hub due to its location at the regional and global centre (CEPD 2000; Ho 2003). Taiwan would develop to be a global logistics centre by strengthening the harbour-related infrastructure and deregulation.²¹⁶ The prospects will be (1) relaxing restrictions on cross-strait capital movement; (2) building up an e-logistics platform; (3) accelerating Taipei Port construction; (4) attracting the International logistics elite to Taiwan; (5) improving operations systems and integrating all bonded warehouse functions. Although the relaxation of cross-straits economic relations is on the agenda, it is not as significant as it was in the APROC plan. In the APROC plan, the government recognized the increase of cross-strait economic interactions and tried to turn it to be Taiwan's comparative advantage. In the GLC proposal, cross-straits economic relations are merely a part of Taiwan's global strategy.

The Taiwanese state focused more on the strategy of integrating with economic globalisation (The GLC proposal) rather than on the Asian-based economic regionalisation (APROC plan). But it would be wrong to argue that Taiwan gave up the regional strategy entirely and chose a global strategy instead. Firstly, Taiwan and China both joined the Asia-Pacific Economic Cooperation (APEC) in 1991, which has been the main regional economic cooperation institution in East Asia. Secondly, although Taiwan has made efforts to sign a Taiwan-US Free Trade Agreement, one of the main considerations behind an FTA is to increase Taiwan's regional influence.²¹⁷ The same reason drives Taiwan to support any East Asian regional framework such as the APEC, particular one which will include the US as a member. Thirdly, the Taiwanese government promoted a 'Go-South Policy' for many years, which was intended to encourage Taiwan's outward investment to Southeast Asian countries. As

²¹⁶ Including simplifying customs clearance operations, improving Electro Magnetic Compatibility, improving land-use transshipment, opening up sea/air transshipment from an offshore shipping centre, and improving E-commerce.

²¹⁷ Interview with Vincent Siew on 11 April 2006.

a matter of fact, the most significant point regards China. Taiwan's real dilemma is not between Asian-based economic regionalisation and globalisation, but rather between further economic integration with China and political tension with China.

Conclusion

This chapter examined how changes to the capitalist world-system and the dynamics of state-capital relations shaped the development of Taiwan's industrial sector since the late 1980s (the issue of labour will be discussed in Chapter Seven). Declining profit rates in the industrial sector in the core zone, the relative decline of US hegemony, and the attack on state power in the developing countries via neo-liberalism, all led to the liberalisation and privatisation of Taiwan's industrial sector. Taiwan's two industrialised trajectories and bureaucratic-corporate capital were brought to an end. On the other hand, the Taiwanese state promoted export-led, hi-tech industries and encouraged private industrial capital to make use of overseas relocation to engage in global production chains. Consequently, Taiwan is further integrated into the capitalist world-system through outward investment and production in addition to inward FDI, trade, and finance (finance will be discussed in the next chapter). Taiwan remained under US and Japanese influence, but China became a new main trading partner and production base for Taiwan.

What are the implications of these industrial changes to Taiwan's semi-peripheral ascent? Firstly, Taiwan's capitalist development is deeply influenced by the changes to capitalist development and the role of the state's industrial policy. Secondly, although under pressure from the neo-liberal policies of the core zone, Taiwan is able to focus on a specific industrialised trajectory (export-led, hi-tech electronics industry) which has become Taiwan's main area of industrial competitiveness. Taiwan is able to entrench its semi-peripheral status by extending economic relations with peripheral countries and by upgrading its position within global production chains. Compared with the FDI-led electronics industry in the previous period (1966-1986), Taiwan's current hi-tech industries have "upgraded" from a peripheral status of assembly of manufacturing to a semi-peripheral status of contracting manufacturing (OEM, ODM, and CM). Taiwan is able to link with and contribute to the rising economic centre, the East Asian region, via outward investment and trade. These are all achievements of Taiwan's semi-peripheral ascent.

However, obstacles for ascent exist and have now become a dilemma for Taiwan's capitalist development. It seems that the new industrial structure is a "success" of industrial upgrading and of the rising "national" industrial capitalists. Yet, the shift from traditional industries to hi-tech industries is actually a change from the model of *domestic production chains* to the model of *global production chains based on the specialisation division of labour* in which Taiwan's position is one of contracting manufacturer. Only a few Taiwanese TNCs (e.g. ACER) have achieved the same position as the core zone's TNCs in terms of branding management, technology, market share, and revenue. The rising new industrial capitalists (the hi-tech industries) may be less dependent on the nation-state comparing with the traditional industries, but they remain dependent on the leading TNCs from core countries. Such a dependency will prevent Taiwan from ascending to the core. Moreover, cross-strait political relations contradict cross-strait economic relations. Taiwan's economic development once benefited from the interstate system (as Chapter Four discussed) but is now constrained by the interstate system. Taiwan's tense and unclear relationship with China has caused instability and an uncertain situation for Taiwan's capitalist development. Furthermore, Taiwan needs to rely on US hegemony to maintain its status within the interstate system. Even if Taiwan is one of the main contributors to the increasing economic regionalisation of East Asian region, its complicated political relationship with China and the US causes Taiwan to de-link from the current process of political economic integration within the region. For example, Taiwan is unable to sign any bilateral economic agreements with other Asian countries, nor is Taiwan invited to participate at any discussion of Asian multilevel trading agreements. In this respect, Taiwan's status in the interstate system has not been strengthened. This also adds a difficulty for Taiwan to ascend to the core.

Chapter Six: The Rise of Private Financial Capital and the Increase of Financialisation

Introduction

Chapter Five examined Taiwan's special trajectory of semi-peripheral ascent via analysis of its industrial sector. This chapter will discuss the development of the financial sector. The financial sector is a key to analyse Taiwan's semi-peripheral ascent. Based on Marx (1956[1984]), Hilferding (1981[1910]), and world-system analyses, Capital is viewed as taking different forms depending on its function in the process of capital accumulation. Financial capital plays a role in financing functioning capital (agricultural capital, industrial capital, and commerce capital). For Hilferding (1918[1910]), the development and expansion of financial capital marks a new stage of capitalism, namely, monopoly capitalism, as the concentration of industrial capital will combine with financial capital to form 'finance capital', which dominates capitalism and national economy. For the world-system perspective, the role of financial capital and the degree of its expansion are significant, both for national capitalist development and to a state's semi-peripheral trajectory of ascent. The core zone is defined as those countries which control the most profitable activities with the highest capital return. In this respect, the development of the financial sector is key to ascending to the core as the financial service has been one of the most profitable activities during the B-phase, as I discussed in the section of 'financialisation' in Chapter three. Meanwhile, the cycle of hegemony and the challenges from new economic powers to the existing hegemon is through a sequence of agro-industrial production, commerce, and finance (Wallerstein 1984; 2004). This means that the core zone and the hegemon must have financial superiority to dominate the capitalist world-system. Accordingly, it would be incomplete to capture the nature of semi-peripheral ascent without analysing the development of financial sector and the dynamics of financial capital.

In the case of Taiwan, the role of the financial sector in Taiwan's peripheral ascent was discussed in Chapter Four. In the pre-war period, different colonial states were all keen to control Taiwan's financial sector (in particular the Japanese administration) in order to guide agricultural and industrial production. Such a function was inherited by the KMT administration. The state owned the majority of financial institutions,

controlled the monetary and foreign exchange rate system, channelled industrial financing, and provided financial support measures to guide industrial capital. These conditions however have changed significantly since the late 1980s due to the liberalisation and deregulation of the financial sector, as well as Taiwan's further integration into the global financial market. Another change in the financial sector was that financial capital no longer relies solely on industrial capital to earn profit (i.e. interest), but can itself also accumulate capital. This pattern was discussed in Chapter Three, namely financialisation. It is a process that refers to 'the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Epstein 2005). The process is characterised by three main trends: concentration and consolidation through M&A, the trans-nationalisation of operations, and the development of 'non-productive finance' due to it being unlinked with real production.

The two changes above (liberalisation and financialisation) are driven by changes to the capitalist world-system during the B-phase; however the state-capital relationship also influences and limits the development in the sector. The first and second sections of the chapter will discuss how these changes in the capitalist world-system have reshaped Taiwan's financial sector via neo-liberalism and financialisation. The third section will focus on how the state and industrial capital influence and limit the development of financial capital, and what are the implications for Taiwan's semi-peripheral ascent. Overall, during the period 1987-2007, Taiwan's private financial capital dominated the domestic economy and integrated within the global financial market; financial capital has not yet fully developed in the global financial market nor has it played any significant role in the capitalist world-system. The main factor for the weak presence of Taiwan's financial capital in the global financial market (or the weak development of trans-nationalisation of Taiwan's financial capital) is that the state still restricts its overseas expansion into China where the majority of Taiwan's overseas production is located.

6-1. Neo-liberalism and Financial Liberalisation

Similar to the industrial sector, Taiwan's financial sector adopted neo-liberal policies under pressure from the core zone, in particular the US and the WTO. Liberalisation and deregulation of the financial sector can be understood as two phases in Taiwan.

The first in the late 1980s was a phase of deregulation and liberalisation. The government established competition mechanisms within the financial market and loosened controls on the outflow of industrial capital. During this phase, private financial capital began to form. The second phase - during the 1990s – saw financial institutions further liberalised, the openness of market access and the financial account (called the ‘capital account’ by the IMF before 1993), and the introduction of non-productive financial innovations, i.e. financial derivatives. The table below shows the timing of each liberalisation and financial reform measure.

Table 6-1: The timing of financial liberalisation and reform measures

Liberalisation and other reform measures	Time
1. Interest rate liberalisation	1975-1989 (completed in 1989)
2. Foreign exchange rate liberalisation	1978-1989 (completed in 1989)
3. Financial account liberalisation	
Outward direct investment	1987-1992 (completed in 1992)
Inward FDI	1963-1988 (completed in 1988)
Foreign portfolio investment	1991-2003 (completed in 2003)
4. Current account liberalisation	The late 1970s (mainly occurred in the late 1980s)
5. Financial institutions	
Open new private banks	1989 (established in 1992)
Privatisation of the SOE banks	1989 (did not take place until 1998)
Open new securities companies	1988
Open new insurance companies	1992 (domestic companies)
Open banking businesses	1989-1992
Mergers and acquisition of banks	2000
Establish financial holding company	2001
6. Market access for foreign companies	
Banks	1959 (establishment branches); 1994 (number and location of new branches); 2001 (saving and loan business, foreign exchange derivatives business)
Insurance companies	1987 (US life insurance companies)
Stock market	1991-2003 (QFII)
7. Financial derivatives	
Foreign exchange transaction	1991 (margin trading, currency swap, cross currency interest rate swap) 1995 (non-derivatives forward)
Interest rate derivatives	1995;
Futures	1992 (overseas); 1993-1994 (domestic)
Equity-linked derivatives	2001
Credit derivatives	2003
8. Securitization	
Financial assets and real property	2002-2003

Source: Constructed by the authors in accordance to the following discussion

6-1-1 Liberalisation and deregulation in the late 1980s

Liberalisation significantly moved forward in the late 1980s.²¹⁸ Many liberalising measures took place in the late 1980s. In the global context, firstly, this was due to the adoption of neoliberal practice and the process of financialisation. The advanced countries liberalised their financial system between the late 1970s and the mid-1980s; most of the developing countries in East Asia and Latin America came under pressure from the core zone (including international institutions) to liberalise their financial sectors from the late 1980s onwards. Taiwan was part of this global process. Secondly, Taiwan's export-led industrialisation and triangular trade structure (Japan-Taiwan-USA) accumulated huge foreign reserves and trade surpluses in the late 1980s. This led to pressure by the US (via bilateral trade talks) for the liberalisation of the Taiwanese foreign exchange rate, financial institutions and financial market. In the national context, the growing power of private capitalists, as discussed in Chapter Five, sought to participate in the finance industries and this challenged the state's control over the financial sector. Finally, financial liberalisation also corresponded with the larger trends of political democratisation and other economic liberalisation from the late 1980s. The following sections will discuss each liberalisation measure in detail.

Deregulation of the foreign exchange rate system

From the 1950s to the early 1970s, the state implemented a multiple exchange rate system to encourage both the export sector and the import-substitution sector (Wen 1996). Since the deregulation of the system, the state cannot control the system as before. The international exchange rate system embodied in the Bretton Woods Agreement broke down in 1971. The continuous depreciation of the US dollar during the 1970s caused the Taiwanese government to appreciate the NT dollar, and thus change the fixed exchange rate system, as otherwise the problem of domestic inflation would have been severe (Shieh 1996). In 1978 Taiwan shifted from a fixed exchange rate between the NT dollar and the US dollar in terms of a central clearing and settlement system, to the new “soft peg” system, a managed flexible exchange rate

²¹⁸ The liberalisation of the foreign exchange rate and the interest rate was completed in 1989, allowing the separation between the business of deposits/savings and of the money market (short-term bills) from 1989; the opening of new privately-owned banks was completed between 1989 and 1992; and the privatisation of state-owned banks was planned in 1989.

system.²¹⁹ In 1989, after further appreciation of the NT dollar forced by the US, Taiwan changed to a managed floating exchange rate system. Under such a system, the exchange rate is determined by the market, but the Central Bank will intervene when the market is or will be disrupted (CBC 2004).

Taiwan's foreign exchange rate system is however not fully driven by free market forces as the state claims. Two factors are influential, namely the Central Bank and the price of the US dollar. Firstly, although the Central Bank claims that they only intervene in the foreign exchange market when the market is disrupted, the reality is that the Central Bank has a strong influence in determining the trend of the exchange rate of the NT dollar (Yang and Shea 2005). Secondly, although the NT dollar is no longer pegged to the US dollar, the trend of the price of the US dollar is still a determining factor in setting Taiwan's foreign exchange rate.²²⁰

Build up market mechanism: interest rate deregulation

Before 1989, the Taiwanese government controlled interest rates for the following functions: (1) to encourage domestic savings; (2) to control inflation and stabilise consumer prices; (3) to stimulate investment incentives; (4) and to finance the strategic industries and export sectors. The debate over the deregulation of the interest rate in the 1980s mainly concerned the impact on industrial financing²²¹ (Chang *et al.* 2005). This deregulation began in 1975 by establishing the official money market. The money market includes short-term bills market and inter-bank call loan market.

²¹⁹ According to IMF staff classification in 1998, three groups of arrangements of exchange rate can be found: (1) *hard pegs*, a rigid fixed exchange rate; (2) *soft pegs*, which includes a single currency or a composite of currencies, the conventional fixed pegs and crawling pegs; (3) *floating arrangements*, includes managed floating and independently floating. For detail, see IMF (27/11/2007). Between 1979 and 1989, Taiwan's exchange rate against US dollar was decided by five nominated banks, and the currency fluctuated within less than +/- 2.25 % to the rate of the previous day. The exchange value of NT dollars was determined against a basket of currencies (included the U.S. Dollar, Japanese Yen, Deutsche Mark, Hong Kong Dollar, Singapore Dollar, U.K. Pound Sterling, and French Franc).

²²⁰ According to interviewee George Chou, there are three reasons: (1) The NT dollar is viewed by the players in Taiwan's foreign exchange market as one of the Asian currencies. While most Asian currencies have at some point been pegged to the US dollar, the trend of the exchange rate of the NT dollar is inevitably influenced changes in the price of the US dollar owing to the linked changes of Asian currencies. (2) About 85% of Taiwanese exporters and importers still use the US dollar to price. (3) The US dollar is the Central Bank's intervention tool.

²²¹ Some government officials worried that the liberalisation of the interest rate would increase the loan burden (i.e. debt) on enterprises; scholars who promoted the liberalisation reform argued that this reform would build the market mechanism for the banks.

The government promulgated the Rules Governing Bills Finance Enterprises which addressed that bills finance companies would be the specific intermediates in the money markets (Wang 1999[1998]). As such, three bills finance companies were established. In 1980, the Bank Association of ROC was included in the interest rate decision-making process. In 1985 and 1986, financial institutions were given more flexibility to decide the interest rates on loans and deposits. Overall, before 1989, it was the Central Bank which set the accommodation interest rate and approved the change of bank interest rates (Wang 1999[1998]).

The deregulation of interest rates was completed in July 1989, with the enforcement of the amendment of the Banking Law.²²² Officially, the Central Bank no longer regulates the range of the interest rate; each bank decides its own interest rate. Nevertheless, according to one senior government official's comment, the Central Bank still supervises the banks in determining the interest rate.²²³ In sum, the Central Bank can only use the adjustment of the accommodation interest rate to control inflation, whereas the other three functions (especially industrial financing directed by the state) are no longer available.

Concentration of the financial service: enlarging the banking business

Before 1989, banks could not carry out business related to securities, bills and trusts. However after 1989, the boundary between the business of deposits/savings and these businesses was broke down. The revision of the *Banking Law* in 1989 gave the banks authority to decide their business scope. In 1990, foreign banks were allowed to establish savings and trust divisions. In 1992, domestic banks were allowed to operate in the short-term security business. The implication of the liberalisation of the domestic banking business was, as the government points out, 'the trend in the global financial markets to foster one-stop financial services suppliers for accommodating the diversified financial service needs of modern customers' (Wang 1999[1998], p.89).

The rise of private financial capital: opening new financial institutions

The amendment of the *Banking Law* in 1989 also allowed the establishment of new private banks. In June 1991, fifteen out of nineteen applications to establish new

²²² Shea (1994) notes that before the opening of private banks in 1991, most banks were state-owned and did not use interest rates to compete with each other.

²²³ The author's interview with Sean Chen (no.15) on 22 March 2006.

commercial banks were approved. These fifteen new banks received investment from industrial business groups, construction business groups, KMT-owned-enterprises, and local political factions (Lin 1997). There were two main factors that led to the opening of new private banks. From an economic perspective, the liberalisation of the foreign exchange rate and interest rate systems, as well as the loosening of the restrictions on banks' business, created an opportunity for banking competition. From a political viewpoint, the opening of new banks was a tool for President Lee Teng-hui (president from 1988 to 2000) to strengthen his political power and to gain support from indigenous Taiwanese capitalists (Han 2001). The consequence of this was that through owning banks, domestic capitalists had increased autonomy in industrial financing.

Not only were new commercial banks allowed to be established, but also other financial institutions were opened to new entrants. Firstly, the government removed the restrictions on new securities companies in 1988. The structural factor for this was that Taiwan had a huge trade surplus and foreign reserves in 1987, as well as the fact that the domestic saving rate was as high as 38.5% in 1987 (higher than the domestic investment rate). This means that Taiwan had *excess liquidity*. The liquidity soon went to the stock market to facilitate Taiwan's capital market. As the government allowed establishment of new securities companies in 1988 and the number of securities related companies (securities brokerage firms, securities dealers, and securities underwriters) increased from a mere 60 in 1988 to 374 in 1998 (Wang 1999[1998]). After opening new securities companies, the market value of Taiwan's stock market grew dramatically, and the transaction value of the stock market as a share of Taiwan's GDP increased from 82% in 1987 to 223% in 1988 (Yu and Wang 2005, p.153). As this chapter will discuss later, the growth of the stock market both provides a new financing method for industrial capital and leads to the process of financialisation. Secondly, the US pressurised Taiwan to open its markets to US insurance companies and thereafter European insurance companies were also permitted to set up in Taiwan; the opening of new insurance companies began in 1986 (Lin 1997). Accordingly, the government allowed the establishment of domestic insurance companies in 1992, and 13 life insurance companies were established in 1993 (Wang 1999[1998]).

The Privatisation of state-owned banks

The plan for the privatisation of state-owned banks, along with other state-owned enterprises, was proposed by the Taiwanese government in 1989, but did not take place until 1998, when more than 50% of the shares of four state-owned banks were successfully sold by the government. The main reason for the delay of bank privatisation was primarily political. The following discussion will demonstrate that even when Taiwan was under pressure of neo-liberalist ideology to adopt privatisation, domestic state-capital-labour relations could still influence the speed of privatisation. Firstly, members of the Taiwan Provincial Assembly opposed the policy (Shea 1994). When the KMT moved to Taiwan in 1949, they established two levels of central government, one being the central government of the ROC, and the other the Taiwan Provincial Government. Most of the financial institutions inherited from the Japanese colonial period were supervised by the Taiwan Provincial government. When the central government proposed its privatisation policy, the first plan was to privatise three state-owned banks supervised by the Taiwan Provincial government (Chang Hua Commercial Bank, First Commercial Bank, and Hua Nan Commercial Bank). This challenged the interests of members of the Provincial Government.²²⁴ Moreover, the proposal for privatising these three banks was not approved by the Legislative Yuan due to the opposition of the bank trade union.²²⁵ However, in 1997, President Lee Teng-hui proposed that the Taiwan Provincial government should cease to function and his proposal was included in additional articles of the Constitution of the ROC. The bank privatisation plan was therefore very soon put into practice in 1998. By 2007, nine of the 12 state-owned banks were already privatised (i.e. the government's share was less than 50%). Among these nine privatised banks, two banks are now controlled by private financial conglomerates, and seven are still controlled by the government (i.e. the state is the biggest single shareholder). The government has tried either to sell more shares or reduce its managerial power in these seven banks.

²²⁴ One interviewee said that those members of Taiwan Provincial Assembly treated the banks as their 'cash machine' (interview with Sean Chen, no.15)

²²⁵ The National Federation of Bank Employees Union was established in 1993, together with the establishment of National Federation of SOEs Trade Union played an important role in lobbying the Legislative Yuan to stop the state's privatisation initiative.

In general, the above financial liberalisation and deregulation measures had several significant implications. Firstly, the liberalisation of the interest rate, foreign exchange rate and the banking business overall created an opportunity for competition between the financial institutions. The state no longer directly controls the foreign exchange and interest rates for the purpose of increasing Taiwan's export competitiveness and to finance specific industries. Secondly, mainly industrial, construction and real estate capital invested in the newly established privately-owned banks. The establishment of new private banks offered the opportunity for functioning capital to combine with the financial capital to form finance capital. The majority of the financial holdings established after 2002 are from these new banks. In January 2008, with the privatisation of state-owned banks, their share of total banking business, in terms of deposit and loan business, declined to 17.8% and 18% of total monetary institutions (FSC 2008a, Table 2-1). The decline of the state-owned banks opened more market opportunities to either private owned banks or foreign banks. Thirdly, as with the industrial sector, liberalisation of the 1980s is the foundation for Taiwan's development of private financial capital and the integration into global financial market. With the rise of private financial capital, the state gradually reduced its control on the financial sector.

6-1-2 Integration into the Global Financial Market: Entry into the GATT/WTO in the 1990s

In Chapter Five, I discussed how the industrial sector was further liberalised under the pressure of entry into GATT/WTO. A similar trend occurred in the financial sector. In the 1990s, due to Taiwan's intention to enter GATT/WTO, Taiwan removed more restrictions on foreign access to the domestic market and financial account.

Market access

Taiwan submitted the first draft of the list of commitments to GATT in 1994. In Taiwan's service schedule, most of commitments in the financial sector were the on-going measures or already opened before 1994 (CHIER 2005, p.5-75). However, when Taiwan began accession negotiations with the members of GATT/WTO, Taiwan was asked to add more commitments.²²⁶ Taiwan's financial commitments

²²⁶ The following commitments are cited from CBC (2000), CHIER (2005).

further opened-up market access to foreign financial institutions (before that the market was mainly open to US companies). Firstly, Taiwan's foreign exchange market and the financial derivatives market were expanded. Taiwan agreed to remove restrictions on foreign portfolio investments in the stock market. Secondly, in the banking industry, Taiwan agreed to loosen restrictions on foreign banks' setting up new branches and on their banking business. Foreign banks in Taiwan therefore obtained national treatment (being treated as national banks). Thirdly, in the insurance industry, Taiwan agreed to open the business of some direct insurance, reinsurance and retrocession services, and insurance intermediation. The restrictions on new branches of foreign insurance companies were also reduced. The increased openness to foreign financial institutions brought a major challenge to Taiwan's financial institutions, as the latter were less competitive than foreign financial institutions in terms of business scale and diversity (CBC 2000). This is the main reason why the Taiwanese government proposed financial reforms after 2001, in order to increase the competitiveness of Taiwan's banks.

Financial account liberalisation

The liberalisation of the financial account included the liberalisation of direct investment, of portfolio capital flows, and of financial derivatives²²⁷. Outward and inward direct investment were liberalised in the late 1980s (except for the area of China), but portfolio investment and financial derivatives were deregulated only after the 1990s, when Taiwan applied for entry into the GATT. The liberalisation of outward investment was discussed in Chapter Five. As for inward investment, the liberalisation of inward direct investment was completed in April 1988 following US-Taiwan trade talks in the 1980s. The Taiwanese government adopted the "negative List for inward FDI" which reduced restrictions on inward FDI (i.e. anything not prohibited is allowed).

The Taiwanese government was very cautious about the liberalisation of portfolio capital flows as Taiwan is not a member of any of the international financial institutions, such as the IMF and the World Bank, due to Taiwan's special international status, as discussed in Chapter Five.²²⁸ This was the main reason why

²²⁷ According to the revised definition of 'balance of payments' by the IMF in 1993, it includes current account (goods and service), capital account (capital transfer) and financial account (direct investment, portfolio investment and financial derivatives). See IMF (1993).

²²⁸ Author's interview with George Chou (no.12) on 21 March 2006.

Taiwan did not suffer as much as some neighbouring countries in the East Asian financial crisis.²²⁹ There were three major factors in the East Asian financial crisis: excess capital liquidity, a high debt model, and a financial bubble economy, none of which were obvious in Taiwan (Wade and Veneroso 1998). In 1991, Taiwan began to allow foreign institutions to invest directly in Taiwan's securities, the so-called qualified foreign institutional investor (QFII). However, the Taiwanese government restricted the amount invested (i.e. each QFII can only invest less than US\$ 50 million), and percentage of ownership in a stock company by foreign institutions. In 1996, during Taiwan's application to join GATT/WTO, Taiwan also allowed foreign individuals to invest in Taiwan's stock market. The percentage of Taiwan's stock market value held by foreign investors was less than 3% during the East Asian financial crisis and was only 6.2% in 1999.²³⁰ However, the restrictions on investment amounts and shares were fully liberalised in 2003, with the QFII system being abolished due to Taiwan's financial commitments in its WTO negotiations. As such, the share of foreign investors in Taiwan's stock market increased significantly to 31.1% in 2007 (Securities and Future Bureau 2007).

As for foreign exchange financial derivatives, authorised banks were allowed to decide their own forward exchange rates in 1984. The deregulation of the foreign exchange forward market was completed in 1996. Other kinds of foreign exchange derivatives, such as futures, swaps, and options were also opened. Nevertheless, the foreign exchange derivatives market was not very large in the 1990s. The Taiwanese government is still very cautious about the risk of financial speculation. For example, Taiwan was under pressure from foreign investors to abolish the system of QFII, but the Taiwanese government did not abolish it until 2003.²³¹ During the East Asian Financial Crisis between 1997 and 1998, the Central Bank even closed the operations of non-deliverable forward (NDF) by Taiwanese juridical persons because the NDF

²²⁹ For general discussion of the crisis, see Wade (1998), Wade and Veneroso (1998); Lo (1999). For the comparison between Taiwan and South Korea, see Zhang (2002c); Chen and Ku (2000); For other comparisons, see Gary (2002); Hsu (2000).

²³⁰ Author's calculation from two sets of data: 'Summary data of stock market' in various years (conducted by Taiwan Stock Exchange Corporation) and 'Highlights of Foreign Investment in Taiwan's Stock Market' (conducted by Financial Supervision Commission).

²³¹ Author's interview with George Chou (no.12) on 21 March 2006. He mentioned that many foreign guests who visited the Central Bank between 1995 and 1996 always complained that Taiwan's capital account was not as liberalized as Thailand and South Korea.

has a high risk of speculation.²³² According to the OECD (2003), a NDF contract is a ‘foreign currency financial derivative instrument’. The feature of the contract is that this is cash-settled and short-term forward contract based on the movement of two currencies. Not surprisingly, when the NT dollar appreciated against the US dollar from US\$32.4 in December 2007, to US\$30.6 on 10 March 2008, the Central Bank called a meeting with a group of major custodian banks on 11 March 2008 and warned that foreign portfolio investors in Taiwan’s securities market were not allowed to use the equity market as a forum for speculating on the foreign exchange rate of NT dollars (CBC 11/03/2008).

In sum, the financial liberalisation of the 1980s reduced the state’s power over the financial sector which indirectly reduced the state’s capability to guide industrial capital via financial means. Private financial capital became important players in the financial market. During the 1990s, financial liberalisation measures further opened the domestic financial market (i.e. foreign exchange market, financial derivatives market, the stock market, the banks, the insurance companies) to financial TNCs. The consequence was that Taiwan’s financial market was linked with global financial markets, as a result, and Taiwan’s private financial capital soon confronted the challenges from global financial TNCs. These consequences are backdrop to the development of financialisation in Taiwan from 2000.

6-2 Extending ‘Financialisation’: Financial Reforms (2000-2007)

Financial liberalisation during the 1980s and the 1990s was implemented by the KMT administration. The political change from the KMT to the DPP in 2000 did not change the policy of financial liberalisation; rather, the DPP followed and extended the process of liberalisation and privatisation. Furthermore, the DPP proposed financial reforms which facilitated the process of financialisation and strengthened Taiwan’s financial capital via a relaxation of restrictions on foreign investors in Taiwan’s stock market, an encouragement of concentration of the financial institutions, and an increase in financial innovations.

²³² When I conducted interviews with some high-level officials from the Department of Foreign Exchange in the Central Bank in 2006, they claimed that the Central Bank was still very keen to prevent financial speculation from foreign exchange derivatives.

Several reasons have been put forward as to why the DPP government implemented further reform:

- The opening of new private banks in the 1990s caused a problem of fierce competition²³³ and a high ratio of non-performing loans (Chen 2001a; Chen 2001b; Hwang and Wu 2007);
- The removal of restrictions across different types of financial institutions and the mergers and acquisitions of the financial institutions was a global trend (Legislative Yuan 21/03/2001; Chiu 2000; Hwang and Wu 2007);
- The establishment of financial holding companies would legitimise a situation where some business groups already controlled different types of financial institutions by setting up a general administrative office.²³⁴ By 2000 Taiwan already had fourteen domestic financial conglomerates controlling at least two types of financial institution;
- Increasing amounts of industrial financing are coming from the money and capital markets, which negatively affected Taiwan's commercial banks' business (Bruck and Sun 2007);
- The most significant factor was that Taiwan's financial institutions needed to confront the competition from foreign institutions after Taiwan's entry into the WTO (CBC 2000; Chen 2001a). As such, under the context of increased international competitiveness, the year 2001 was named by President Chen Shui-bian the 'first year of financial reform' (Lee 01/01/2002, p.1).

The financial reforms had two stages, one in 2001 and the second in 2004. In particular, there were two significant financial reforms²³⁵ that moved Taiwan's

²³³ The number of full-service domestic banks and foreign banks (including branches) increased from 650 in 1986 to 2829 in 2001 (Yu and Wang 2005, p.93). The ratio of non-performing loans in Taiwan in 2001 was 7.5%, much higher than South Korea (2.9%) and Hong Kong (5.2%) (Hwang and Wu 2007, p.22).

²³⁴ Author's interview with Sean Chen (no.15).

²³⁵ Other reforms included reducing the ratio of non-performing loans (NPL) in banks. In June 1999, the amendment of *Value-added and Non-value-added Business Tax Act* allowed the value-added business tax rate of the financial institutions to be reduced from five percent to two percent (i.e. a cut in the tax rate). In 2001, the new government set up the Financial Restructuring Fund to deal with problem financial institutions and implement temporary measures to safeguard depositors. The amount of the fund supported by the government plus the lost tax income amounted to nearly US\$20 billion (exchange rate of one US dollar to 30 NT dollars) (Lee 27/02/2007). The banks and the enterprises that did not return the loan would be those responsible for the NPL problem; yet the Taiwanese government

economy towards financialisation and strengthened the power of financial capital: the first one was to encourage the concentration and consolidation of the financial institutions which strengthened the power of Taiwan's private financial capital, along with the establishment of a new supervision system; the second one was to develop non-productive financial innovation. I will discuss the two reforms in details in the next two sections.

6-2-1 Strengthening the power of financial capital: concentration and consolidation of financial institutions

There are two means of consolidating financial institutions. The first method is to integrate and consolidate different types of financial institution. Financial holding companies²³⁶ have been established since the promulgation of the *Financial Holding Company Law* in June 2001. Fourteen financial holding companies were established between 2001 and 2003. A new financial supervision system, the Financial Supervisory Commission (FSC) under the Executive Yuan, was established in 2003 to integrate the supervision of banking, securities and insurance companies, and to act as a single regulator in the financial industry (FSC 31/05/2005).²³⁷

Several major financial conglomerates were formed during the process of financial liberalisation and concentration. In 2000, the government estimated that Taiwan had fourteen domestic financial conglomerates (plus five foreign financial conglomerates) according to the definition of the Basel Accord²³⁸ (Yu and Wang 2005). Twelve of these fourteen financial conglomerates come from the private banks that were established after 1991. In particular, seven of these fourteen financial conglomerates

was unwilling to let any problem bank go bankrupt, so that eventually the government budget was used to tackle the problem (i.e. to re-capitalising banks to prevent insolvency).

²³⁶ The holding company combines bank, insurance company, with securities companies.

²³⁷ This is also viewed as a global trend, for example, UK's Financial Services Authority in 1997, Australia's Prudential Regulatory Authority in 1997, Japan's Financial Supervisory Agency in 1998, and South Korea's Financial Supervisory Commission in 1998.

²³⁸ According to the definition by the Basel Committee on Banking Supervision, a financial conglomerate is 'any group of companies under common control whose exclusive or predominant activities consist of providing significant services in *at least two different financial sectors* (banking, securities, insurance)'. This is different from 'mixed conglomerates' which 'are predominantly commercially or industrially oriented, but contain at least one regulated financial entity in some part of their corporate structure.' See BIS (July 1995), Basel committee: The supervision of financial conglomerates (<http://www.bis.org/publ/bcbs20.pdf?noframes=1>).

were also involved in the manufacturing sector; ten of the fourteen conglomerates were involved in the construction or real estate industries (ibid, p.327-323). Since the government allowed the establishment of the financial holding companies, nine financial holding companies²³⁹ were founded from the above fourteen financial conglomerates. *The whole process of financial liberalisation and concentration promotes the rise and strength of private financial capital.* The following date reveals the dramatic growth of financial conglomerates and reflects a tendency towards financialisation. For example, since 2003, most of Taiwan's top ten business groups have been from the financial sector. The share of finance, insurance, and business services in Taiwan's GDP increased from 11.5% in 1987 to 18.2% in 2007, whereas the overall manufacturing sector decreased from 37.2% to 23.8% (CEPD 2008, table 3-b). In other words, the financial service has become the top industry contributing to Taiwan's GDP.

In 2004 the government announced a second financial reform plan. President Chen Shu-bian proposed four main goals: (1) the market share of the three largest banks should be greater than ten percent by the end of 2006; (2) the number of state-owned banks should be cut from nine to six by the end of 2006; (3) the fourteen financial holding companies should be reduced to seven; (4) At least one of the financial holding companies should be made up of foreign investors or be listed on an overseas stock exchange by the end of 2006.

Other than the second goal, the goals have not been achieved because of severe criticism from the opposition party and scholars.²⁴⁰ Conversely, a state-owned financial holding company - Taiwan Financial Holdings - was established at the end of 2007, for the purpose of leading the international competitiveness of the financial sector. The new state-owned holding company accounted for 18% of market share of the financial sector, and its assets are ranked as being in the top 18 in Asia and 89th in the world.²⁴¹ So far, the fifteen companies have incorporated more than ninety financial institutions (Lin 2005). At the end of 2007, their assets account for 66% of

²³⁹ Fubon, Cathay, China Development, E.Sun, Yuanta, Jin Sun, Shin Kong, Chinatrust, and SinoPac

²⁴⁰ One of my interviewees argues that reducing the number of financial holding companies does not mean reducing the number of financial institutions, so it will not solve the problem of fierce competition; further, setting up the deadline and objectives of M&A will have a negative impact on the price of M&A (interviewee no. 14).

²⁴¹ However, the establishment of the state-owned financial holdings has not been legitimized by the Legislative Yuan, and the new administration (the KMT) may change the policy after May 2008.

the total of all domestic banks' assets and nearly 60% of the total of all bills finance companies' assets (FSC 2007b). Under the state's guidelines via financial reform, Taiwan's private financial capital is rapidly concentrated.

The second method of concentration of the financial institutions is to encourage mergers and acquisition (M&A). This policy was initiated by the KMT administration, which drafted *The Financial Institutions Merger Act* in 1999, promulgated in December 2000. Between 1997 and March 2008, 26 M&As occurred in the banking sector²⁴² and 71 M&As in other financial institutions²⁴³ (FSC 2007a). As noted in Chapter Three, M&A activity in the financial industry has been a global phenomenon since the 1990s, around 20% of M&A occurred in the financial sector globally, especially in the advanced countries (Amel *et al.* 2004). There have been 15,502 examples of M&A (8,144 were between banks) in the world between 1990 and 2001 (Amel *et al.* 2004).

The consequence of Taiwan's financial M&A is that the distribution of monetary institutions and of deposits/loans business has undergone a dramatic change in ten years. Amel *et al* (2004) argue that the commercial banking industry has two types: 'the retail banking units' oriented towards households and small firms, and 'the wholesale banking units' oriented towards larger firms, yet the latter can cover the former's business (p.2496). In Taiwan, the share of retail banking units (e.g. credit cooperatives, medium business banks, farmers' associations and fishing associations), as a proportion of all monetary institutions²⁴⁴ was reduced from 46% in 1996 to 25% at the end of 2007 (CBC 2008b; FSC 2008b). Meanwhile, the share of domestic commercial banks grew from 28% to 52% (*ibid*). The change in financial institutions has an effect on the re-distribution of the deposits/loans business market. In the loan business, the share of loans from the retail banking units decreased from 27.8% in 1995 to 9.7% in 2007; meanwhile the share of loans from domestic commercial banks

²⁴² Thirteen of the twenty five were between domestic banks; nine were between foreign banks; and four were domestic banks acquired by foreign banks (FSC 2007a). The four cases are viewed as the foreign banks' strategy to obtain the customer list of overseas Taiwanese business from domestic banks.

²⁴³ Twenty nine were between credit cooperative and commercial banks; thirty six were between farmers'/fishing associations and commercial banks; six were between bill companies and commercial banks (FSC 2007a).

²⁴⁴ This includes domestic commercial banks, foreign banks, medium business banks, credit cooperative, farmers' association, fishing association and the postal saving system (but the postal saving system does not undertake loan business).

grew from 67.3% to nearly 87% (CBC 2007, p.55; Lai 1997, p.72-73). The tendency thus limits SME industrial, personal and household finance sources.

In sum, the first method (integrating different types of financial institutions) led to the concentration of financial conglomerates. The second method (M&A) sharply reduced the percentage of retail banking units and had an impact on SMEs and personal financing. The concentration and consolidation of the financial institutions not only presents a pattern of financialisation, but also strengthens the power of Taiwan's private financial capital. Private financial capital, as well as private industrial capital, increased their dominance over domestic economy. Moreover, the social consequences of this pattern have been that, firstly, unemployment in the financial sector has increased. Taiwan's Bank trade unions organised several demonstrations against the M&A policy (Han 2001). Secondly, many rural areas now have a problem accessing finance because of the reduction of community banking units.

6-2-2 Towards financialisation: the increase in non-productive financial innovation

As discussed in the introduction, one of the features of financialisation is to develop non-productive financial activities. There are two types of non-productive financial innovation products: financial derivatives and asset securitization (financial assets and real property). The global derivative market has grown sharply since the late 1990s. The notional amounts²⁴⁵ in the global derivatives markets increased from US\$72 trillion in June 1998, to US\$516 trillion in June 2007 (BIS 2008). The latter is approximately seven times the amount of world's GDP (US\$65.8 trillion) in 2006. The first derivatives in Taiwan appeared in 1992 when Taiwan announced the *Overseas Futures Trading Law*. Most foreign exchange and interest derivatives were introduced in the 1990s, except for the equity-linked and credit derivatives, which were introduced in 2001 and 2004 respectively. In 1998, Taiwan's Future Exchange was established. From then on, the financial derivatives market has expanded. For example, the notional amount of derivatives at the end of 2007 (NT\$54 trillion) was 27 times more than that in March 1998 (NT\$2trillion) and four times the amount of

²⁴⁵ The nominal amount is used to calculate payments made on swaps and other risk management products. This amount generally does not change hands, and is thus referred to as notional. See <http://www.investordictionary.com/definition/notional+amount.aspx>

Taiwan's GDP in 2007 (NT\$13 trillion); the volume of the derivative transactions in November 2007 (NT\$10.3 trillion) was ten times greater than that in 1998 (NT\$ 952 billion) (CBC 2008a).

Foreign institutions dominate the derivatives market. Before 1998, nearly 80% of Taiwan's derivative financial products were operated by foreign banks (Wang 1999[1998]). In January 2008, foreign banks still dominated nearly 70% of the Taiwan derivatives market (FSC 2008a). Some of my interviewees pointed out that foreign banks are keener on designing and marketing new financial products than domestic Taiwan banks, and their branches in Taiwan only need to find customers and marketing.²⁴⁶ Some domestic banks do not have "research capability" so that they only can sell derivatives designed by foreign banks.²⁴⁷

As for the securitization of financial assets and real property, this is another area of influence from the global financial market. The US first developed mortgage-backed securities (MBS) and asset-backed securities (ABS) in the 1980s. The asset amount of MBS plus ABS in 2002 was US\$6.2 trillion in the US (Kao *et al.* 2003). After the US and Europe developed asset securitization, Asia also developed similar new products since 1999, in particular Japan and South Korea are the two dominant countries (Gyntelberg and Remolona 2006). However, Asia's securitisation path differs from those of the US and EU, and began first by financial asset securitization rather than mortgage securitisation. Gyntelberg and Remolona argue that Asian countries have used securitisation as a way to reduce the ratio of non-performing-loans (of the banks) after the 1997 financial crisis (2006, p.67-70).

Taiwan began to operate in the financial securitisation business in 2002, when the *Financial Asset Securitization Act* and *Real Estate Securitization Act* were announced in July 2002 and July 2003 respectively. According to the government's opinion, financial asset securitization can break the boundary between the direct finance market (e.g. capital market) and the indirect finance market (e.g. banks) by giving the indirect financial institutions the tools of direct finance. As such, this brings an increase in liquidity of capital into the indirect finance market. Taiwan's issue of

²⁴⁶ Author's interviews with Andrea S. Lee (no.5) and Hsing-Ho Huang (no.6) on 21/02/2006. Lee is Deputy Director-General of Dept. of International Affairs, Financial Supervisory Commission (FSC). Huang is Section Chief of Dept. of International Affairs, FSC.

²⁴⁷ One interviewee (no. 12) mention that he once suggested that the government set up a 'financial ITRI (international technology research institution)' which could undertake the function of researching new financial innovations and transfers to domestic banks.

financial asset securitization between 2003 and 2007 was US\$ 41.3 billion (NT\$12.3 trillion), and the issue of real property securitization was US\$2.6 billion (NT\$77.9 billion) (FSC 2007d). The total amount of these two securitisations was equal to 10% of Taiwan's GDP in 2007. The securitization products also became the biggest product in Taiwan's bond market, and its issues accounted for about 48% of the bond market in 2007 (CBC 2007). Foreign institutions still play an important role in asset securitisation, for example, before November 2005, thirteen out of twenty-one instances of financial asset securitisation cases either originated or were arranged by foreign institutions (Chen 07/11/2005).

In sum, Taiwan's development of financial derivatives and financial securitisation increased the amount of non-productive finance and expanded Taiwan's capital market. The derivative market (in Taiwan and in the world) is still dominated by foreign institutions, as well as Taiwan's financial securitisation still relies on the investment and techniques of foreign institutions. Taiwan is further integrated into global financial markets, yet it plays a marginal role as foreign financial capital dominates the market of non-productive finance domestically and globally. Furthermore, as noted in Chapter Two, in Arrighi's (1994) account, financial expansion is a symptom of both hegemonic transition and of the crisis in capitalism. In recent years, the development of non-productive finance has brought an unstable situation to capitalism. For example, the first country to create derivatives²⁴⁸ and financial securitisation also had the first crisis; the 2007 US sub-prime mortgage financial crisis shocked the global financial markets. Taiwan's financial institutions hold an estimated US\$2.16 billion (NT\$71 billion) in investments that are linked to this crisis (Taipei Times 10/08/2007). During 2008-2009, the financial crisis further triggered a global economic crisis.

6-3. The Dynamics of State-Capital Relations

The previous two sections mainly examined how changes in the capitalist world-system have reshaped Taiwan's financial sector. As such, influenced by the changes to the capitalist world-system, Taiwan's financial sector and financial capital have new forms which are far different from the pre-1987 period. In this section, I will argue that the state and industrial capital also influence the dynamics of financial

²⁴⁸ Chicago Board Options Exchange was established in 1973.

capital. The relationship between the state, industrial capital and financial capital is interlinked as the main role of the financial capital is industrial finance. Thus the state attempts to control the financial sector for the purpose of obtaining power over industrial capital. Changes to the financial sector will inevitably affect the state's influence on industrial capital. In this respect, I will, firstly, discuss how the state changes its means of financial support to industrial capital under the pressure of financial liberalisation. The discussion will reveal that the state still attempts to guide industrial capital through financial means even though the industrial and financial sectors are significantly altered. Secondly, financial liberalisation and financialisation also change the relationship between industrial capital and financial capital, as industrial capital attempts to find new financing methods from the "self-expanding" financial market, rather than from financial institutions: a situation which in turn promotes the development of financialisation and reduces the dependence of industrial capital on banking capital, and on the state's financial support.

6-3-1 Changing the State's financial support to industrial capital

Before 1989/1991, the state could allocate finance from national savings to public and private enterprises, as the banks were all state-owned and the interest rate was determined by the government. In Chapter Four, I also mentioned other financial support measures, included foreign exchange rate policy, selective credit accommodation, export and import financing, and development banking through state-owned specialised banks. In sum, the state could use the whole financial sector to guide industrial capital and domestic economy. Most of these financial support measures were abolished in the late 1980s and early 1990s, due to the changes in the financial system. However, other types of financial support measures based on the government's budget have either remained or been developed, including government subsidies, special loans (low-interest rate loans, project finance, and zero-interest rate loans), credit guarantees and insurance, and direct investments. In total, there were forty-seven such measures in 2002, as Table 6-2 shows (Yang and Tu 2002). In comparison to the financial support measures of the pre-1980s period (see Chapter Four 4-6-2) the financial means controlled by the state are significantly limited.

Table 6-2: Different types of state financial support measures

Type of supports	Funders	Industry or sector	Period
Low-interest rate loans	The medium-and long term funding system (postal savings, postal life insurance, and government's budget) ²⁴⁹ ; The Development Fund ²⁵⁰ ; The Sino-American fund; the export-import bank of ROC ²⁵¹ ; Foreign reserves of the central bank; the SMEs development fund ²⁵²	(1) strategic industries, hi-tech, and heavy-chemical industries; (2) overseas investment; (3) traditional industries and SMEs which match for the specific projects	The medium-and long term funding system (1994-); The Sino-American Fund (1965-2006); Development Fund (1973-); The SMEs Fund (1991-)
Direct investment	The Development Fund ²⁵³ and the Sino-American fund	Strategic industries, hi-tech industries; Venture Capital (VC) industries ²⁵⁴	1985-
Project-based subsidies	Ministry of Economic Affairs, National Science Council	R&D projects in hi-tech industries, traditional industries	1980s-
Credit guarantee	The Export-Import Bank of ROC, the SMEs Development Fund, SMEs Credit Guarantee Fund ²⁵⁵	SMEs	1974-

Source: (Yang *et al.* 1994; Yang and Tu 2002)

²⁴⁹ This funding system was set up by the government (the CEPD) in June 1994. It can be seen as a continuation of the selective credit accommodation. The funding resources came from Postal Savings, Postal Life Insurance, and the government's budget. The majority of loans went to the heavy-chemical and IT industries (Yang and Tu 2002).

²⁵⁰ This was established in 1973. The financial resources of the Fund were from the privatisation of SOEs and the government budget. The Fund was to support the investment and funding tasks. The loan finance during the 1980s and the early 1990s was in particular for the strategic industries' medium- and long-term finance needs, as well as for the strategic SMEs' investment (Yang 1995). Later, the loan finance became *project-based* finance.

²⁵¹ This originated from US aid to the ROC in 1948. When US aid ended in 1965, the two governments agreed to set up the Fund for Taiwan's economic and social development. The Sino-American Fund had three main roles: firstly, to support economic development policy; Secondly, to provide low-interest loans for SMEs. Thirdly, to provide special lending programmes for individuals.

²⁵² The SMEs Development Fund was established in September 1991. Funding comes from the Ministry of Economic Affairs.

²⁵³ There were 76 cases which totalled NT\$42.6 billion and were invested by the Development Fund between 1975 and 2006 (National Development Fund 2007). The fund mainly went to the financial industry and semiconductor industry, the latter accounting for NT\$11 billion; 25.8% of the total investment by amount.

²⁵⁴ VC is seed capital, and is a kind of private equity fund, but is withdrawn from the company when the company is successfully listed on the stock market. Taiwan's VC industry was introduced by the government in 1982, inspired by Silicon Valley. Up to 2006, the Development Fund had invested in 53 VC companies and the investment was NT\$12.04 billion (National Development Fund 2007). As I will discuss later, VC becomes a new financing method for hi-tech industries. The state plays a key role to promote the development of VC industry. In 2006, the number of VC companies was 270, and the number of accumulated investment cases was 11,200, and they accounted for NT\$203.8 billion (TVCA 2007). 96% of VC investments have been in the hi-tech industries (i.e. semi-conductor, electronics, optoelectrical, telecom and information).

²⁵⁵ The SME Credit Guarantee Fund was established in 1974 by the Ministry of Finance for the purpose of assisting SMEs to obtain bank loans by providing a guarantee. The Fund is significant as Taiwan's SMEs have had difficulty in obtaining bank loans since the reorganisation of banking industries (e.g. privatisation and M&A, as discussed in previous section). Since the state no longer directs the banks to provide loans to SMEs (e.g. through the Medium and Small Business Banks), the function of the credit guarantee fund becomes a major tool to assist SMEs (Taiwan SMEG 2008).

From the table above, it can be seen that the major methods of state financial support since the 1990s have been through the special funds: the Development Fund, the Sino-American Fund, the SMEs Development Fund, and the SMEs credit Guarantee Fund. Although the specialist banks jointly arranged low-interest rate loans with the Funds, these Funds, in fact, make up the difference in interest rates to the banks that jointly arranged them. Where the state no longer acts as the financial capitalist directly guiding and promoting industrial capital, they can still use the government budget (i.e. special funds) to finance industrial capital.²⁵⁶ The industry which receives most financial support is the strategic industry, namely the hi-tech electronics industry. As discussed in Chapter Five, this industry has received much more support than other industries from the state (e.g. R&D, the Science Park, tax incentives), and financial support is one of examples that demonstrate that the state has exclusively promoted the industry.

Thurbon (2001; 2007) has argued that Taiwan's financial liberalisation does not reduce the 'developmental logic' of the previous period, because while Taiwan has implemented financial liberalisation, development financing has expanded. She gave several examples: the CBC's role in development financing (i.e. use of foreign exchange reserves to finance overseas investment and re-financing aid to strategic industries), the use of postal savings to finance long-term investment, and the encouragement of private enterprises to cooperate with large-scale public infrastructure (Thurbon 2001). Indeed, the financial support measures discussed in the section are more than those mentioned by Thurbon, but I cannot, however, agree that these measures are an indication of the continuing 'developmental logic' in Taiwan's *financial system*.

Firstly, these support measures are all concerned with how the state promotes strategic industries, important investment, and SMEs. It is the relationship whereby the state still tries to guide *industrial capital* by using the government budget, rather than the state's direct controls upon the *financial sector*. In other words, the 'developmental logic' remains the relationship between the state and industrial capital, rather than between the state and financial capital. Secondly, even if the state tries to maintain the development logic in industrialisation, the state's tools are now limited. In the past, it was the whole formal financial system (interest rate, foreign exchange

²⁵⁶ The medium-and-long-term funding system is an exception, as the government still owns the Postal Saving System.

rate, state-owned banks, central bank, postal saving and so forth) that mobilised national savings to finance specific industrial capital, because the state acted as the financial capitalist. However, after the liberalisation and privatisation of the financial system, the support methods become limited and indirect. The remaining methods are: tax incentives, R&D assistance, and special funds, all of them are funded from the government budget. In this sense, the amount of development financing has *not* expanded but is actually *limited* to the fiscal method.

6-3-2 New industrial financing methods: reduce the power of financial capital

I have analysed the relations between the state and financial capital, and this section will discuss the relations between industrial capital and financial capital. Hilferding (1981[1910]) argues that the concentration of industrial capital, the development of financial capital, and the expansion of credit will lead to a combination of financial capital and industrial capital. The core characteristic of the combination is that within the close integration of the two capitals, the financial capital (the bank capital) dominates the direction of industrial capital (Bottomore 1983).

In the pre-1987 period, it was the (state) financial capital that dominated the direction of industrial capital. However, as Taiwan's private financial capital grows, private financial capital no longer has the same power over industrial capital as before. There are two factors to the change. Firstly, the development of the capital market and new financing methods (e.g. venture capital and overseas funding²⁵⁷) have reduced the dependence of industrial capital on banking capital, in particular in the case of the hi-technology industrial sector. What Hilferding did not see is that industrial finance does not need to fully rely on banking capital, as financialisation expands the channels of industrial finance. The second factor that leads to the incapability of Taiwan's industrial capital control over financial capital is the limits of the trans-nationalisation of Taiwan's financial capital. The development of financial capital has been de-linked from the development of industrial capital, because industrial capital has already expanded to overseas production but financial capital has been restricted in expanding to overseas markets (especially in China).

²⁵⁷ Taiwan had no inward investment from foreign private equity funds until 2005. The first investment was the Carlyle Group that invested in one of Taiwan's media companies. Recently, they increased their interests in investing in Taiwan by considering the 'use Taiwan firms as a springboard for acquisitions in China.' See Hung (07/05/2008).

New financing methods

Domestic banks had intended to provide loans to traditional industries. For example, 70% of bank loans were provided to traditional industries in 1993 - the other 30% was for the technology-intensive industries²⁵⁸ (Yang and Lung 2004). One of the main reasons is that the hi-tech companies (especially at a Science Park) do not own the land to enable them to obtain secured loans, and their machinery and factories are difficult to re-sell to other industries due to technological differences (Yang *et al.* 1994). Another reason is that most domestic banks are no longer state-owned, so the government cannot force domestic banks to provide loans to the strategic hi-tech industry as before. Only since 2003 have more than 50% of bank loans been provided for the hi-tech industry. As such, as Liang (1998) points out, several new methods of industrial financing have been raised for hi-tech industries: raising funds overseas, venture capital, and emergence of direct finance.

There are three major methods of raising funds overseas. Taiwanese enterprises were allowed to issue Euro Convertible Bonds (ECB) in 1989, Global Depository Receipts (GDR) and American Depository Receipts (ADR) in 1992. According to Hsu's study (2006), in the early 1990s, the traditional industries were the major actors in raising overseas fund. However, from the mid-1990s, the hi-tech industries (in particular the semi-conductor industry) have become the major actors²⁵⁹. Venture capital was discussed in previous section. 96% of VC investment has been invested in the high-tech industries (i.e. semi-conductor, electronics, optic-electrical, telecom and information)²⁶⁰.

The final method, direct finance, refers to a financing method without financial intermediaries. Such a method in Taiwan includes listed stock, short-term bills, corporate bonds, government bonds, overseas bonds, and asset security. In contrast, indirect finance is the traditional financing method which means going through monetary institutions (i.e. banks, credit cooperatives, farmer and fishing associations), the postal savings system, trust and investment companies, and insurance companies.

²⁵⁸ The high-tech industry refers broadly to eight industries: chemical materials, chemical products, electronic parts and components, computer and electronic and optical products, electronic equipment, machinery and equipment, transport equipment, and precision optics.

²⁵⁹ For example, between 1997 and 2001, the semi-conductor industry accounted for 64% of total ADR plus GDR issued, and 93% of total ECB issued (Hsu 2006).

²⁶⁰ Up to 2006, there were two hundred and seventy VC companies which had accumulated eleven thousand two hundred investment cases was, and the value of the investments amounted to NT\$203.8 billion (TVCA 2007).

In 1986, the share of direct finance of all financing methods was only 11.3%; it had doubled to 24.2% by the end of 2007 (CBC 2008 Financial statistics; Chang and Wang 2005).

In mainstream economics, direct finance includes two markets; the money market and the capital market. The money market is for short-term bills (less than one year) and the inter-bank call loan market, which includes Treasury bills, bankers' acceptance, commercial paper, and negotiable certificates of deposit (CD). The capital market includes stocks and bonds with maturities of over one year. Such a distinction based on the period of the capital is misleading, however, as it does not reveal the true relationship between financial capital and real production.

Hilferding (1981[1910]) distinguished between two types of securities: (1) the bill of exchange, which is a certificate of indebtedness; (2) bonds (fixed-interest paper) and shares, which do not represent a sum of money but its yield (p.130). The first type, bills of exchange (the so-called 'money capital' in the mainstream definition), is a payment credit which is 'limited only by the number of business transaction actually concluded' as bills are 'a substitute for the additional capital that would otherwise have been required to bridge over the period (p.131).' But the second type, the so-called 'capital market', is indeed a misleading term, as the 'capital' that stocks and bonds represent is in reality 'fictitious and its magnitude is calculated on the basis of its yield' (p.131). As such, it is the growth of the capital market rather than direct finance that reflects the enlargement of 'fictitious finance'.²⁶¹ It is the growth of the 'capital market' that has become a growing industrial financing method and has caused Taiwan's financialisation. Yan and Lung's comparison between the growth rate of GNP and of the market value of Taiwan's stock exchange between 1959 and 2003 shows that there is no correlation between the two figures (2004, p.51). Overall, the growth rate of the market value of the stock exchange is much higher than the growth rate of GDP.

Accordingly, traditional indirect finance plus the bills of exchange (the so-called money market) have declined because of the development of the (fictitious) capital market. Most technology-intensive industries have made use of the capital market. From 1991, in the stock market, the listed electronics companies have become the major industry to issue new shares as a means of increasing capital through second

²⁶¹ For example, the significance of the bills exchange has declined from 28.9% of total direct finance in 1986 to 5.3% in 2006 (CBC 2008 Financial statistics; Chang and Wang 2005).

public offerings (SPO) on the stock exchange (Yang and Lung 2004, p.39).²⁶² The market value of listed companies in technology-intensive industries, as a proportion of the market value of all manufacturing sectors, was as high as 82.7% in 2001, while the traditional industries only accounted for 12.7% (Yang and Lung 2004, p.20). Similarly, between 1996 and 2004, most of the convertible corporate bonds have been issued by the electronics industries (p.46). In 2004, more than 20% of information technology companies issued corporate bonds, compared with fewer than five percent of the other industries (MOEA 2004, Table 4).

In sum, Hilferding (1981[1910])'s argument is that, within the combination of industrial capital and bank capital, the latter will increasingly dominate industrial capital and domestic economy as a whole. This is however not the case in Taiwan. While the manufacturing sector shifts from the traditional industries to the technology-intensive industries, the financing method has also changed: financing from the capital market has expanded and now includes other new methods (e.g. raising funds overseas and venture capital). All of these have inevitably reduced the dependence of industrial capital on bank capital. Accordingly, even though private financial capital was formed in the 1980s through financial liberalisation and was strengthened in the 1990s through consolidation, bank capital has not increased its dominance over industrial capital.

6-3-3 The limits of transnationalisation of Taiwan's financial capital: unlinking financial capital and industrial capital

The second factor is that the state is still dominant over financial capital in the cross-strait financial business. This has led to a de-linking of the expansion of industrial capital from financial capital. Taiwan's financial capital is not able to fully integrate into the economic regionalisation process. Moreover, the Taiwanese government plans to develop Taiwan as a regional funding and asset management centre. However, without solving the restrictions on cross-strait finance, such a semi-peripheral ascent plan is more of a slogan rather than a realistic prospect.

²⁶² Before 1991, it was textile and food industries. After 1998, the financial industry has become another major industry to make use of 'capital increase'.

Restrictions on cross-strait finance

The government lifted the constraints on the number and location of banks' overseas branches in November 1988, due to the liberalisation of Taiwan's overseas investment (Shea 1994). As a result, the number of Taiwan's banks' overseas branches, representative offices, and subsidiaries, increased from 24 in 1989, to 140 in 2007; 86 are in Asia, 33 are in North America and 21 are in other areas (CBC 2008c; Shea 1994, p.264). However in Asia, only seven representatives (not branches) have been set up in China.

Table 6-4: The distribution of Taiwan's outward FDI and banks' foreign branches (1987-2007) (unit: %)

Outward FDI and banks' branches	Asia (excluding China)	China	Other	Total areas
Taiwan's outward FDI	13	54	33	100
Taiwan's outward manufacturing FDI	7	74	19	100
Taiwan's outward financial FDI	15.5	2.1	83.3	100
Taiwanese banks' overseas branches, subsidiaries, and representatives	56.4	5.4	38.2	100

Sources: (CBC 2008c; Investment Commission 2008)

Between 1987 and 2007, Taiwanese outward manufacturing FDI accounted for 66% of total outward FDI, while outward financial FDI accounted for nearly 17% (Investment Commission 2008). The financial industry is now the second largest outward investment sector. However, the direction of Taiwan's outward financial FDI is very different from that of manufacturing FDI, as the above table shows. I have already mentioned in Chapter Five the high percentage of financial investment in Bermuda and the British overseas territories of the Caribbean Sea (69% of Taiwan's outward financial FDI) (Investment Commission 2008), which is mainly because of the tax-free factor and because some of the investments may be re-invested in China. Overall, the share of Taiwan's financial investment in China (2.15%) is much lower than the share of Taiwan's manufacturing investment in China (74%). This contrasts with the principle that the development of financial services is a consequence of the growth of TNCs in the manufacturing industries, and the financial services needed to serve the TNCs' industrial financing (Dicken 2004). Similarly, the distribution of

Taiwan's overseas branches is completely different from the direction of outward FDI, as the above table shows.

The main reason for this distortion is the Taiwanese government's restrictions on outward financial investment and banking operations in China. Before 1987, there were no formal cross-strait financial exchanges at all. According to the Mainland Affairs Council (MAC), the development of cross-strait finance has had three historical phases (FSC 30/12/2004). The first phase was between 1987 and 1992. The Taiwanese government began to allow Taiwanese people to visit relatives in China in 1987, so that the government then allowed a few banks to arrange indirect outward remittance business in 1990 and 1991. Thereafter following the development of Taiwan's outward investment in China which began in 1991, the Central Bank started to allow foreign-exchange designated banks to arrange export negotiation businesses (shipment from the Mainland, negotiation in Taiwan). The second phase was between 1993 and 2000. The Taiwanese government gradually opened an indirect exchange of cross-strait financial activities (FSC 30/12/2004).²⁶³ The third phase began in 2001 and extended the openness a little further (FSC 06/01/2006; 12/01/2005; 30/12/2004).²⁶⁴

From the above overview, it can be seen that in the last two decades, cross-strait financial exchanges have gradually become more open. However, compared with the changes to Taiwan's industrial structure and domestic financial system, the openness of cross-strait finance is still limited. The amount of Taiwan's export and import remittances with China, although it grew sharply between 2002 and 2007, in 2006

²⁶³ (1)Opened-up business exchanges between Taiwanese banks' overseas branches and Chinese banks' overseas branches or foreign banks' branches in China (April 1993); (2) Opened up indirect cross-strait inward and outward remittance business (July 1994); (3) Due to the development of triangular trade between Taiwan, China and the external market, the government allowed the foreign exchange department of domestic banks to arrange the business of issuing Letters of Credit (L/C) in Taiwan for imports from China (May 1994); (4) Allowed foreign-exchange designated banks and OBUs of domestic banks to jointly arrange indirect import/export negotiation business with overseas branches of Chinese banks (July 1995); (5) Allowed domestic banks to send staff to visit China for business purposes (July 1995); (6) Permitted OBUs to arrange cross-strait indirect remittance business (May 1997).

²⁶⁴ (1)Allowed domestic banks and their overseas subsidiary banks to establish representative offices in China (June 2001); (2) Permitted foreign-exchange designated banks and Postal Savings to engage in direct cross-strait financial transactions (August 2002); (3) Permitted passengers to carry Renminbi (RMB) in amounts not exceeding 6,000 RMB when they depart from or arrive in Taiwan (March 2004); (4) Released domestic banks' Hong Kong branches to apply to do RMB business with Hong Kong residents (May 2004); (5) Allowed OBUs to authorize domestic banking units (DBUs) of banks to deal with cross-strait financial business (January 2006).

they merely accounted for 40% of the total import cross-strait trade and 28.7% of total export cross-strait trade.²⁶⁵

Most importantly, domestic banks are not allowed to establish branches in Mainland China. Although the establishment of representative offices has been allowed since June 2001, the function of representative offices is very different from that of branches, as the latter cannot accept deposits. China's financial market has been a big target for global financial capital since China's entry into the WTO in 2001 (China committed to opening-up its financial sector in 2006). Up to June 2006, of the 197 foreign banks set up in China, 41 were Hong Kong-based, 20 were Japanese, and 17 were American (FSC 2007c). So far, Taiwan's financial capital has remained outside of this fierce international competition. Moreover, more and more Taiwanese businesses who invest in China have changed their financing sources from domestic banks to foreign banks in Taiwan, because of the restrictions on domestic banks' cross-strait finance business (Lu 21/08/2007). In recent years, the cases of three domestic banks merging with foreign banks are seen as examples of foreign banks obtaining overseas Taiwanese business customers (*ibid.*).

Prospect or slogan? Taiwan's semi-peripheral ascent strategy

The proposal for the Asia-Pacific Regional Operation Centre, introduced by the KMT administration in 1994, included a financial centre as one of six regional centres. The proposal can be seen as the state's semi-peripheral ascent strategy to integrate into the Asian economic regionalisation process. In particular the idea of Taiwan being the financial sector in the Asian-Pacific economies can be viewed as Taiwan's ambitions to ascend to the core. Although the whole proposal was withdrawn in the late 1990s, the idea of a financial centre, the only one, was introduced again by the DPP administration. In July 2004, the DPP administration suggested 'promoting the regional financial service centre.' While the proposal of a second financial reform was criticised by scholars and the media, the proposal for a regional financial centre was later incorporated with the goals of the second financial reform and extended the

²⁶⁵ The amount of export remittance increased from US\$1.1 billion to US\$19.5 billion and the amount of import remittance grew from US\$0.46 billion to US\$10.2 billion (FSC 2008a). In 2006, imports from China were US\$24.7 billion, and Taiwan's exports to China were US\$63.3 billion; the amount of export remittance was US\$18.2 billion (accounting for 28.7% of Taiwan's exports to China) and the import remittance was US\$10.1 billion (40.8% of the imports from China) (FSC 2008a; MAC 2008, Table 5).

timeline from 2006 to 2008. Apart from reform of domestic financial institutions, two other significant projects were also suggested: (1) *Establish Taiwan as a regional funding centre*. This project includes: removing restrictions on cross-strait financial exchange, developing offshore banking units (OBUs) as a regional funding centre, attracting foreign financial investors, and expanding the stock and bond markets; (2) *Promote asset management*. This project was the increase in the use of the insurance and retirement pension funds, and to develop offshore funds.

However, the plan was problematic. One of my interviewees (a senior high-level government official) argues that 'it is nothing more than a slogan.'²⁶⁶ Firstly, there are already so many competitors within this region. Hong Kong, Singapore and Tokyo were rated as the third, fourth, and tenth financial centres in the world in 2007 (Yeandle *et al.* September 2007). In terms of the number of foreign exchange transactions, the size of stock exchange, the share of foreign investors in the stock exchange, the number of foreign banks, and the extent of the globalisation of Taiwan's financial market/institutions is far less than the above financial centres (Wu 2001). According to various international institutions' (i.e. IMD and WEF) ranking, in items related to access to the international financial market, Hong Kong, Singapore, and Malaysia (Kuala Lumpur) are the first, second, and fourth countries in the Asia-Pacific area, while Taiwan was only sixth in 2006. Equally, other Asian countries also planned to develop financial centres. South Korea has proposed to establish Seoul as a regional financial hub since 2003 (Berger 06/13/2007; Urade 2005); Shanghai and Mumbai also planned to join the fierce competition to become regional financial centres (Tucker 18/07/2007, 19/07/2007).

Secondly, the restrictions on cross-strait financial exchanges and the ban on direct cross-strait links (postal, transportation, and trade) have reduced the possibility of developing a financial centre or logistics centre (ADB 2008a, p.152). There is no obvious way to develop a regional financial centre while ignoring the significance of China's financial market and of cross-strait finance. For example, the Taiwanese government assumes that one of Taiwan's advantages in developing a regional financial centre is the amount of Taiwanese overseas capital and assets (the estimate is between US\$ 500-700 billion); in principle, the establishment of a financial service

²⁶⁶ Author's interview with Sean Chen (no.15) on 22/03/2006.

centre would lead to the return of Taiwanese overseas capital/assets²⁶⁷ (CEPD 2004). However, these Taiwanese overseas capital/assets are related to serve Taiwan's overseas investments, so how could the overseas capital/assets return to Taiwan when the cross-strait financial exchanges are still highly controlled? The Central Bank of ROC also notes that two factors determine why Taiwanese enterprises prefer funding overseas: one is the tax-free environment, and the other is the lack of restrictions on investments in China from overseas (CEPD 2004). Finally, the original idea of a regional financial centre was indeed accompanied by five other regional operation centres, meaning that the design of the regional finance centre was based on industrial development. However, the revised plan for a regional financial centre was not combined with any other industrial regionalisation perspective and ignored the restrictions on cross-strait finance.

Conclusion

The development of the financial sector and the dynamics of financial capital is one of the keys to understanding semi-peripheral ascent as the sector provides industrial finance and has become one of most profitable sectors during the B-phase. Between 1945 and 1987, the KMT state controlled the financial sector and used the whole sector to guide and promote selective industries for development. The contemporary function of state intervention in finance is very different to the pre-liberalisation period. Under the influence of the changes to the capitalist world-system during the B-phase, state financial capital has been replaced by private financial capital; financial support measures adopted by the state are limited; Taiwan has been integrated into the global financial market; and the process of financialisation has begun. The state no longer acts as the primary conduit for financial capital to finance industrial capital. Even though the state still supports the financing of target strategic industries, the financing method has now been limited to a fiscal one. Overall Taiwan's financial sector and financial capital are transformed into a new stage, seemingly one where Taiwan attempts to expand the power of financial capital.

However, although both industrial capital and financial capital were influenced by the changes to the capitalist world-system, the two types of capital have different developmental processes. Due to political tension between Taiwan and China, the

²⁶⁷ Author's interview with Susan Chang (no.7) on 07/03/2006. Chang was the Vice Chairperson of the Financial Supervisory Commission when the author conducted the interview.

state is more cautious with regard to cross-strait finance than cross-strait investment and trade. Although the concentration of financial capital follows the concentration of industrial capital, the expansion of industrial capital overseas has not been accompanied by the enlargement of Taiwan's financial capital trans-nationally. As such, the trans-nationalisation of Taiwan's financial capital and Taiwan's semi-peripheral strategy via the aim of an Asian-Pacific regional financial sector cannot be developed within the limitations on cross-strait finance. The restriction on cross-strait finance has also caused Taiwan's domestic financial market, following financial liberalisation, to be less globalised than the state predicted.

Chapter Seven: Labour in Taiwan's Semi-peripheral Ascent

Introduction

In Chapters Five and Six, I discussed how changes to the capitalist world-system and state-capital relationship shaped Taiwan's semi-peripheral ascent trajectory, via analysis of the dynamics of the industrial and financial sectors. The study of the two sectors demonstrates the strategies, achievements and obstacles of Taiwan's semi-peripheral ascent. I also examined the special role of the Taiwanese state in the interstate system (US-Taiwan-China nexus), the structure of capital accumulation (semi-periphery), and domestic state-capital relations. However, the state-capital relationship is not the full picture of domestic social relations in the process of capital accumulation as the subject of labour is absent. This is one of the problems in the national model approach of development, in particular in the study of East Asian economies, as the issue of labour is under researched.

Why is the subject of labour a necessary part of the analysis of domestic social relations of national capitalist development? As discussed in Chapter Two, the subject of labour has two different roles in capitalism. One is as the producer of value and the other is as a social force. As Ougaavd (2004) argues, a group or individuals might not constitute a social force even if they are in the same position of production. Only if the group shares a collective interest and has the capacity for collective action can it be called a social force (p.153). To examine these dual roles, we can realise on the one hand that labour is structured in the capital accumulation process to contribute to national ascent, but also on the other hand labour can act as anti-systemic movement to resist the logic of capital accumulation.

As such, this chapter attempts to analyse the dual roles of labour in Taiwan's capitalist development during the period of 1987 and 2007. In particular, the chapter will focus on labour in the industrial sector because: (1) Taiwan's industrial capital and industrial production determine Taiwan's semi-peripheral ascent trajectory²⁶⁸; (2) the industrial sector is the main engine of production and Taiwan's economy as a whole since the 1970s. Although the industrial sector as a share of total GDP has

²⁶⁸ Industrial products have dominated these exports, and the share of industrial goods to total exports was 94 % in 1984 and 99% in 2006 (CEPD 2007, table 11-7).

decreased, from 37.6% in 1986 to 23% in 2006 (CEPD 2007), it does not mean that the sector is no longer as important as before. The main reason for the “decline” in the sector in the domestic economy is due to an increase in overseas relocation by Taiwanese firms²⁶⁹; (3) Taiwan’s organised labour resistance is mainly found in the industrial sector.

How does labour as labour force contribute to Taiwan’s semi-peripheral ascent, and how does organised labour as a social force resist the logic of national capitalist ascent? How does organised labour change the dynamics of domestic social relations and Taiwan’s semi-peripheral ascent trajectory? The discussion of these questions will be laid out as follows: firstly, the chapter will discuss how labour, as labour force, has contributed to Taiwan’s semi-peripheral ascent in the last two decades. New types of labour forces rise in response to industrial restructuring, namely hi-tech and high-skilled labour; migrant labour from East Asia; and overseas employment. Overall, Taiwan’s labour market has increased the degree of economic globalisation and regionalisation. Secondly, the existing old type of labour force needs to adjust under industrial restructuring. As such, labour flexibility and structural unemployment have increased. In general, the annual growth rate of labour’s average wage has reduced (as figure 7-1 will show). Under the changing labour structure, how does organised labour respond? Has organised labour been able to strengthen its power and change domestic social formation? Has organised labour been able to act as an anti-systemic movement regionally and globally in order to resist the logic of capital accumulation? These questions will be examined in the third section via the analysis of Taiwan’s labour movement. Overall, Taiwanese organised labour has successfully prolonged the impact of neo-liberalism and industrial restructuring on the domestic labour pattern. However, the structure of the Taiwanese labour movement has not been strengthened in confronting the new employment structure. Taiwanese organised labour has neither significant political influence over the state and capital, nor does it play an active role as an anti-systemic movement.

²⁶⁹ The size of Taiwanese overseas manufacturing investment reached its first peak in 1986 (since 1952), and it was higher than domestic fixed capital formation by the manufacturing sector. In 1982, the size of Taiwanese overseas manufacturing investment was still lower than domestic gross fixed capital formation by the manufacturing sector (CEPD, 2007, table 3-12a; Investment Commission 2007, table 17). The share of outward FDI flows as a percentage of gross fixed capital formation thus surpassed 1% in 1987 (3.5%), and increased to 10.3% in 2006, see UNCTAD (16/10/2007).

7-1 The Rise of New Types of Labour Force and Polarisation of the Labour Market

This section will focus on the rise of new types of labour force that have resulted from Taiwan's semi-peripheral ascent. In Chapter four, I mentioned that the specific feature of Taiwan's labour pattern in the period between the 1950s and the 1980s was flexible, unprotected, low-skilled female labour in the export-led sectors while semi-skilled male labour was in the upstream and intermediate stream sectors. The pattern was significantly changed as, firstly, skilled-labour in the electronics industry increased due to Taiwan's dual industrialisation trajectories that shifted to Taiwanese-led, export-led, hi-tech electronics industries. This skilled labour undertakes technical and professional work as part of a supply chain for global electronic brands in the core zone. The second change is with industrial restructuring and the decline of traditional industries, where Taiwan now imports low-skilled migrant labour from Southeast Asia to provide a cheap labour-supply. Taiwan's industrial relocation overseas also for the most part employs cheap, low-skilled labour in peripheral countries. In other words, the unprotected, flexible, cheap, and low-skilled Taiwanese labour has been replaced by migrant labour from Southeast Asian and from overseas. As such, these three new types of labour force are now Taiwan's main labour pattern. In particular the hi-tech electronics industry not only represents Taiwan's specific trajectory of semi-peripheral ascent, but also demonstrates the employment feature of semi-peripheral ascent: the industry is composed of a mixture of hi-skilled labour, and low-skilled cheap (migrant and overseas employed) labour. Such a labour pattern structures Taiwan's position in the capitalist world-system, and leads to a polarisation of the domestic labour market.

Dicken (2004), Luthje (2002) and Henderson (1989) all argue that the semiconductor industry is characterised by a specific labour pattern. The industry not only has a division of labour in terms of skills, but also has geographical, gender, and ethnic divisions of labour (Dicken 2004; Luthje 2002). As Dicken (2004) notes, the labour structure is 'a polarization of skills in the semiconductor industry between highly trained professional and technical workers on the one hand and low-skilled production workers on the other hand' (p.408-409). Their description resembles Taiwan's changing labour structure. On the one hand, Taiwan has developed many hi-tech technicians with professional skills who enjoy a special wage system (e.g. stocks and bonus). In the past two decades, Taiwan's domestic labour pattern has been

upgraded and skilled-labour (technicians and associated professionals) has increased from 9.8% in 1988 to 19.6% in 2007; while the numbers of blue-collar workers has reduced from 43.2% to 32.3% (CEPD 2008; DGBAS 2008). However, on the other hand, the existence of migrant labour and overseas employment shows that Taiwanese enterprises still exploit cheap, disciplined, flexible, and non-unionised labour through their overseas production.

7-1-1 The rise of a highly-skilled labour force

As the hi-tech electronics industry rises to become the dominant industry in Taiwan, it also becomes the industry with the highest employment. At the end of 2007, the number of workers in the electronics industry among the total number of manufacturing workers in Taiwan was nearly 31% (DGBAS 2008). The electronics industry can be divided into three sectors: (1) Computer, communication, and consumer electronics (3C); (2) Electronic components; (3) Electronic equipment and suppliers. The first two expanded sharply in Taiwan in the 1990s. The percentage of workers in the first two sectors only accounted for 8.9% in 1980, and grew to a quarter (25.4%) of total manufacturing workers in 2007.

There is no specific data available about the industry, but the statistics for Hsinchu Science Park (HSP) demonstrate the major characteristics of the industry. According to the government's definition, employees who have obtained at least a Bachelor's degree are regarded as R&D researchers at Hsinchu Science Park. In 1990, nearly 74% of the employees did not hold a Bachelor degree. This declined to 54% in 2007. The average age of employees at the science park is 30 years old.

Table 7-1: Number and percentage of Taiwanese employees in Hsinchu Science Park by education (1990, 1999, and 2007).

Education	1990		1999		2007	
	person	share	Person	share	person	share
PhD	166	0.7	1,078	1.3	1,420	1.1
Master	1,324	5.9	13,494	16.3	24,465	19.5
Bachelor	4,348	19.5	17,973	21.7	32,013	25.5
Junior college	4,312	19.2	19,618	23.6	26,782	21.3
High school	9,460	42.3	25,310	30.5	32,177	25.6
Other	2,746	12.2	5,349	6.4	8,732	6.9
Total	22,356	100	82,800	100	125,589	100

Source: (HSP Administration various years)

According to the data above, nearly half of HSP employees hold a Bachelor's degree or above and are employed in the position of 'engineer.' Currently, there are only a few studies available regarding the labour process of engineers in the HSP (Chang et al. 2006; Fang 1997; Lin 2004). They are classed as technical and mental labour. Hi-tech employees' monthly salaries are much higher than the average manufacturing workers (by 25% in 2001). Fang (1997) and Ling (2004) both mention that they have longer working hours of between ten and twelve working hours per day, for example. However, these engineers do not claim overtime payments. Fang (1997) argues that this 'volunteer overtime work without pay' occurs for two main reasons: one is the adoption of 'responsible autonomy'²⁷⁰ by engineers; the other is pressure to speed-up the production process. The latter feature (speeding-up production) is due not only to the fast business cycle of the hi-tech industries, but also to Taiwan's position as a contract manufacturer in the global electronics industry, as analysed in Chapter Five.

Two other significant features not only explain why engineers at HSP accept voluntary overtime work, but also make clear the reason for the lack of labour organisation consciousness in HSP. The first feature is the 'supervision system': each new engineer is allocated to a senior engineer or a manager who is responsible for technical training and resource coordination. These engineers call their tutors "boss." Fang (1997) states that the relationship between the junior engineer and the tutor does not conflict because the managers/tutors do not play a role similar to that found in

²⁷⁰ This is a common situation in the service sector.

traditional industry, namely monitoring and controlling labour. Rather, these tutors offer technical supervision and help to solve technical problems. It is noteworthy that such a relationship exists only among engineers. As for low-skilled operators, they have to wear clean clothes with a specific number on their back, and their work is monitored through television monitors (Lin 2004).

The second feature is a ‘share-save scheme’, whereby engineers will be given stocks (depending on their work performance) as a bonus at the end of the year. Due to the fact that hi-tech industries have been booming since the 1990s, the stock price in hi-tech listed companies has been rising. Therefore, the earnings engineers gain from their stock are usually higher than their regular salary (Lin 2004). Thus, helping their company earn more profit in order to obtain more stock is the most important concern of these engineers. If the engineers feel dissatisfied with their company, they can always choose to change to another company. For example, by conducting a questionnaire, Hsu (1999) found that there was high employee turnover (e.g. as high as 35% in some companies)²⁷¹ within HSP companies.

As mentioned previously, the industry features a polarisation of skills. In Henderson’s (1989) study into the semiconductor industry in the US in the 1960s and the 1970s, he found that ‘the development of the semiconductor industry’s component labour process resulted in a polarisation in the skill structure of the labour force and subsequently the emergence of socially/spatially segregated labour market (p.38)’. He concluded that the segregated pattern was that white males dominated skilled jobs, while immigrant females, mainly Latinos and Asians, were doing unskilled and semi-skilled jobs. In Taiwan’s hi-tech industry, a similar segregation of labour can be found; namely, local male workers dominate skilled jobs (e.g. engineers) while local female workers and migrant workers undertake semi-skilled and low-skilled jobs.

Firstly, these hi-tech companies still prefer female workers to undertake low-skilled jobs. In general, female workers are paid less than male workers. Between 1991 and 2007, the average wage of male workers was between NT\$ 29,690 and NT\$ 49,219, while that of female workers was between NT\$ 17,946 and NT\$ 34,401 (DGBAS various years-b). In the hi-tech industry, for example, the computer and optoelectronics manufacturing industry, the gap is even larger. The average wage of male workers in that industry was between NT\$ 32,143 and NT\$ 60,684, yet for female workers it was between NT\$ 16,690 and NT\$ 37,051 (*ibid.*). There are more

²⁷¹ There were 390 companies out of a total of 1,500 in HSCP that responded to the survey.

female than male workers in the electronics industry (and in the two hi-tech sectors), even though in general more males work in the manufacturing sector. The media often reports the increase of females working in the hi-tech sectors, meaning that the quality of the female labour force and gender equality is improving. This is a misunderstanding, as the majority of female workers in these sectors still undertake low-skilled jobs. For example, a top semiconductor company which employs 6,000 employees, Powerchip Semiconductor Corp., said that female 'indirect employees' (administrative and engineers) only accounted for 23% of their employees (Tseng 2006). Yan (1999) points out that between 1984 and 1994, female workers were mainly concentrated in lower job positions, such as operators and administration, while male workers mainly worked as engineers and professionals. The government's statistics also show that the percentage of female researchers in private enterprises was only 13% between 1996 and 2003 (NSC various years).

Secondly, HSP began to employ migrant labour in 1994. In some years, the share of migrant labour of the total labour force at HSP was as high as 8.8 % (in 2003 and 2004). This migrant labour mainly worked in the downstream factories of the hi-tech industry. We will discuss this point in next section.

7-1-2 The import of low-skilled migrant labour²⁷²

Following the issue of migrant labour, this section will discuss the new type of labour force and their specific labour pattern. Taiwan adopted a labour migration policy (i.e. importing migrant labour from Southeast Asia) in 1989, which was not a unique case but a common pattern in Asia. The share of intra-regional Asian labour migration of Asia's total labour migration grew from 10% during the 1970s-1980s to 40% during 1995-2000 (ILO August 2006). In 2000, the ILO estimated the number of Asian labour migrants as 2.6 million. According to Wickramasekera (2002), the receiving countries include Japan, Taiwan, South Korea, Hong Kong, Singapore, and Brunei.

Migrant labour only represented 4.2% of the receiving countries' total labour force (ILO 2006).²⁷³ By taking into account that the majority of migrant labourers are

²⁷² According to the CLA, foreign workers are as follows: (1) white-collar labour, which includes professional and technical workers; (2) blue-collar labour, which includes manufacturing operators, domestic servants and workers in the construction sector. For example, in 2001, among blue collar workers only 0.2% were clerks. The term migrant labour in this thesis refers to the second category, "low-skilled" labour.

low-skilled workers,²⁷⁴ the share of migrant labour of the total low-skilled labour force is higher. For example, in Taiwan, the figure (of low-skilled workers) was 10% in 2006. Other common characteristics can be found in Asian labour migration in terms of skill composition, gender, and duration of work contracts (Athukorala 2006; Dent 2008; ILO August 2006; Wickramasekera 2002). According to these studies, Asian migrant labour is mainly low-skilled and semi-skilled; fixed-term temporary contract; feminised (in particular more than 60% of Indonesian and Philippino migrant workers in Asia are female); and concentrated in construction, labour-intensive manufacturing, and domestic care sectors. In addition to these “non-decent” working conditions, Asia’s increasing labour migration also creates a ‘commercialisation’ of the private recruitment business that can not be found in other regions (ILO August 2006). All of these characteristics can be discovered in Taiwan’s immigrant labour.

In 1989, the Council of Labour Affairs (CLA) outlined a plan for the import of migrant labour for companies who were involved in the Fourteen Major Construction Projects and Six Year Development Plan.²⁷⁵ The plan was a response to pressures from the construction business. In 1991, with the declining trend of traditional labour-intensive industries, capitalists from these industries requested to expand the quota of imported migrant labour to six industries (having fifteen sub-sectors).²⁷⁶ In 1992, the Employment Service Act was announced. It has had two implications: firstly, it was the first legal/institutional framework to regulate migrant labour; secondly, the quota was extended to the service sector (e.g. household maids, domestic nursing, and crewmen) and some key export-led industries. As such, the above fifteen sub-sectors were extended to 73 sub-sectors in 1993. In 1994, EPZs, Science-based Industrial Parks and thirty-eight industries²⁷⁷ were allowed to apply for migrant labour. In 1995, another seven industries were allowed to import migrant labour. Accordingly, the

²⁷³ Except in the case of Singapore (28%) and Malaysia (12%)

²⁷⁴ The number of skilled and professional migrant labour is also increasing, due to the growth of FDI from Japan and NIEs, but the share is still much lower than low-skilled migrant labour (Athukorala 2006; Dent 2008)

²⁷⁵ This paragraph, about the evolution of the government’s migrant labour policy, is drawn from Lee (2002, Table one, p.44-45) and Liu (2000, p.86-89).

²⁷⁶ including construction, textiles, the basic metal industry, fabricated metal, machinery and equipment, and electrical and electronic machinery industries

²⁷⁷ including major investment-manufacturing which invests more than NT\$ 0.2 billion)

number of migrant labourers increased from 15,924 in 1992 to 338,755 in 2006 (Council of Labour Affairs 2007, Table 11-1).

Several points are noteworthy. Firstly, the idea of importing migrant labour was initially only for governmental construction projects. However, following requests from industrial capitalists, soon the manufacturing sector employed more migrant labour than the construction sector (i.e. in 1995 nearly 77% of migrant labour was employed in the manufacturing sector) (Lee, 2002). Secondly, within the manufacturing sector, the import of migrant labour was originally for traditional labour-intensive industries such as textiles, plastic products, and metal products. However, migrant labour in the electronics industry became the largest group in the manufacturing sector after 1997 (Table 7-2) following requests from these industries. The hi-tech industry employs more migrant labour than the traditional electronics industry. For example, the ‘computer, communication and video, radio’ and ‘electronic parts and components’ industries accounted for 14.25 % of total migrant labour employment in 2006 (see Table 7-2).

Table 7-2: Distribution of migrant workers by main sector over various years (person; %)

Sector	1992	1995	1997	2006
1. Total Manufacturing	17,938(35.07)	126,403(76.62)	160,401(65.28)	169,903(50.2)
(1) Textiles	4,369 (8.54)	23,435(14.21)	32,956(13.41)	22,454(6.62)
(2-1) Electrical & electronic machinery	1,492(2.92)	21,230(12.87)	35,825(14.58)	10,261(3.02)
(2-2) Computer, communication & video, radio	--	--	--	11,264(3.32)
(2-3) Electronic parts & components manufacturing	--	--	--	37,031(10.93)
(3) Basic metal products	1,704(3.33)	15,363(9.31)	14,885(6.06)	10,434(3.08)
(4) Fabricated metal products	3,520(6.88)	14,578(8.95)	18,994(7.73)	19,533(5.76)
(5) Plastic products	2,184(4.27)	11,566(7.01)	11,211(4.56)	10,255(3.02)
2. Construction	---	---	---	11,745 (3.4)
3. Nursing workers & home-maids	---	---	---	153,785(45.39)
Total migrant labour	51,155(100)	164,973(100)	2456,97 (100)	338,755(100)

Source: (1) 1992-1997: Lee (2002, Table 2, p.48-49); (2) 1998-2006: Council of Labour Affairs (2003 and 2007, Yearly Bulletin of Labor Statistics, Table 11-2).

Note: ‘Electronic parts & components manufacturing’ and ‘Computer, communication & video, radio’ began to be calculated from 2003.

Thirdly, migrant labour mainly comes from Indonesia, the Philippines, Thailand, and Vietnam (after 1999): intra-regional labour migration. Only a small number come from Malaysia and Mongolia (since 2004). Indonesian and Vietnamese workers are mainly employed in domestic nursing and as home-maids. The Philippine and Thai workers are mainly employed in the manufacturing sector, but the former are concentrated in the electronics industry and the latter in the traditional industries (Council of Labour Affairs 2007, Table 11-2). Fourthly, initially male migrant labour was much greater than female migrant labour, yet in 2001 the share of female labour out of the total migrant labour reached 52%, increasing to 62% in 2006.²⁷⁸ This is due to an increase in the employment of domestic nurses and home-maids, fields dominated by women. Even in the manufacturing sector, the share of Philippine female workers out of the total migrant labour from the Philippines (the major migrant labour in this industry) in Taiwan grew from 47% in 1998 to 68% in 2006 (it was 72% in 2004) (*ibid.*). From the above data, it can be observed migrant female labour is much more favoured by Taiwanese capitalists than male labour. Employers prefer female labour because, firstly, hiring migrant labour through temporary contracts can help to meet urgent business orders; secondly, it reduces training costs, as Philippine workers speak English and are well-educated; Thirdly, female labour is generally preferred for low-skilled jobs at HSP (Yang 2001).

The government claims that the purpose of importing migrant labour in the manufacturing sector is to complement labour shortages in the market and to help traditional industries with their upgrading. Such a claim is problematic. As Liu argues, from 1993 the government used the migrant labour policy as a tool to encourage investment (Liu 2000, p.63). It was the major investment sectors, rather than SMEs, that were allowed to employ migrant labour. The employment rate of Taiwanese labour among the low-skilled job categories declined from 56.8% in 1988 to 45.9 % in 1998 (Liu 2000). Even the government argues that the share of migrant labour among Taiwan's total labour force is not significant, for example it only stood at 3.22% in 2006. However, migrant labour is concentrated in low-skilled jobs and the share of migrant labour accounted for 10.3% of Taiwan's total low-skilled jobs in 2006. The electronics industry has become the main manufacturing sector to import migrant labour, which is increasingly female. This labour serves as a cheap and low-skilled labour force for the export-led electronics industry. The following section will

²⁷⁸ This data is from the Council of Labour Affairs (various years), Alien Workers Statistics.

discuss how the special working conditions of migrant labour in Taiwan contributed to Taiwan's manufacturing sector. The condition resembles another side of Taiwan's semi-peripheral ascent, namely using a cheap and low-skilled labour force from peripheral zone.

Guest labour

Low-skilled workers have been treated as 'guest workers' because the Taiwanese government only allows low-skilled migrant workers to work temporarily for two to three years,²⁷⁹ and migrant labourers thus have no chance to apply for a longer residence permit and for naturalisation. Lan (2006) has argued that the system of 'guest workers' in Asia is the most restrictive one, as most of the industrialised Asian countries are concerned about their limited territorial space and high population densities. In addition, these countries do not tolerate ethnic diversity (p.114). Taiwan is one such country. For example, the Taiwanese government forbade migrant labour workers marrying in Taiwan, and female migrant workers have to undergo a pregnancy test before they arrive in Taiwan, repeating the test once every six months.²⁸⁰ Being a guest worker worsens her/his power relationship with their employer and agent.²⁸¹ The workers are non-unionised labour and their temporary contract worsens their already weak political position.

Bonded labour

The discussion above links to a second point: the high placement fee paid by migrant workers and their restrictive labour contracts. If migrant workers want to apply for jobs in Taiwan, they have to contact their local agency and the latter will contact a Taiwanese agency. The Taiwanese agency will contact employers who obtain a quota of the number of migrant workers they can employ. As part of this process, migrant

²⁷⁹ According to the *Employment Service Act*, low-skilled migrant labour can only work in Taiwan for two years, but this can be extended by one year. After three years, workers need to go through the application process again if they want to continue to work in Taiwan. However, professional foreign workers are allowed to work for three years, after which the term can be extended again.

²⁸⁰ Except for the pre-arrival pregnancy test, other regulations were lifted on 7 November 2001 and on 9 November 2002 respectively.

²⁸¹ The issue of the relationship between migrant labour and citizenship can be found in Cheng (2002) and Tseng (2004)'s study. They analysed the exclusion of migrant workers from citizenship in the context of Taiwan's nationalist politics and state building ideology.

workers have to pay placement fees to both agencies.²⁸² The fee varies depending on nationality and industry. For example, a Philippine worker has to pay anything from US\$3,966 to US\$6,641 to work in Taiwan for two years; this amount is equal to her/his salary in Taiwan for between eight to thirteen months (Asia Pacific Mission for Migrants 2002). In addition to this, after they sign a contract with an employer, they cannot change this employer unless the latter dies or the company is closed. As Chan (1999) notes, this high debt burden and inadequate management leads to many migrant workers to runaway.²⁸³ Before 2001, the government even gave employers the right to ask migrant labour to pay “saving funds” each month, which could be up to 30% of their monthly salary.²⁸⁴ Migrant workers could not have this money back until they had finished their contract. The so-called “saving fund” was indeed a kind of “deposit” to prevent workers from running away and gave employer more control over their migrant labourers. The system operated as a form of bonded labour.

Cheap labour

The third point relates to wages. Liu (2000) has argued that Taiwan’s shortage of labour is indeed a shortage of ‘cheap labour’. According to the CLA’s report, the wage gap between migrant labour and local labour was only 10% between 1993 and 2002 (Lee 2002 and 2007). However, this data has two problems. Firstly, the term ‘local labour’ in the CLA’s data only means “junior” local labour (those who have worked for less than two years). Secondly, the working hours of migrant workers are far higher than that of local workers as Table 7-3 shows (working hours gap between foreign labour and local junior labour). It is more accurate to compare their “hourly wage”. As such, the hourly wage gap between migrant labour and ‘local junior labour’ was around 24% between 1993 and 2002 (see Table 7-3). The hourly wage gap between migrant labour and ‘local labour’ was more than 50% in 1998, 2000, and 2003 (Table 7-4). Currently, migrant workers in the manufacturing and construction sectors are covered by the Labour Standard Law, which means that they are

²⁸² Although the Taiwanese government only allows Taiwan’s agencies to charge a placement fee to migrant labour of no more than their first month’s salary, they allow agencies to charge a ‘service fee’ no more than US\$ 1,875 for three years (Lan, 2006, note 16). The Taiwanese agency might ask a migrant labour to pay a placement fee as a “personal loan” every month (Asia Pacific Mission for Migrants, 2002).

²⁸³ By the end of 2006 there were 21,051 runaway migrant workers (CLA, 2007).

²⁸⁴ This regulation was lifted on 7 November 2001.

guaranteed a basic monthly wage (currently US\$ 480). Yet business groups continue to lobby the government to “delink” the relationship between migrant workers’ wages and the basic wage of the LSL.

Table 7-3: Wage and working hours’ gap between local junior labour and foreign labour in the manufacturing sector

	<i>Wage gap: foreign labour/local junior labour (%)</i>	<i>Working hours gap: foreign labour/local junior labour (%)</i>	<i>Hourly wage gap: foreign labour/local junior labour (%)</i>
1993	88.22	118	74.8
1994	89.27	113	79
1995	90.70	122	74.3
1996	94.20	115	81.9
1997	96.90	121	80
1998	96	119	80.7
1999	95	121	78.5
2001	80.40	122	65.9
2002	83.90	124	67.7

Source: (Lee, 2002 and 2007, Table 1-10).

Note: The original data is from the CLA. “Local labour” means those junior workers who have worked for less than two years.

Table 7-4: Average monthly salary and working hours in the manufacturing sector (unit: NT\$).

Period	Local workers	Migrant workers
1998	36,546 (198 hrs)	21,006 (239.77 hrs)
	185 / per hr	88 /per hr
2000	39,080(198.7 hrs)	21,083 (251.1 hrs)
	197 /per hr	84 /per hr
2005	41751 (188.8 hrs)	21, 577 (231.16 hrs)
	221/per hr	93 /per hr

Source: CLA (1999, 2001 and 2006), Report on the Foreign Workers Administration and Utilization Survey; DGBAS (various years), Time Series of Earning and Productivity Statistics Tables (<http://win.dgbas.gov.tw/dgbas04/bc5/earning/ht456e.asp>).

7-1-3 Sweatshops: working conditions in Taiwan's overseas employment

Apart from migrant labour from Southeast Asia, another way to use cheap and low-skilled labour from the peripheral zone is through overseas industrial relocation, and the method is increasingly important to Taiwan's industrial capital. The government does not collect any data on the number of employees in Taiwanese overseas investments. However, the yearbook of Taiwan's top 100 corporations published by the China Credit Information Service (CCIS) started to include the number of employees in Taiwan's overseas investments in 2003. Their figures only show the total number of employees in the top 100 corporations. According to the CCIS data, between 1990 and 2002 the growth rate of the number of employees in the top 100 corporations (in Taiwan only) was around 10%.

There have been few academic studies into the labour process and working conditions in Taiwanese overseas companies, e.g. Kung (2002) and Chen (2005). However, several international non-governmental organisations (NGOs), Taiwanese NGOs, and the media have produced empirical reports on Taiwanese TNCs in China, Malaysia, Thailand, the Philippines, Mexico, and Nicaragua. The Taiwanese TNCs investigated in these reports were Taiwan's top manufacturing enterprises; they either have their own brand (e.g. Acer) or are contractors for US and EU electronic TNCs (such as OEMs, ODMs or CMs). Chapter Five has discussed the semi-peripherisation of the IC and IT industries. This section reveals how Taiwanese overseas enterprises manufacture for the branding companies from the core zone by making use of workers from peripheral companies.

According to eleven empirical reports, eight common features of workers' conditions in these Taiwanese enterprises can be identified: (1) *Low wages*. Some companies do not pay minimum wage and overtime wage. Some only pay daily wage system. (2) *Excessive working hours and enforced overtime work*. Workers are forced to work overtime and their working hours are more than 60 hours a week (or more than 12 hours a day). Some workers need to work for seven days a week. Some are forced to sign an agreement to work unlimited overtime if necessary. (3) *Occupational safety and health risks*. Several health problems are reported but the companies refuse to provide appropriate protection. The dormitories are overcrowded (e.g. 10-12 workers a room). There is no sick leave and a lack of social insurance. (4) *Inhuman management*. Unequal and discriminative management can be found. These

reports also found verbal and physical abuse of workers by managers. (5) *Prefer female workers*. These cases are found to prefer hiring female labour. (6) *Child labour*. Some companies employ child labour whose age is under 16 years old. (7) *Insecurity of work contract*. Some workers only have short-term contracts; some are temporary workers on a one-year contract. (8) *No right of free association*. These companies forbid workers to organise trade unions, and excludes trade unionists when they recruit.

These eight features are part of the exploitative working conditions (further details can be found from Appendix Two). These reports were investigated in the following ways:

- Kung (2002) analyses a special labour pattern in Taiwan's overseas enterprises in Malaysia: the ethnic division of labour. Taiwanese overseas firms in Malaysia prefer to employ Chinese-Malaysians for management, administration and technical positions, and to recruit indigenous Malay and migrant labour (especially Bangladeshis)²⁸⁵ as production operators. Taiwanese employers treat their employees based on their ethnicity.²⁸⁶
- Tsai (2006) was the former director of a Taiwanese NGO, Ching-Jen Labour Service Center. He has studied the working conditions of a Thailand subsidiary for one of Taiwan's top consumer electronics company, Tatung. The subsidiary was set up in 1989 and employed 2,000 workers in 2000. However, this number was reduced to 409 in 2005 when the main business shifted to China.
- CEREL (2007), a Mexican-based NGO, published a report in 2007 which explored working conditions in fifteen electronics TNCs in Mexico. CEREL contacted nearly 2,000 workers and chose 237 cases to document; 74 cases were presented in the report. The report refers to the working conditions in Foxconn, a Taiwanese company which is a supplier and CM for many international brand companies.

²⁸⁵ Around 16% of labour in Malaysia is migrant labour.

²⁸⁶ They offer high wages and give managerial power to Chinese-Malaysians. Apart from cultural and religious background, the government's employment policy is another factor that influences Taiwanese employers' attitude towards workers of different ethnicities. The Malaysian government requires all foreign companies to have employees who are at least 30% indigenous Malay workers. Although Taiwanese employers have many complaints about indigenous Malays (e.g. not as disciplined as migrant labour), they still need to employ them by law.

- On 11 June 2006, The Mail on Sunday reported the inhumane working conditions at a Foxconn factory in Shenzhen, China (The Mail 18/08/2006; Webster 14/06/2006). Following this report, media in the UK, the US, and China did follow-up reports (BBC 14/06/2006; Musgrove 16/06/2006).²⁸⁷ Foxconn in Shenzhen is an assembly factory for Apple's iPod. Apple subsequently sent an audit team to investigate the working conditions and released a report on 17 August 2006 (Apple 17/08/2006).
- SACOM (2006; 2007), a Hong Kong based NGO, produced two reports about working conditions of Taiwanese enterprises in China. In their 2006 report they interviewed seven Taiwanese companies. In their 2007 report they researched Lite-on, a contracting company for Dell, and Lite-on's two outsourcing factories.
- SOMO (2005; 2007), a Dutch NGO, published two reports regarding labour rights and the corporate social responsibility of Acer's supplier chain companies. The report of 2005 researched five suppliers in the Philippines and China, and the report of 2007 studied twenty suppliers in Thailand, China, and the Philippines.
- TSNW (2001), Ralph (2005), and Chen (2005) all discuss one particular Taiwanese company in Nicaragua. Nien-Hsin is a Taiwanese textile enterprise which invested in a company in Nicaragua called Chentex in 1994. Nicaraguan workers tried to organise a trade union but were severely oppressed by the employer.

The empirical research mentioned above has demonstrated that the Taiwanese TNCs being investigated have not provided “decent” working conditions and have suppressed trade union activities. These companies are Taiwan's top enterprises, and are often considered by the Taiwanese government and the media to be “successful” cases of overseas investment. However, labour NGOs and international trade unions see that these TNCs export not only their capital, but also inhuman management and anti-trade union activity. In these reports, the Taiwanese companies being criticised

²⁸⁷ It is noteworthy that among these reports, only one Chinese newspaper, the First Financial Daily, was sued for US\$ 3.8 million by the president of Foxconn, Mr. Terry Guo on 3rd July 2006. The company even requested the freezing of two journalists' assets. Eventually the company reached an arrangement with the First Financial Daily in September by abating the charge.

are, for example, Foxconn (the world's top one contract manufacturer in the electronics industry), ACER's supplier chain (ACER is now the world's second largest computer manufacturer), and Lite-on (a contract manufacturer for Dell). The common feature that links this labour pattern with these Taiwan companies is that these Taiwanese electronics firms are either contract manufacturers made use of peripheral employment for a core zone's TNC, or make use of a supplier chain from a peripheral zone to develop its own brand. In other words, the peripheral zone is a necessary element for Taiwan's top enterprises to develop either as the world top contract manufacturer or as a world leading brand. Different from migrant labour, these peripheral labour patterns do not appear domestically but are located overseas, but they nevertheless serve as a distinguishing feature of Taiwan's semi-peripheral ascent.

7-2 Impact of Industrial Restructuring on Labour

Section 7-1 discussed how new types of labour are structured into Taiwan's semi-peripheral ascent process, and their various working conditions. As for the domestic labour pattern, the overall working conditions are affected by Taiwan's semi-peripheral ascent via industrial restructuring. The section will examine the impact, namely the increase of labour flexibility, the growth of structural unemployment, and the declining rate of growth in the real wages of workers.

7-2-1 The increase in labour flexibility

Although Taiwan's labour pattern before 1984 was already flexible and unprotected, the pattern was found mainly in the export-led small- and medium-sized enterprises (see the discussion in Chapter 4-3-3). However, since the early 1990s, the state has actively promoted a labour flexibility policy to *all industries*.

There is a considerable amount of literature discussing the definition of 'labour flexibility'²⁸⁸ (Huang 2005). For example, Guy Standing's six criteria of labour flexibility (Standing 1999, p.83-127) - namely production/organisational flexibility,²⁸⁹

²⁸⁸ Huang (2005) lists ten definitions of labour flexibility from eleven literature sources.

²⁸⁹ (1) The increase of TNC global commodity chains has produced a diversity of production systems, while also causes a decline of Fordism. (2) The growth of global downsizing, outsourcing and contracting out. (3) The increase of small firms and sub-contracting.

wage system flexibility,²⁹⁰ labour cost flexibility,²⁹¹ employment/numerical flexibility,²⁹² work process/functional flexibility,²⁹³ and job structure flexibility²⁹⁴.

Since the late 1970s, the Regulation School also analysed the increase of labour flexibility as a consequence of economic restructuring in the advanced countries (for example, see Jessop 2001).

The enforcement of the Labour Standards Law (LSL) in 1984 (a result of Taiwan-US trade talk of the 1980s) and the creation of the Council of Labour Affairs in 1987 marked the beginning of a regulated labour market,²⁹⁵ However, a few years later, the pressure of industrial restructuring and the emergence of labour protests in the late 1980s led to the government's proposal of a new labour flexibility policy in 1991. These policies amended the LSL to adopt functional flexibility (extend overtime work and shift work) and employment flexibility (the relaxation of contract restrictions). The amendment was not approved until the end of 1996, when the government agreed to the expansion of LSL coverage to include the service sector; an amendment raised by the opposition DPP. After 1996, the government continually presented labour flexibility proposals related to wage system flexibility (e.g. the minimum wage, individualisation of wage determination), employment flexibility (e.g. encouraging the employment of part-time workers) and labour cost flexibility (changing the retirement pension payment system). However, none of these amendments were successfully approved because of resistance by the labour movement.

²⁹⁰ (1) The proportion of state benefits and enterprise benefits of the worker's total social income has fallen. (2) The erosion of the minimum wage. (3) Decentralisation and individualisation of wage determination. (4) The wage share of GDP has decreased.

²⁹¹ Labour costs include wages as well as non-wage costs. There are ten categories of indirect and variable labour costs, namely overhead costs, fiscal costs, training costs, co-ordination costs, protection costs, labour turnover costs, motivation costs, productivity costs, adaptability costs, and bureaucratic costs.

²⁹² (1) In developing countries, migratory labour, labour circulants, contract work, outwork, and sub-contracting are forms of employment flexibility that are often seen. (2) In developed countries, numerical flexibility occurs through forms of casual/ temporary work, consultants or self-employed individuals, sub-contractors, agency workers, home-workers, tele-workers, part-time workers, and concealed workers.

²⁹³ (1) Increased managerial control. (2) Working time flexibility (shift working, weekend working, and overtime work).

²⁹⁴ The “federal” job structure, or the virtual firm, has been developed recently. This job structure is “loosened” and emphasises business specialisation. An example of this is that “core” enterprises outsource some business to self-employed individuals or teams.

²⁹⁵ The service sector was not covered by the Labour Standards Law until 1996.

When the DPP came to power in 2001, the most serious economic recession²⁹⁶ since 1971 occurred in the third quarter of 2001 (Hung and Li 2001). The real growth rate in terms of GDP dropped from 5.8% per annum in 2000 to minus 2.2% in 2001. The growth rate of fixed capital formation declined from 8.4% in 2000 to negative 21.1% in 2001, and unemployment rate increased from 2.99% to 4.57 % in 2001 (CEPD 2008, p.4). Under these circumstances, the DPP administration introduced a ‘Scheme of Human Resource Development in the New Era’ in April 2001. The DPP followed the KMT’s labour flexibility policy to help capitalists to reduce labour costs, including proposals to reform retirement pension payments, to withdraw the minimum/basic wage, to increase the flexibility of working hours and wage system flexibility, to withdraw severance payments, and to increase flexibility of labour contracts (CEPD 2001; 2005). Of these proposals, two policies were approved and enforced: (1) the expansion of working time flexibility in 2002 (the increasing of female workers’ legal overtime working hours, the relaxation of the restrictions on female workers in undertaking night work, and the measurement of legal weekly working hours on either a fortnightly or an eight week basis); and (2) reform of the retirement pension system in 2005 (i.e. shifting responsibility from enterprises to individuals).

As a result, the increase of labour flexibility is particularly evident in large enterprises and the hi-tech industries. According to a government survey in 2006, 33% of employees out of the total number of employees working in companies which employ more than 500 workers were classed as ‘agency workers’ (DGBAS various years-b). This figure was found to be 15% in companies which employ between 200 and 499 workers (DGBAS various years-b). In terms of industries, the hi-tech industries have a larger share of dispatched labour than did other industries (*ibid*).

7-2-2 The increase of structural and involuntary unemployment

Taiwan’s national unemployment rate increased from a mere 1.79% to 5.17% in 2002.²⁹⁷ Taiwan’s rate has been higher than the average unemployment rate in East

²⁹⁶ According to Hung and Li (2001), Taiwan had seven economic recessions between 1971 and 2001 (p.8). Hung and Li argue that the main international factor is the over production and business recession of the global ICT industry in 2001 (negative growth rate).

²⁹⁷ The data in this paragraph is from the official database of unemployment statistics of the DGBAS (<http://www.stat.gov.tw/ct.asp?xItem=17144&ctNode=517>).

Asian countries from 2001 onwards.²⁹⁸ *Structural* unemployment and *involuntary* unemployment have increased more than the usual cyclical, frictional and voluntary employment. Firstly, the number of non-first-jobseekers increased from 58.9% in 1982 to 80% of the total unemployed in 2006. This shows that, increasingly, unemployment is not caused by the “frictional” unemployment of new entrants. Secondly, the percentage of company closures as a factor causing unemployment increased from 15% in 1982 to 30% in 2007, which surpassed the factor of being ‘dissatisfied with jobs.’ Finally, the average period of unemployment grew from 15 weeks in 1993 to nearly 28 weeks in 2005. The above data confirms that there has been an increase in structural and involuntary unemployment.

Unemployment has mainly occurred in the manufacturing sector. Although the number in general employment has increased, the number of manufacturing workers has decreased since 1986. For example, according to DGBAS data, the total manufacturing labour force reduced from 2,751,153 in 1986 to 2,418,492 in 2001; a reduction of 12% (DGBAS various years-a). However, employment in the hi-tech sectors increased, while employment in the major industries of the 1960s and 1970s (the traditional industries of textiles, clothing, and plastic products) decreased. This data reflects an underlying structural change in Taiwan’s economy, from labour intensive industries to hi-tech industries. Statistical data from the Ministry of Economic Affairs reveals that the total number of enterprises that closed between 1992 and 2006 was as high as 79,138 (MOEA 2007a). In addition, the privatisation of SOEs between 1989 and 2003 caused some 100,000 SOE workers to lose their jobs (Kong 2006, p.372). In sum, it is evident that the sharp increase in the unemployment rate from the 1990s up to the present has mainly been caused by the industrial restructuring of the manufacturing sector.

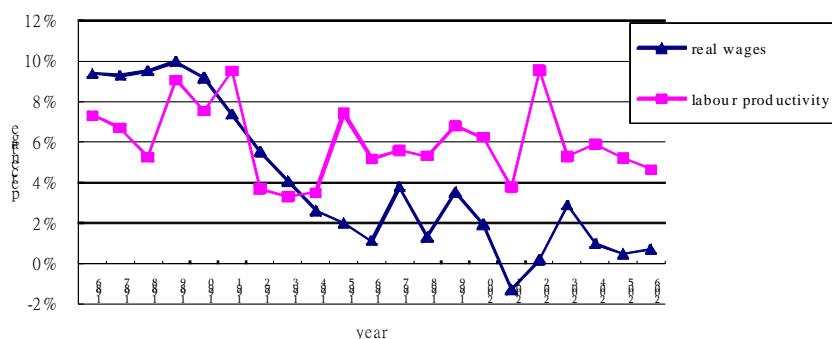
7-2-3 Harder working, but greater inequality

The IMD’s (Graduate Institute of International Management in Lausanne) world competitiveness report of 2006 shows that Taiwan was among the top five countries with the longest working hours (annual hours: 2,256) (IMD 2007). Indeed, the

²⁹⁸ According to ILO’s World Employment Report and Global Employment Trends in various years (<http://www.ilo.org/public/english/employment/strat/stratprod.htm>), the unemployment rate of the East Asian region was between 3% and 4% from 2001 to 2006, which was lower than Taiwan’s rate (ranging from 3.91% to 5.17%).

working hours in Taiwan's manufacturing sector in previous years were even longer. Between 1994 and 2006, the annual working hours in Taiwan's manufacturing sector amounted to 2,335 hours (DGBAS various years-b). However, long working hours did not bring about an equal increase in wages and welfare. The annual average growth rate of 'real wages'²⁹⁹ for manufacturing labour began to decline in 1989 (Figure 7-1). Before 1994, the annual growth rate of real wages in the manufacturing sector was higher than that of labour productivity. However, after 1994 the latter became more than double the former (Figure 7-1).

Figure 7-1: The annual growth rate of average real wages and of labour productivity in the manufacturing sector



Source: The author's calculation from DGBAS (various years) and Time Series of Earning and Productivity Statistics Tables (<http://win.dgbas.gov.tw/dgbas04/bc5/earning/ht456e.asp>).

One of the major consequences of the phenomena above was a growth in income inequality. The following data illustrates this trend. Firstly, the gap between the rich and the poor has grown by 53% over the past twenty years. If one divides all households into five groups based on disposable income per household, the income gap between the highest fifth of households and the lowest fifth of households stood at 4.17 times in 1980. Yet, the gap increased to 6.39 times in 2001 (6.01 times in 2006) (DGBAS 2007, Table 3). Secondly, with regards to the number of employed persons per household, the gap between the highest fifth of households and the lowest fifth of households was 1.8 times in 1980, and grew to 3.93 times in 2006 (ibid, Table 25).

²⁹⁹ The annual average 'wage' growth rate minus the consumer prices index (CPI).

Third, the Gini's coefficient³⁰⁰ also shows a similar trend; it was lower than 0.3 during the 1970s and the 1980s, but grew to more than 0.3 after 1988, reaching 0.339 in 2006 (ibid, Table 3). Finally, the income gap within the labour market has also increased. The government divides all employees into seven occupational groups.³⁰¹ The highest group earned 3.8 times more than the lowest group in 1980, but the gap reached 4.5 times in 2006 (ibid, Table 27).

7-3 Strengthening or Weakening of Organised Labour's Resistance?

The discussion above demonstrates that the structure of Taiwan's labour pattern has changed significantly, corresponding with Taiwan's semi-peripheral ascent. Under the changes of labour structure, how does organised labour respond? Has organised labour been able to strengthen its power and change domestic social formation? Has organised labour been able to act as an anti-systemic movement in order to resist the logic of capital accumulation?

Before I discuss these questions, I shall make it clear what is meant by "organised labour's resistance." Although labour has a dual role, not all labour can be organised labour nor may organised labour necessarily be transformed into resistance. Firstly, labour might not want to change their subordinate position (this is the most common case) for a number of reasons. For example, they are satisfied with their work welfare, are able to transfer jobs (they have transferable skills or the industry is booming), there is entrepreneurship in SMEs. In Marx's argument (1936 [1847]), class consciousness determines if labour is a 'class-for-itself' (i.e. one with a class consciousness) or a 'class-in-itself' (i.e. one defined objectively by its socio-economic conditions). This links to the second point, class consciousness and organised forms of labour are neither pre-given nor automatic responses to their subordination situation. Education, organisation, and campaigns (or struggles) are all necessarily methods to awaken class consciousness, and thereby transform labour into organised resistance. The role of radical intellectuals ('organic intellectuals' in Gramsci's

³⁰⁰ The Gini coefficient can assess the degree of concentration (inequality) of a variable in distribution of its elements.

³⁰¹ (1) Legislators, government administrators, business executives and managers; (2) Professions; (3) Technicians and associate professionals; (4) Clerks; (5) Service workers, shop and market sales workers; (6) Agricultural, animal husbandry, forestry workers and fishermen; (7) Craft and related workers, plant and machine operators labourers.

terms)³⁰² and labour movement leaders are thus significant. As the section will discuss, these roles actually determine the agenda for organised labour's resistance in Taiwan.

7-3-1 The resurgence of labour resistance

As discussed in Chapter Four, the dynamics of organised labour in the pre-1980s period was “silent and disciplined” as they were oppressed by the authoritarian KMT. The silent situation however has changed since the mid-1980s and there has been a rise of labour resistance against the state and capital. What are the factors behind the increase in strength of labour resistance? Firstly, the enforcement of the Labour Standards Law (LSW) of 1984 provided the legal framework for labour to struggle for their basic rights. It was a milestone for Taiwan's labour to voice their concerns over working conditions. However, it needs to be born in mind that the LSW was a consequence of US-Taiwan trade talks in the 1980s (see Chapter 5-1) rather than an outcome of labour resistance. Labour disputes thus grew sharply after 1985, and cases increased from 907 in 1984 (with 9,069 workers involved) to 1,443 in 1985 (with 15,486 workers involved). Secondly, industrial restructuring had a negative impact on labour's working conditions, as discussed in the previous section, in terms of the increase of structural and involuntary unemployment and the growth of labour flexibility. The type of labour dispute shifted from bonus payment disputes to the protection of employment (e.g. contract disputes) after 1989.³⁰³ Thirdly, democratisation and the lifting of Martial Law gave organised labour the right to industrial action under some restricted conditions. There were more than 15 cases of strikes and slowdowns within six months in 1988³⁰⁴, mainly occurring in the public transportation and manufacturing sectors. Most of these cases concerned workers' year-end bonus payments and overtime wages. Finally, radical intellectuals have

³⁰² Organic intellectuals are a particular group of intellectuals that work with the working classes. They behave as organizers or a thinking element that leads to the ideas of their class. The organic intellectual is distinguished from the traditional intellectual, those who regard themselves as independent from the dominant social group.

³⁰³ Between 1976 and 1988, the largest three dispute types were bonus payments (28.6%), contracts (28.2%) and wages (19.3%)³⁰³. From 1989 to 2006, the order was contract disputes (40.6%), wage disputes (35.5%), and occupational hazards disputes (7.3%).

³⁰⁴ This information is from the database of a major newspaper, the United Daily Newspaper. The author searched the database with the term “strike” between 01/07/1988 and 31/12/1988, and found 15 cases among 537 reports.

actively played an important role in mobilising the resistance of organised labour, which will be discussed in 7-3-2.

Most labour disputes are dealt with through legal means of conciliation between labour, employers, and local government. However, the legal procedure is not very helpful to labour, in particular when the dispute involves a large number of workers and a great deal of money. Labour can apply for conciliation of a labour dispute in the locality where their workplace or the head-office of the company is located. A local government officer will call a conciliation committee meeting attended by the company, the employees and mediation members standing for both parties. However, it is not compulsory for the company to attend the meeting. The only enforceable regulation is that the company cannot refuse investigation by the mediation committee members.³⁰⁵ As such, some labour disputes needed “additional” methods, such as to organise protests and strikes.³⁰⁶ The first (illegal) significant strike occurred in February 1988, after the lifting of Martial Law on 15 July 1987.³⁰⁷ In general, the main issue of concern that caused the collective action of labour in the late 1980s was the violation of the LSL by employers (Hsiao, 1992a; Lin 1987), the same as the pattern of labour disputes. The resurgence of labour resistance in the 1980s was also part of a broader social movement of dissent and the political democratisation movement.³⁰⁸ As Hsiao (1992b and 2006) argues, a broad range of social movements and civil protests in the 1980s (including labour movements, consumer protection, farmers, environmentalism, gender equality, minority identity, and urban housing) significantly challenged state-civil society relations, and thus facilitated Taiwan’s political democratisation.

The intensity of labour strikes was reduced after 1989 due to the failure of two significant strikes. The first of these failures was the Far-East Chemical Fibre Worker’s strike of May 1989, which was led by the strongest trade union in existence at that time.³⁰⁹ After their failure, more than 400 workers and labour movement activists were either fired or prosecuted (Academic Sinica and Taipei National

³⁰⁵ See the Settlement of Labour Disputes Law, Articles 9-23 from <http://laws.cla.gov.tw/Eng/FLAW/FLAWDAT0201.asp>.

³⁰⁶ For details of cases between 1986 and 1989, see Ho (1990).

³⁰⁷ Between 1983 and 1987 there were several strikes that occurred in local bus companies. They neither involved more than 60 workers nor lasted over 20 hours, see Lin (1987).

³⁰⁸ Chu’s (1994) study points out that the frequency of social protests grew from 143 in 1983 to 676 in 1987.

³⁰⁹ For an introduction to this strike, see Chu (1996).

University of the Arts 2001). The second failure was a strike that occurred in the export processing zone in December 1989. The leader of the strike was arrested and sentenced to one and half a years in prison. In 1990, the new Prime Minister, Ho Pei-Tsun, claimed that labour movement activists were ‘social movement gangsters’ who should be controlled by the special police force (i.e. Taiwan Garrison General Headquarters) (Kuai 1990/08/28). These two failures can be viewed as a “victory” of the state and capitalists over the rise of a militant labour resistance.

In the 1990s, the majority of labour protests concerned employment rights and severance pay. Many factories suddenly closed without notice to workers, and overdue wages were owed for several months. The large number of labour protests that took place over the closure of factories caused the government to draw up a draft bill, the ‘Enterprises Closure Law’, and the government has provided unemployment allowance since 1996.³¹⁰ Unlike the strikes and protests led by autonomous trade unions in the late 1980s, the labour movement in the 1990s was led by non-unionised labour. The pressure of losing jobs enabled workers to organise themselves to protest in a short time. However, such an ad-hoc organisation is easily dissolved after requests are more or less conceded to.

Apart from the manufacturing sector and transportation sector, organised labour’s resistance was also raised by state-owned-enterprises’ (SOEs) trade unions. They either struggled for the improvement of working conditions or against the privatisation policy. Not only were their concerns different from private sector workers, but also their method of resistance. The SOEs trade unions did not strike, but applied for sick leave or a day off to organise a public rally. In 1995, SOE trade unions and a labour NGO (Taiwan Labour Front) proposed a draft bill, the Industrial Democracy in State-owned Enterprises bill (Chang 2002). The bill had three core demands: (1) Employees should have representatives on the board of directors of their enterprise (the so-called Labour Directors on the board). (2) The appointment of high-level managers should be approved by trade union members. (3) The opinions of the trade union should be obtained in advance for both the design of work rules and the

³¹⁰ The draft ‘Enterprises Closure Law’ was withdrawn as the government thought the draft regulated the enterprises too much. The draft was modified to a less radical and less restrictive, ‘the Protective Measures for Mass Redundancy of Employee’, in 1999. The unemployment allowance amounted to six months pay based on the basic wage (US\$ 495 per month). It was extended to a system of the unemployment insurance payment in 1999. The insurance fee was paid by the government and enterprises, and the payment is half a worker’s wage.

structural change of the enterprise's business. However, the bill was not approved by the Legislative Yuan. Only the first demand was approved as an amendment of the Act of State-owned Enterprises Management in 2000.³¹¹ In general, the above organised labour's resistance (either from the private or the public sector) was concerned with the "legal" working conditions that existed after the Labour Standard Law was enforced in 1984, but soon shifted to protesting for employment rights due to industrial restructuring.

7-3-2 Organised labour as a social and political force

The resistances mentioned above were raised either by trade unions at a basic level (the plant-based union mentioned in Chapter Four) or by groups of non-unionised workers. Few of these massive labour protests were assisted by their superior unions (industrial federation or local/national federations). These organised resistances highlighted the weakness and inability of the official trade union federations. As such, several alliances of militant trade unions were formed in the late 1980s.³¹² These new organisations do not have official registration (except for the bank employees unions), and accordingly, they are called "unofficial federations of trade unions." From 1997, these unofficial federations formed a joint preparatory committee called the Taiwan Confederation of Trade Unions (TCTU). They argued that the monopoly national federation, the Chinese Federation of Labour (CFL), had neither represented trade unions' interests nor struggled for workers rights. The demand for the establishment of a new official national trade union federation was accepted in 2001 by the government³¹³ when the DPP came to power. Overall these unofficial trade unions

³¹¹ Under the new amendment, at least a fifth of the directors from the government's share should be trade union representatives.

³¹² The national level includes: the Brotherhood Union (1987.12-1989.3), the National Alliance of Autonomous Unions (1988.5- current), and the National Federation of SOEs Trade Unions (1994.9- current). The industrial or regional level alliances include: the Alliance of Trade Unions in the Taiwan Taoyuan International Airport (1990.4-2000), the National Federation of Bank Employees Unions (1993.9-current), the Federation of Warehouse and Transportation Workers (1993.11-current), and the Federation of Mass Communication Workers (1996.1-current).

³¹³ Taiwan's Trade Union Law only allows one national level of federation of labour for registration, thus legitimising the monopoly of the CFL. The DPP government lifted this restriction, however, in 2001.

and labour resistance are termed as ‘autonomous labour organisations’, in contrast to official trade unions which were controlled by the KMT and by the enterprises.

In Chapter Two, I argued that radical intellectuals played a role to transform organised labour into resistance. This is the case for Taiwan. The role of the labour movement NGOs is very significant because they advocate working-class awareness and research labour policies and laws. They also provide a resistance strategy and legal assistance, all of which help to transform “labour” into “organised labour resistance”. The core members of these NGOs are trade union leaders, intellectuals, former student movement activists, journalists, and lawyers. Their relationship with trade unions has several forms: (1) to play the role as an advisor; (2) to work in the trade union secretariat; (3) to invite trade union leaders to join the NGO’s executive board. In sum, it is the labour NGOs that have primarily led the direction of Taiwan’s organised labour resistance.³¹⁴ The policies and issues raised by labour NGOs tend to become the objectives of struggle by the labour movement. The NGOs serve as the “strategic” intellectuals of the broader labour movement. Apart from issues related to working conditions,³¹⁵ how do they view about Taiwan’s ascent strategy and the impact of industrial restructuring? The labour movement proposed some agendas related as illustrated in the following table:

³¹⁴ The relationship between trade unions and these labour NGOs is not always harmonious, especially for the trade union leaders who have political and social resources. Trade union leaders are aware that only trade unions have mobilisation capability. However, they still rely on the policy supervision provided by the labour NGOs.

³¹⁵ e.g. the reduction of working hours, labour retirement reform, protection of irregular workers, extending the LSL coverage, unemployment insurance, and so on

Table 7-5: Demands Made by the Labour Movement

Ascent strategy and industrial restructuring	Labour NGOs' demands	Adapted by the government or the business
The regionalisation/globalisation of Taiwan's industry	(1) Against Taiwanese companies moving overseas (1992); (2) Restrict the international movement of Taiwanese capital; (3) Overseas Taiwanese companies should pay an 'employment security fund' to Taiwan's government; (4) The government should require overseas Taiwanese companies to neither close Taiwan's factories nor lay off workers; (5) Overseas Taiwanese companies' Taiwan branches should stop employing migrant labourers and should employ more middle-aged workers (2000).	None of them
The decline of traditional industries	Increase the penalty to those closure enterprises' owners.	None of them
The concentration of private capital	(1) Nationalisation of business groups (1997); (2) Reform Tax system.	None of them
The privatisation of SOEs	(1) Against privatisation (1993); (2) Transferring SOEs' shares should involve distribution to all citizens; (3) The government should review and reconsider the privatisation policy (2000); (4) The representative forms of industrial democracy (1995)	Only part of the fourth demands

Source: (Lin, 2005, p.104-159; TLF, 2000).

Overall, the labour movement successfully organised many protests and helped workers when their enterprises closed. The labour movement put forward one Labour

bill that was turned into legislation³¹⁶ and they have helped to modify the law.³¹⁷ They also successfully pressurised the government to introduce new labour laws.³¹⁸ They have stopped proposed amendments to labour laws made by the government when these proposals would seriously damage labour and trade union rights. However, *it is hard to conclude that Taiwan's labour movement has either been strengthened under industrial restructuring, or has influenced Taiwan's semi-peripheral ascent trajectory.* Firstly, resistance from organised labour failed to stop two amendments related to the increase of labour flexibility. Secondly, most of the labour movement's issues and proposals regarding Taiwan's semi-peripheral ascent and industrial restructuring are neither adopted by the government nor business, as the above table shows. Thirdly, the fragmentation of the trade union structure has not changed. The labour movement requested the opening of organising federation unions at the national level. Such a request was approved when the DPP came to power. Nevertheless, the fragmentation of the trade union structure at the shop-floor level has largely been ignored. So far, there is no industrial union to which all workers in the same industry are affiliated. All trade unions newly established after the late 1980s are still either enterprise-based or plant-based, which lack financial resources. The concentration of Taiwanese capital has not brought about a parallel concentration of trade union structure and organised labour's power. Another two significant factors related to the weakening of Taiwan's organised labour resistance will be introduced in the next two sections, namely the lack of political power, the absence from the new type of labour force (including the weak link with the anti-systemic movement).

Organised labour as political force

Organised labour is both a social force and a political force. What is meant by "political force" here is a narrow term that refers to organised labour that can organise as an independent political party to directly influence politics. After the establishment of the DPP, one of the founders was disappointed about the DPP's labour policy and pro-independence stance. He organised the Workers Party on 1st November 1987. This party was composed of militant trade union leaders and socialist intellectuals,

³¹⁶ Protection for Workers Incurring Occupational Accidents Ac (31/10/2001)

³¹⁷ The Labour Standards Law (02/12/1996) and the Act of State-owned Enterprises Management (19/07/2000).

³¹⁸ Enforcement Rules of the Employment Insurance Law (01/01/2003) and the Protective Act for Mass Redundancy of Employees (07/02/2003).

and they were actively involved in many labour protests. However, internal conflicts within the Workers Party caused some members to leave the party and establish another class-based party, the Labour Party (Ladodang), in 1989.³¹⁹ In the election which combined legislator, city councillor, and city mayor in 1989, the Workers Party won only one seat in the city council whilst the DPP obtained 22% of all votes. From then on, they no longer had any political power. As for the Labour Party, they maintain a pro-unification plus socialist stance. They have neither won any election, nor have they ever nominated candidates after the congressional elections of 1996. In sum, the labour movement's political power through their own political parties has been marginalised.

However, the mainstream parties are still influential on the labour movement even after Taiwan's democratisation. Apart from the political control by the KMT over the official trade unions, the DPP has a strong influence on the autonomous trade union movement. The DPP formed a Labour Group in 1991. One of the DPP's factions, *New-tide*, was very active in the new social movements. One of their missions was to organise activists from student movements, labour movements, peasant movements, and environmental movements into the DPP's political movement against the KMT and in favour of pro-independence. In the labour movement, the Labour NGO mentioned above, The Labour Front (TLF), was viewed as an arm of their organisation (Hsu 2003; Lin 2005). The TLF drafted a white paper on labour policy for the DPP during the first presidential election in 2000. When the DPP came to power in 2001, the Trade Confederation of Trade Unions (TCTU) was recognised as another official national federation. This was viewed by some labour activists as a victory for the autonomous labour movement. However, thereafter there was a power struggle within the secretariat and executive boards of the TCTU, a situation that, not only showed a weakening of the labour movement, but also showed the long-term conflict that existed among the three labour movement NGOs. The TLF fully controls the secretariat of the TCTU. The consequence is that the TCTU has been viewed as maintaining a pro-DPP stance³²⁰.

³¹⁹ According to Lin's interview, the members who remained in the Workers Party insisted that the labour movement's current objective should be to engage in parliamentary democracy, yet members who left and established the Labour Party argued that the current objective should be strengthening the trade union system (2005, p.32).

³²⁰ Indeed, three chairpersons of the TCTU were appointed as a DPP legislator, advisor to the President's Office, and the Minister of the Council of Labour Affairs.

On the other hand, when the KMT lost the presidential election in 2001, the subsequent election in the Chinese Federation of Labour (CFL) was influenced by the political change. One independent candidate, Lin Hua-Kuan (1957-2009), from the Taiwan Rail Workers Union, was elected as the chairman of the CFL. This was the first time that the chairman of the CFL was not decided by the KMT. When Lin came to power in the CFL, he tried to cooperate with other labour movement NGOs who were excluded from the TCTU secretariat. Such a temporary alliance led to a successful campaign in 2001 to reduce the legal working hours from 48 hours per week to 36 hours fortnightly. The successful campaign led by the CFL against the DPP administration gained the attention of both the KMT and the People First Party (PFP).³²¹ Accordingly, by the end of 2002, Lin was appointed by the PFP as a legislator. During his two terms in the CFL, Lin worked closely with the PFP. In 2007, one candidate (who is also a KMT legislator) won the CFL's election, so the CFL has now "returned" into the hands of the KMT.

The above discussion shows that Taiwan's trade union movement has been influenced by the main parties and political change, rather than vice versa. The end of the authoritarian regime contributed to political democratisation in terms of the growing opposition party and social movement, but did not bring about the strengthening of the trade union movement in terms of political influence. Although more and more trade union leaders (even from the camp of the autonomous labour movement) are being appointed to political positions in the government and in the Legislative Yuan, the political power of organised labour is actually weakening. The development of the TCTU and the CFL has actually had a negative impact on the trade union movement as the leadership in the two unions pursue more personal political advantages rather than organised labour's collective strength.

7-3-3 Absence of organised labour resistance in new types of labour force

Another weak presence of organised labour's resistance is the absence of labour resistance in Taiwan's new types of labour force. The discussion in section 7-1 has mentioned that the number of hi-tech workers accounted for nearly 25% of the total labour force in 2006, and migrant labour accounted for 10% of the total low-skilled labour in the same year, while employees of overseas Taiwanese enterprises was the

³²¹ It is the third biggest party which split from the KMT in 2001.

same, amounting to 9-12% of Taiwan's employed persons. These workers (in the hi-tech sector, migrant labour and overseas employees) are the main actors that have contributed to Taiwan's semi-peripheral ascent. However, none of these types of labour have been paid attention by Taiwan's trade unions.

Non-unionised labour in the hi-tech industry and in migrant labour

For the hi-tech electronics industry, so far no single trade union or employees' association have existed in the Science Parks. Only a few trade unions exist in the electronics companies which were transformed from electronic equipment manufacturing to ICT manufacturing. However, the members of these trade unions are mainly operators. Several reasons account for the difficulty of organising a trade union in the industry. Firstly, a zero-unionised pattern is the global situation in the hi-tech industries (Steiert 2006). Secondly, both the EPZs and the Science Park are not supervised by the Council of Labour Affairs, but rather by the Ministry of Economic Affairs. These workers are in no doubt protected by the Labour Standard Law, but once they have a labour dispute, the settlement system is different from that of industries outside the EPZs and the Science Park. The EPZs and the Science Parks are "special labour zones" that have a different labour system from labour outside the zone. Thirdly, features of the labour process of technicians/engineers are very different to the labour processes found in the traditional manufacturing sectors, as I discussed in section 7-1-1. Thirdly, the internal differences within the sector (e.g. engineers vs. low-skilled operators) also cause difficulty in organising enterprise-based trade unions. It might be ineffective if the labour movement activists try to use the 'old' way to organise workers in the hi-tech sector.³²²

As for migrant labour, the majority of trade union leaders are from the traditional industries. They are aware of the issue of migrant labour; however, they are more concerned that migrant labour might take their jobs than the migrant labour's inhumane working conditions. The Trade Union Law allows migrant labour to join a trade union on the condition that they cannot be elected to the executive board. In reality, no migrant labourers have joined a trade union. Their temporary contracts and huge debt burden are the main reasons for this, as section 7-1-1 mentioned. Separation

³²² For example, labour movement activists normally begin to organise labour when the latter have a labour dispute. For conservative trade unions, these activists will help them to transform to a militant one; for non-unionised workers, these activists will help them to set up either a plant-based or an enterprise-based trade union.

between local labour and migrant labour is a further problem. Only some NGOs from the Catholic and labour NGOs have tried to organise migrant labour. Their main concerns are the general working conditions of migrant labour and related policy, e.g. to lobby the government to extend employment contract periods regulated in the Employment Service Act, to contend that domestic care workers should be included in the Labour Standard Law. They organised rallies on Human Rights' Day in 2003, 2005, and 2007.

International solidarity or networking?

As discussed previously, the feature of Taiwan's semi-peripheral ascent is to export industrial capital and to make use of global production chains. In particular in the hi-tech electronics industry, Taiwan is now the leading contract manufacturer for top brands from the core zone. Such an achievement is also based on the use of peripheral labour in China and Southeast Asia. In the industry, labour from Taiwan, the core zone and the peripheral zone have formed global production chains. Taiwan's position in the capitalist world-system provides an opportunity for labour to organise themselves internationally.

Taiwanese trade unions have participated in international trade unions for decades (see the list in Appendix three). However, some of this participation originated more from "diplomatic" factors than from concerns about worker solidarity. When the Kuomintang came to Taiwan, they not only dominated the settlement of the trade union structure, but assisted the trade unions in joining the international labour community. Due to Taiwan's weak international status, the opportunity to join the international community through unofficial ways (e.g. through NGOs) was encouraged by the government.³²³ Most trade unions complained that they did not have enough resources, including finance, language capability and knowledge, to participate in international organisations. It needs to be noted that "participation" here means attending/hosting conferences, meetings and networking. Few trade unions really made use of international networking to deal with cross-national industrial disputes.³²⁴ One major reason for this was that the unions which actively participated

³²³ Some membership fees to join the international trade union federations were met by the government.

³²⁴ In the past five years, only Chunghwa Telecom Workers' Union and Taiwan Railway Workers' Union have asked for international support for an anti-privatisation strike.

in international networking were state-owned-enterprise unions and craft unions and the nature of their industries did not link to cross-national networks of production.

On the other hand, some Taiwanese labour NGOs are very actively engaged in international worker solidarity networking. Two famous cases, the Niensien-Chentex Corporation industrial dispute in Nicaragua, and the Tainan Enterprise industrial dispute in El Salvador, originated from Taiwanese enterprises³²⁵ repressing local trade unions' rights and thereby causing trade unions and labour NGOs in the US, Taiwan, and Nicaragua/El Salvador to form an international campaign network. Chen (2005) has provided a detailed study of the two cases.

The above two cases concerned Taiwanese corporations in Latin America. Regarding Taiwan's main investment area, East Asia, some regional networks have been organised by Hong Kong labour NGOs, AFL-CIO (American labour federation), and European NGOs.³²⁶ In 1995, two occupational safety incidents occurred in Asia: one in Thailand and the other in China. In these incidents a number of female workers were killed by fires at two toy factories. Initially, Hong Kong labour NGOs cooperated with Thai labour NGOs to start an international campaign about the two toy factories, with the issues of occupational safety and health later being extended to include other workers' rights and issues. Most importantly, the cross-national network was widespread in other Asian countries, including Taiwan. In 2002, a Hong Kong NGO, the Asia Monitor Resource Centre (AMRC), suggested enacting an 'Asian Transnational Corporation-ATNC Monitoring Network' to organise 37 organisations within Asia. As Chang (2003) argues, Asian TNCs in labour intensive industries in Asia not only supply Asia's lesser-known brand names, but also 'enjoy the lack of social pressure on their suppressive labour control'. The ATNC project therefore targeted Asian NIEs' TNCs - mostly those of Taiwan, South Korea, Hong Kong and Singapore. However, in the three years that have passed since its inception, the project seems to be mainly a cross-national network that exchanges information and resources. Since 2006 there has been no update of the information about the project on their website (<http://atnc.org/html/aboutus>). No cross-national industrial disputes have been settled via the network (unlike the two Taiwanese cases mentioned above). Most of the participants are from labour NGOs, with few trade unions being involved.

³²⁵ The two corporations both produce textile and garment products which supply well-known brand TNCs like Levi's, Gap, and Ann Taylor.

³²⁶ The following descriptions are based on the author's interview with Tsai Jin-je on 27 April 2006. Tsai was the director of the Ching-Jen Labour Service Centre.

Another significant problem is related to the finance of the project, which has mainly been derived from a British NGO and will, in the near future, stop.³²⁷ However, the project at least has made an effort to collect information and analyse the special situation of Asian FDI and labour; a move which could facilitate future solidarity.

Two further two regional networks have been established by the Solidarity Centre of AFL-CIO and some Western NGOs such as Oxfam and the Clean Cloth Campaign (CCC). The Solidarity Centre ran the ‘Corporation Social Responsibility (CSR) of Taiwanese business’ project between 2001 and 2003, which included organising seminars and workshops, as well as arranging international trips to certain Asian and Latin American countries. They tried to cooperate with two national federations (CFL and TCTU), labour NGOs and the Council of Labour Affairs (CLA)³²⁸ in order to call for Taiwanese businesses to respect trade union rights and CSR. The program was finished when the funding from the CLA ended. One of the participating organisations mentioned that even though the idea of CSR was brought to Taiwan, it had no practical implementation, with the issue so far only being raised occasionally by the government. As for the meetings of the ‘East Asian Labour’s Round Table Forum’ facilitated by Oxfam and CCC, they invited Asian NGOs and some trade unions to join the Olympic Games Campaign and targeted large, famous brand TNCs from the EU and the US. This is, however, a case-oriented network more than a long-term institutional linkage. In sum, it is the labour NGOs that mainly undertake cross-national labour solidarity projects, and there is still no strong interaction between Asian regional trade unions and Asian labour NGOs. Finance is the main difficulty for Asian labour NGOs in organising regional networks.

Conclusion

In the 1950s and the 1960s it was the agricultural sector, composed of smallholders, that was the engine of Taiwan’s economy as the main producer and exporter). When Taiwan was transformed from an export-led agrarian economy to export-led industrialisation from the late 1960s, Taiwan’s export-led sectors were constituted by surplus labour from the agricultural sector and several kinds of flexible/irregular

³²⁷ According to the interview, there is only one full-time member of staff in Hong Kong working for this project. According to the author’s email with Tsai Jin-je on 18 September 2008, this ATNC project is still ongoing as they have received other funds, their website is <http://www.atnc.org>

³²⁸ Some Taiwanese trade unions complained that the Solidarity Centre received funding from the Taiwanese government (the CLA) to host these activities.

labour in SMEs. This labour formed an international division of labour with TNCs from the core (mainly the US and Japan) (Frobel et al. 1980; Gereffi 1993). When Taiwan became a capital-export country after 1988, Taiwan made use of migrant labour and various flexible workers from peripheral zones, something similar to the TNCs from the core previously in Taiwan. What has happened since then?

Taiwan's semi-peripheral ascent since the late 1980s not only needed a state's ascent strategy and capital's expansion, but also needed an adjustment of the labour force. As such, three new types of labour force have become the main producers, namely hi-tech skilled labour, migrant labour from Southeast Asia, and overseas employed workers. Taiwanese labour upgraded their skills and improved their working conditions, yet Taiwanese capitalists still require a large, cheap, low-skilled labour for capital accumulation.

In domestic social relations, Taiwan's semi-peripheral ascent and industrial restructuring have had an impact on Taiwanese labour working conditions (in particular in the declining traditional industries), namely the increase of labour flexibility, the increase of structural and involuntary unemployment, and the growth of income inequality. Except in the hi-tech industries, Taiwanese labour has not benefited from the semi-peripheral ascent and industrial restructuring. Such a conflict between the expansion of Taiwanese capital and the impact on Taiwanese labour is not unique. It is what the expansion of capitalist world-system requires: in order to expand the scale of capital accumulation, labour costs need to be reduced as much as possible. Since labour is a necessary part of capital accumulation, organised labour exists to counter the logic of capital accumulation and to alter their weak position.

In the case of Taiwan, before the 1980s, the "silent" labour movement was due more to the nature of the authoritarian regime. Since the late 1980s, political democratisation, although it promoted a resurgence of organised labour's resistance, such resistance has not turned into a powerful political force. Although semi-peripheral ascent and industrial restructuring have shaped the structure of the labour force and have had impact on working conditions, Taiwanese organised labour has not yet demonstrated a powerful response. The resistance has been mainly based on "defensive" and "legal" struggles over employment rights and working conditions. Overall, the resistance has not altered the trajectory of Taiwan's semi-peripheral ascent and the logic of capitalism, nor has resistance been transformed into an anti-systemic movement.

Chapter Eight: Conclusion

How can national capitalist development be analysed? The national model approach argues that domestic institutional framework, domestic economic policy, or domestic state-capital relations are keys that determine national development. Once a country follows a “correct” policy or institutional framework, it will be able to ascend. The approach first studies advanced countries (e.g. Britain in modernisation theory, Japan and Western Europe in the school of varieties of capitalism), and then researches East Asian NIEs (i.e. the school of developmental state). The approach provides useful analysis on the domestic context of national development, in particular in the role of the state in the ascent of NIEs. However, their fundamental assumption about national capitalist development is that it is primarily driven by the domestic context, and there is more than one national model of development in which one model is superior to another. The thesis argues that national economies are not isolated, independent, self-contained systems from the world-economy, but are *structured* as part of the world-economy via a hierarchy of capital accumulation. Although national policies and national institutional arrangements can to some extent be learned and copied from others, a country’s fundamental ascent trajectory of integration into the capitalist world-system cannot be simply by imitation.

On the other hand, the world-system perspective provides an analytical framework that places national capitalist development in the context of the capitalist world-system. The system operates through a hierarchy of capital accumulation (i.e. core-semi-periphery-periphery nexus), the interstate system (hegemonic transition and geopolitics), the cyclical movement of capitalism and hegemony, and anti-systemic movements. National ascent is conditioned and constrained by the dynamics of the capitalist world-system. I agree with their analytical framework for capitalism and its relations with national economies. However, the weakness of the perspective lays in the lack of sufficient studies of the semi-peripheral zone and lack of sufficient analysis on domestic social relations. Since national capitalist development is not limited to three types (i.e. core, semi-periphery, periphery), the context of the capitalist world-system is not the only factor that determines national development.

As such, this thesis adopted the basic framework of world-system analysis but added new analysis (domestic state-capital-labour nexus) into the study of a semi-peripheral case, Taiwan. The central argument of the thesis was that national capitalist

development is both determined by changes to the capitalist world-system and the dynamics of domestic state-capital-labour relations. The thesis thus examined the changes to the capitalist world-system during the K wave B-phase, and concludes that the main features of changes are: (1) The declining rate of profit in the industrial sector in the core zone. This tendency thus brings about the increase of industrial relocation (from the core to the semi-periphery, and then to the periphery), the growth in the trans-nationalisation of capital and financialisation, and the rise of neo-liberalism and economic globalisation and its attack on state power. (2) The relative decline of US hegemony in economics and finance, which gives the chance for a new centre of capital accumulation to emerge, East Asia. All of these changes significantly influenced Taiwan's semi-peripheral ascent during the B-phase.

Research Findings: Taiwan's semi-peripheral ascent and changing national social formation

By applying the new analytical framework to the case study and considering the main changes to the capitalist world-system, this thesis has several findings. **The first finding** is, based on a historical study of Taiwan's capitalist development from the seventeenth century to 1987, that through several hegemonic influences, Taiwan has ascended from the periphery to the semi-periphery. Some hegemonic powers (i.e. the Dutch and Japan) not only dominated the order of the interstate system, but also acted as the state in Taiwan domestically. Different phases of leading hegemonic power placed Taiwan's development in various positions. The changing capitalist world-system put conditions on the Taiwanese state's capability, and determined the path and position of Taiwan's integration into the capitalist world-system. Overall, with the support of the interstate system, the state was powerful enough to guide Taiwan's developmental route (in particular the Dutch colonial government, Japanese colonial government, and the KMT administration), and Taiwanese capital was subordinated to transnational capital and the state. Anti-systemic movements in the form of peasant movements and organised labour were absent. During the post-war period, under the auspices of US hegemony, links to the US and Japanese economies, and the KMT authoritarian state, Taiwan shifted from being an export-led agrarian economy to an export-led industrialising economy. Taiwan was able to ascend from periphery to the semi-periphery through two industrialising trajectories: export-led industrialisation

and the integration of domestic production chains. In sum, Taiwan's ascent trajectory was both shaped by the capitalist world-system and its specific domestic social formation.

The second finding is that Taiwan shifted from the periphery to the semi-periphery during the 1970s, but as yet it has not ascended to the core in the past three decades, although there are opportunities for Taiwan. The core zone experienced a decline in the rate of profit in the industrial sector and started to relocate production to selected semi-peripheral zones: Taiwan is one of those. The East Asia region has risen to become a new centre of capital accumulation in terms of trade, production, and investment, while the core zone has experienced sluggish economic growth. Taiwan is among the dynamic high performing East Asian economies. Domestically, the Taiwanese state attempts to ascend via arrangements in financial and industrial policy, the encouragement of overseas investment, the promotion of the Asia-Pacific Regional Operation Centre and the Global Logistics Centre. Taiwanese capital tries to expand and relocate production overseas, and upgrades its position in the global production chain. Although Taiwan's organised labour resists the logic of semi-peripheral ascent, they are not powerful enough to alter the ascent trajectory. Given this, why has Taiwan not yet ascended in the last three decades?

The first reason is that the state on the one hand promotes the development of industrial and financial capital, but on the other hand limits their expansion into China due to the complicated US-Taiwan-China nexus. Yet, as Chapter Three shows, China is a key engine in driving the rise of the new centre of capital accumulation (the East Asian region) in the capitalist world-system. The state's restriction on Taiwan's industrial capital and financial capital not only limits further development, but also reduces the possibility of Taiwan realising its ascent strategy via the Asia-Pacific Regional Operation Centre, Regional Financial Centre, and the Global Logistics Center. The limits on Taiwan's financial sector are particularly restrictive, where the increasing power of financial capital domestically and internationally is a key to ascend to the core. As such, Taiwan's financial capital is only significant in its domestic economy. The overseas expansion of Taiwan's financial capital delinks the expansion of Taiwan's industrial capital.

The second reason is that most of Taiwan's industrial capital still relies on capital from the core zone as Taiwan's industry is mainly based on its intermediate semi-peripheral position in various kinds of contract manufacturing. Taiwan's semi-

peripheral ascent shows the “success” of industrial upgrading (in terms of technological development, the shift of the position in the global production chain, and the increase of skilled-labour) and of the rising “national” industrial capitalists (in terms of shifting from peripheral production led by the TNCs in Taiwan to semi-peripheral production of the global electronics industry led by Taiwanese capital). Nevertheless, the actual change is from the model of integration of *domestic production chains* to the model of integration into *global production chains*. The emerging Taiwanese industrial capitalists might be less dependent on the Taiwanese state, but they remain dependent on leading TNCs from the core countries. The shift of these two production models also demonstrates that Taiwan’s overall industrialisation is still in a process of deepening its semi-peripheral position, rather than in the process of transforming into a core economy.

The third reason is that Taiwan’s financial capital is not only limited in its overseas expansion in China, but it also relies on foreign finance capital in the areas of non-productive financial innovation. The process of financial account liberalisation benefits foreign financial capital more than Taiwanese financial capital. It is evident from the data that the financial inward FDI has become the principle inward FDI since the late 1980s (nearly 30% of total inward FDI between 1998 and 2007); yet Taiwan’s outward financial FDI only accounts for 4.6% of total outward FDI between 1987 and 2007 (Investment Commission 2008). Foreign financial capital gains access to Taiwan’s financial market but Taiwanese financial capital can neither compete with foreign capital nor is capable of expanding its power overseas.

The third finding of this thesis relates to the changing national social formation in a semi-peripheral country such as Taiwan. As argued previously, Taiwan’s ascent from the periphery to the semi-periphery was aided by a specific social formation, namely a strong state’s guiding function, which dominated Taiwanese capital and organised labour. Has this social formation changed?

For the role of the state, under the changing capitalist world-system during the B-phase, the case of Taiwan does not fit either the argument of ‘the retreat of the nation-state’ or the simple assumption that ‘the state still matters.’ We can examine the argument from the study of Taiwan’s industrial and financial sectors. Taiwan’s industrial and financial sectors presents two aspects of the same development, namely that the Taiwanese state still promotes “targeted industries” within the overall framework of neo-liberalism and economic globalisation. In the industrial sector, the

state's strategic industrial policy has remained, and has even been strengthened in fiscal support methods (e.g. tax incentives and R&D assistance), which is a key factor in promoting Taiwan's hi-tech industries. The proposal for an Asia-Pacific Regional Operation Centre (APROC) and the Global Logistics Centre are examples of how the state has attempted to lead a "grand ascent strategy" for capitalists and to upgrade Taiwan's "competitiveness." In the financial sector, the Taiwanese state (especially after the DPP administration) has encouraged the concentration of financial capital, thus Taiwan's financial holding companies have been the top ten enterprises since 2003. The state thereafter proposed a plan to become a regional financial service centre. Although the plan is problematic, as discussed in Chapter Six, it can be seen that the state has not given up its guiding function to private industrial and financial capital. Overall, the role of the state in Taiwan has been transformed from *the domination of bureaucratic-corporate capital and state finance capital* to become *the promoter/facilitator for private industrial and financial capital*.

The Taiwanese state still *attempts* to maintain its strategic and guiding functions within the national economy even if Taiwanese transnational capital has increased its power. Such an attempt is indicative of the long-term continuity of Taiwan's state-capital relations ever since the Japanese colonial period. However, the state's ability and instrumental tools have been limited since the 1980s, due to the changes to the capitalist world-system. In sum, for semi-peripheral ascent, there is a need for the state's ability to offer guidance and promotion; yet, the semi-peripheral state's ability to guide national capitalist development is also constrained by the capitalist world-system. In the case of Taiwan, while the Taiwanese state was supported by the hegemonic power and the interstate state system, the state was able to fully guide and control national development; however, when the interstate system and the hegemonic power constrained the development of the Taiwanese state's power (e.g. via neoliberalism), the function of the state was inevitably limited.

There are opportunities for Taiwanese organised labour to offer resistance as a social and political force, and as an anti-systemic movement, as the structure of labour changes to reflect new patterns and links Taiwanese labour with the core and the peripheral zones. Due to the concentration on hi-tech electronics industry, there is an increase of hi-tech skilled labour and migrant labour domestically. The same industry is also Taiwan's leading outward investment and the world's leading contract manufacturer; accordingly, there is a growth in overseas employed cheap and low-

skilled labour. Coinciding with economic change is political change, as Taiwan began political democratisation in 1987, and there have been various political and social resistances. However, Taiwanese organised labour has not yet become a social force that is able to alter its power relations with the state and with capital in society as a whole. Rather, organised labour in Taiwan is still manipulated by major political parties and remains distant from real political power. The concentration of capital, the increasing power of industrial and financial capitalists, and the end of the formal authoritarian state, all have not necessarily brought about the strengthening of the labour movement or its ability to act as an anti-systemic movement.

What do we learn from the case of Taiwan?

The case study demonstrates that to analyse semi-peripheral ascent, both the context of the capitalist world-system and domestic state-capital-labour dynamics are needed for analysis. Such an analytical framework breaks the dichotomy between the national model approach, which primarily focuses on domestic context, and the world-system approach, which mainly pays attention to the international context. The thesis developed a specific way of combining the two contexts. Firstly, a general historical study is needed to examine how individual countries have been integrated into the capitalist world-system, the course of national social formation, and historical achievements. Since capitalism is a historically continuous system, historical evolution cannot be ignored. Secondly, the thesis analysed three sectors as one semi-peripheral ascent case, namely the industrial sector, the financial sector, and the labour sector. The three sectors demonstrate the dynamics of semi-peripheral ascent trajectory, namely the development of production and finance power, and the anti-systemic movement. The three sectors also show how the changing capitalist world-system and domestic state-capital-labour dynamics shape semi-peripheral ascent.

Another contribution of the thesis was the study of a semi-periphery case. As Chapter Two discussed, given the complicated role of the semi-periphery and the lack of sufficient study, the case of Taiwan explores the particular route of semi-peripheral ascent. Firstly, on the one hand, semi-peripheral states attempt to ascend to the core, but on the other hand, they are constrained by the core zone. The capitalist world-system might “invite” some countries to ascend, but such an invitation is not unlimited. A peripheral or semi-peripheral economy is able to ascend, but they are not

capable of ascending by their own will. As Arrighi and Drangel (1986) argue, economic mobility in terms of GNP per capita for 93 countries between 1938 and 1983³²⁹, only Japan and Italy moved upward from the semi-periphery to the core, and South Korea and Taiwan shifted from the periphery to the semi-periphery (p.21). As Martin (1995) well points out, semi-peripheral states may find forward movement blocked by the very forces that generated their membership of that zone (p.8). In the case of Taiwan, it is evident that the US once supported Taiwan's ascent via political, economic, and military means; however it began to restrict Taiwan's development by imposing neo-liberal practice. Another example is the hi-tech electronics industry: Taiwan has successfully upgraded its position from peripheral production to semi-peripheral production as contract manufacturers in the global production chain. The industry in Taiwan is no longer dominated by foreign capital but by "national" capital. However, just one Taiwanese company (ACER) was able to develop as a world leading brand, and most Taiwanese capital serves TNCs from the core zone which were once the leading FDI contributors in the industry in Taiwan.

Secondly, the case of Taiwan also shows that a semi-peripheral state is not necessarily a 'revolutionary' one, as Chase-Dunn (1989) argues. Even the semi-periphery plays a significant intermediary role in integrating the core zone and the peripheral zone via a global production chain. The reason is that in Taiwan, there was no revolution in social relations domestically, nor has Taiwanese organized labour acted in the role of an anti-systemic movement. Whether the semi-peripheral state functions to *stabilise* or *transform* the system depends on its domestic state-capital-labour relations.

Thirdly, as Chapter Two argued, the semi-peripheral process is in tension between interstate struggle and global accumulation. In the case of Taiwan, the situation is far more serious, as the specific US-Taiwan-China nexus is at the core of Taiwan's interstate struggle and Taiwan is in a very weak position in the interstate system. Taiwan once benefited from the US-led hegemonic order in East Asia, but changes to the interstate system in East Asia after the 1980s have constrained Taiwan. This constraint presents itself as the tension of cross-strait political relations on the one hand and the increase in cross-strait economic interdependence on the other hand. Taiwan's present economic connection with China is in fact at its highest ever level, higher than during the 212 years that Taiwan was part of the Qing Empire. However,

³²⁹ Arrighi and Drangel's study only focused on the period between 1938 and 1983; there is no recent study update the similar issue.

the US-Taiwan-China nexus contradicts the general structural tendency of capital accumulation. Under the present ‘dilemma’ between interstate struggle and capital accumulation, Taiwan can only find a “midway” course between pursuing greater capital accumulation and accepting declining power in the interstate system. This condition will hold unless other alternatives occur, for example, if China were to no longer be concerned about Taiwan’s sovereignty, or the US changes policy to strongly support Taiwan’s claim to sovereignty (both of which seem very unlikely to happen).

Future research direction

Firstly, it would be interesting to do a comparative study of Taiwan and South Korea (especially during the period after the late 1980s/early 1990s) with regard to how the two countries as semi-peripheral countries have different trajectories in maintaining or upgrading their positions in the capitalist world-system. Based on the analytical framework that this thesis has suggested, the difference might be driven by a distinct position within the interstate systems (e.g. South Korea does not have the political conflict with China that Taiwan does, and it has been a major political actor in East Asian regionalism); by the state’s and capital’s strategies (e.g. South Korea has focused more on the integrated device model than on pure-play foundry, and has developed their own brands in the hi-tech and car industries, such as Samsung, LG, and Hyundai); and by different relationships between the state, capital, and labour domestically (e.g. the South Korean labour movement is more militant than in Taiwan, and their individual industrial capital concentration is also larger than in Taiwan).

Secondly, the following questions concern Taiwan’s future capitalist development. Will the new Taiwanese government further lift the restrictions on Taiwanese financial and hi-tech industrial capital investment in China? Will this openness increase the capitalists’ direct power over the state? Will Taiwanese finance capital be able to make use of China’s economy in the same way as Taiwanese industrial capital? In particular, there is an economic shift underway in relation to China as it attempts to transform itself from the world’s factory to the world market. (As of December, 2008, China has become the biggest market for cars.)³³⁰ Further openness in China and increased Chinese influence may change the relationship between state and capital further.

³³⁰ See the report from Hogg (10/02/2009).

Thirdly, Taiwan's IT and IC industries have led the export-led industrialization process for nearly two decades, but which will be next? Will Taiwan be able to upgrade its position in the global electronics industry to be a core candidate through developing its own brands or innovating core technology? Alternatively, will Taiwan enter another rising industry (e.g. biotechnology) with a similar trajectory, as part of a global production chain? Whichever of these, it is likely that Taiwan will experience another industrial restructuring when other developing countries compete in global contracting manufacturing, or when this industry experiences global recession (e.g. surplus production). Taiwanese labour might confront another structural impact, and this time, hi-tech industrial labour might be able to organise themselves for the first time, as was the case before with the workers of traditional industries.

Finally, will increasing East Asian regional integration through industrial capital, financial capital, and perhaps the state, diminish organized labour's 'anti-systemic movement' in Taiwan and in this region? There is a great deal of literature on the regionalisation of trade, investment, and financial capital in East Asia (e.g. ADB 2008b; Cowen *et al.* 2006; ARIC various years; Fouquin *et. al* 2006; METI 2005; Ando and Kimura 2003). However, little has been written on the study of the regionalisation of labour and organised labour's response in this region as a whole (although there are some excellent comparative studies and national cases studies considering East Asian region in particular).³³¹ Such a study needs both detailed national cases and a broad regional perspective.

³³¹ For example, Custers (1997), Deyo (1989), Frenkel (1993), Gills and Piper (2002), Horton (1996), Hutchison and Brown (2001).

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Appendix

One: Interviewee List

No.	Name	Institution and position when conducted the interview [their current positions]	Interview date
1	Shr-shian Hang	General Secretary of the National Federation of Bank Employees' Union	16/02/2006
2	Wa-Zing Lai	Chair of Steering Committee of National Federation of Bank Employees' Union	23/03/2006
3	Wan-yu Shen	General Secretary of International Commercial Bank of ROC Labour Union	24/02/2006
4	Shih-Feng Yu	Former General Secretary of First Commercial Bank Industrial Union	24/02/2006
5	Andrea S.Lee	Deputy Director-General, Dept. of International Affairs, Financial Supervisory Commission	21/02/2006
6	His-Ho Huang	Section Chief, Dept. of International Affairs, Financial Supervisory Commission	21/02/2006
7	Susan S. Chang	Administrative Vice Chairperson, Financial Supervisory Commission	07/03/2006
8	Te-Ming Peng	Senior Economist, Dept of Economic Research, The Central Bank of China	23/02/2006
9	GH. Young	Senior Economist, Dept of Economic Research, The Central Bank of China	23/02/2006
10	Chen, Pei-Wen	Assistant Specialist, Dept. of Economic Research, The Central Bank of China, Taipei	23/02/2006
11	S.S. Ou	Chair of R&D Committee, Chinese Federation of Commercial Bank Employer' Union	16/03/2006
12	A-Ting Chou	Director General, Dept. of Foreign Exchange, The Central Bank of China, Taipei [Vice-Chairman of the Central Bank: 2007-]	21/03/2006
13	David Huang	Assistant DG, Dept. of Foreign Exchange, The Central Bank of China, Taipei	21/03/2006
14	Maggie Y.F.Lin	Senior Specialist, Dept of Foreign Exchange, The Central Bank of China, Taipei	21/03/2006
15	Sean C.Chen	Chairman of Taiwan Cooperative Bank Former Political Deputy Minister, Ministry of Finance	23/03/2006
16	Eric S.H. Chiang	Director of Second Bilateral Trade Division (The Americans, Europe& Africa)	27/03/2006
17	Jerry J.R. Ou	DG of Industrial Development and Investment Centre (IDIC), Ministry of Economic Affairs	30/03/2006

		(MOEA) * Quoted for by IDIC	
18	Chih-Peng Huang	Direct General of Bureau of Foreign Trade, MOEA (* Quoted for by BFT)	30/03/2006
19	Vincent C. Siew	Chairman of Chung-Hua Institution for Economic Research, Former Premier (1997~2000), Head of negotiators of ROC-USA trade talks (1972-1988) [Vice President of ROC government: 2008-]	11/04/2006
20	Hua-yin Chen	Assistant Director of Division of Industrial Policy, Industrial Development Bureau , Ministry of Economic Affairs	27/04/2006
21	Jin-je Tsai	Director of Ching-Jen Labour Service Centre; Executive broad member of Taiwan Labour Information & Education Association	27/04/2006
22	L.S. Shen,	Former Deputy Representative of <i>Taipei Economic and Cultural Representative Office in the US (TERCRO)</i> ;/Taiwan/ROC Representative in the EU: 2008-]	04/06/2006
23	John C.C. Deng	Deputy Permanent Representative, Permanent Mission of Taiwan, Penghu, Kinmen and Matsu to the WTO (2002-2006); Deputy Representative, TECRO (2006-); [Deputy Minister of Economic Affairs: 2008]	04/06/2006, 08/06/2006

Note: no. 17 and 18: The interviewees were abroad so that the staff from IDID and BFT provided answers to my interview questions.

Two: Summary of working conditions in Taiwanese overseas enterprises.

Low wage	<ul style="list-style-type: none"> ▪ <u>Tatung in Thailand</u>: Only white collar officers have paid holiday, production line operators receive only 26 days wage per month. Their wage is one-fifth or one-sixth of Taiwanese labourers' (Tsai 2006) ▪ <u>Acer's suppliers</u>: Six out of twenty suppliers do not pay minimum wage, overtime wage, or have unreasonable wage deductions (SOMO, 2007). Workers from twelve suppliers of Acer indicate that the wage is not enough to live on (SOMO 2007). One supplier in the Philippines does not pay an overtime wage (SOMO, 2005). One supplier in China only pays workers a daily wage, which is lower than the legal minimum wage (SOMO 2005). ▪ <u>Lite-on and its outsourced companies</u>: do not pay overtime wages (SACOM 2007). ▪ <u>Zhon Han in China</u>: The overtime payment is lower than the legal regulation (SACOM 2006). ▪ <u>Foxconn in China</u>: Unnecessary complicated wage structure which is difficult for workers to understand, and inappropriate reporting system for overtime wage (Apple 17/08/2006). ▪ <u>Foxconn in Mexico</u>: A worker from Guadalajara area reports that his salary was deducted by US \$18.04 for his one-day off (his daily wage is only US \$8.04) (CEREL 2007).
Excessive working hours and enforced overtime work	<ul style="list-style-type: none"> ▪ <u>Seventeen suppliers of Acer</u> have forced labour working overtime, and working hours are more than 60 hours a week (SOMO 2007). ▪ <u>Acer's suppliers</u>: More than 30% of workers in one supplier in the Philippines need to work 12 hours a day, six days a week. Workers in another supplier in China do not have a day-off for four months (SOMO 2005). ▪ <u>Zhon Han in China</u>: Workers work seven days a week. When workers begin their job they are required by the HR department to sign an agreement in which workers agree to work unlimited overtime if necessary (SACOM 2006).

	<ul style="list-style-type: none"> ▪ <u>Chentex in Nicaragua</u>: Shifts of twelve hours a day, six days a week. Forced overtime with no additional pay (Ralph 2005, p.117).
Occupational safety and health risk	<ul style="list-style-type: none"> ▪ <u>Acer's suppliers</u>: Several health problems are reported from five suppliers, including skin allergies, respiration problems, noise hazards, dizziness, loss of appetite, nausea, eye irritation and deterioration of eyesight. However, factories neither provide appropriate protection nor provide specific health checks regularly (SOMO, 2005). Thirteen suppliers have occupational health and safety problems (SOMO 2007). ▪ <u>Lite-on in China</u>: Around 10-12 workers live in a single room in the dormitory. Workers need to stand up for 12 hours a day and there is no appropriate protection. It is difficult to apply for sick leave. Lack of social insurance. (SACOM 2007). ▪ <u>Zon Han in China</u>: Around 8-12 workers live in a single room; limited supply of hot water and food; poor working environment (has neither an air conditioner nor workable fan in a hot environment, limited toilet access) (SACOM 2006). ▪ <u>Tatung in Thailand</u>: High risk in terms of occupational health and safety. For example, fuel and chemical products are exposed in the air; easily-broken lifts; few toilets; fire alarm is broken, emergency exit is locked; no dormitory provided to female workers who work at night (Tsai 2006). ▪ <u>Foxconn in China</u>: The dormitories are not in a reasonable condition, a single room has 100 workers living in it (The Mail, 18/08/2006). Three dormitories are not suitable for workers stay in (Apple 17/08/2006). ▪ <u>Chentex in Nicaragua</u>: Workers live in overcrowded stick and tin-roof rooms with cardboard walls, dirt floors, no running water and outdoor latrines (Ralph 2005, p.117).
Inhumane management	<ul style="list-style-type: none"> ▪ <u>Acer's suppliers</u>: Eight suppliers have inhumane treatment, or unequal and discriminative management (SOMO 2007). ▪ <u>Malaysia</u>: Migrant Bangladeshi workers are managed in a military-like way. For example, migrant workers have to work for 12 to 16 hours a day and have no holiday. The employers use two ways to push migrant labour to follow the managerial

	<p>order: threatening either to not sign a new contract or not allowing labour to work overtime. These migrant labourers are eager to work overtime because they have huge debts to pay (i.e. the placement fee) and they are only allowed to stay in Malaysia for three years (Kung 2002).</p> <ul style="list-style-type: none"> ▪ <u>Tatung in Thailand</u>: The managers use discriminatory words and behaviour towards the Thai workers; for example, they shout at workers, sexually harass them, and ask some of them to do the manager's personal work (i.e. clean his house) (Tsai 2006). ▪ <u>Foxconn in China</u>: workers are treated like an army; for example, they are asked to stand still for three hours and no outsider can visit their dormitories (The Mail 18/08/2006). ▪ <u>Chentex in Nicaragua</u>: Verbal and physical abuse of workers (Ralph 2005, p.117).
Prefer female workers	<ul style="list-style-type: none"> ▪ <u>Tatung in Thailand</u>: Only 50 out of 409 (12%) employees are male. ▪ <u>Zhong Han in China</u>: Around 85% of workers are female. ▪ <u>Foxconn in China</u>: Prefer to employ cheap female workers (The Mail 18/08/2006). ▪ <u>Chentex in Nicaragua</u>: Fire pregnant female workers and sexually harass others (TSNW 2001).
Child labour	<ul style="list-style-type: none"> ▪ <u>Two suppliers of Acer</u> employ child labour whose ages are under 16 years old (SOMO 2007). ▪ <u>Zhong Han in China</u>: employ child labour as apprentices (SACOM 2006).
Work insecurity	<ul style="list-style-type: none"> ▪ <u>Malaysia</u>: They hire indigenous Malays mainly on short-term contracts and an outsourcing system (Kung 2002). ▪ <u>Foxconn in Mexico</u>: They have plants in three areas; there are 7,000 workers in Chihuahua and Guadalajara, and around 50-70% are outsourced workers. They are temporary workers on a one-year contract, but they are in fact fired and rehired each year. In high season, the company gives only one or two month contracts. Some workers in the factory, which produces equipment for HP, are asked by the agency to sign both a 15 day contract and an advanced resignation letter (CEREL 2007).
No right of	<ul style="list-style-type: none"> ■ <u>Malaysia</u>: No trade unions exist in Taiwanese enterprises in Malaysia (Kung 2002)

free association	<ul style="list-style-type: none"> ■ <u>Foxconn in Mexico</u>: More than 50% of the 7,000 workers are recruited by one agency. The agency excludes two kinds of people when recruiting: tattooed people and trade unionists (CEREL 2007, p.21). ■ <u>Acer's supplier in the Philippines</u>: Workers attempted to organise a trade union but this was opposed by the company (SOMO 2005, p.32). SOMO also finds that between eight and fifteen suppliers of ACER violate the ILO's convention on freedom of association (SOMO 2007).
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Note: There are a few cases of independent trade unions in Thailand and Nicaragua. In Thailand, a trade union was established in 2000 when a company intended to change its wage structure. However, the company fired fifteen trade union leaders when the union was established. These leaders were returned to work when the company realised that it was illegal to lay-off union leaders. In 2002, the company employed an extra 1,000 temporary workers who exclusively received daily pay at the legal minimal wage. Yet in 2003 the company began to lay-off many workers, which included all trade union leaders from the executive committee. In Nicaragua, when Chentex workers organised a trade union in 1998, the employer established another union. When the Chentex trade union planned a strike in 1999 for an increase in wages, the Chentex employer sacked twelve trade union leaders and threatened workers not to join the trade union. They even fired 200 workers in 2000 (TSNW 2001).

Three: Taiwanese trade union's international participation

Global Unions	Union that joined the global union
International Confederation of Free Trade Unions (ICFTU)/ International Trade Union Confederation (ITUC)	Chinese Federation of Labour (CFL)
World Confederation of Labour (WCL)	The National Alliance of Autonomous Unions
Building and Wood Workers International (BWI)	National Federation of Construction Workers
International Federation of Chemical, Energy, Mine and General Workers' Union (ICEM)	Taiwan Petroleum Workers' Union
International Transport Workers' Federation (ITF)	Federation of Aviation Employees, Chinese Federation of Railway Workers' Union, Federation of Aviation Employees, National Chinese Seamen's Union, Taipei Travel Craft Union
Public Services International (PSI)	Taiwan Power Labour Union
Union Network International (UNI)	Chunghwa Telecom Workers' Union, Chunghwa Postal Workers' Union, National Federation of Bank's Employee Union
Education International (EI)	National Teachers' Association
International Textile, Garment and Leather Workers' Federation (ITGLWF)	Taiwan Province of Federation of Textile Workers Union
International Metalworkers' Federation (IMF)	National Federation of Metalworkers' Union
International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association (IUF)	Alliance of Tobacco and Alcohol Workers

Source: Author's interview and each global union's website