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DEPENDENT DEVELOPMENT AND ITS SOCIOPOLITICAL CONSEQUENCES: A CASE STUDY OF TAIWAN

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DEPENDENT DEVELOPMENT AND ITS SOCIOPOLITICAL CONSEQUENCES: A CASE STUDY OF TAIWAN

A DISSERTATION SUBMITTED TO THE GRADUATE DIVISION OF THE UNIVERSITY OF HAWAII IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN POLITICAL SCIENCE DECEMBER 1981

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ABSTRACT

Is dependency a dead issue because dependency theory has been widely criticized? Many critics have answered in the affirmative. This dissertation partly purports to show that both neo-Marxist dependency theorists and their critics misconceive the nature of dependency by resorting to external determinism and by assuming general applicability. To clarify these misconceptions, we develop a dialectical approach that identifies some of the processes through which external inputs interact with different internal conditions of peripheral societies to produce different consequences. Dependent development is therefore conceived as resulting not only from the post-war changes in the system of imperialism, but also from particular social, economic and political factors internal to peripheral countries. Both the inhibiting effects and the stimulating effects of transnational inputs are determined through the interactive processes that express particularities and specificities rather than general patterns. To break or minimize dependency requires efforts to alter the unequal international power relations and to effect basic changes within peripheral societies themselves.
Even in the cases of more developed peripheral economies such as Taiwan, dependency remains a viable explanatory category. We elaborate three defining criteria, i.e., dominance relations, internalization and complementary integration, to explain the dynamic processes that have established Taiwan's "new dependency." On the basis of empirical findings, we prove a case of "complementary integration" as the end result of these processes.

Transnational capital and technology are found to be important catalysts behind Taiwan's rapid economic growth. But extensive TNC controls over foreign trade, technology transfer, etc., make that economy highly dependent on imported capital goods and technology, reducing the potentials for local capital accumulation and hampering efforts to upgrade industrialization and to improve national economic autonomy.

Financial control by TNCs in Taiwan is at least four times as large as their direct investment -- a pattern parallel to what Ronald Müller has found for the Third World in general. We also find that the Taiwanese peasant class and middle-class families contribute more to capital accumulation than capitalist profits do. This finding forms a basis for a possible redefinition of the "progressiveness" of peripheral capitalism.

Dependent development has resulted in agricultural deterioration and class disintegration of the Taiwanese
peasantry. Unlike much of the Third World, the Taiwan model of uneven development shifts the center of class struggle away from the rural areas.

Military-authoritarian rule in Taiwan is not a direct result of dependent development, but transnational connection enhances anti-labor policies and makes the political system more unresponsive to popular demands for change where vested interests of the "triple alliance" are at stake. Economic development has not led the way to democratic pluralism, as modernization theory predicts, but to a new phase of authoritarianism when the regime must learn to cope with an increasingly legitimized opposition with the dual tactics of repression and accommodation. In the long run, the political system in Taiwan may converge towards a more exclusionary "phase-oriented" pattern of bureaucratic-authoritarianism due to elite conflicts over the terms of political development, and to the need to increase and concentrate capital accumulation for a new phase of dependent industrialization.
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CHAPTER I

METHODOLOGY AND CONCEPTUAL FRAMEWORK: A DIALECTICAL APPROACH TO THE STUDIES OF DEPENDENCY

Social movement cannot be represented by means of a mechanical opposition between the internal and the external, in which the latter cancels the existence of the former.

-- Fernando H. Cardoso (1976:10)

It is only by understanding the specificity of movement in these societies as a dialectical unity of both [general and specific determinants] and a synthesis of these internal and external factors that one can explain the particularity of social, political and economic processes in the dependent societies.

-- Gabriel Palma (1978:910)

I. INTRODUCTION

This dissertation aims at a case study of how economic development occurs under dependency and what consequences this type of development has for the social and political structures of the dependent society under study. Its purposes are two-fold: to provide an empirical basis for reassessing the dependency model and to develop an interdisciplinary framework within which to analyze the possible causal link between dependent economic development and the dynamics of change in social class and production relations as well as in the political system.\(^1\)
The concept of dependency as applied to center-periphery relations is often misunderstood as a situation of peripheral economies depending on center economies. This misconception obscures not only the reality of interdependence within the world system, but also the asymmetrical power relations which characterize that interdependence. It is precisely in terms of the asymmetrical power relations, or what Galtung (1971) calls "dominance relations," that the concept of dependency is defined. It refers to a situation of interdependence in which dominant nations exercise control over the terms of trade, the division of labor, the pattern of investment, the appropriation of economic surplus, etc. These economic dependency relationships are usually accompanied and reinforced by unidirectional cultural penetration from the dominant nations. Accordingly, dependency affects not only economic development, but also sociocultural and political changes. And the studies of dependency should be a legitimate field within the social sciences, a field which deals with the consequences of external forces for the internal structures of peripheral societies (Evans, 1979).

Since its inception in the 1960s, however, the dependency model has done little, if any, interdisciplinary research into the multi-dimensional impact of the world capitalist system on those peripheral societies said to be
integrated into that system. Rather, the mainstream of dependency theory is preoccupied with theorizing about a preconceived causal nexus between capitalism and an ill-defined notion of peripheral "underdevelopment." Neo-Marxist dependency writers use that theory as a political tool to advance the argument that Third World economies have suffered "underdevelopment" and stagnation because of their integration into the world capitalist system and will remain underdeveloped as long as that integration continues. They therefore conclude that only through socialist revolution to sever ties with the capitalist system can Third World countries break the grip of dependency and embark on the road to "independent" or "autonomous" development.²

As will be discussed at length in Part II, this dependency theory is fraught with problems concerning methodology as well as theoretical and empirical validity. Of particular scholarly concern is the failure of that theory to recognize the economic dynamics generated by capitalist development in the periphery. Consequently, in the case studies of more developed peripheral economies such as Taiwan, the framework of the stagnationist dependency theory does not apply. On the other hand, the developmentalist theory, which has been used as a unique framework to explain the Taiwan "miracle," does not fit in the context of this case study either, first because it
takes no account of the dependency effects generated within the developmentalist model, and secondly because sociopolitical analysis cannot be carried out within the uni-disciplinary strait-jacket of that theory, which is exclusively designed for the operation of economic variables. For the purpose of this dissertation, therefore, a new methodology needs to be explored. We need to search for a dialectical approach that provides insights into the dynamics of Taiwan's economic development while coming to grips with the controlling effects of transnational forces interacting with that economy. We also need to search for an interdisciplinary approach that borrows conceptual tools from related fields to enable us to analyze sociopolitical changes within the context of dependency. In so doing, it is hoped that the studies of dependency will depart from the ideologically oriented dependency theory, with a reorientation to undertake scholarly inquiries into relevant spheres of a dependent society that receive impact from the world system.

II. A CRITIQUE OF DEPENDENCY THEORY: A METHODOLOGICAL PERSPECTIVE

Objective Analysis vs. Moral Criticism

One major controversy in the social sciences concerns center-periphery relationships. On the one hand, establishment economists contend that the international division of
labor is a spontaneous development based on the principle of "comparative advantage" and that underdeveloped countries can develop only through the diffusion of capital, technology and cultural values from the West. On the other, those who work on the imperialism-dependency model point to the "stratified power relations" (Bodenheimer, 1971) said to be built into the world system as a mechanism that dictates the international division of labor and concentration of world resources and surplus value in dominant center nations at the expense of the periphery. On the basis of Latin America's historical experience, dependency theorists see center-periphery relationships in terms of a "chain of metropolis-satellite relations" through which economic surplus is extracted and siphoned off from regional centers to national metropoles of the "satellite" country, and from there to the international metropoles (in center nations). Thus surplus extraction creates economic development at one end of the "chain" and underdevelopment at the other (Frank, 1969, 1973). Apparently for ideological and political reasons, this "development of underdevelopment" thesis has been generalized to include the entire Third World (Amin, 1974, 1976). And its Asian version perceives in center-periphery relationships an "umbilical cord that binds underdevelopment to overdevelopment" (Catley, 1976). The crux of dependency theory may be expressed by Frank's blunt statement: "it is capitalism,
both world and national, which produced underdevelopment in the past, and which still generates underdevelopment in the present" (Frank, 1969:xi).

Just as the establishment theory calls for criticism, so does dependency theory. Despite its "neo-Marxist" brand, the stagnationist dependency theory seems to represent a retrogression from orthodox Marxism, at least as far as methodology is concerned. To be sure, Marxists would not be what they are if they were blind to the exploitative nature of the capitalist system. (After all, imperialism is defined by Marxists as an unequal system of global surplus extraction.) The point, however, is that, despite the grim reality of surplus extraction, Marxists had until the 1950s stressed the historically "progressive" role of capitalism in generating productive forces and thereby propelling a capitalist mode of industrialization in the underdeveloped world (Avineri, 1969; Lenin, 1939:65; Palma, 1978:892-893, 896-897). In retrospect, one may argue that the historical role of peripheral capitalism could be as retrogressive (as Baran's brilliant analysis shows) as it is "progressive" (as evidenced from the relatively high degree of development in certain "semi-peripheral" economies today). But the methodological implications of the said Marxist view are clear: an objective analysis of the dynamic of capitalism as a mode of production has to be distinguished from moral criticism
of the failure of capitalism to fulfill social and human objectives. In the words of Lenin, "recognition of the progressiveness of capitalism is quite compatible ... with the full recognition of its negative and dark side" (Lenin, 1949:602-603). By this he implies that, despite surplus extraction and the concomitant impoverishment of the working masses, capitalism is capable of generating economic development, which Marxists define in terms of increase in capital accumulation and productive forces, i.e., the capability to produce industrial goods and services (Mandle, 1980:869). By contrast, neo-Marxist dependency theorists do not recognize this definition of capitalist development, and yet they offer no definition of their own. As Mandle (1980:868) observes, in reading the works of dependency theorists, "one searches in vain for a working definition of either development or underdevelopment. These authors simply posit the existence of underdevelopment." Since "underdevelopment" is assumed to be the result of surplus extraction and since "development" and "underdevelopment" are conceived as discrete and mutually exclusive opposites, surplus extraction logically precludes any chance of "development." Following the same line of reasoning, Bodenheimer (1971:39) also attributes Latin American dependency and underdevelopment to the "extraction of capital" by the international capitalist system.
Because they allow their ideological bias to obscure the issue of development and underdevelopment, these neo-Marxist writers place their revolutionary thesis in an untenable position. An established Marxist view holds that capitalist economic development is a prerequisite for successful socialist transformation. Contemporary experiences of many "socialist" countries appear to testify to the fact that socialist reconstruction can be severely hampered by a lack of pre-revolutionary development. If Third World countries have achieved nothing but underdevelopment, then the prospects of socialism in the Third World are dim and the neo-Marxist vision of "independent" and "autonomous" development under socialism cannot be justified. This question alone warrants the elaboration of a more analytical concept of peripheral capitalist development, if only in terms of the material conditions that will make a difference for socialist transformation. A blanket notion of "underdevelopment" can only plunge the neo-Marxist revolutionary thesis into a theoretical impasse.

Furthermore, to gauge the social dynamics, and hence the viability, of peripheral capitalism, dependency theorists cannot afford to skirt the issue of capital accumulation and productive capabilities, which may well be enhanced by inputs from dominant countries simultaneously as surplus extraction takes place. At least in the
Taiwan case, we find that internal capital accumulation is quite compatible with surplus extraction by transnational interests. Even where capital formation is financed by external sources due to little domestic accumulation, we need to distinguish between cases where such capital formation contributes to long-term economic development and cases in which capital projects (such as railways) produce mainly external linkage effects. In this connection, it is well to recall how Marx attached importance to capital infusion from Western countries as a catalytic agent to awaken and transform the stagnating "Asiatic mode of production." In his essay entitled The Future Results of British Rule in India, Marx specifically mentioned the railway system in India as the "forerunner of modern industry," expecting that the process beginning with the development of railways by British colonialists would eventually lay "the material foundations of Western society" for industrialization within the colony (Avineri, 1969:132-136; Palma, 1978:896; Mandle, 1980:865). Similarly, Evans (1979:61-64), in his Brazilian case study of "dependent development," describes the important role which railways played in the transformation of Brazil's political economy. The extensive rail network in Brazil, whose construction began in the latter part of the nineteenth century with both British and Brazilian capital,
was initially designed for the transport of coffee. Eventually, it became an important part of the physical infrastructure vital to the growth of manufacturing industries. In Evans' view, the railway system constituted one of the main productive forces that disrupted the stability of Brazil's classic dependence structure based on coffee monoculture, thereby ushering in a new era of "dependent development." Incidentally, a parallel situation occurred in the Taiwan colony where the quasi-monoculture of sugar brought into being an extensive railway system, whose positive implications for post-colonial development will be discussed in Chapter V. Thus, instead of treating colonial relationships as totally dysfunctional to the internal evolution of Taiwan society, we seek to analyze the dynamic process through which Japanese colonialism created dependency while at the same time generating forces making for the transformation of the dependency structure.

The Fallacy of External Determinism

The tendency of dependency theory to over-emphasize the dominance functions of external factors invites more questions concerning methodology. At issue is not a matter of whether or how these external factors are dominant, but rather the way in which dependency theorists perceive the external in relation to the internal. It is a case
of "mechanical determinism" in which internal structures are thought to be mechanically determined by external forces. As Cardoso puts it, "in metaphysical fashion, the two terms of opposition -- the external and the internal -- were separated, and passed from the dialectic to the structural-mechanical," thus leading to the "elimination of a dynamic proper to the dependent societies as an important explanatory factor" (Cardoso, 1976:13).

Some critical reflections on establishment economics may shed light on this determinist approach. First of all, the "comparative advantage" thesis comes to mind. Classic economic theory, traceable to Adam Smith, claims that participation in international trade and division of labor according to the principle of "comparative advantage" is beneficial to all participant nations and will put them on the road to wealth and development. Modern history in general and Latin American studies in particular have testified against the validity of this thesis. In fact, it has been often discredited as a case of "economic determinism," or as part of an ideological superstructure that legitimizes economic expansion of dominant nations. Yet, during the post-war era, this economic determinism has re-emerged in the form of "external determinism," whereby development theorists assure Third World countries that the key determinant of their economic development is the diffusion of capital, technology and cultural values.
from the West. To quote Rostow and Millikan (1957:56), "External capital is required to prepare countries for the transition to self-sustained long-run economic growth. In the transition itself, external capital will often make the critical difference between an upward spiral of economic, social and political development and a downward spiral of stagnation and decay." This preoccupation with external determinism persisted into the 1960s -- and perhaps still persists -- as exemplified by Hagen's equally assertive statement: "Only two causes of economic development are of any importance: they are capital formation and technological progress" (Hagen, 1962:29). With the benefit of hindsight, we have seen the general failure of this developmentalist model. But the spectre of external determinism survives. It haunts the left as well as the right.

Not all dependency theorists follow this determinist approach. Dos Santos, for one, is capable of analyzing different internal structures produced by different forms of dependency and explaining socioeconomic changes in terms of the dynamic of contradictions between internal and external factors (dos Santos, 1970; Palma, 1978). In her impressive critique of the developmentalist ideology, moreover, Bodenheimer (1971) lays bare the ahistorical, ethnocentric, deterministic nature of the capitalist "stages" theory and dualist theory. Significantly, she
and for that matter Frank make the point that underdevelopment in Latin America exists not because it is historically at a "traditional" and "lower" stage of the development process untouched by Western civilization, but on the contrary, because it has fulfilled its specific functions of being integrated into and exploited by the international capitalist system since the sixteenth century (Bodenheimer, 1971:39; Frank, 1973). But instead of making indepth analyses of how external forces unleashed by the international system interacted with internal factors to create and perpetuate underdevelopment, these dependency theorists tend to regard "imperialism and external economic conditioning as the substantive and omni-present explanation of every social and ideological process that occurred" (Cardoso, 1976:10). In the view of these dependency writers, possibilities of development and underdevelopment for a "satellite" (peripheral) nation hinge entirely upon the closeness of its ties with the metropolis (center) nations: When these ties become the weakest due to cyclical economic downturn in the center, the satellite nation has the maximum opportunities for development; once the ties are restored, "the previous development and industrialization of these regions is choked off or channelled into directions which are not self-perpetuating and promising" (Frank, 1973:99-100;
Frank, 1969; Cockroft, et al., 1972). It logically follows that the only alternative for development in Latin America (and other dependent countries) is not only to "implement a profound, anti-capitalist socialist transformation of their own socioeconomic order," but also to "sever their ties to the international system" (Bodenheimer, 1971:39). While the developmentalists prescribe "diffusion" as the remedy, dependency theorists prescribe its antithesis. To quote Frank, "... in the underdeveloped countries, economic development can now occur only independently of most of these relations of diffusion" (Frank, 1973:95). Elsewhere, dependency writers claim that socialist revolution offers the only hope for national development (dos Santos, 1970; Frank, 1969a). Thus, in order to oppose the external determinism of the capitalist theory, dependency theorists themselves resort to external determinism, but in reverse. The game of binary opposites has come full circle.

By using such a mechanical method of analysis and by over-emphasizing the dominance functions of external factors to the neglect of concrete analysis of internal situations, dependency theorists have failed to come to grips with a vital concept of what I shall call "interactive dynamics of dependency" -- a dialectical situation in which different internal conditions will interact with external inputs to yield quite different consequences.
(This point will be discussed at length in Part V.) It implies that under changed international and/or national circumstances, it is possible to capitalize on certain external inputs to the benefit of a dependent society. The necessity and feasibility of socialist revolution have to be determined by means of concrete analyses of socio-economic contradictions that exist in class and productive relations of a particular society. To arrive at the revolutionary conclusion on the basis of the faulty reasoning that international capitalism causes peripheral underdevelopment is not only methodologically invalid, but also politically naive and adventuristic. And to generalize the revolutionary option in the name of a general theory is little short of intellectual irresponsibility. Equally problematic is the suggestion of severing ties with the international system as a condition for national development, whether under socialism or otherwise. Contemporary situations arising from the North-South economic relations and the experiences of many "socialist" countries have shown that neither autarky nor political and economic alignment with the "socialist" bloc is a feasible alternative to dependency. Consequently, more prudent Third World leadership has increasingly placed emphasis on peripheral solidarity to achieve a more equitable redistribution of global economic powers and resources. The growing desire for national economic
autonomy in the South "does not imply a lessening of their interest in international cooperation but rather a striving to make North-South relations reflect genuine interdependence and international economic justice" (Parmar, 1975:3). But since the program of NIEO (new international economic order) has accomplished little thus far, there is fresh concern about basic internal change as a prerequisite to achieve international economic justice.

In commenting on the NIEO program, Amin has recently observed:

Only basic changes in the social structure and political power at the national level can influence in any significant way the international hierarchical structure. As long as no major social transformations occur in the South, there is very little chance, if any, of changes in the balance of power at the international level.5

The fallacy of external determinism becomes all the more transparent if we compare Paul Baran's approach with the neo-Marxist dependency theory. Supposedly, the latter has its theoretical origin in the former. In fact, Frank (1969:xi) claims that he and Baran share the belief that it is capitalism which generates underdevelopment. Reading Baran carefully, however, one discerns a methodology vastly different from the external determinism of dependency theory. Rather than argue that capitalism is the root cause of peripheral underdevelopment, Baran (1957, 1973) places emphasis on internal obstacles in backward countries, which, reinforced by external factors,
"have reduced the forces of progressive capitalism to impotence" (Baran, 1973:93). Foremost among the internal obstacles was "a political and social coalition of wealthy compradors, powerful monopolists and large landowners dedicated to the defense of the existing feudal-mercantile order." This triple coalition came into being because the vested interests of the three dominant social groups would be threatened by "the rise of industrial capitalism which would dislodge it (the coalition) from its position of privilege and power" (Baran, 1957:195). Thus the dominant groups worked in collusion with foreign imperialism to block all economic and social progress in their own country that might result from capitalist development (Baran, 1957:195). Another internal obstacle was that the new bourgeoisie in underdeveloped countries demonstrated no entrepreneurship which characterized their Western counterpart. Influenced by traditional values and living in societies based on privilege, the fledgling bourgeoisie "sought nothing but accommodation to the prevailing order," emulated the conspicuous consumption patterns of domestic overlords and failed to play the vanguard role in capital accumulation to lead the way to national development (Baran, 1973).

The external forces interacting with internal social groups are analyzed by Baran on two fronts: one reactionary and one progressive. First, Western monopoly
interests opposed economic development and industrialization in backward countries because it would threaten the markets for their manufacturing exports and increase the prices of raw materials which they exploited (Baran, 1957:198). These foreign interests therefore left "no stone unturned to obstruct the evolution of social and political conditions in underdeveloped countries that might be conducive to their economic development" (Baran, 1957:198).

Secondly, the rise of international socialist radicalism that provided popular forces in backward countries with ideological and political leadership "instilled a mortal fear of expropriation and extinction in the minds of all property-owning groups," driving them into a "counter-revolutionary" coalition to stave off socialist revolution. Consequently, "the middle-classes abandoned all progressive attitudes" towards social and economic transformations, and the "possibilities of solving the economic and political deadlock prevailing in the underdeveloped countries on lines of a progressive capitalism all but disappeared" (Baran, 1973:85). Furthermore, mindful of what Lenin calls "the negative and dark side of capitalism," Baran argues that the depersonalizing "business mores" and the exploitative and "barbaric" aspects of capitalism reinforced feudal oppression to create an "economic and political amalgam combining the worst features of both worlds -- feudalism and capitalism --
and blocking effectively all possibilities of economic growth" that might be expected of the Western capitalist order (Baran, 1973:84).

Writing in the 1950s, Baran could not foresee the changes which the international capitalist system has undergone since the late 1950s: the rise of transnational corporations, the growing tension and instability within dominant economies and the toughening competition among them, the need of central capital to expand foreign investment in manufacturing, the relative improvement in the Third World's bargaining positions, etc., all combined to transform peripheral capitalism, at least in some Third World countries, beyond what Baran could have imagined. As Evans (1979:25) observes, "By the sixties it was necessary to recognize that imperialism might be consistent with a kind of development in the periphery, development that would include the growth of a local manufacturing sector." The point, however, is that Baran's works signify an analytic approach in which a dialectical interplay of external and internal factors is taken as a point of departure for analysis. Such an analysis is dynamic and historical because it deals with contradictions inherent in class and productive relations within a specific historical context. Instead of lumping the Third World countries together and forcing them into the preconceived framework of a general theory, Baran analyzes
in concrete terms the particular socioeconomic conditions and institutional characteristics of different parts of the Third World, whose experiences with imperialist powers differed from one another. Thus Baran's approach is not characterized by external determinism, as is the case with the neo-Marxist dependency theory.

By focusing on the alliance between internal dominant groups and classes on the one hand and imperialism on the other, Baran's analysis reveals an important social process obscured by dependency theory: the internalization of external relationships by means of collaborative mechanisms. Without internal collaborators to forge alliances with foreign interests, imperialist relationships would become rootless in dependent societies. Collaborative mechanisms should not only be seen as a vital and convenient means to facilitate imperialist administration (Robinson, 1972:117); they are in fact a necessary condition for the effective functioning and self-perpetuation of external forces and structures within the social context of dependent countries, especially during the post-colonial period when direct control over these countries by military and political means has disappeared with decolonization. Thus, in Galtung's structural theory of imperialism (1971), elite linkages between "the center in the Center" and "the center in the Periphery" are held as a central defining criterion for imperialism-dependency relationships.
Within the dependency school, some Latin American theorists, such as Quijano and dos Santos, are able to argue that "the basic correspondence between the dominant interests (of the dominant society and those of the dependent society) is a sine qua non of dependency" (quoted in Bodenheimer, 1971a:338). Drawing on this concept of "internal dynamics of dependency" from Latin American sociological studies, Bodenheimer parsimoniously discusses what she calls "social infrastructure of dependency" -- clientele classes in Latin American societies which collaborate with foreign interests and without which dependency could not be internalized. She argues that "dependency does not simply mean external domination, unilaterally superimposed from abroad and unilaterally producing 'internal consequences.'" Because center-periphery ties created by the "internal dynamics of dependency" are subtler than those under colonialism and are internal to the dependent society, they are "more difficult to break" (Bodenheimer, 1971a:338-339). Moreover, she observes a functional relationship between external linkages and internal class struggle: "The alliances and conflicts of clientele classes with other domestic classes are shaped to a considerable extent by their previous and present alliances with foreign interests" (Bodenheimer, 1971a:338). Within the domain of dependency theory, however, the "internal dynamics of dependency"
remain a mere hypothesis without being put to empirical tests through analyses of class relations. Heavily oriented towards external determinism, other dependency theorists do not even bother to touch upon this internal social dimension of dependency. Even if they occasionally do, as exemplified by Frank's vague statement that "metropolitan economic satellization of Latin America is inevitably satellizing the industrial bourgeoisie" (Frank, 1969:341), collaborative mechanisms are construed in terms of external manipulation, in the sense of "puppets" or "docile clients" without having an ambivalent or contradictory role in serving the interests of the collaborators' own society. If we interpret internal collaboration in terms of external determinism, or in terms of total "harmony of interests," we would not be able to explain the growing tensions and conflicts between the leadership of many Third World countries and its counterpart in center nations, as evidenced by the North-South confrontation, by the formation of OPEC and similar peripheral organizations, by the desire for peripheral solidarity and by the vision and pressures to establish a "new international economic order." Evidently, contradictions exist between "the center in the Center" and "the center in the Periphery" simultaneously as collaborative mechanisms are at work. By overlooking these
contradictions, dependency theory becomes static and metaphysical, deprived of its explanatory power as a "theory."

III. METHODOLOGICAL REORIENTATION

We have criticized dependency theory from a methodological perspective. This does not mean that dependency has ceased to be a viable conceptual category, as some critics incorrectly suggest. It certainly has not. Since the studies of dependency provide "an analysis of how imperialism affects the internal social structures of peripheral countries" (Evans, 1979:51), these studies will be viable as long as imperialism -- an unequal system of global surplus extraction and capital accumulation -- remains the order of the day. What needs to be done is a reorientation of methodology as the above critique implies. Fortunately, Cardoso, himself a leading founder of the dependency school but reluctant to use the term "dependency theory" (1976:14), has provided a highly enlightening and useful framework of methodology for the studies of dependency. Equally perceptive are Palma's critique of the dependency model (1978) and Evans' dialectical analysis of dependent development (1979).

Primarily drawing on these works, we can posit the following methodological propositions for case studies of dependency:
Proposition I: Dialectical Unity

The dynamics of change in a dependent society cannot be explained either by external factors alone or in terms of a mechanical determination of the internal by the external. They should be explained in terms of a dialectical synthesis between external and internal factors, whose interaction produces conflicts or alliances between external forces and internal social classes and groups, and among the heterogeneous social groupings of the dependent society. Some classes or groups choose to ally with foreign interests; others seek to oppose them. The resultant sociopolitical alignments and divisions represent contradictions which are based on particular class and productive relations and in whose development the dynamics of change are generated. This principle of dialectical unity applies to class and productive relations as well as to productive forces. The sociopolitical changes that result are not only in degree, but also in kind, such as from the precapitalist mode of production to the capitalist one, from capitalism to socialism, from populist regimes to bureaucratic authoritarianism, etc.

Proposition II: Internalization

The internalization of external relationships by means of collaborative mechanisms (such as classes, groups, or institutions) is a necessary condition for the
effective functioning and self-perpetuation of external forces and structures within the social context of a dependent society. These collaborative mechanisms have a dual and contradictory character: they perform "nationalist" functions (e.g., local capital accumulation) at the same time as they serve as instruments of external economic domination and cultural penetration. While their externally oriented functions may at times outweigh their "nationalist" functions, recognition of the contradictory character leaves room for explaining their changing roles under different circumstances. Furthermore, the collaborative mechanisms are closely associated with the national state of the dependent society.

Proposition III: Specificity and Particularity

The consequences of external forces for the social and economic formations of a dependent society vary from one situation to another, and from one society to another. For example, the single process of mercantile expansion produced slave labor in some Latin American societies and the incipient forms of wage labor in others. Transnational capital and technology aggravate socioeconomic inequalities and unemployment in many Third World economies while producing more beneficial effects on some others. Thus we need to direct efforts at analyses of specific concrete situations of dependency as they occur
in particular historical and social contexts, rather than at deductive reasoning from preconceptions. Before sufficient case studies have been undertaken, it is inappropriate to construct a general theory of dependency, lest the specificity of social dynamics should be lost in -- or distorted by -- a welter of vague, imprecise and generalized concepts.

**Proposition IV: Metamorphosis of Dependency Structures**

The dynamics of change also take the dimension of time. Dependency structures (such as class structures) may rigidify and dependency relationships may tend to perpetuate themselves, but they always contain tensions (such as among social classes or groups) which make them at least potentially dynamic. For example, until the late 1950s, the general conception was that imperialism was not interested in economic development and industrialization in dependent countries (as shown by Baran's analysis which we have discussed). But the following two decades have seen the new process of dependent development and industrialization in many peripheral countries under the aegis and control of transnational interests and under the triple alliance of foreign, state and local private capital. In this historical process, segments of the national bourgeoisie in dependent countries have become "internationalized," losing at least in part their
supposedly "nationalist" character. Thus in the studies of dependency, we should not only focus attention on the forces that maintain existing dependency structures, but should also analyze the material basis and conditions which, through class struggle and the accumulation of productive forces, open the possibilities for the transformation or revolutionary changes of the existing structures.

These propositions are interrelated. They are dialectical, and hence dynamic. They make no assertions about concrete realities, but only provide methodological guidance for the empirical studies of these realities. They are therefore distinct from the neo-Marxist dependency theory and may be termed "a dialectical approach to the studies of dependency."

This dialectical approach enables us to conduct a series of meaningful studies within the context of dependency. For the purpose of this dissertation, we need to apply this methodological approach to explaining the two categories of "dependent development" and "the interactive dynamics of dependency."

IV. THE MEANING OF DEPENDENT DEVELOPMENT

The controversies over the issue of whether Third World countries have development or underdevelopment have to a considerable extent resulted from a definitional
confusion, and are therefore more semantic than substantive. The stagnationist dependency theory has argued a case of past, present and future underdevelopment for Latin America and other Third World countries, first by positing "development" and "underdevelopment" as two discontinuous and mutually exclusive variables, and then by identifying certain characteristics of Third World economies with "underdevelopment." As regards the first point, the assertions by dependency theorists that development and underdevelopment are two different outcomes of the same historical process and that the process of Western capitalist development cannot be repeated in the Third World are well known (Frank, 1973; Bodenheimer, 1971). It is further illustrated by Amin's statement that "one does not need to be an economist to know that our world is made up of 'developed' countries and 'underdeveloped' ones . . ." (Amin, 1974:1). Having thus mechanically dichotomized "development" and "underdevelopment," these theorists proceed to argue about Third World underdevelopment in a manner that is devoid of any definitional rigor and clarity. For Frank, "underdevelopment" manifests itself in surplus extraction by dominant nations, regional uneven development, historical cycles of regional depression, etc. At times he holds "underdevelopment" as synonymous with "dependency," "satellite status," etc. For Bodenheimer, "underdevelopment" means cyclical declining
rates of economic growth, increasing poverty relative to developed countries, worsening distribution of income, etc. For Amin, "underdevelopment" is defined in terms of intersectoral unevenness of productivity, structural disarticulation and foreign domination. By expounding these characteristics, the dependency writers may have contributed to our understanding of the socioeconomic problems of the Third World. Methodologically, however, they commit a gross error by defining underdevelopment in terms of certain characteristics which are also present in "developed" economies, and by holding "development" and "underdevelopment" as discontinuous and mutually exclusive concepts. If, for example, urban poverty, unemployment, unequal distribution of income, etc. are regarded as some of the major characteristics of "underdevelopment," then "underdevelopment" is also a glaring problem for Western countries. If the latter, with all their socioeconomic problems, can be considered as "developed," then the distinction between "development" and "underdevelopment" becomes blurred, and what the dependency theorists attack is actually not a matter of capitalism generating the two outcomes of development and underdevelopment, but rather "the negative and dark side of capitalism" shared by Western countries, particularly during their early periods of development. Furthermore, if declining growth rates are a characteristic of underdevelopment, there
is no reason why rapid economic growth achieved by many Third World countries should not be taken as a sign of "development." Given the cyclical and contradictory nature of capitalist development, and given the complexities of the economic system, one can always enumerate sufficient positive characteristics of Third World economies to make a case of "development," if we follow the same logic, but in reverse, of the dependency theorists' approach. And this is exactly what proponents of the capitalist development model have done. With some positive indicators on hand, they claim not only economic "development," but also "miracle."

That dependency theorists also use this method of selective enumeration can be illustrated by Amin's works. To prove the "development of underdevelopment" thesis, Amin (1974, 1976) describes a host of structural weaknesses, presumably derived from his studies of African economies but projected as the general characteristics of the entire Third World economies without country-specific explanations. Writing in the 1970s, Amin has to recognize the high growth rates of the five countries (and areas) of South Korea, Taiwan, Hong Kong, Singapore and Mexico. But then, instead of making concrete analyses of the specific strengths and weaknesses of these economies, he seeks to discredit such a growth by a series of wholesale and erroneous assertions: the "privileged" situation
of the proletariat (in the five countries and areas) ensures their "docility"; the pattern of the manufacturing industries rules out technological advancement; the strengthened domination of central capital forbids any formation of a bourgeoisie of national entrepreneurs; transfers of profits largely wipe out the benefits of exports, and so on (Amin, 1976:213-214). With these false "symptoms" in view, he comes up with a vague and hardly relevant prognosis that "none of these countries has approached the stage of independent and self-maintained growth. . . On the contrary, they are even more dependent than they were twenty years ago" (Amin, 1976:214). By retreating into an ideological straitjacket and by relying more on preconceptions -- derived perhaps from African studies -- than on specific concrete analysis, Amin contributes little, if any, to our understanding of the dependency situations in these countries while actually misleading us as to their productive capabilities and the dynamic changes which have taken place in their industrial and labor structures. Although elsewhere Amin probably provides insights into certain structural weaknesses common to many Third World economies, particularly the African ones, the pre-determined schema of his "development of underdevelopment" thesis makes it impossible for him to come to grips with the dynamics of peripheral capitalism in their concrete whole.
This is not to suggest that capitalism is capable of developing peripheral economies or upgrading their structural positions within the world system. In fact, upward mobility within that system is limited, according to Wallerstein (1974, 1976) and Evans (1979:33). But shifts in structural positions, both upward and downward, do occur as the world system undergoes cycles of expansion and contraction. Certain peripheral economies take advantage of the cyclical downturns to advance themselves, often at the expense of other economies, both central and peripheral (Wallerstein, 1974, 1976). Furthermore, social science researchers need to recognize the structural nature of the world system, which Wallerstein has insightfully demonstrated, that the world system cannot function without "middle sectors," or the "semi-periphery," whose development status ranks somewhere between the center and the periphery. These semi-peripheral economies may not be termed "developed" or "underdeveloped," but perhaps "semi-developed" is a more appropriate categorization. By excluding the latter concept, and by failing to perceive mobility within the world system, dependency theorists leave no room for assessing any degree of development as it occurs in the periphery.

As a response to the weaknesses of dependency theory, our dialectical approach recognizes the contemporary reality that a form of "dependent development" has taken
place in at least a number of peripheral economies during the past two decades. Simultaneously as the neo-Marxist dependency theory was being advanced, a host of scholars who also worked on the imperialism-dependency paradigm began to contend that Baran's gloomy picture of peripheral capitalism no longer held in the 1960s and the 1970s. In the words of Warren, "the post-war period is witnessing the full re-emergence of those elements of imperialism conducive to capitalist industrialization" (Warren, 1973: 42). According to these scholars, peripheral capitalist development has been made possible as a result of changes in the functions of imperialism, particularly a shift towards increasing manufacturing investment in the periphery. While imperialism in the old days did everything to obstruct economic development and industrialization in peripheral countries, new imperialist control is secured by creating some dynamic effects on the peripheral economies. Under current historical conditions, dependency and development are not incompatible, but can form a dialectical synthesis called "dependent development."

In terms of our methodological propositions, the possibility of such a development follows from a new way in which external and internal factors interact (Proposition I), and from the transforming potential of dependency structures (Proposition IV). What really matters is the material basis upon which "dependent development" is
established, and without which the concept of "dependent development" would become as metaphysically and semantically oriented as "development of underdevelopment."

To appreciate the full meaning of "dependent development," however, we need to review the diverse contexts in which the meaning of "development" has been construed. This can be discussed in terms of three perspectives:

(1) The Developmentalist Perspective: Development is equated with growth. The quantitative indicators that define growth are obtained by aggregating quantum of production in different sectors and industries, whose specificity and particularity are submerged under "operational dimensions." Development is also understood in terms of such concepts as "urbanization," "industrialization," etc. But the substantive meanings of these concepts are obscure because they are preconceived without being treated as dependent variables whose specific instances have to be determined by other factors (Bodenheimer, 1971:15). Development thus defined has only superficially quantitative significance and fails to take account of the dynamics of social change. And the developmentalists would not consider the social-moral implications of such a "development" until the dynamics of social change compel them to make a "decisive choice between the political cost of reform and the political risk of rebellion," with the eventual realization that "social
justice is not only a moral imperative; it is a political imperative as well." Most development economists, however, continue to emphasize economic growth, assuming that as the "pie" grows bigger, social and economic problems will take care of themselves.

(2) The Humanist Perspective: While developing countries as a whole achieved the 5 percent growth target set for the decade of the 1960s by the United Nations, Third World economic development is recognized as a failure, by the U.N. and socially conscious scholars alike, because it has failed to translate the fruit of economic growth into benefits for the majority of the Third World populations. As Seers (1973:6) puts it, "we have misconceived the nature of the main challenge of the second half of the twentieth century." The challenge is to reduce poverty, unemployment and inequality, not to accelerate economic growth. For rapid growth has not only failed to solve these problems, but has in many cases aggravated them. Thus the nature of the development process has to be changed, with the meaning of development normatively redefined in terms of social and human objectives. Growth cannot be considered as development unless these objectives are fulfilled in the developmental process.

(3) The Marxist Perspective: Capitalist development is defined in terms of capital accumulation, productive forces and the consequent changes and contradictions that
occur in the socioeconomic structures and in class and productive relations. From this perspective, development is assessed independently of the fulfillment of social and human objectives. For, in the Marxist view, the capitalist system is incapable of fulfilling these objectives. As Lenin (1939:62-63) observes, "... if capitalism did these things [developing agriculture, raising the living standard of the masses, etc.], it would not be capitalism; for uneven development and wretched conditions of the masses are fundamental and inevitable conditions and premises of this [capitalist] mode of production." This Marxist perspective differs from the other two in that (a) it places more emphasis on the material basis which makes growth and social changes possible; (b) it inquires into changes and contradictions in the class and productive relations as a result of capitalist development and (c) it assumes that the basic social problems of poverty, unemployment and inequality under capitalism can be solved neither by a growing "pie" nor by a reorientation of the development process that stresses the fulfillment of social objectives, but that the development of social contradictions will lead to the downfall of the capitalist system.

Our dialectical approach shares with the Marxist perspective its emphasis on the material basis as the primary explanatory factor, in contrast to the
developmentalist emphasis on quantifiable "operational dimensions." The material basis refers to capital accumulation and the resultant increase in productive forces and differentiation in the productive system. Thus dependent development refers to "cases where capital accumulation and diversified industrialization of a more than superficial sort are not only occurring in a peripheral country, but are dominating the transformation of its economy and social structure" (Evans, 1979:32). While the developmentalists also speak of capital accumulation and structural transformation, they are primarily interested in capital as a quantifiable general category, and they would regard structures as relevant only when these structures serve as "inputs" that lead to economic growth. The dialectical approach, on the other hand, avoids treating capital as a general category as if it had only quantitative importance, but rather seeks to understand the specific functions of capital and how it interacts with other factors under diverse circumstances to produce the dynamics of change. Furthermore, structures are regarded not only as capable of affecting economic development, but also as subject to impact from that development, impact that can lead to the transformation and differentiation of these structures. For example, the peasant class in Taiwan helps dependent development by providing labor and agricultural surplus, but that development also exerts profound
impact on the rural class structure. The developmentalist approach is interested only in the former process. Our dialectical approach is concerned with an analysis of the interaction between both social processes (see Chapter VI).

The concept of dependent development differs from the Marxist perspective on capitalist development in that it takes account of the situations of dependency which characterize peripheral capitalism. Some Marxist writers talk about peripheral capitalism as if there were no difference between it and its counterpart in center nations. Palma, for example, observes that the problems of inequality in income distribution, unemployment, etc. in Latin America merely "affirm that the development of capitalism in Latin America, as everywhere else and at all times, has been characterized by its contradictory and exploitative nature" (Palma, 1978:903). In this connection, he ignores the issue of dependency entirely. It is important to note that while Latin America's problems of low wages and income inequality were shared by Western countries in their early stages of capitalist development, these problems, as they occur in Latin America and other dependent societies, have an element of dependency because they result not only from the "universal" exploitative nature of capitalism, but also from the "particular" necessity of satisfying the profit motive of transnational capital,
without the collaboration of which dependent development would not be possible. This latter factor was not present in the Western experience of capitalist development. The working class in dependent societies suffers from exploitation not only because of the general determinant of capitalism, but also because of the particular determinant of dependency -- concrete situations in which a peripheral country is subjected to and conditioned by the expansion of one or more center economies. In this connection, credit must be given to dependency theorists for dealing with the consequences of unequal international power relations for peripheral societies as the essence of dependency.

Consequently, "dependency" is as important an aspect of dependent development as "development." In the words of Evans (1979:32), "Dependent development is a special instance of dependency, characterized by the association or alliance of international and local capital. The state also joins the alliance as an active partner, and the resulting triple alliance is a fundamental factor in the emergence of dependent development." In the process, substantial capital accumulation, diversified industrialization and structural differentiation have occurred, enhancing the productive capabilities of the peripheral economies that experience dependent development. On the other hand, negative consequences of dependency manifest themselves in one form or another. Referring to the
Brazilian case, Evans (1979:94) observes that "industrialized dependent development not only left unresolved the fundamental problems of classic dependence, it did not even offer any obvious route to their resolution. The new political economy created new social groups with new demands. It left the mass of the population as excluded as it had been from the export economy, more so in relative and psychological terms." Exclusion from economic benefits necessarily leads to exclusion from political participation. The ensuing class struggle could take on a different character distinct from class struggle under old types of dependency. The state apparatus, strengthened by its newly gained economic power in the triple alliance and supported by the military, could more effectively suppress popular demands for redistribution of economic benefits and political power. Such demands grow in intensity as dependent development brings about increasingly large and politicized segments of the urban proletariat, thus giving rise to an intensified response from the political system. On the other hand, however, increased wealth and capital accumulation under dependent development may constitute a material basis to facilitate reform and transformation of the political economy as pressures for change continue to mount. Just as the old types of dependency gave way to dependent development, so will a new form of political
economy evolve from the present context of dependent development.

Our methodological guidance (Proposition III) suggests that the characteristics of dependency under dependent development could differ from one society to another. The economically and politically exclusionary effects of the Brazilian model have to do with the particular class structure and productive relations of the Brazilian society and the nature of an industrialization shaped by these relations (see Part V for more discussion on this point). The Taiwan case of dependent development has produced quite different economic, political and sociocultural consequences precisely because class and productive relations and other factors internal to Taiwan society are different. Thus Amin (1976:292) is merely projecting particularity as generality, at best, when he argues that "none of the features that define the structure of the periphery is thus weakened as economic growth proceeds: on the contrary, these features are accentuated. Whereas at the center growth means development, making the economy more integral, in the periphery growth does not mean development, for it disarticulates the economy -- it is only a 'development of underdevelopment.'" Given the diversity and heterogeneity of structural features of peripheral societies, to generalize them in the absence of careful case studies is methodologically
unacceptable and could be factually erroneous; and to equate growth with "development of underdevelopment" is, apart from being a meaningless play on words, to obscure a dynamic process distinctly different from the stagnating types of dependency.

The sensibility of a dialectical approach to dependent development is further illustrated by Cardoso's perception of the subject. As he observes, the new process of dependent development began with a shift in imperialist relationships from the old types of investment in extractive industries and agriculture in the periphery towards manufacturing industries, operated in technologically and organizationally advanced mode of production and frequently in joint venture with local state and private capital. This has resulted in a certain level of industrialization, with local capitalists sharing in capital accumulation. Since a substantial portion of consumer goods thus produced is aimed at local market, a certain degree of prosperity is needed to foster purchasing power. Not only segments of the national bourgeoisie and middle classes, but also part of the working class benefit from this process. Thus, "foreign investment no longer remains a simple zero-sum game of exploitation as was the pattern in classical imperialism." And "it is not difficult to show that development and monopoly penetration in the industrial sectors of dependent economies are not
incompatible." There has occurred a kind of dependent
development in a number of Third World countries (Cardoso,
1974).

Like Evans, however, Cardoso considers dependent
development to be a special form of dependency. His analy­sis of the characteristics of dependency under dependent
development can be summed up as follows: (1) The "strate­
gic sector" which produces capital goods is non-existent
in these dependent economies; the center nations control
that production and the technologies associated with it as
a key strategy to maintain their global system of capital
accumulation. While the capability of producing consumer
goods induces some dynamic effects on local economies, the
dependent nations have to rely on the center nations for
the supply of capital goods (machines and equipments, parts
and components, industrial raw materials, etc.) on terms
beyond their control. Thus, "the global process of cap­
italist development determines an interconnection between
the sector of production of consumption goods and the
capital goods sector, reproducing in this way the links of
dependency" (Cardoso, 1974:91). (2) This international
division of labor results in unequal degrees of wealth and
unequal forms of international surplus appropriation,
thereby accentuating the distinction between center and
dependent economies (Cardoso, 1976:22). (3) While cer­
tain strata of the dependent societies benefit from the
development process, the masses become increasingly "marginalized" -- excluded both as producers and as consumers. The net result is the "fragmentation of class interests" and glaring socioeconomic inequalities (Cardoso, 1974).

Dependent development is thus a form of peripheral economic development which is supported, controlled and conditioned by center economies. It is "development" because the process brings about a significant level of capital accumulation, a marked increase in productive capabilities and differentiation and diversification of the industrial structure. To call it "development of underdevelopment" is to deny a social dynamic proper to these dependent societies and to blur the qualitative distinction between these societies and others that experience economic stagnation. Yet, it is "dependent" because such a development pattern is necessarily conditioned by external forces, thereby producing or exacerbating undesirable socioeconomic and political consequences for these dependent societies. Such consequences differ from one society to another, and the possibilities of overcoming them differ accordingly. Our dialectical approach makes no dogmatic assertions, as the stagnationist dependency theory does, about the future course of any dependency structure, but rather seeks to understand the specific conditions under which a particular dependency structure may be strengthened, transformed or eliminated.
In speaking of dependent development, "one speaks neces-
sarily and simultaneously of socio-economic exploitation,
unequal income distribution, the private appropriation of
the means of production and the subordination of some econ-
omies by others. On the other hand, one must also inquire
into the conditions under which this order is negated"
(Cardoso, 1976:17). It is in this dialectical unity be-
tween "development" and "dependency" that the meaning of
"dependent development" is manifested.

V. THE INTERACTIVE DYNAMICS OF DEPENDENCY

Griffin reveals an important fact about contemporary
center-periphery relationships when he observes:

There are some international economic forces which
obviously tend to stimulate development, but there
are many other forces which perpetuate inequali-
ties and tend to retard development. . . . The
transfer of ideas, knowledge, factors of production
and commodities may all increase rather than de-
crease the obstacles to development. (Griffin,
1973:22)

He would be more accurate if he added that the stimu-
lating or retarding effects of external forces also depend
on factors internal to the peripheral society with which
these forces interact. Our methodological propositions I
and III imply that the final consequences of international
economic forces have to be determined not only by these
forces, but by an interplay between them and the internal
structures, and therefore could differ from one specific
situation to another. Here we shall attempt to demonstrate the validity of these propositions, which are synthesized as the conceptual category of "interactive dynamics of dependency."

Unfortunately, this interactive dynamics is lost on dependency theorists and their critics alike. The former, as we have seen, claim that dependency created by the international capitalist system necessarily inhibits the development of peripheral economies. The latter cite positive facts in certain economies to question the usefulness of dependency as an explanatory category. In his major critique of dependency theory, for example, Sanjaya Lall of Oxford University advances a viewpoint reminiscent of external determinism: if dependency is a useful analytical concept, then the characteristics associated with it (e.g., foreign investment and technology) must have adverse effects on economic development wherever these characteristics are present. This determinist misconception has led him to set up two criteria which he claims have to be satisfied in order to prove the usefulness of the concept of dependency. The first criterion states: "It must lay down certain characteristics of dependent economies which are not found in non-dependent economies" (Lall, 1975: 800). Thus, "the dominance of foreign capital does not ... provide a criterion of dependence: Canada and Belgium are more 'dependent' on foreign investments than are
India and Pakistan, yet they are presumably not in the category of dependent countries" (Lall, 1975:803). Aside from misconceiving the meaning of dependency by equating it with "reliance," Lall is arguing that foreign capital cannot be regarded as a factor of dependency because it does not produce the same adverse effects in Western developed countries as it does in less developed countries. Following the same logic, he claims that "if we can simply show that there is no general case to be made that all dependent economies are growing poorer, then we have established our point about the inadequacy of the dependency concept. And we do not have to look very far" (Lall, 1975: 807).

This line of counter-arguments against dependency theory has recently been joined by others (Amsden, 1979; Whyte, et al., 1980) who rightly cite the Taiwan case to refute the dependency theorists' argument about peripheral underdevelopment, but nevertheless share Lall's misconception about the meaning and nature of the dependency concept. Referring to the Taiwan "miracle" as a "challenge to dependency theory," Amsden (1979:372) writes, "... if, in fact, the participation in foreign trade and the presence of foreign investment are useful categories for understanding the failure of Third World countries to develop, then one should be able to explain a case like Taiwan, where development has succeeded, by the absence of
foreign trade and investment. But clearly one cannot.\textsuperscript{8}

It seems fair to conclude that these critics share the same fallacy as dependency theorists in using external determinism to prove or disprove dependency, and in treating the dependency concept as a general category, whose usefulness depends entirely on its universal applicability. The dependency theorists construct a "theory" by generalizing the concept of dependency while their critics seek to disprove that concept by showing its lack of universal applicability. Thus there occurs a proverbial "dialogue of the blind," who, as a Chinese fable has it, fumble at different parts of the body of an elephant and come up with conflicting views without being able to identify the animal. The dependency theorists and their critics have failed to perceive the dialectical nature and the interactive dynamics of dependency.

We are still not in a position to theorize about the interactive dynamics of dependency. Empirical evidence, however, enables us to identify at least two of the processes in which the dynamics operates.

(1) Impingement and Countervailing of Power Relations

International power relations are stratified, and "power always impinges on weakness" (Niebuhr, 1959:114). Given this "impingement" function, the effects of unequal
power relations on a peripheral country depend on its relative strength or weakness. The weakness of most peripheral countries lies not only in a less developed economy, but also in a less developed institutional infrastructure, including the administrative and legal systems, organized labor, etc. The institutional weakness means that neither the government nor labor organizations and other social groups can exercise notable countervailing power to modify or regulate the behaviors and strategies of transnational corporations operating in their country. This situation is aggravated by the need of peripheral countries to confer privileges and incentives on foreign investors in efforts to develop their economies. Thus anti-labor policies reinforce the traditional underdevelopment of labor organizations to add to the deprivation of the working class and socioeconomic inequalities. Tax incentives, low wage policy and defects in the public administrative and legal systems facilitate the process of surplus extraction by TNCs at the expense of local capital accumulation. The weak regulatory capability of the government enables TNCs to pollute and destroy environments in a way that is forbidden in their home countries. There is also evidence that local savings and credit facilities are placed at the disposal of foreign firms at the expense of local ones (Muller, 1973). Such power "impingement" is hardly possible in advanced host countries. As Barnet and
Muller observe, "A casual comparison of the efficient German regulatory bureaucracy with the chaotic formalism of a typical Latin American counterpart gives some clue as to why corporations can wrest greater concessions (and greater profits) in a Colombia or a Pakistan or a Mexico than they can in Germany" (Barnet and Muller, 1974:138). Because of this "impingement" function, foreign investment tends to have greater adverse effects on peripheral economies than on advanced economies. Muller (1973:125) argues that "a familiarity with the politico-economic circumstances of LDCs will shed further light on why it cannot be assumed that the contributions of, for example, a United States corporation's subsidiary in West Germany to that economy are the same as the contributions of that corporation's subsidiary in Peru to the Peruvian economy."

If the "impingement" function is predicated on weakness, its negative effects are alleviated as the status of relative weakness improves. Unfavorable developments within the center bloc (e.g., growing economic competition among center nations, economic instability and cyclical downturns, cold war with the Communist bloc and the resultant need to win over or neutralize the Third World, the increasing availability of "routinized" technologies for the periphery, etc.) and the social, economic and political reformatations among peripheral countries (e.g., growing peripheral solidarity, success in revolutions
such as in Zimbabwe and Nicaragua, the upgrading of industrial and technological capabilities, etc.) can all tilt the scale of international power relations in favor of certain peripheral countries or the periphery as a whole, albeit in an insignificant way thus far. Vernon (1976:49-50) argues that while dependency accurately described the relations between local business sectors in peripheral countries and foreign business interests during the colonial days, that dependent status has undergone drastic changes over the past three decades with the "emergence of a new breed of tough local entrepreneurs prepared to make partnerships or do battle with foreign enterprises as their interests demand." While Vernon may be exaggerating the countervailing power of the peripheral entrepreneurial class, Kumar (1978:84-85) aptly notes "a process of differentiation" within that class as a result of peripheral industrialization: a section of it remains highly dependent on foreign capital and technology; other segments where technology has become standardized seek to challenge the domination of transnational interests by enlisting the support of the national state. "In several sectors such as banking, mining and petroleum, the local entrepreneurs have more or less succeeded in dislodging TNEs (transnational enterprises). Still others remain unaffected by the operations of TNEs and are therefore indifferent towards them. Thus, the interests of all entrepreneurs
are not identical. Nor do all of them remain in a dependent status. Even those who are allied to TNEs constantly try to improve their bargaining position" (Kumar, 1978:85).

Evans' case study (1979) suggests the importance of the "entrepreneurial state" in modifying the "impingement" effects of transnational interests. This role of the state as a countervailing power depends on the "bargaining chips" which the state can have at its disposal, ranging from cheap labor to abundant natural resources and to low-cost materials (such as petrochemical intermediates produced by state enterprises). With these "chips" in hand, the state offers incentives to transnational corporations on the one hand while making demands (such as restricting the areas of operations by TNCs, increasing their local procurements of raw materials and parts and components, etc.) on the other. In this case, countervailing power does not mean outright confrontation, but rather involves a process of bargaining and compromise based on cost-benefit calculations. Too much coercion may force TNCs to withdraw from local ventures and even to mobilize political opposition internally and externally (such as the Chilean coup). Yet, needless concessions erode national interests. A vital role of the state in promoting national development is therefore to optimize costs and benefits vis-a-vis transnational actors. To do so, however, would
require profound transformations of social, economic and political structures at the national level, as Amin aptly suggests. Zimbabwe offers a good example of how a peripheral country which has undergone such transformations can maneuver the political and economic stakes of international actors in that country to its own benefit (New York Times, 3/31/81, p. A19).

(2) Interaction with Internal Structures

Insofar as foreign capital and technology embody productive forces, there is no doubt that they can cause changes in the internal structures of the peripheral societies into which they are introduced. The question is in what directions will the changes take place, and what consequences will they produce. The answer to this question lies not only in the particular internal class structure and productive relations, but also in the particular contents and functions of foreign capital and technology. The following points are instructive:

First, foreign capital (and technology) is not a general or homogeneous category, but has specific functions and heterogeneous characteristics. Instead of being purely technical and value-neutral, it carries power relationships, class interests, cultural values and a specific developmental ideology. Consequently, its interactions with the internal structures of the peripheral society
are not merely an economically productive phenomenon; they are also interactions between power, values and class relations. Furthermore, as Chase-Dunn (1975:721) observes, foreign capital is not only a resource flow, but also a "control structure," which imposes dependency and in many cases inhibits development.

Second, foreign capital enters a peripheral country to capitalize on its resource endowment and/or market for the supreme purpose of capital reproduction and accumulation. Hence, its operation will affect the patterns of resource allocation and appropriation as well as market conditions. This in turn produces effects on the patterns of income distribution and class relations of the peripheral society.

Foreign capital and technology can thus yield a diversity of consequences for various peripheral countries, including the following:

(a) Re-entrenchment and Bi-modalization: In peripheral countries with private ownership of mining resources and plantations, foreign investment in extractive industries and agribusinesses tends to increase the wealth and power of the owning classes and thus accentuate social inequalities. Moreover, because this type of investment is commensurate with capital-intensive production processes, its job-generating capacity is limited. This results in "marginalization" -- increasing unemployment and
underemployment and the consequent poverty and deprivation for the segments of labor force which are excluded from the "modern" sector. But a relative small number of workers may benefit and become the so-called "labor aristocracy." Arrighi's studies of tropical Africa, for example, show that TNCs operating in extractive industries there are willing to pay high wages to workers employed in "a limited and shrinking modern sector," because "for the [transnational] companies in question the exploitation of natural resources or of market opportunities in the periphery with capital-intensive techniques is far more important than the exploitation of cheap labor" (Arrighi, 1970, quoted in Koo, 1980:5). At the same time as the owning classes are entrenched by their collaboration with foreign capitalists, there occurs a social process of polarization in which not only social class division intensifies, but also class interests of the working masses are fragmented along a sectoral line. Furthermore, in a country such as Brazil where traditional patterns of income and wealth distribution were skewed with a sharp division between dominant owning classes and the impoverished masses, foreign manufacturing investment tends to concentrate on the production of elite-oriented consumer goods rather than wage goods because the majority of the population has little purchasing power. Manufacturing such durable luxuries necessitates capital-intensive
high-technology processes, thereby inhibiting the economy's capacity of labor absorption. As Evans (1979) observes on Brazil, the masses are excluded both as producers and as consumers. Foreign capital thus helps reentrench the powerful elites while exacerbating class division and social inequalities. It should be noted that this type of capital investment reinforces the unequal class structure not only by marginalizing the employment and income of the working class, but also by helping to create a highly inflationary economy. While price inflation benefits industrial corporations, it reduces real wages, since the Brazilian government and industry are unwilling to meet workers' demands for living cost adjustments. This problem was dramatized by the Brazilian government's manipulation of inflation figures in 1977 to deny workers these benefits. With an inflation rate soaring to 113 percent by April 1981, "the purchasing power of the Brazilian lower and middle classes has steadily declined" despite the increase in production figures (New York Times, 4/3/81, p. A2). In some other Third World countries, the introduction of the capitalist mode of production and the concomitant market economy creates inflation while rapid population growth pushes up man/land ratios. As a result, not only real wages are eroded, but also monetary wages are pushed down as swelling numbers of migrant laborers compete for the scanty jobs. Moreover,
by strengthening the wealth and power of local dominant
groups, foreign capital also adds to the obstacles to
legislative efforts directed at redistribution of land
and other economic benefits.\footnote{11}

(b) Mobility and Tri-modalization: In contrast to
Brazil, Taiwan inherited a weak and small industrial
bourgeoisie from the colonial period, is endowed with few
natural resources and has a relatively small domestic
market. Under such circumstances, foreign investment is
inclined to use labor-intensive processes to produce for
overseas markets. Manufacturing industries are mostly of
small and medium size and, because of their labor-
intensive nature, have a relatively large capacity of
labor absorption. Greater job opportunities spread income
among lower and middle classes. While unskilled labor,
particularly women workers, suffers from low wages and a
lack of labor protection, a large pool of man-power with
managerial, commercial and other skills resulting from
wide-spread education profits from the economic boom and
enjoys greater upward mobility. Moreover, the booming
export trade, coupled with the stimulating effects of
forward and backward linkages created by the manufacturing
sector, has fostered a tremendous number of small- and
medium-sized enterprises which claim a substantial share of
the economic surplus. Because Taiwan started out with a
weak and small entrepreneurial class, the developmental
process thus far is primarily a process of the development of small and medium enterprises, which account for 98 to 99 percent of total industrial and business establishments, create some 70 percent of jobs therein and provide nearly half of GNP. Thus the Taiwan model is characterized by strong "middle sectors" to prevent extreme polarization found in many Third World countries. In this case, foreign capital and technology have contributed to social mobility and the emergence of a trimodalized class structure in which income distribution poses a much smaller problem than in a majority of peripheral economies. Such a class structure, however, is subject to change as the labor-intensive industrialization is losing its competitive edge and large capitalist interests are increasingly making their monopoly power felt. Furthermore, the externally imposed development model has caused a serious imbalance between industry and agriculture, created rural disruptions and penalized the peasant class in the process of industrial growth (see Chapter VI).

The specificity of the dynamics of dependency can also be comprehended from the perspective of technology transfer. The case of Japan stands out. During the early 1950s, Japan began to learn electronic technologies from the U.S. through licensing. Fifteen years later, the Japanese electronics industry rivaled and posed a threat to its American counterpart. By contrast, most
Third World countries that sought the same technology transfer have ended up being little more than bases of assembly operations for foreign electronics firms. These differing results certainly cannot be explained by the controlling effects of external forces alone. Equally important are internal conditions such as education, receptivity to new technology, infrastructural facilities and organizational sophistication. The benefits of "product life cycle" that may accrue to less developed countries thus depend to a large extent on the internal structures of these countries.

The above discussion on the interactive dynamics of dependency should lead to an important conclusion that basic transformations of internal structures are necessary if LDCs are to benefit from "international economic forces." As a North-South conference on world development pointed out, "two decades of experience with international economic cooperation have also convinced many leaders in the developing countries that basic changes in their economies and social systems are more important than quantitative increases in external resource transfers." Institutional reforms that reflect social justice and make possible "popular participation in the production process and a better distribution of domestic income" were regarded by the conference as preconditions for the kind of popularly based economic growth that LDCs need. Without
such internal reforms, foreign exchange and other external resource transfers are unlikely to lead to a satisfactory solution of the basic problems of poverty, unemployment and inequality which confront the LDCs in general. Furthermore, internal transformations in the periphery should also include a collective effort by peripheral countries to change "patterns of international economic cooperation which continue to make trade, aid, investment, monetary policy and technology instruments of domination by the developed nations."12

Insofar as dependency reflects an interactive relationship between the internal and the external, it can be negated or reduced only through changes in these two aspects of a dialectical unity. Moreover, if we agree that "international economic forces" have both stimulating and controlling effects on peripheral economies and that continuing interdependence within the world system is a necessity, then a desirable and feasible alternative to dependency is not to sever ties with the world system, but to remold these ties through collective efforts so as to maximize the stimulating effects while minimizing the inhibiting ones, and to make the interdependence reflect international economic justice rather than unequal power relationships. In view of the established international power structure, to accomplish this goal would require nothing less than a radical transformation of the existing order at the national and international levels.
1. The concept of economic development in this dissertation generally refers to "dependent development" in the periphery, which is descriptively defined in terms of the material conditions of capital accumulation, productive capabilities and the resulting differentiation in the productive system. This definition has an origin in the Marxist definition of capitalist development, whose central defining characteristic is productive forces. Marxists believe that the capitalist system is intrinsically incapable of fulfilling social and human objectives such as equitable distribution of income, full employment, decent living conditions for the working class, etc., but is capable of increasing productive forces and promoting a capitalist mode of industrialization. Thus, if capitalist development were conceived in terms of these normative objectives, there could be no "development" to begin with. In the studies of dependency, Cardoso and others also choose to exclude these normative criteria from the definition of dependent development, presumably because of the need to clarify the meaning of capitalist development in the periphery, which has been confused by the "development of underdevelopment" thesis of the stagnationist dependency theorists. A well-defined descriptive concept of dependent development enables us to assess the potential and viability of peripheral capitalism as a mode of production. This cannot be done within the framework of the neo-Marxist dependency theory. Rather than ignore the issue of success or failure of peripheral capitalism in fulfilling social and human objectives, the studies of dependency treat that issue on a separate basis. Thus the exclusion of normative criteria from the definition of dependent development is a matter of methodological consideration, not of value choice as in the case of developmentalist economic theory.

2. The dependency school comprises a diversity of viewpoints on capitalist development, but as Cardoso (1976:21-22) notes, there are "two polar modalities" within that school: the "development of underdevelopment" (or the stagnationist) version represented by Frank, Amin and some other neo-Marxist writers, and the "dependent development" version associated with Cardoso, et al. For reasons to be expounded in this chapter, Cardoso suggests that it is inappropriate to use the term "dependency theory." Accordingly,
throughout this dissertation, the term "dependency theory" is reserved for the stagnationist version. The "dependent development" approach fits into the broader context of "the studies of dependency" rather than "dependency theory."

3. The Marxist view on the progressiveness of capitalism was first challenged at the Sixth Congress of the Communist International in 1928. It was argued then that capitalism could result in underdevelopment in backward countries because dominant social classes there tended to ally with imperialism to block industrialization and socioeconomic transformations. However, until Baran published his works (primarily *The Political Economy of Growth*) in the 1950s, Marxists had not written off the "progressive" role of peripheral capitalism, but held the view that peripheral capitalist development would depend on efforts of the national bourgeoisie to work in alliance with revolutionary forces to overcome the obstacles created by the retrogressive alliance between local feudal oligarchies and foreign imperialism. This view was followed by the Latin American left as a basis of political analysis and strategy until the mid-1960s, when the neo-Marxists, inspired by the Cuban revolution and by Baran's works, and disillusioned with the ECLA development strategies, totally abandoned the orthodox Marxist view on the "progressiveness" of capitalism and of the national bourgeoisie while advocating socialist revolution as an alternative for national development. For fuller discussions, see Palma (1978) and Mandle (1980). It should be noted that even Baran does not stress capitalism as the root cause of peripheral underdevelopment as such, but rather focuses on the incapability of capitalism to fulfill its supposedly "progressive" historical role due to constraints posed by the "reactionary" alliance between internal and external forces mentioned above.

4. Even A. G. Frank has recently criticized his own dependency theory by arguing that even "socialist" countries cannot escape from the dependency relationships imposed by the world capitalist system. See Frank (1980:Chp. 4). Also, in a recent interview with The Seventies (a Hong Kong-based Chinese-language journal), Frank had the following to say:

The dependency theory which I put forth in the past also has its defects. Foremost among them is the assumption that the Third World can break away from the control by the West and
choose a path of independent development. Facts have proved that this assumption does not hold at all. New crises that have transpired in the world have laid bare the weaknesses of that theory (The Seventies, April 1981; translation mine).


6. Bodenheimer (1971:38), for example, argues that collaborative mechanisms (or what she calls "social infrastructure of dependency") in Latin America function in a manner that "responds to the needs or interests of the dominant powers in the international system rather than to national needs or interests."

7. These remarks, made by Robert McNamara in his address to the Board of Governors of the World Bank in 1972, are quoted in Epstein (1975:35).

8. Amsden, however, continues her counter-argument against dependency theory with a perceptive view that "class and productive relations within the periphery are decisive as to how foreign trade and investment affect development." This view touches upon the interactive dynamics of dependency which we are discussing in this chapter. Our dialectical approach, however, refrains from asserting whether external or internal factors are "decisive." Moreover, it should be noted that "class and productive relations within the periphery" could themselves be the product of external relationships in the past.

9. Koo's case study of South Korea (1980) reveals a different pattern of polarization. He contends that in a more developed peripheral economy such as South Korea, the petty bourgeoisie with the means of production at their disposal can advance themselves economically by undertaking "informal" economic activity in the "peripheral" sectors of the economy, but workers in the modern sector, especially women workers, suffer from "superexploitation." That is to say, exploitation and polarization take place along a class line rather than a sectoral line.

10. Real wages in Brazil declined by 40 percent during the entire period of high growth rates since the 1960s. See the Monthly Review article cited in Footnote 5.
11. For a fuller discussion on these problems, see Epstein's case study of South India (1975).

CHAPTER II

INTRODUCTION TO THE TAIWAN CASE STUDY

The methodological approach discussed in the preceding chapter makes it possible for us to study a more developed peripheral economy such as Taiwan from the perspective of dependency. This would not be possible if we use the framework of dependency theory. In fact, some critics have observed that Taiwan poses a "paradox" and a "challenge" to that theory (Amsden, 1979); others claim Taiwan to be a "deviant case" (Whyte et al., 1980). It is nevertheless regrettable that the inadequacy of dependency theory should have led its critics to sidetrack the issue of dependency and even to dismiss its usefulness for the studies of peripheral development and underdevelopment. With a methodological reorientation that puts the issue of dependency in perspective, we may now hope to clear up the misconceptions, thereby ending the "dialogue of the blind."

A major chapter (Chapter V) will be devoted to an empirical analysis of some of the dynamic aspects of Taiwan's economic development as well as the constraints and limitations posed by its dependent status. The Taiwan experience demonstrates a case in which external surplus extraction goes hand in hand with significant domestic
capital accumulation. Empirical evidence also provides insights into a paradoxical situation in which capitalist development in terms of productive and technological capabilities is both promoted and limited by dependency relationships -- a situation that suggests a dialectical synthesis between "dependency" and "development" and reveals the very nature of contemporary imperialist control, which we have discussed in the preceding chapter. Furthermore, we find in the Taiwan case the coexistence of those characteristics which dependency theorists may identify as "underdevelopment" with those which may well be interpreted as its antithesis. Such realities render the stagnationist concept of "development of underdevelopment" irrelevant. They can only be explained in the context of "dependent development." An inquiry into Taiwan's dependent development and its implications for social and political changes is the focal point of this case study.

Dependency under Colonialism

Although this study focuses on contemporary center-periphery relationships, whose concrete expressions are foreign aid, capital investment, technology transfer, trade and the concomitant cultural penetration, a true historical perspective does not permit exclusion of the colonial relationships in which Taiwan's social and
economic structures have their roots. An analysis of the socio-economic formations under colonialism and their political consequences will shed light on the post-colonial transformations of Taiwan society.

In recent years there has been a consensus in Asian studies that a key factor making for Taiwan's rapid economic development is the strong agricultural base and physical and institutional infrastructures built during the colonial period. In light of our dialectical approach to dependency, this appears to substantiate the proposition regarding the transforming potential of dependency structures (Proposition IV). In the words of Evans (1979:94), "the classic model of dependence proved to have within it forces that made for its own metamorphosis. Far from being a stagnant and self-reproducing system, it was a self-transforming one." These forces came from the economic base and from tensions contained in class and social relations -- tensions that resulted in pressures for changes. The economic base built under colonialism and making for post-colonial economic development should not be exaggerated or generalized; and where it exists, its benefits should be weighed against the costs inflicted on the colonized.1 Yet, anti-colonial sentiments should not be allowed to confuse an objective analysis of the transforming potential of the economy made possible by the productive forces under colonialism where such
forces did occur. In the Taiwan case, the economic base built during the colonial period incorporated a structure of uneven development on the one hand and a productive agricultural base and the infrastructural facilities associated with it on the other. These two aspects will be discussed in Chapter III and Chapter V respectively. Chapter III also discusses how particular class and productive relations shaped by colonialism generated tensions, giving rise to political alliances and conflicts, and to class solidarity and division. We identify the nationalist social forces pushing for changes as well as the collaborative clientele that resisted changes and sought to maintain the existing structures. We note the ambivalent and contradictory character of the segment of the landed gentry who also played a part in the nationalist mobilization, in contrast to the unequivocal anti-colonial position of the proletarian-oriented segment of the intelligentsia who fought for "class liberation." Finally, we observe how cleavage and division occurred within the anti-colonial movement in response to growing tensions in the agrarian system. In short, the main purpose of Chapter III is to delineate the causal link between an uneven development model under colonial dependency and sociopolitical changes. The long-term effects of the colonial economic base on post-colonial
development fit into the scheme of Chapter V where the
dynamics of dependent development is analyzed.

New Dependency

Another major factor in Taiwan's economic development
was the economic aid and technical assistance administered
by the U.S. Government during the 1950-65 period. There
is some controversy over the effects of the U.S. aid.
Griffin (1973a:34-35), for example, suggests that the aid
actually retarded economic growth in Taiwan because a
substantial part of it was used for consumption and un-
productive military purposes. But Jacoby (1966) and many
other economists acknowledge positive contributions of
the aid programs. Griffin describes in detail how the
American aid helped overcome runaway inflation during the
early 1950s, modernize the infrastructure, carry out
technical training and institutional reform programs,
etc. He even claims, apparently with exaggeration, that
"without aid, it was calculated that the GNP [of Taiwan]
would have grown only 3.5 percent a year until 1983" and
that the aid "cut 30 years from the time needed to attain
1964 living standards" (Jacoby, 1966:152). K. T. Li, an
architect of Taiwan's dependent development and a leading
member of the Kuomintang technocratic elite, observes
that "U.S. aid played an important role in the develop-
ment of private industry, not only because it has served
as a major source of investment funds, but also because it has encouraged and helped to induce the flow of private capital into the channels of production" (Li, 1961:24).

From the dependency perspective, we are interested in knowing how aid has been used as an instrument to establish center-periphery ties under the post-colonial setting. This is important because, unlike the colonial era when imperialism-dependency relationships were maintained through direct political and military controls, a good case of these relationships cannot be made during the post-colonial era unless we look into the actual process of interactions between a center nation and a peripheral nation. Center-periphery relationships may or may not be characterized by dependency significant enough to be included in the studies of dependency. In those African and South Asian countries with minimal trade or investment ties with center nations, it would not be relevant to speak of how dependency has caused their underdevelopment. To make a good case of "new dependency," therefore, it is necessary to set up certain criteria whereby we may examine the nature of the external relationships to which a peripheral country is subject.

In light of Galtung's structural theory of imperialism (1971), imperialist relations are a special form of "dominance relations." A dominance relation holds when a (center) nation "has power over" another (peripheral)
nation. Yet, it is not necessarily an "imperialist" relation. The central criterion for such a relation to be called "imperialist" is that the center must establish a "bridgehead" (i.e., elite linkages) in the periphery. This notion of "bridgehead" is actually what Robinson (1972) describes as "collaborative mechanisms" which we have mentioned in the preceding chapter. Its centrality stems from the fact that, in the absence of direct military and political controls by the center, contemporary imperialism-dependency relationships can be established only through an internalization process. This concept of "bridgehead," or collaborative mechanisms, has particular implications for our dialectical approach to dependency because, unlike the stagnationist dependency theory, we avoid the pitfall of external determinism and recognize the contemporary reality that dependency is not unilaterally superimposed from outside, but rather involves an interactive process. As Kumar (1978:82) puts it, "the dependent status of local entrepreneurs is not necessarily the result of Machiavellian manipulations of TNEs (transnational enterprises) or of the military and political power of their home countries. Rather, it is inherent in the present situation in which local entrepreneurs derive tangible benefits from their alliance with TNEs." Thus, in the Taiwan case study, as in others, dominance relations in the post-colonial era will not be conceived
in terms of subjugation, but rather as asymmetrical power relationships in which the state and dominant elites in Taiwan willingly participate as junior partners and collaborators and in which dominant elites in the U.S. establish and use collaborative mechanisms to attain their ends, first military and then economic.

While Galtung's theory comes to grips with the central feature of contemporary imperialist relationships, it fails to pinpoint the central purpose of imperialism -- reproduction and accumulation of capital on a world scale and the resultant expansion of center economies. We cannot capture the specific historical momentum of imperialism if we interpret, as Galtung does, imperialism-dependency relationships in terms of such static concepts as "harmony of interest," "disharmony of interest," etc. The historical momentum of imperialism derives from the needs for capital reproduction and accumulation on a global scale and continuing economic expansion in the center. From this perspective, the global operations of central capital must be seen as the essential concrete expression of imperialism. Hence an analysis of imperialism-dependency relationships must address the issue of how a peripheral economy is integrated into and becomes complementary to the needs of the center economies (Bodenheimer, 1971a:336).
We can thus derive a set of criteria for defining "new dependency" -- imperialism-dependency relationships under the post-colonial setting:

(1) The "dominance" criterion: Whether and how the center uses asymmetrical power relationships to influence or shape the process of economic development in the periphery.

(2) The "internalization" criterion: Whether and how the center establishes collaborative mechanisms to internalize center-periphery relationships in the periphery.

(3) The "complementary integration" criterion: Whether and how a peripheral economy is integrated into and becomes complementary to the needs of one or more center economies.

Drawing on these defining criteria, we shall discuss in Chapter IV how the decolonized Taiwan society has come to be incorporated into the orbit of the global system of capital accumulation. Only within the context of integration into the world system can we understand the nature as well as the strengths and weaknesses of the dependent development that has taken place in Taiwan.

The Dynamics of Dependent Development

On the basis of empirical evidence, we first demonstrate that dependent development in Taiwan is made
possible not only by transnational factors, but also by internal conditions such as a relatively modernized infrastructure and a strong and productive agricultural base. This suggests that dependent development has a historical origin and that Taiwan's colonial dependency contained forces for self-transformation. This also explains why dependent development in a majority of Third World economies is less successful than it is in Taiwan. Thus the argument of many economists and government officials which attributes Taiwan's "success story" to its "opening up" to the "free enterprise" system and foreign trade and investment should be regarded as one-sided and ahistorical. Similarly, the thesis of some dependency-related writers that dependent development has resulted from post-war changes within the international capitalist system, particularly a shift in the extractive function of imperialism towards manufacturing investment in the periphery, is only partially true. The Taiwan case study, therefore, provides an empirical basis for proving the thesis of the "interactive dynamics of dependency."

An important dynamic of Taiwan's dependent development lies in capital accumulation. Since the mid-1960s, domestic capital formation has not only grown at an accelerated pace, but has also been financed mostly from domestic savings. Moreover, a quantitative analysis shows that savings from household incomes have
contributed more to capital formation than savings from corporate profits. This fact runs counter to a well established thesis that capitalist profits are the main sources of savings and capital accumulation. It suggests the dynamic effects of Taiwan's dependent development on the emergence of the "middle sectors," which in turn generate feedback effects on economic growth by making substantial contributions to aggregate savings. It should be noted in passing that, at least until the mid-1960s, surplus extraction from the peasant class also constituted a major domestic source of capital formation. A theoretical implication to be drawn from these concrete realities is that the "progressiveness" of capitalism may not only lie in the "progressive" attitude of the capitalist class towards savings and capital accumulation, but also in the same attitude of other social classes as well.

Simultaneously as we show how transnational capital and technology have stimulated Taiwan's dependent development, we also show how these transnational factors make it difficult for Taiwan to upgrade its industrial structure and technological capabilities. In the long run, technological dependency has severely hampered local R&D while transnational interests control crucial technologies and the capital goods sector to serve their global accumulation. Coupled with the extensive TNC control over Taiwan's foreign trade, this technological control has
made the Taiwan economy highly dependent on Japan and the U.S. for the supply of capital goods, including industrial raw materials, thus reducing the potential for local capital accumulation as well as the possibilities of improving economic autonomy vis-a-vis the dominant nations. Furthermore, the transnationalized sector in Taiwan, along with large-scale local enterprises, preempts the credit facilities of the entire economy at the expense of small and medium firms, inhibiting the long-term development of these dynamic "middle sectors," which have been vital to the Taiwan economy thus far.

Thus, foreign capital alliance, technological collaboration and extensive trade relations combine to produce great controlling effects on Taiwan's economy simultaneously as they stimulate its growth. To a substantial extent, capitalist development in Taiwan was born out of the needs for expansion of the dominant economies, particularly the U.S. and Japan, and has its prospects limited and constrained by these needs. It is a type of dependent development, albeit more successful than a majority of peripheral economies.

**Internal Consequences**

The internal consequences of dependent development are analyzed from two perspectives: intersectoral and sociopolitical. Chapter VI presents an intersectoral
analysis of agricultural surplus extraction and its impact on agricultural development and the rural structure. We observe that the government's squeezing mechanisms are aimed at the mobilization of both rural surplus and labor for industrial use. Labor outflow intensifies as the extractive policies increasingly marginalize farm income. The resultant labor shortage pushes up production costs in agriculture, making farming even more unprofitable and causing more labor to move away to industry. The "double mobilization" policy has thus led to a steady decline in agricultural growth, stagnation of rural community development and the gradual disintegration of the peasantry as a cohesive social class.

Despite these and other rural disruptions, Taiwan's rural areas during the past three decades have seen no peasant unrest which characterized the colonial period. Several reasons underlie this peaceful picture. One is the excess outflow of youthful manpower that deprives rural communities of leadership for revolutionary or reformist mobilization. On the other hand, however, the socialization of rural labor and the class transformation of broad segments of the peasantry have accelerated the growth of an industrial proletariat, thus setting the stage for labor unrest and class conflicts in the future, if not at present. Unlike the Philippines and many other Third World countries, the uneven development model of
Taiwan tends to shift the center of class struggle away from rural areas.

Chapter VII analyzes the sociopolitical consequences of dependent development by constructing a modified model of political authoritarianism. In the dependency-oriented literature, attention is being drawn to a correlation between dependent economic development and the emergence of authoritarian regimes. Such a correlation stems from the needs of the state to accommodate the interests of transnational actors and local bourgeoisie who participate in the dependent development, to increase domestic capital accumulation to support a capital-intensive high-technology type of industrialization, and to demobilize populist forces from participation in the technocratically oriented political and economic processes. O'Donnell (1973) contends that the need for repression intensifies as a higher stage of dependent industrialization incurs huge balance-of-payments deficits while segments of the economically excluded urban proletariat become increasingly activated and organized. Thus Latin American sociologist Florestan Fernandes observes "a strong rational association between capitalist development and autocracy" (quoted in Evans, 1979:49). Contrary to the Western experience that representative democracy is the best possible political form for capitalist development, in the periphery
"bourgeois autocracy" appears to be a necessary condition for dependent development to succeed (Evans, 1979).

In the Taiwan case, however, a somewhat different argument can be made. To the extent that political exclusion follows from economic exclusion, greater income equality and economic opportunities in Taiwan prevent at least in the short run a drift toward the Latin American type of political authoritarianism in which the cycles of repression and resistance occur along a distinct class line. Unlike the Philippines and many Latin American countries, military-authoritarian rule in Taiwan is not a direct result of dependent industrialization. Rather, it stems from the need for survival of an exogenously imposed regime, whose lack of legitimacy entailed the imposition of martial law long before the arrival of transnational capital. Moreover, the Nationalist Chinese intolerance of organized labor and political opposition is explained not only by the rationale of dependent development, but also by a political culture alien to pluralist politics, and by a paranoia inherited from the mainland era that any countervailing powers in society may serve as rallying points for anti-systemic mobilization. As Winckler observes, "the principal obstacles to both 'Taiwanization' and democratization have been those mainlanders in the party headquarters who have a vested
interest in the status quo and genuinely fear letting popular sovereignty outgrow party control" (Winckler, 1981:21).

The modified model also includes sociocultural and political variables that help explain the relative weakness of the causal link between Taiwan's dependent development and political authoritarianism. On the political front, the absence of a nationalist counter-elite minimizes intra-elite conflicts over the issues of foreign economic control versus national autonomy, an issue that is typical of the Philippine model. Consequently, repressive actions such as taken by the Philippine technocratic elite to dislodge the counter-elite from decision-making processes and hence to consolidate a new authoritarian order did not occur in the Taiwan polity. Furthermore, labor "disturbances" are minimized not only by martial law, but also by a number of sociocultural factors, ranging from the traditional norms of reciprocal obligations between workers and their rural-based families to the ephemeral character of the adolescent and female labor being extensively used in manufacturing industries.

These observations, however, do not rule out the inhibiting effects of Taiwan's dependent economic development on its political development. Our modified model discusses how transnational connections have enhanced anti-labor policies and made the political system more
unresponsive to popular demands for changes where the common interests of the "triple alliance" are at stake. A high degree of dependent industrialization has bred new social groups and classes with new demands for democrati-

zation and socioeconomic reforms. But instead of leading the way to democratic pluralism, the new social formation has forced the political system into a new phase of authoritarianism when the regime must learn to cope with an increasingly legitimized opposition. On the one hand, the regime seeks to develop new adaptive capabilities by expanding channels of cooptation, mainly elections, to accommodate an increasingly large segment of the indigenous elite. On the other, repressive apparatuses, equipped and trained in part by transnational actors and strengthened by the regime's newly gained economic power, stand ready to crack down, often with over-reaction, on tendencies that may lead to the formation of oppositional power bases. The democratization movement in Taiwan, if given a free hand, could affect the "triple alliance" not only by threatening "stability"; its partially populist orientation could also lead to the establishment of countervailing mechanisms against anti-labor policies, environmental destruction, etc., thereby eroding the privileged position of transnational corporations. Yet, accommodation is necessary because since the Chungli Incident in 1977, it has become increasingly clear that
further alienation of the oppositional elite can be disruptive. Thus political development in Taiwan is characterized by an "authoritarian dilemma," which dependent economic development has helped create.

Our modified model eventually focuses on a "semi-peripheral paradox" between economic development and political underdevelopment, a paradox that suggests the continued absence of countervailing powers in government and society simultaneously as the "triple alliance" becomes more entrenched. Such an asymmetrical power structure makes the "common good" (especially ecological protection) and the economic welfare of lower classes vulnerable to impingement by the power of the "triple alliance," particularly during economic downturns and transitions.

The Taiwan model of authoritarianism concludes that a higher degree of dependent development may not lead to democratic pluralism as modernization theory predicts, nor to heightened autocracy as experienced by several Latin American countries. Rather, it may lead, as in the Taiwan case, to "authoritarian dualism" whereby the dual tactics of accommodation and repression are alternated to ensure system-maintaining capabilities under changed social and economic circumstances. Through a comparative analysis, the model also suggests the possibilities that military-authoritarian controls in Taiwan may tighten if
a new phase of capital-intensive industrialization requires an exclusionary economic base to serve capital concentration. These possibilities are enhanced by the potential instability of Taiwan's political system due to inter-elite (and intra-elite) conflicts: the indigenous oppositional elite is pushing for basic changes in the power structure while a new generation of liberal Kuomintang elite is pressing the conservative party machine for moderate reforms in a direction that they believe would ensure the regime's viability. When the economy is confronted with difficulties due to a downturn or transition, and when elite conflicts intensify, a military coup to repress the opposition and to mute reformist partisans is a real possibility. At this point, the Taiwan model would approach the Latin American and the Philippine models in that a regression in political development is necessary to create an exclusionary political structure in consonance with an exclusionary economic base during a new phase of dependent development.
NOTES TO CHAPTER II

1. An extreme case where colonialism left no "economic base" for post-colonial reconstruction to begin with may be illustrated by the experience of Mozambique. When the Portuguese fled Mozambique in 1975, "they took with them everything, down to the bathroom fixtures, leaving behind 12 million Mozambicans, 98 percent of whom were illiterate." The Portuguese reportedly left the African country with neither technical and managing personnels nor infrastructural facilities. See a report by The New York Times, 10/13/80, p.A8.

2. In 1964, Neil H. Jacoby, dean of Graduate School of Business Administration, UCLA, was retained by AID to study the effects of U.S. aid on the economic development of Taiwan. His study resulted in the publication of his well quoted book (1966).
CHAPTER III
DEPENDENCY UNDER COLONIALISM

The peasant movement in Taiwan could only intensify unless one way or another the interests of cane-growing peasants could be integrated with the interests of sugar enterprises, i.e., unless the existing production relations in society could be ameliorated. The peasant movement will not be merely an economic class movement as in ordinary societies, but will be simultaneously a nationalist movement, expressing a colonial situation in which nationalist confrontation coincides with class confrontation.

-- Tadao Yanaibara (1929:280)

I. UNEVEN DEVELOPMENT

The studies of colonialism reveal patterns of uneven development common to colonized societies. These patterns arose out of the needs of dominant economies for certain products or raw materials, or out of the colonial interests in cash crops for profit purposes, or a combination of both. As early as 1929, prominent Japanese political economist Tadao Yanaibara wrote, with reference to Taiwan, that commercialized production in a colonized society was "externally determined by the market needs and capital needs of the [colonialist] home country, not by the internal needs of the colonized society" (Yanaibara, 1929:136). The production pattern became "distorted" when such colonialist needs led to the "overdevelopment"
of one or two products or industries at the expense of others. In agriculture, the structural unevenness was usually manifested in "monoculture." One typical example was the extensive cultivation of cotton in India by the British, which was undertaken at the expense of food production and therefore contributed to the recurrent famines in India during the nineteenth century (Wheelwright, 1974:316). No less devastating was the sugar monoculture in the West Indies where extreme impoverishment of the native people occurred during the late nineteenth century when the development of beet in Europe caused a sharp drop in sugar prices on the world market.

In the Taiwan case, large-scale production of sugar and rice constituted a quasi-monoculture geared to the needs of the Japanese economy. The fact that Japan created "sugar imperialism" (Yanaibara, 1929) out of its colonization of Taiwan was not a historical accident. The importance of sugar as a lucrative commodity made it a symbol of the nineteenth-century colonialism. By the time Japan annexed Taiwan in 1894, "sugar imperialism" had already penetrated Java, Cuba and other tropical regions, and the resulting development of new cane strains and sugar-refining techniques facilitated the Japanese efforts to build Taiwan as a base of sugar production. Furthermore, the unfavorable climatic conditions for
cane cultivation in Japan had made the country highly dependent on sugar imports, which accounted for 10 percent of Japan's total imports at the time of its annexation of Taiwan and often equaled its entire trade deficit (Grajdanzev, 1941:58). Thus, as Grajdanzev (1941:58) observes, "the Japanese government was anxious to improve their unfavorable balance of trade with foreign countries and the cultivation of sugar cane in Taiwan appeared to be an excellent means of doing this." This is what Yanaibara called "market needs."

In examining the data of Taiwan's industrial production during the 1929-39 period, we find that the gross value of production of the food processing industry accounted for almost three quarters of total industrial production (Grajdanzev, 1942:93). And sugar alone occupied an overwhelming percentage of the total value of production of the food industry, almost 80 percent in 1937. The predominant position of the food industry can also be seen from its capital investment. Out of a total investment in Taiwan's industry of 191.5 million yen in 1937, the share of the food industry was 118.1 million yen, or about 60 percent, while textiles, machines and chemicals accounted for only 1.5 percent, 2.5 percent and 5.2 percent respectively. The bulk of capital investment in the food industry was undertaken
by monopolistic sugar companies in alliance with the colonial government.

As in other tropical colonies, Taiwan's sugar was an export crop. Some 95 percent of total sugar production was exported in 1937, mostly to Japan. It not only met the needs of the Japanese economy, but also served as a major source of profits and capital accumulation for industrial corporations such as Mitsui and Mitsubishi. Since 90 percent of capital investment in the sugar industry came from capitalists in Japan, profits realized in that industry were largely repatriated instead of being absorbed by the Taiwan economy (Yanaibara, 1929:100-101).

In contrast to the overwhelming importance of the sugar industry, other industries remained insignificant throughout the colonial period. As Grajdanzev wrote in 1941 -- only four years before the end of the colonial rule, "Taiwan's industry is closely connected with its agriculture and is largely the transformation of agricultural products into forms suitable for consumption or for storage and transportation. All other industries show little signs of growth" (Grajdanzev, 1941:94). While the colonial government initiated an industrialization program during the mid-1930s to develop certain industries such as aluminum, chemicals, textiles, etc., the achievement was not impressive except for the
hydroelectric project, which we shall discuss in Chapter 5 in connection with the internal evolution of dependency structures. The lack of industrial development was demonstrated by the fact that prior to 1945, about three quarters of the gainfully employed labor force were engaged in agricultural production (Ho, 1965:36).

By contrast, industrialization in Japan was a success story. Table 3-1 shows how the gap of industrial production between Japan and Taiwan had widened over time. In 1929, Japan's gross value of industrial production per capita more than doubled that of Taiwan. By 1938, the gap itself doubled. Other statistics show that in 1937 Japan's industrial workers were 34 times as many as those of Taiwan while Japan's population in that year was less than 13 times as large. Furthermore, industrial capital per capita in 1937 was 132 yen for Japan and only 34 yen for Taiwan, with a ratio of 4:1 (Grajdanzev, 1942:97).

These quantitative indicators suggest that Japan's industry was far more developed than that of Taiwan and the gap between them widened over time. The unbalanced development between Taiwan's agriculture and industry reflected a general pattern of colonialism, in which the colony was held not only as a base of production of raw materials and primary products, but also as a market for manufactured goods from the colonialist home.
country. In other words, Japan deliberately kept Taiwan industrially underdeveloped so that its industrial goods could sell on the Taiwan market. Both agricultural overdevelopment and industrial underdevelopment in the colony served the complementary needs of the Japanese economy. Consequently, the structural unevenness in Taiwan's economy manifested itself not only in the intersectoral unbalanced growth, but also in the destruction of indigenous handicraft industries as a result of the influx of more advanced industrial products from Japan.

While Western nations also experienced the destruction of handicraft industries during the era of Industrial Revolution, the negative socioeconomic effects were counteracted through a substitution process in which the relatively primitive industries were replaced by

<table>
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<tr>
<th></th>
<th>1929</th>
<th>1937</th>
<th>1938</th>
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<tr>
<td>Japan</td>
<td>122.5</td>
<td>230</td>
<td>272</td>
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<tr>
<td>Taiwan</td>
<td>58</td>
<td>64</td>
<td>67</td>
</tr>
<tr>
<td>Absolute gap</td>
<td>64.5</td>
<td>166</td>
<td>205</td>
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<tr>
<td>Relative gap</td>
<td>210%</td>
<td>360%</td>
<td>410%</td>
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Source: Dainippon Teikoku Nenkan and Takumu Tokei (cited in Grajdanzev, 1941).
more advanced ones. Thus, when the handloom weaving in Europe was cut out by powerloom during the Industrial Revolution, the English manual weavers were reabsorbed fairly rapidly. This, however, was not the case with colonized societies. In the nineteenth-century India, for example, not only the textile industry, but virtually the entire Indian handicraft industries were severely crippled, if not totally destroyed, resulting in serious dislocations of the rural socioeconomic structure (Frank, 1975:22). According to Griffin, the process of de-industrialization in India was accelerated after 1833 with emphasis placed on developing cash crops for export, and the industrial decay was completed by the 1880s (Griffin, 1973b:73). Elsewhere political economists describe how European manufactured goods flooded colonies in Southeast Asia to the detriment of the native handicrafts, thereby wiping out a traditional system of economic life based on subsistence agriculture and cottage industries (Catley, 1976:57).

In Taiwan, this aspect of the structural distortion occurred when unchecked competition from Japan's superior capital wiped out Taiwan's traditional industries such as dyeing and textile, ceramic, embroidery, shipbuilding and, above all, the primitive sugar mills. In 1905, the primitive sugar mills produced 95 percent of Taiwan's sugar, but by 1937, the percentage was cut down to a mere
2 percent by the Japanese monopoly companies (Grajdanzev, 1941:99). The resultant dislocations of the rural social structure contributed to the formation of a rural proletariat, who either became tenants to indigenous landlords and monopoly sugar companies or, to a lesser extent, worked on sugar plantations as wage laborers. The implications of this social change for the subsequent class struggle in the colonized Taiwan society are a focal point of our discussion on colonial dependency.

II. TRANSFORMATION OF CLASS AND PRODUCTION RELATIONS

Following the pattern of Western colonialism, the expropriation and reconcentration of land took place in Taiwan not long after the arrival of the Japanese. But unlike those Asian colonies such as Vietnam where land expropriation by the French did not change the basic rural class structure characterized by traditional landlord-tenant relations (only components of the landlord class were changed), land expropriated in Taiwan became the property of monopoly companies and was used primarily for sugar-cane cultivation. Between 1921 and 1932, land concentration intensified, with an increasingly large number of poor and middle peasants losing their land (Tan, 1977:10). Monopoly sugar companies acquired landholdings through police coercion, reclamation projects and purchases of the land of peasants who went
bankrupt under debt. By the mid-1920s, about half of Taiwan's arable land belonged to the sugar companies while the great majority of the peasantry were involved in cane-growing for these companies. The extensive investment of land for modern capitalist ventures inevitably brought about a transformation of the pre-capitalist production relations into capitalist or semi-capitalist ones. Broad segments of the peasantry who became tenants to sugar companies were no longer governed by the traditional landlord-tenant relations, because the "landlords" (sugar companies) were not interested in the extraction of rent, but in the acquisition of raw material (sugar cane) and profits. Under the traditional land-tenure system, the tenant paid rent to his landlord and kept the rest of his farm yields. Under the new capitalist relations the sugar company took away the entire cane crop from the tenant and paid him in kind (sugar) and cash as a compensation for his labor. In the process, the tenant was not even allowed to oversee the weighing and rating of his crop, not to speak of bargaining for the prices (Lin, 1976a:163; Yeh, et al., 1971:Chap. 9). Thus the tenant tended to be alienated not only from the company for which he grew cane, but also from the product of his own labor. This alienation process was exacerbated by the fact that the traditional paternalistic relations between the tenant and his
landlord were now replaced by depersonalized relationships between an institution (sugar company) and a human (tenant peasant). Furthermore, the new production relations were not confined to tenants of sugar companies; they also covered those who tilled the land of indigenous landlords but were under obligation to grow cane for the Japanese companies.

In addition to sugar, Japanese developers also invested in plantations to grow banana and other cash crops. Most peasants working on these plantations were not wage laborers, but were subjected to terms of tenancy as in the case of cane growers. Since these developers operated on a profit basis, subsistence income of the tenant-peasants depended not only on output, as in the traditional tenancy system, but also on the profitability of the cash crops which they grew. Thus peasant unrest occurred when the vicissitudes of the market situation caused the developers to stop production, or when middle-men and exporters stepped up squeezing of the producers (peasants).

The emergence of capitalist or semi-capitalist production relations, accompanied by the breaking down of paternalism in the traditional land-tenure system, went a long way toward explaining the peasants' resistance movement, which we shall discuss in the next part of this chapter. Incidentally, such a situation was not unique for Taiwan. Peasant revolt in the Philippines
during the twentieth century, for example, also occurred against the same social setting where a new generation of landlords with a capitalist outlook altered the traditional landlord-tenant relationships.\textsuperscript{5}

III. POLITICAL CONSEQUENCES

The mechanisms of colonial exploitation in Taiwan were reinforced by an underdeveloped political system under which the indigenous people had few political rights and freedoms. While capitalist development in Japan went hand in hand with a process of democratization, ironically the development of monopoly capitalism in Taiwan owed its success largely to an undemocratic political system. Not only were the Taiwanese people denied representation in the Imperial Diet; the latter also authorized the colonial administrator (Governor-General) to wield both executive and "special legislative" powers. The native people were thus denied a voice to check the abuses of the colonial government. While in 1921 an advisory body known as Hyogikai (council) was set up to "consult the opinions of the people," its members were chosen by the Governor-General himself from among Japanese officials in the colonial government and a handful of privileged Taiwanese collaborating gentry. The Governor-General served as chairman of the council and his secretary general served as vice-chairman. It was a bureaucratic
outgrowth of the executive power, devoid of any legis-
late functions. Furthermore, officials in the colonial
government seemed more influenced by feudalistic poli-
tical values than by modern democratic concepts. This
can be illustrated by the fact that petitions to the
Imperial Diet filed by a group of Taiwanese intellectual
elite for the purpose of founding a colonial legislature
during the 1920s were cited by a colonial court as evi-
dence of "disloyalty" to the Governor-General (Yeh, 1971:
Chap. 5). The subservience of the judicial system to
the executive power was another aspect of Taiwan's poli-
tical underdevelopment that drew criticism even from
prominent jurists in Japan (Yeh, 1971: Chap. 5).

Thus, while Western colonialists might be no less
exploitative than their Japanese counterparts, the lat-
ter, by their authoritarian character, appeared to be
more oppressive politically. Following is an interesting
comparison made by a Western scholar:

The best known example of a colonial regime
is probably that of British India. In the Western
world British policy in India evoked much criticism.
Yet, conditions in British India cannot even be
compared with those in Formosa. The Indian people
can organize; they use their own languages in mid-
dle schools and even in the universities; they pub-
lish their own newspapers and books in their own
languages; they have their own political groups
and parties, their voice and their criticism are
heard in the provincial assemblies; certain im-
portant industries of India are now in the hands
of Indians. However limited all these rights and
the opportunities to use them may be in India,
they are infinitely greater than those of the people of Formosa (Grajdanzev, 1941:Preface).

In fact, the Taiwanese were not allowed to run their own newspapers. In a (seventh) petition to the Japanese Diet in 1926, the afore-mentioned Taiwanese intellectual group made the following statement regarding the freedom of speech:

At present, there are four pro-government newspapers and several weeklies in Taiwan, but all of them are operated by the Japanese. The Taiwanese are not permitted to operate even a single newspaper. It has been one year since the Taiwan People's Journal, a Taiwanese-run weekly in Tokyo, applied for publication in Taiwan, but no approval has yet been granted. On top of that, the said journal, after passing censorship in Tokyo, has to be recensored by the Taiwan authorities before it can be released for circulation on the island. Recently, the Taiwan censorship has purposely procrastinated so that it takes somewhere between two weeks and a month for each issue to be released. Such oppression of free speech is unprecedented in history (quoted in Yeh, et al., 1971:360; translation mine).

The Taiwanese landed gentry and bourgeoisie were quick to realize how important political rights and freedoms were for maintaining their intellectual and economic interests. In 1922, a decree (or so-called "special legislation") by the colonial government to monopolize the sale of liquors caused several hundred brewers throughout the island to go under (Yeh, 1971:239). This would not have been possible if the indigenous bourgeoisie had been given a share in the legislative power. By the same token, unchecked competition from superior
capital in Japan wiped out Taiwan's traditional industries such as dyeing and textile, ceramic, embroidery, shipbuilding, etc. Perhaps a greater loss to the indigenous landlords was in the sugar industry. As mentioned earlier, the primitive sugar mills, which were operated both by Taiwanese landlords and the colonialists, produced 95 percent of Taiwan's sugar in 1905, but by 1937, the percentage was cut down to a mere 2 percent by monopoly companies. Not only were the landlords forced to close down their primitive mills, but also, to the extent that their land had to grow sugar cane, they were now subjected to exploitation by the Japanese monopoly companies just as their tenants were.

Certainly, the basic policy in agriculture of the colonial government was to protect the vested interests of the landlord class — a point which will be discussed at length later. Hence as far as agriculture was concerned, the landlords might be not so much the exploited as they were the beneficiaries of the colonial policy. But when they accumulated sufficient agricultural surplus to seek industrial and financial (banking) ventures, they found themselves victims of discrimination. In 1908, for example, a decree by the colonial government made it illegal for the Chinese (Taiwanese) to operate firms and companies. While this decree was repealed in 1923, the de facto discrimination against Taiwanese capital survived. A
case in point was the Daito (Great Orient) Trust Company, a purely Taiwanese banking enterprise set up by landlord Lin Hsien-tang, a key champion of the nationalist movement, and others in 1926. After overcoming initial bureaucratic obstacles, the bank got on a smooth track, but was soon regarded by Japanese bankers as a vital threat to their business and by the colonial government as a potential means of support to the nationalist movement. Thus only one year after operation, the colonial authorities banned financial transactions between that bank and credit cooperatives in Taichu Province (now Taichung) where the bank was located (Yanaibara, 1929:102, 112-3). Generally speaking, Taiwanese capital investment played a rather insignificant role in all major industries. In the sugar industry, for example, Taiwanese shares accounted for only 0.7 percent of the total capital investment in Teikoku (Imperial) Sugar Company, the largest in Taiwan. Even in Taito Sugar Company, where the Taiwanese had the largest investment, only 18 percent of the total capital belonged to Taiwanese shareholders (Yanaibara, 1929:100). Such economic discrimination meant that savings by the Taiwanese could not be channeled into capital accumulation needed for the development of an indigenous capitalist class, but to a large extent served the expansion of Japanese monopoly capital.
The frustration which the Taiwanese landed gentry and bourgeoisie experienced in their economic endeavors was doubtless one of the major factors in the development of a political movement aimed at various goals, notably home rule, the establishment of a colonial legislative body and the advancement of the indigenous cultural autonomy. That the movement flourished in the 1920s was not a historical accident. It came at a time when the capitalist production relations were beginning to take shape in Taiwan society. Led by some segments of the landed gentry and the intellectuals, the movement appealed to the oppressed masses as a means of redressing socioeconomic injustices. As one of the movement's leaders stated in a court defense in 1924 when a witch-hunt was launched against the movement by the colonial authorities,

The main goal of Governor-General Den Kenjiro (1919-23) was to turn Taiwan into a colony for exploitation. Such measures as the regional quota system [for sugar cane transaction] and the compulsory purchase of land by sugar companies carry not only the exploitation of capital, but also the exploitation of labor. The conflicts and frictions between the Taiwanese and the Japanese in Taiwan are all originated in economic relations . . . . . . . The reason why our campaign to establish a Taiwan legislature is gaining increasingly great strength and support has to be found in the unequal economic relations (quoted in Yeh, et al., 1971:237; translation mine).

It would be a mistake, however, to say that proponents of the movement were all motivated by economic
considerations. For the Taiwanese intelligentsia in general, the main sources of grievances ranged from political repression and socioeconomic injustices to ethnic and cultural discrimination. It should be noted that the medical profession, which constituted the bulk of the Taiwanese intelligentsia, played as important a role in the anti-colonial movement as the landlords, despite the economically privileged status of that profession. This is evident from the following table:\textsuperscript{6}

\begin{center}
\begin{tabular}{lrr}
\hline
\textbf{Occupation} & \textbf{Number of Key Proponents} & \textbf{Percentage} \\
\hline
Landlord & 14 & 30\% \\
Medical doctor & 14 & 30\% \\
Journalist & 7 & 15\% \\
Lawyer & 2 & 4\% \\
Teacher & 2 & 4\% \\
Others & 8 & 17\% \\
\hline
Total & 47 & 100\% \\
\end{tabular}
\end{center}

The table reveals two major groups in the nationalist movement: landlords and medical doctors. The fact that the former lent full support to the movement was indicative of the economic contradictions between the landed gentry and the colonialists. This is not to say that the entire landlord class was against the colonial rule. In fact, a great majority of the Taiwanese collaborators
came from this class. And, as will be discussed later, even the dissenting landlords had a strong community of interests with the colonialists, especially with respect to agriculture. Thus the attitude of the landed gentry towards the colonialists was one of ambivalence, which defined a limit to their commitment to the anti-colonial cause. They insisted on legal and non-violent struggle, and were abhorrent to the idea of proletarian class struggle. Consequently, as the proletarian thought gained ground in the movement and the leftist faction within it became increasingly vocal, a split was inevitable.

The fact that the medical profession played a prominent role in the anti-colonial movement reflected a situation of cultural dependency under colonialism. To perpetuate the dominance-dependency relationships between Japan and Taiwan, the colonial government adopted a discriminatory policy to minimize opportunities of higher education in science and technology and the social sciences for the Taiwanese. But in order to improve public health, the medical science was considered as an exception. Accordingly, the overwhelming majority of the Taiwanese students who could afford higher learning were in medicine. By channeling the aspirations of Taiwan's younger generations into this lucrative but apolitical profession, the colonialists hoped to prevent a politically and culturally conscious Taiwanese elite from developing and thereby
challenging the colonial rule. The irony, however, was that members of this supposedly apolitical profession turned out to be champions of a political movement against colonialism.

Prior to 1921, a group of prominent Taiwanese intellectuals had initiated a campaign in Tokyo to demand an end to the discriminatory policy in the colony. One major step toward this goal was to repeal Law No. 63, which gave the Governor-General "legislative" power and was therefore at the bottom of the colonial despotism and discrimination against the native people. The campaign proved to be a failure when the Imperial Diet decided to extend Law No. 63 in 1920. Disillusioned with the vision of "equal treatment," the Taiwanese intellectual elite soon founded the Taiwan Culture Association, which was to spearhead a nationalist movement aimed at home rule. Foremost among the objectives of the association was to establish a legislature in the colony whose members would be elected by the native people to enact laws and to counteract the all-powerful colonial administrator. For this purpose a delegation was annually sent to petition the Imperial Diet and to appeal to public opinion in Japan.

The home rule campaign lasted for a decade and a half and ended up in failure. But the nationalist movement was successful in enlightening and mobilizing the masses
for political struggle. The main strategy of the nationalists was to hold mass rallies and make speeches around the island in the name of promoting "culture."

According to the Police Chronicle edited by the colonial government (cited in Yeh, et al., 1971:303), their talks about nationalism and their condemnation of the colonial rule were warmly received by the public, arousing profound reaction among them. The Culture Association, appreciative of the significance of public lectures, created a mass fervor for such activities. In urban areas, regular lectures were held on Saturdays and Sundays while circuit lecture teams were dispatched to the countryside.

The year 1925 marked the most fervent period of the lecturing activity of the Culture Association. Local members of the Association took every opportunity to invite cadres to speak. They mobilized the public to welcome the lecturers by playing firecrackers and shouting slogans by way of demonstration. Then they held rousing welcome rallies in a mammoth display of strength and influence. The cadres [speakers] also gave themselves the airs of martyrdom, intent upon provoking nationalist resistance and creating widespread sentiments against the motherland [Japan]. Above all, they got involved in local issues and peasant disputes, abetting the conflicts so as to gain popular support. When faced with police discipline, they waged unyielding lecture warfare and staged demonstrations to show their defiance. Such activities heralded the subsequent peasant movement and labor movement on this island (Police Chronicle, quoted in Yeh, et al., 1971:303; translation mine).

At a time when the contradictions between monopoly capitalism and the cane-growing peasantry were intensifying, the nationalist movement would mean little to the
peasants unless it faced up to their problems. This means that the movement would have to take on a class character besides being nationalistic, or else it would become divorced from the masses.

By 1924, a superior rice strain called horai (peng-lai in Chinese) was successfully developed, bringing much greater benefits to rice-growers. This technological breakthrough was said to have far-reaching impact on cane-growing peasants all over the island (Wang, 1973:123). Originally, the colonial government had a policy of holding down rice prices so as to force peasants (who were not tenants of sugar companies) to grow cane. Once rice farming proved more profitable, cane-growers would naturally demand better terms of payment for their crops. Under the leadership of the political cadres of Taiwan Culture Association, the peasants began to organize against exploitation by sugar companies. Earlier, they had resorted to petitions to local government agencies. They had also sent representatives to negotiate with the companies on issues ranging from the overly low prices of sugar-cane to the companies' unjust practices to underweigh and under-rate the cane crops. But when petitions and negotiations fell on deaf ears, the peasants chose organized confrontation. The first major incident came to pass in 1925, when organized cane-growers in Er-lin in central Taiwan turned out to the field to resist
harvesting by the Lin Hon Gen Sugar Company. They demanded a prior announcement of the cane price, but the company rejected the demand. The net result was a bloody fight between the peasants and the Japanese police who served as a "goon squad" for the company. In their seventh petition to the Imperial Diet in the following year (1926), leaders of the nationalist movement described the incident as follows:

Under the protection of the regional quota system, all sugar companies in Taiwan unilaterally determine the cane purchasing prices without negotiation with the growers. As the awareness of the peasants heightens, disputes have frequently arisen over the cane purchasing prices. For example, last October, the Lin Hon Gen Sugar Company in Er-lin had the impudence to harvest the peasants' cane crop without announcing the purchasing prices, and the police put up a bloody fight with the resisting peasants. After the incident, more than one hundred cadres of the local cane growers' union were all rounded up in a single sweep and tortured in the most barbaric manner . . . . . . . The Taiwan authorities are using outrageously high-handed measures to deal with peasants all over the island who demand free contracts with sugar companies . . . . . . . (quoted in Yeh, et al., 1971:359-360; translation mine).

The Er-lin Incident sent repercussions throughout the island, encouraging peasants everywhere to organize themselves. Membership of the peasants' associations rapidly increased to more than 24,000 within a year. Between 1927 and 1928, a total of 565 cases of peasant disputes arose, mostly directed and handled by the peasants' associations, which were an outgrowth of the nationalist movement. Issues involved in the disputes ranged from
demands for better terms of tenancy to protests against coercive expropriation of land. Frequently, peasants were mobilized for confrontation with companies engaging in the production of sugar, banana, etc. 7

The rising peasant movement coincided with a period when proletarian radicalism began to penetrate the nationalist movement. By 1926, a two-line struggle was underway within the Culture Association. Right-wing leaders advocated a nationalist movement free from class character. For, as they saw it, the issue was not class conflicts between the masses and the native bourgeoisie, but that both of them were victims of colonial oppression and therefore should close ranks against the colonialists rather than split over ideological differences. Left-wing leaders, however, considered liberation of the peasant masses to be the most fundamental issue and were discontent with a nationalist program whose ultimate goal was to set up a bourgeois-oriented legislature. A showdown came in 1927 when a great majority of the Association membership voted in favor of the proletarian line. With the secession of the right-wing nationalists, the Association took a quick turn to the left under the influence of the Taiwan Communist Party, thereby becoming a target of political repression by the colonial government. To a large extent, the turn of the nationalist movement into a proletarian movement was due to external
influence from Japan-based leftist groups, some of which gained support in Taiwan through direct involvement in the peasants' struggle. But it also reflected the deteriorating agrarian conditions and the intensity of class contradictions between the Japanese colonialists and the Taiwanese masses. As Wang Yu-teh observes,

The Taiwan Communist Party penetrated the left-turned Culture Association, peasants' associations and labor unions and started their activities. With the deepening of economic depression, the Taiwanese people, especially workers and peasants, were so impoverished as to create a hotbed for Communism. Although the TCP had only a few dozen formal members, they were in control of the vital positions of various organizations and were able to generate incredible influence (Wang, 1973:128; translation mine).

By displaying its socialist radicalism prematurely, the proletarian movement was vulnerable to repression. Soon afterwards, the witch hunt began. With the arrests of more than 100 TCP cadres in 1931 and after, the proletarian movement suffered a staggering blow and turned underground for more than a decade, only to be wiped out by the Nationalist Chinese regime following the February Uprisings in 1947.

IV. SOCIAL DEPENDENCY: COLLABORATION

Simultaneously as the anti-colonial movement was underway, at the other end of the social spectrum collaborative mechanisms were mobilized to defend the status quo. As we have suggested in the previous chapters,
the creation of these mechanisms is an integral part of imperialist control. Collaborative groups come into existence as a reflection of the particular socioeconomic structure of a peripheral society. Thus, while in the post-colonial era collaborative groups are formed by industrial and commercial elites, their counterparts under colonialism were generally based in agriculture. In the case of Taiwan, the rise of local landlords as a dominant social class in spite of the rapid development of monopoly capitalism was indicative of the need of the colonialists for a rural-based clientele in a colony where 80 percent of the population was in agriculture.

The major function of the Taiwanese landlord class was to serve as a stabilizing force in the vast rural areas. This function was particularly important in view of the fact that during its first twenty years (1895-1915) the colonial rule was marred by violent local revolts. (In a major uprising in 1915, for example, more than 800 among the arrested "rebels" were beheaded in a single execution.) The tithing system known as Hoko (Paochia in Chinese) for the maintenance of rural peace and security owed its success to the collaboration of the landlords, especially those who served as Hosei (village chiefs). The traditionally authoritarian image of the village-based landlords was a distinct asset which the colonial government utilized for rural control.
The landlords did not serve the colonialists for nothing. Privileges conferred on them were many. Above all, Decorations of Gentry, a major status symbol in the then Taiwan society, were given to those big landlords who served the colonial government with distinction. The decorated gentry held offices in the government and were entitled to monopoly sales of salt, wines, opium, cigarette, etc. (Some among the gentry were deprived of their decorations and the monopoly privileges during the 1920s because of their involvement in the nationalist movement.) Furthermore, the extensive agricultural development programs of the colonial government helped boost the productivity of the landlords' land, thereby saving them capital outlays which would otherwise be needed for land improvement. Like the colonialists, the Taiwanese landlords were beneficiaries of the fruits of agricultural development. Their landed property grew and expanded, partly because they reinvested agricultural surplus in the purchase of land, being denied a proper role in industry.

With the anti-colonialist position of those nationalist-minded landlords taken into account, the allegiance of the landlord class to the colonial government was a key element in the social dependency structure of Taiwan society. Such allegiance was epitomized by a statement by Ku Hsien-jung, the largest collaborative landlord and a leading member of the Hyogikai (council):
Since the Ching Emperor has ceded Taiwan to the Japanese Empire, proudly and squarely I become the Empire's subject. And if I am the Empire's subject, I must be loyal to it. . . . So, in order to wipe out the "bandits," I have done all in my power to serve as the ears and eyes and hands and feet of the Japanese Empire. . . .

The collaborating gentry headed by Ku himself launched an extensive campaign during the 1920s to counterattack the nationalist movement, especially with regard to the movement's demand to set up a colonial legislature. In 1923, when the public lecture campaign was unfolding under the sponsorship of the Culture Association, Ku and his associates founded the Taiwan Public Welfare Society to defend the colonial interests. It soon acquired a membership of more than 1,600 and formed a rival force against the nationalist movement. Some 20 core members of the Society were influential gentry who had easy access to the colonial bureaucracy. This suggests that the "internal dynamics of dependency" could be quite significant under colonialism, i.e., colonial rule could have a firm base of indigenous collaboration. The main role of the Society was to conduct a counter-campaign, declaring that "the petition campaign for the founding of a Taiwan legislature absolutely does not represent the public opinion of this island" (quoted in Yeh, et al., 1971:311). A major meeting was held by the Society in 1924 to condemn the nationalist petitioners. Moreover,
it was these collaborative gentry who spearheaded a cultural assimilation campaign on behalf of the colonial authorities to impose Japanese surnames, culture and language on the indigenous people.

These collaborative mechanisms substantiate a proposition which we posit in Chapter I: in a dependent society, some social classes and groups choose to collaborate with foreign interests while others seek to oppose them. As Chiang Wei-shui, one of the key leaders of the nationalist movement observed in the mid-1920s, "the only achievement of three decades of [colonial] rule in Taiwan has been to forge a harmony of interests between the collaborative gentry and the ruling class -- they collude to form a parasitic class." Indeed, the collaboration of the village-based landlords and privileged gentry was as important an aspect of Taiwan's colonial dependency as the nationalist resistance movement.

V. DISCONTINUITY OF CLASS STRUGGLE

The rise of monopoly capitalism associated with the sugar industry changed the pre-capitalist class and production relations of Taiwan's rural society. The new relations had a capitalist element because rural labor was extensively used for the reproduction and accumulation of monopoly capital, and because production relations were now depersonalized, passing from the paternalistic
landlord-tenant relationships to those between the peasants and the sugar companies. Yet, the transformation was not complete because those engaging in cane growing and exploited by the sugar companies were not "free labor" -- one of the essential criteria that define capitalism, but were tenant-peasants bound by pre-capitalist obligations to produce for the sugar monopolists. The incomplete transformation of class and production relations enabled the Taiwanese peasantry to remain a cohesive social class following decolonization. Through land reforms (1949-53) to decentralize land-ownership, the post-colonial government easily consolidated the rural order. Moreover, the downfall of Japanese "sugar imperialism," coupled with the disappearance of the indigenous landlords as an exploitative class after 1953, eliminated the root cause of peasant unrest that beset the colonial period.

Since the 1960s, farm income has become increasingly marginalized as a result of the government's agricultural squeezing policy (see Chapter VI). Even so, there have been no recurrences of the peasant movement for a number of reasons. First, as will be discussed in Chapter VI, excessive rural migration into the urban industrial sector has deprived the rural areas of leadership needed for mass mobilization; the migration also serves as an outlet for conflicts and tensions in the rural society. Second, industrial income flowing into the rural sector
compensates to a large extent for the marginalized farm income situation, though at great social costs to the peasant families (Chapter VI). Third, remnant leadership of the peasant movement was all but entirely wiped out by the Kuomintang after the February Uprisings in 1947, with secret arrests continuing into the 1950s. The Kuomintang's strategy of fragmenting the rural social classes along factional lines and other means of political control effectively prevent any occurrences of peasant unrest (Chapter VII).

Thus, in contrast to the continuity of the peasant movement in the Philippines, the Taiwanese peasant movement has disappeared with decolonization. Unlike many Third World countries (including the Philippines) where rural areas serve as bases for revolutionary mobilization, rural areas in Taiwan are in a state of political vacuum. As post-colonial dependent development shifts emphasis from agriculture to industry, the socialization of rural labor and the class transformation of the Taiwanese peasantry have gone far beyond the scope of change that had taken place under colonialism. The latter-day model of uneven development in Taiwan has thus shifted the center of class struggle away from the countryside.
NOTES TO CHAPTER III

1. This is my translation based on the Chinese version of Professor Yanaibara's work (1929:280).

2. These figures are calculated from data in Taiwan Jiyo (in Japanese), Tokyo, 1939. See also Grajdanzev (1942:95).


5. The penetration of capitalism into the Philippine rural society as a basic cause of peasant revolt is most perceptively described in Ben Kerkvliet (1974 and 1977).

6. The figures in Table 3-2 are derived from the name-list of proponents of the nationalist resistance movement presented in Yeh, et al. (1971:289-299).


CHAPTER IV
NEW DEPENDENCY: THE EXTERNAL CONNECTION

By far the most important consequence of U.S. influence was the creation in Taiwan of a booming private enterprise system. Without the intervention of AID, private enterprise would not have become, by 1965, the mainspring in Taiwan's economy. AID made the private sector flower both by financing projects that created external economies for the private investor, and by putting steady pressure on the Chinese [Nationalist] government to improve the climate for private investment.


The studies of dependency deal with the consequences of imperialism for the internal structures of peripheral societies (Evans, 1979). Insofar as such consequences reflect the interactive dynamics of external and internal forces, it is appropriate for an empirical case study to begin with an inquiry into the interactive process through which dependency is created. This is particularly relevant when we deal with post-colonial dependency structures. In a colonized society, political and economic institutions were the institutions of imperialism itself, and thus the external and the internal were often indistinguishable. With decolonization, old imperialist forces are disengaged from the former colony. The post-colonial state is now formally sovereign, functioning independently of
external political domination. The re-establishment of center-periphery relationships entails a new and subtle process. And the resulting "new dependency" varies in extent and depth according to different peripheral societies, though their internal structures inevitably bear the marks of past external relationships. To develop insights into the "new dependency" of Taiwan society, we therefore need to study the process in which the post-colonial external relationships have penetrated and become internalized in that society. This can be done by applying the three defining criteria described in the second chapter, namely, (1) the "dominance" criterion; (2) the "internalization" criterion and (3) the "complementary integration" criterion.

I. DOMINANCE FUNCTIONS: THE ROLE OF AID

The old and new imperialist relationships differ in the way in which dominance functions are performed. One of the main dominance functions of colonialism was to directly remold the socioeconomic structures (including the infrastructure) of the colony in such a way that it became integrated into and complementary to the needs of the colonialist home economy. Today that function has shifted to one of influencing or intervening in the remolding process through internal collaboration.
In the Taiwan colony, the remolding process reached a climax during the first half of the 1930s, when some 90 percent of Taiwan's exports went to Japan and nearly as large a proportion of imports came from there (Ho, 1978; Scott, 1979), when the twin products of a quasi-monoculture, sugar and rice, accounted for 80 percent of its total exports to Japan (Tan, 1977) and when the replacement of indigenously owned sugar mills by modernized refining techniques was almost complete, with a few Japanese sugar oligopolies attaining their hegemonic position in terms of capital investment, production value and land-holding. As structural changes within the colony intensified, so did the integration of its economy into the "Japanese Empire."

The first 15 years of the colonial occupation, however, saw no such close integration. It was the initial period of "remolding" when the colonialists had to heavily subsidize programs of investment in "social overhead capital," to undertake land surveys and to create a new agrarian order for the sugar industry. During these 15 years, the Japanese allegedly ran the colony at a "loss." Financial "aid" from the Imperial Government accounted for 75% of Taiwan's public revenue in 1896. The percentage decreased annually through 1905 when subsidies to the colony were terminated (Huang, et al., 1951). Beginning in the second decade of the
present century, Taiwan began to produce a "profit" for Japan. During the period 1911-40, its net export surplus to Japan averaged 12.4% of net domestic production, a figure suggesting that Taiwan was a "highly profitable colony" (Jacoby, 1966:138).

Japan's experience in Taiwan thus shows that a 15-year "gestation" period was needed to create the preconditions for subsequent economic integration or linkages through which the colony could be made to serve capital accumulation and economic expansion of the colonialist home country. Interestingly, this historical pattern repeated itself 55 years later when the Americans, mindful of the "high profitability" of the former colony and of the "strong mutual interests of the U.S. and Chinese (Nationalist) governments in economic progress and military strength" (Jacoby, 1966:132), came on the scene to invest another 15 years and some 1.5 billion dollars in aid to modernize the infrastructure, undertake economic and land reforms and thereby create conditions for another era of international integration for the island economy, this time not with a small Asian "empire," but with the broader world capitalist system.

Taiwan's experience shows that the international integration of a peripheral economy is not simply determined by economic factors, but also by the sociocultural milieu and geopolitical circumstances in
which the economy finds itself. During the first five years or so after the war, Taiwan's trade with her largest trade partner, Japan, was cut off by an edict of the U.S. military government there (Scott, 1979). Only after the breakout of the Korean War did the U.S. Government begin to take strong economic and military interests in the island. Even so, until the late 1950s the political situation there was too precarious for the penetration of foreign capital, though elsewhere in the periphery Western capital had already penetrated the barriers of protectionism under import substitution strategies.

According to Jacoby (1966:89), "This attack [the 1954 Communist Chinese attack on Tachen Island] raised a spectre of continued insecurity that frightened the investor at a time when Taiwan's investment opportunities were not clear. Only after Chinese Communist forces were decisively repulsed in the attack on Quemoy in 1958 was apprehension dispelled."

Apparently, however, the U.S. AID Mission took a long view of the global strategy of economic relations when it arrived in Taiwan in the early 1950s to influence or intervene in the course of economic development there. In his 1953 State of the Union Message, President Eisenhower defined the aims of American foreign policy as "doing whatever our Government can properly do to encourage the flow of private investment abroad."
This involves, as a serious and explicit purpose of our foreign policy, the encouragement of a hospitable climate for such investment in foreign countries. At the same time, C. B. Randall, Chairman of the Commission on Foreign Economic Policy, echoed this view by insisting that "a new and better climate for American investment must be created."\(^1\) While it is not known whether the U.S. Government specifically named Taiwan for this purpose, Baran (1957:199) suggested that Taiwan could well be included in the "free world" countries aimed for American investment. And he turned out to be prophetically right, except that U.S. capital did not enter Taiwan to "sabotage their economic development," as he gloomily predicted, but to develop strong symbiotic ties linking the Taiwan economy to the world system in general and the U.S. economy in particular.

In the development literature, institutional reforms and structural transformations are emphasized as a crucial factor in the development process. Griffin (1973:23) explains the importance of this factor as follows:

... policy in underdeveloped countries cannot be concerned exclusively with allocating resources in the usual sense; it must also be concerned with creating new institutions and reforming existing ones. The major purpose of development planning, in fact, is to undertake the required structural transformation of a country in a conscious, explicit, orderly and
rational manner . . . The essence of development is institutional reform.2

The U.S. aid administrators in Taiwan were doubtless aware of the importance of institutional reforms and structural changes as a prerequisite for development. And as the dualist theory of economic development suggests, one basic area of structural changes concerns the interrelationships between the rural and urban sectors. The former has to be changed -- through land reform and "green revolution" for example -- so that its agricultural surplus and labor force can be channelled into the urban sector to serve industrial development. In Taiwan, the AID Mission established the Joint Commission on Rural Reconstruction (JCRR) as an instrument to facilitate rural transformations for this developmental purpose. JCRR supervised and provided counseling for Taiwan's land reform during 1949-53. Among other things, JCRR advised that Taiwanese landlords be compensated for their divested land property with land bonds and industrial company stocks -- a Japanese experience dating back to the Meiji period that served to transfer rural surplus for industrial development (Baran, 1957: 155). JCRR later introduced new techniques to boost agricultural productivity and to "save" labor needed in farming so that rural exploitation and migration could continue without causing peasant unrest and immediate
agricultural deterioration. The Commission was thus the functional equivalent of the Japanese colonial institutions in charge of Taiwan's agricultural development. While the latter helped foster a quasi-monoculture complementary to the needs of "external colonialism," the former helped prepare the rural sector for a complementary role in the new scenario of "internal colonialism."

AID also put pressures on the Nationalist Chinese government to de-emphasize public enterprise while encouraging the growth of a private sector, and to enforce a package of administrative reforms especially with regard to the spheres of foreign trade and investment. Here, a few words are needed to explain the socioeconomic background for the American intervention.

The Nationalist Chinese state bureaucracy was imbedded in a tradition of so-called "bureaucratic capitalism." It was a type of etatisme in which the state controlled all key industries, monopoly sales of certain commodities and the banking system, all managed by a bureaucratic state bourgeoisie who profited not only from these enterprises, but also by interlocking them with private ventures. As Amsden observes, "the system of 'bureaucratic capitalism' of late imperial China, with its total interpenetration of public and private interests, was transplanted into Taiwan, along with the Mainlanders" (Amsden, 1979:362). While on the
Mainland, such a system contributed to the bankruptcy of China's national economy prior to 1949, in Taiwan the takeover by the state of a sizable number of industrial establishments from the Japanese provided a material basis for the re-entrenchment of that system. After the 1949 fiasco, it was this public enterprise system that helped consolidate the power of the mainland bureaucracy (Amsden, 1979:368). The Kuomintang's reluctance to denationalize these industrial holdings seemed to be heightened by the alleged "absentee" control by "shadowy figures in the background" -- members of the pre-1949 state bourgeoisie who had taken refuge in Hong Kong and the U.S., but allegedly invested funds in Taiwan's public sector (Kerr, 1965:418). And some among the Nationalist ruling elite who managed Taiwan's economy during the 1950s (and 1960s) were undoubtedly close associates of the "absentee" investors. Furthermore, Sun Yat-sen's economic doctrine that "private capital should be restricted and public capital should be developed" served as ideological legitimation for the Nationalists to carry on bureaucratic etatisme at the expense of the private sector. Lastly, the regime's predilections for centralizing economic power also appeared to be motivated by fear of a potential rival power base that might emerge, if the indigenous Taiwanese bourgeoisie were allowed to establish itself,
to challenge the exogenously imposed ruling authority. This consideration assumed realistic importance in view of the February Uprisings and the resultant mass massacre in 1947, which had heightened ethnic conflicts and tensions as well as political hostility of the indigenous people towards the regime. Thus, as Jacoby (1966:137) observes, "nothing in their [the Kuomintang's] situation -- nor in their economic philosophy -- motivated Chinese officials to foster the growth of a strong private sector."

By the early 1950s, accusations of inefficiency, corruption, a lack of management responsibility, etc., had already become vocal, and pressures began to build up in society, against the state enterprise system. An economic forum sponsored in 1950 by the well-known opposition journal Free China Semimonthly epitomized attacks on that system by the intellectual circles. Kung Lun Pao (Public Forum Daily), the sole mouthpiece for the indigenous bourgeoisie, voiced demands for reforms of state corporations and greater freedom for the private sector. The state enterprise system was criticized not only for its own failures, but also for "hampering the development of free private industries" (Industry of Free China, April 1954, p. 5). An American Embassy official in Taipei joined local public opinion in stressing this view:
the very existence of the government enterprises, which are accorded certain advantages by the Government (for example, as regards the cost of bank credit) and some of which exercise monopoly powers, tends to discourage the growth of private enterprise. A conscious effort will therefore have to be made if it is desired to move in the direction of a more important role for private enterprise in Free China's economy.8

But the underdevelopment of the Taiwanese industrial bourgeoisie -- a legacy of Japanese colonialism and a syndrome of neglect and discrimination against private enterprise since 1945 -- left the private sector with few bargaining levers vis-a-vis the state. Although more than ten thousand private enterprises were in operation during the 1950s, they were, with only a few exceptions, small-scale family firms with primitive and backward capital equipments (Industry of Free China, April 1954, p.1). The lack of both capital accumulation and managerial expertise in the underdeveloped private sector made it difficult for the government to transfer a substantial number of its industrial holdings to private ownership even if it had the inclination to do so.

Under these circumstances, the AID Mission intervened in the interest of private enterprise. Partly thanks to the "persuasion" of AID, the Kuomintang government transferred 100% or majority equity in four financially shaky companies -- Taiwan Cement Corp., Taiwan Pulp & Paper Corp., Taiwan Agricultural and
Forestry Development Corp. and Taiwan Industrial and Mining Corp. -- to landlords in partial compensation for their land expropriated under the 1953 land reform program (Amsden, 1979:367). From the earliest years of the U.S. aid, AID sought to persuade the Nationalist government to change to private ownership the public enterprises in the banking, fertilizer, sugar, aluminum, iron and steel and other industries that were not "natural monopolies" (Jacoby, 1966:146). Apart from the four companies mentioned above, the government did not comply with the AID urging for "political and ideological reasons" (Jacoby, 1966:148). Yet, for reasons to be discussed later, AID did succeed in pressuring the government to make ownership transfer a professed principle of economic development and to commit itself to promoting a private sector based on the alliance of foreign and domestic private capital. The government's subsequent practice of partial denationalization, i.e., the sharing of equity in certain state enterprises with private capital, can also be attributed to AID influence.

On the other hand, AID apparently understood the limitations and the feasibility of immediate ownership transfer. First, there was the problem of availability of local private capital and entrepreneurial expertise. Second, the attractiveness of a certain state enterprise to private investors depended on its profitability.
This consideration was important in view of the fact that ownership transfer of the above-mentioned four companies was a compulsory deal designed to harness agrarian capital for industrial use and that a majority of landlords eventually suffered losses from manipulation of the equity value by urban capitalists. Third, AID had to consider the disruptive effects which abrupt ownership transfer was likely to have on the economy. These considerations were reflected in the following statement made by Robert Elwood, Economic Section Chief of the then American Embassy in Taipei:

Here in Taiwan it does not appear to be feasible to attempt to move abruptly in the direction of placing the ownership and direction of industry largely or entirely in private hands. Such a move would be certain to have demoralizing effects and would retard the carrying out of present plans for increasing industrial production. Moreover, the capital represented by those government enterprises which might appropriately be passed to private ownership is much larger than the total which could be accumulated from private sources on the Island in a short period of time. To attempt to sell them quickly for cash would swamp the market for securities.

It is doubtful whether these enterprises can be disposed of even over a long period of time on terms advantageous to the Government until steps are taken to put their operations on a sound business basis. Few investors will wish to buy into businesses which have never had an opportunity to prove their profitability under efficient management, or which are required to perform, along with their normal business activities, functions which are properly regarded as responsibilities of
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Thus, instead of bringing strong pressures to bear on the government for denationalization, AID took the more prudent approach of administering aid programs in such a way as to create conditions for the growth of private enterprise and the eventual arrival of American investors. Out of a total aid fund of $532.8-million for non-military use, 44.3% was devoted to infrastructure, with emphasis placed on the transportation and communications networks and power-generating capacity; 26.4% was allocated for human resources development, including personnel training in management, economic analysis and investment decision-making. Part of the fund was made available in low-interest loans to selected small and medium-sized enterprises, particularly those in mining, chemicals and other lines that were considered capable of making greater contributions to the overall economic growth. While an overwhelming proportion of the aid funds was channeled into the public sector (only 6% went to the private sector), AID believed that the fruit of the aid would be shared by and instrumental to the growth of the private sector. Apparently, it also worked on the assumption that denationalization, either whole or partial, would come as the private sector grew strong
enough to compete with the relatively inefficient state-owned enterprises. 10

II. THE INTERNALIZATION PROCESS

A more subtle part of the AID strategy to influence the remolding of Taiwan's socioeconomic structures involved the creation of a set of collaborative mechanisms inside and outside the Nationalist Chinese state apparatus. These mechanisms were manned with pro-American development-minded local elites, comprising economic bureaucrats, economists and technical experts, with whom AID interacted and allied. The functions of these elites were not only to spearhead the developmental drive under the direction of AID, but also to bring pressures to bear on the conservative state bureaucracy so as to effect the desired institutional reforms and structural transformations. To quote Jacoby (1966:131):

A strong, active role by the U.S. AID Mission can lead the aided country to help itself. It is not that the U.S. government knows what policies are right, whereas the host government does not. Rather, the situation is that there are conflicting political groups in the host country, some of which support desirable economic reforms and others of which seek to block them. AID can strengthen the influence of the former groups, and often tip the political scales in their favor. Thus, in Taiwan, the U.S. AID Mission often played the role of "whipping boy" for the development-minded officials of the Joint Commission and the Council. These officials could argue for
economic reforms within the Chinese government on the ground that they were under pressure by the U.S. Government.

In Galtung's terminology, the Joint Commission on Rural Reconstruction (JCRR) and the Council on U.S. Aid (CUSA) were two "bridgeheads" which the center in the Center nation established in the center of the Periphery nation for the joint benefit of both, i.e., to serve the "strong mutual interests of the U.S. and Chinese (Nationalist) governments in economic progress and military strength" as Jacoby puts it. Officially, CUSA was an inter-ministerial government organization under the Executive Yuan of the Nationalist Central Government to handle the use of aid funds, but it was financially controlled and politically manipulated by AID. Not being subject to all Chinese civil service regulations, the Council was able to offer high salaries to recruit a highly competent staff (Jacoby, 1966:61). Thus, when Chen Cheng became Premier (head of the Executive Yuan), in 1950, a nucleus of reform-minded technocrats soon formed around him and inside the CUSA. Under their influence, this militaryman-turned-politician seemed to quickly acquire a "developmental frame of mind," marking a sharp departure from the Nationalist tradition of bureaucratic capitalism. In a major policy statement made in 1953, Chen declared,
We are of the opinion that whatever enterprises can be run by the people should be transferred to private ownership as much as possible. This is not only a fundamental principle in developing the national economy, but also an effective method of extirpating the root cause of the ills of bureaucratic capitalism (Industry of Free China, April 1954, p.1).11

Chen subsequently stressed enlarged freedom for entrepreneurial ventures and opportunities for private capital as "the most fundamental prerequisite" for national economic development. Without a nucleus of developmentalist-oriented proteges around him, Chen could not have come up with such a "radical" view of economic development at the initial stage of U.S. aid. Foremost among these proteges were the two men mentioned in the preceding section (see Footnote 6) -- O. K. Yui and C. K. Yen. Both contributed to the early work of CUSA in Taiwan during the 1950s. While Yui died earlier, Yen played a key role in CUSA throughout the entire aid period. (CUSA was reorganized as Council on International Economic Cooperation and Development in 1963). As Kerr observes, "these were the men who continued to handle American aid to Formosa after 1950 as they had handled it in wartime China, working now very closely with the large American Aid Mission" (Kerr, 1965:148). Another member of the clientele elites worth mentioning is K. T. Li, who served as Secretary General of CUSA from 1958 to 1963. Though educated as a physical engineer,
Li's experience in the U.S. aid administration launched him into a career as a leading member of the KMT technocracy and a key economic decision-maker. Li is currently playing a major role in the drive to upgrade Taiwan's industry in alliance with foreign capital.

It should be noted that while these collaborative elites have now jumped on the American "development bandwagon" (Stauffer, 1975), their roots in the pre-1949 bureaucratic capitalism tend to give their ideological and policy orientations a dual character. On the one hand, they are obliged by their new allegiance to the developmentalist model to pledge greater freedom and opportunities for both domestic and foreign private investors; on the other, they still hold fast to the old alliance between state capital and what may be termed "bureaucratic private capital" (i.e., private capital owned by the bureaucratic elite or their close associates). Consequently the elite reward structure is now even more differentiated and entrenched than before. The Yen family, for example, has until recent years monopolized Taiwan's production and domestic sales of automobiles, with technology and essential parts and components provided by Japan's Nissan Motor Co. Profits of the family company, Yue Loong, jumped more than 15 times over a seven-year period, from US$1.75-million in 1972 to US$27-million in 1979 (the fifth largest
earnings among all Taiwan's private enterprises). Such high profits were made possible not only by "technical cooperation" with Japan, but also by the government's long-term protection policy that forbade the establishment of new auto-makers until recent years and imposes heavy duties on imported cars. Meanwhile, Yue Loong has long won notoriety for its failure to improve both production techniques and automobile quality. It exemplifies the coexistence in Taiwan society of traditional bureaucratic capitalism side by side with a competitive modern private sector. The collaborative elites are able to manipulate both to attain their dominant and hegemonic position in society while serving as junior partners to elites in the center nations (Bodenheimer, 1971:337).

Unlike CUSA, which was an intra-governmental agency, JCRR was designed as a trans-governmental institution, with a staff of both Chinese and Americans. Both the Nationalist Chinese and the American governments "surrendered part of their sovereignties" to the Commission (Jacoby, 1966:62). Its function as a mechanism for agricultural technology transfer is well known, but its function as a channel for the unidirectional flow of concepts, values and policies of "rural development" has been generally overlooked. Being the de facto agriculture department of the Kuomintang
government, the Commission had the plenary powers to administer Taiwan's "rural development." It reviewed, approved and supervised rural projects initiated by the Taiwan Provincial Government. During the 1949-53 period, it monitored and advised on the land reform programs. And it subsequently concentrated its activities on introducing new technologies to improve the production of certain farm crops, livestock, forestry, fishing, etc. (Jacoby, 1966:62). However, as a powerful institution in charge of "rural development," its success or failure should be judged not only in terms of its technical achievements, but more importantly, in terms of the overall development or a lack of development in Taiwan's rural society. As will be discussed in a later chapter, rural conditions in Taiwan have deteriorated since the late 1960s. The negative developments include mass rural migration and the resultant labor shortage in agriculture, marginalized farm income, steadily declining rates of agricultural growth, ecological destruction by industry and a long-term lack of rural community development in terms of medical care and insurance, recreational facilities, cultural activity and a sense of self-worth of the peasantry. JCRR has never intervened to remedy most of these negative developments. Instead, the technocratic elite within the Commission and their allies in the intellectual and political circles have
become increasingly vocal in advocating a policy of "rural development" which calls for vacating a majority of agricultural population to clear the way for agribusinesses (Chu, 1976; Wang, 1971; Chen, 1980). In the face of rural income deterioration, the Commission has not sought to address the problem of intersectoral exploitation, but rather allied with special industrial corporations to introduce into the countryside a whole package of labor-saving techniques -- farming machines, pesticides, herbicides, etc. -- thereby facilitating the migration of rural labor to the city. The crux of the Commission's concept of "rural development" was not "people", but "technology." In the context of the overall developmental strategy, JCRR has played the role of a "bridge-head," first to remold the rural structure and consolidate the rural order by removing landlord power and decentralizing landownership, then to introduce new technologies so that human and material resources of the rural sector might be made to serve the expansion and growth of industry. Insofar as JCRR internalized the developmentalist rationale that regards agriculture and the peasantry as a means to an end, it should not be surprising that "rural development" has led to agricultural deterioration and class disintegration of the peasantry (see Chapter VI).
These and other collaborative mechanisms conferred prestige and status on their Chinese staff members in the same manner as Taipei-based American institutions, e.g., American Embassy, did. Such prestige and status derived not only from the high salaries offered by the U.S. Government, but also from the exalted image of the U.S., which the Kuomintang had socialized in the society's collective psyche as well as its own. But the unique feature of the collaborative mechanisms consisted in a dualistic arrangement whereby the U.S. Government provided operation funds and policy guidance for the mechanisms while administratively the mechanisms functioned as organic parts of the Nationalist Chinese state apparatus. Because of their alliance with the U.S., the mechanisms took on additional authority and legitimacy. And because of their functional niches in -- and familiarity with the inner workings of -- the domestic state apparatus, they could effectively generate actions in response to demands from the U.S. This dualism represented "two interconnecting sets of linkages" (Robinson, 1972) that formed an input channel through which "inputs" (referring to both support and demands) from the Center were effectively converted into "outputs."

Neither American institutions in Taiwan nor other parts of the Nationalist Chinese state apparatus could have served American interests so well when it came to
economic relations with the Kuomintang regime and Taiwan society in general.

The usefulness of the collaborative mechanisms also derived from the fact that they were imbedded in the local social structure. This was important because the collaborative mechanisms not only functioned within the governmental hierarchy, but also conducted field work in society. Extensive contact networks thus needed to be established in order to execute aid projects with efficiency and effectiveness. When American expert missions arrived to conduct surveys for infrastructural work and feasibility studies for investment purposes, local collaborative mechanisms were called upon to make contacts, give advice and render other services. This social function required an imbeddedness in the other (peripheral) end of the "interconnecting linkages" that was well beyond the reach of foreigners.

The political, economic and social functions of the local collaborative mechanisms were given full play during the late 1950s when AID stepped up the drive to expand Taiwan's private sector in response to a new emphasis which the U.S. Government placed on using aid to promote private enterprise and foreign trade and investment of the aid-recipient countries. In developmentalist terms, AID believed that "the conditions of rapid progress already were in existence and that a
stronger effort should be made by the (Nationalist) Chinese government to create in Taiwan a 'showcase' of the achievement possible by a free economy" (Jacoby, 1966:134). Thus CUSA was called upon to spearhead this drive. It was a period when K. T. Li served as Secretary General of CUSA (1958-63). Under the aegis of Li and others, CUSA reproduced another set of collaborative mechanisms to fulfill the AID mission. Foremost among them was the Industrial Development and Investment Center (IDIC). Established in 1959, IDIC was the most important instrumentality in helping foreign investors achieve their ends. Being a Chinese governmental agency with AID's funding, IDIC not only assisted foreign investors in clearing necessary formalities with minimum red tape, but also helped them select factory sites and obtain facilities, such as utilities, on favorable terms. Through the planning and coordination of IDIC, the government enforced compulsory purchases of a sizable amount of farm-land throughout the island in order to set up industrial estates for foreign investors. In 1961, IDIC engaged a Stanford Research Institute survey team to conduct feasibility studies in Taiwan. It subsequently recommended 14 lines of production as profitable investment opportunities for foreigners.

Another AID-inspired collaborative mechanism in the interest of foreign investors was the China Development
Corporation. Its main purpose was to provide financial assistance to foreign concerns by extending credit and equity participation. With capital jointly subscribed by Taiwan's government-controlled commercial banks, state-run enterprises and AID, this banking institution enabled foreign investors to take advantage of local savings on favorable terms that were not accessible to most local enterprisers.

By the time the Kaohsiung Export Processing Zone (KEPZ), the first of its type in Asia, was inaugurated in 1966, U.S. aid to Taiwan had been terminated and CUSA had already been reorganized into CIECD. It should be noted, however, that the allocation of land for KEPZ had originally been jointly decided by CUSA and Taiwan Provincial Government. The zone is a "separate country" with a "mini-government" of its own that functions independently of Taiwan's state apparatus to serve foreign investors (Zenger, 1977). Without internal collaborative mechanisms at work on behalf of transnational interests, such an arrangement would not have been possible.
III. COMPLEMENTARY INTEGRATION

It was not a historical accident that the phasing out of U.S. aid to Taiwan during the mid-1960s coincided with a period of increasing "outward orientation" of the Taiwanese economy. As the foregoing pages of this chapter attempt to show, AID's main interest was in the creation of a strong private sector in Taiwan based on the alliance of local and foreign capital. It achieved this end by using aid projects to improve social and economic infrastructures, by putting direct and indirect pressures on the Nationalist state bureaucracy and by internalizing a chain of collaborative mechanisms to perform various functions on behalf of AID. Its efforts to remold Taiwan's socioeconomic structures in that direction culminated in the formulation of a 19-point reform program, which AID proposed to the Kuomintang government in 1959. Foremost among the package was a proposal to unify the multiple foreign exchange rates and to liberalize control over foreign exchange and import trade. The aim of this proposal was not only to transform the inwardly oriented import substitution policy into a new development strategy based on export processing industries, but also to enable foreign investors in Taiwan to gain easy access to foreign currencies for the purpose of profit repatriation.
Other proposals included sale of state-run enterprises to private ownership, encouragement of private investment, price stabilization, establishment of investment banking facilities, etc., all geared to the same developmental strategy which aimed at linking the Taiwan economy to the global operations of transnational capital. Under the supervision and assistance of American experts, the reform program was quickly and effectively carried out. And the following year (1960) saw a dramatic change in the orientation of the government's economic policy: "accelerated economic growth" was announced to be the goal of the Third 4-Year Economic Plan starting 1961; a statute to encourage private investment was promulgated; the afore-mentioned institution of IDIC was inaugurated to help foreign investors and foreign exchange policy was liberalized. Thus, 1960 marked the beginning of a new era in Taiwan's economic history -- an era during which transnational (chiefly American) capital flows in to preempt several lucrative key industries while the Taiwanese cheap labor finds its new niche within the world system according to a new international division of labor. It is a new era of international integration for Taiwan's economy.

Is this integration primarily with the U.S. economy? This question can be answered in terms of the following two categories:
(1) **Capital investment:** As Table 4-1 shows, total U.S. direct investment in Taiwan during the five-year period of 1960-64 was more than four times as high as the figure for the entire 1950s. It accounted for more than 80% of Taiwan's total foreign investment (excluding overseas Chinese capital) during that period. Again, during the next five years (1965-69), U.S. investment nearly quadrupled, though its weight in total foreign investment dropped to 55%. Through the middle of the 1970s, U.S. direct investment had occupied a dominant position vis-a-vis Japan and other countries. This was a period when manufacturing industries in the U.S., particularly electronics, were faced with stiff competition from Japan and other industrialized countries. Because of rising labor costs, many of these industries began to lose their competitive edge.\(^4\)

The need for the U.S.-based transnational capital to move outward was so strong that, simultaneously as the war was raging in Vietnam, an "Asia-integrating strategy" took shape under the aegis of American and Japanese transnational elites. Among other developments, the Overseas Private Investment Corporation (OPIC) was established in 1969 to "mobilize and facilitate the participation of U.S. private capital and skills in the economic and social progress of less developed friendly countries and areas, thereby complementing the
<table>
<thead>
<tr>
<th></th>
<th>U.S.A.</th>
<th>Japan</th>
<th>Other Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amt.</td>
<td>%</td>
<td>Amt.</td>
</tr>
<tr>
<td>1953-1959</td>
<td>9,452</td>
<td>87.0</td>
<td>1,372</td>
</tr>
<tr>
<td>1960-1964</td>
<td>37,985</td>
<td>80.4</td>
<td>6,396</td>
</tr>
<tr>
<td>1965-1969</td>
<td>126,946</td>
<td>55.0</td>
<td>52,709</td>
</tr>
<tr>
<td>1970-1975</td>
<td>289,816</td>
<td>43.6</td>
<td>155,530</td>
</tr>
<tr>
<td>TOTAL</td>
<td>464,199</td>
<td>48.8</td>
<td>216,007</td>
</tr>
</tbody>
</table>

Sources: Computed from Mitaku, p. 173; Lin and Kilimnik, p. 44.
Notes: (1) Overseas Chinese investment is not included.
      *(2) This 1970-75 figure for other countries is actually only for the 1970-73 period.
development assistance objectives of the U.S." (Muto, 1977:16). In 1970, David Rockefeller declared in Singapore that American oil companies would invest a total of $45 billion in Asia and West Pacific in the coming 12 years, mostly in Southeast Asia (Muto, 1977:16). In 1971, a report to President Nixon prepared by the Commission on International Trade and Investments Policy (which was appointed by Nixon in 1970 with Albert Williams of IBM as chairman) recommended that all steps be taken to expand U.S. direct investment overseas even though it might mean loss of jobs to American workers (Muto, 1977:16). It was against this historical backdrop that transnational capital moved into Taiwan to take advantage of its cheap labor and other favorable inputs (credit facilities, public utilities, tax incentives, etc.), thereby turning the island into one of the bases in the Asian-Pacific region for the integrated operations of transnational capital. In addition to direct private investment, U.S. capital has since the earlier part of the 1970s dominated Taiwan's high-technology capital-intensive projects run by the state, in the forms of bank loans and equity participation. The operations of U.S. capital in Taiwan not only produce manufactured goods at comparatively low costs for the U.S. market, but also reproduce capital in the forms of corporate profits, interest payments, royalties,
etc., most of which is plowed back into the transnational system, if not directly into the U.S. economy.

Since 1967, Japanese direct investment in Taiwan has soared from less than $2 million a year to more than $15 million a year. As will be discussed at length in the next chapter, Japanese capital operates in a different way to serve a coordinated Asian integration strategy of its own. Although its operations are on a much smaller scale than American capital, it has successfully integrated Taiwan's industrial structure into its own by making the former highly dependent on Japan for the supply of technology and capital goods (machines, parts and components, industrial raw materials and intermediate products). It has also succeeded in integrating Taiwan's foreign trade into its own global trading networks. By 1978, Japanese trading companies operating in Taiwan controlled some 80% of the two-way trade between Japan and Taiwan and about one half of the island's worldwide exports. Such extensive controls have not only brought fabulous profits to the Japanese TNCs, but also represent part of a strategy to maintain Japan's huge annual trade surplus with Taiwan (which amounted to $3 billion in 1980), thereby perpetuating Taiwan's dependence on imports from Japan. Thus an aggressive trade policy has complemented the logic
of the Japanese capital expansion and domination to bring Taiwan into the orbit of "Asian integration."

(2) Trade Relations: As Table 4-2 makes clear, Taiwan's exports have become increasingly concentrated on the U.S. market since the 1960s. Before that, the bulk of exports had gone to neighboring Asian countries, with Japan absorbing one half or even more of the total, mainly agricultural products. On the other hand, exports to the U.S. accounted for only 4.2% in 1953 and 4.4% in 1955. But since 1970, the U.S. share has increased to more than a third each year.16 To explain this high degree of export concentration in terms of complementary integration, we must stop to look at the historical circumstances under which contradictions within the world capitalist system resulted in a differentiation of the international division of labor based on a new practice known as international subcontracting.17

During the post-war years when Third World countries were engaged in the development strategy of import substitution, U.S. capital penetrated the protectionist barriers of many of these countries to make investments in both extractive and manufacturing industries. While the former were tied to the needs of the U.S. domestic industries, the latter (manufactured products) primarily aimed at overseas markets. Under the import substitution policy, those Third World countries that accepted U.S.
Table 4-2: WEIGHTS OF EXPORT AND IMPORT TRADE WITH U.S.A. AND JAPAN (% of total)

<table>
<thead>
<tr>
<th></th>
<th>EXPORT</th>
<th></th>
<th>IMPORT</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>U.S.A.</td>
<td>Japan</td>
<td>U.S.A.</td>
<td>Japan</td>
</tr>
<tr>
<td>1953</td>
<td>4.2</td>
<td>45.6</td>
<td>38.5</td>
<td>30.6</td>
</tr>
<tr>
<td>1955</td>
<td>4.4</td>
<td>59.5</td>
<td>47.5</td>
<td>30.5</td>
</tr>
<tr>
<td>1960</td>
<td>11.5</td>
<td>37.7</td>
<td>38.1</td>
<td>35.3</td>
</tr>
<tr>
<td>1965</td>
<td>21.3</td>
<td>30.6</td>
<td>31.7</td>
<td>39.8</td>
</tr>
<tr>
<td>1970</td>
<td>39.5</td>
<td>15.1</td>
<td>23.9</td>
<td>42.8</td>
</tr>
<tr>
<td>1975</td>
<td>34.3</td>
<td>13.1</td>
<td>27.8</td>
<td>30.5</td>
</tr>
<tr>
<td>1978</td>
<td>39.5</td>
<td>12.4</td>
<td>21.6</td>
<td>33.4</td>
</tr>
</tbody>
</table>

Sources: 1953-70 figures from Chinese Maritime Customs, "The Trade of China" (various years). 1975-78 figures are from Industry of Free China, June 1979, pp. 57, 69.

manufacturing investments did so with a view to supplying their own domestic markets, not to encouraging exports. Furthermore, labor costs in the U.S. had not become a bottleneck serious enough to warrant an outward orientation of the U.S. domestic manufacturing industries. Nor had other industrialized nations developed the full potential to invade the U.S. market with their manufactured products.

After the mid-1960s, however, manufactured goods from Japan and West Germany began to make inroads into the U.S. market and gain a competitive edge over
American products. This rivalry, accentuated by rising labor costs, forced American corporations to protect themselves by engaging in international subcontracting. U.S.-based TNCs began large-scale manufacturing investments in the Asian-Pacific region, as we have observed before, with a view to establishing export bases to supply the U.S. market. Manufactured products or semi-products with high labor contents were shipped back to the U.S. through subcontracting put out by trading networks that were owned by or affiliated with the producing TNCs themselves. Of course, international subcontracting is not confined to manufactured goods produced by TNC subsidiaries. American trading corporations and retailing firms also subcontract production to joint-venture and independent manufacturers of Third World countries as well.

International subcontracting may or may not be related to the concept of "complementary integration." In the Taiwan case, however, this concept holds for the following reasons:

First, Taiwan's subcontracted production for the U.S. market (i.e., exports to the U.S. under subcontracting), whether by TNC subsidiaries, joint ventures or independent local firms, is geared to the U.S. needs for unskilled or low-skilled labor to complement American capital and technology in the production processes.
For example, electronic products and semi-products, which are the most important category among Taiwan's subcontracted exports to the U.S., normally involve assembly operations which primarily require unskilled or low-skilled labor of women workers.\textsuperscript{18} (Those parts of the electronic production processes that require skilled labor and specialized technical knowhow are not subcontracted.) In the case of garments, moreover, subcontracting largely involves sewing, which accounts for 80% of total labor costs in clothing manufacturing (Landsberg, 1979:58). Thus, empirical studies by Liang (1972) have found that Taiwan's exports to the U.S., Japan and EEC countries have higher labor-intensity than its exports to LDCs (such as Vietnam) and that since exports to the U.S. have expanded most rapidly, such exports tend to have the largest labor-absorbing and job-generating capacity.

Second, while the U.S. needs the relatively cheap labor of Third World countries as a complementary input in its production processes, a case of "complementary integration" may not be made for any of these countries if its exports to the U.S. are insignificant either from the point of view of the U.S. or from that of the Third World country itself. The Taiwan case is one of "complementary integration" because its exports to the U.S. are very significant from both perspectives.
According to Landsberg (1979:58), U.S. transnational corporations have over 85% of all subcontracting work done in five countries (or areas) -- Mexico, Taiwan, Hong Kong, Singapore and South Korea. Taiwan is not only one of the biggest five subcontractors, but also considered by the U.S. Government to be the second largest U.S. trade partner in Asia, next only to Japan, and the eighth largest in the world. Furthermore, more than one third of Taiwan's exports go to the U.S., as we have already seen. Comparative studies show that this export concentration on the U.S. market is the highest among Asian nations. Such a high degree of export concentration is accompanied by the fact that Taiwan's annual exports have in recent years accounted for 50% or even more of the annual GNP. A comparison between Taiwan and South Korea shows that while South Korea also has a high degree of export concentration on the U.S. market, its export dependence (i.e., total exports as a percentage of GNP) is only about one half that of Taiwan (see Table 4-3). Taiwan's extraordinarily high export dependence and export concentration on the U.S. market, coupled with the extraordinarily high concentration of the U.S. manufacturing subcontracting on Taiwan, are indicative of the fact that Taiwan's industrial production and labor force have become integrated into and complementary to the U.S. economy. This complementary integration
Table 4-3: EXPORT DEPENDENCE OF TAIWAN AND SOUTH KOREA (annual exports as % of GNP)

<table>
<thead>
<tr>
<th></th>
<th>Taiwan</th>
<th>South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>36.2%</td>
<td>25.1%</td>
</tr>
<tr>
<td>1976</td>
<td>47.7%</td>
<td>25.7%</td>
</tr>
<tr>
<td>1977</td>
<td>47.5%</td>
<td>24.3%</td>
</tr>
<tr>
<td>1978</td>
<td>51.4%</td>
<td>20.2%</td>
</tr>
<tr>
<td>1979</td>
<td>50.0%</td>
<td>26.0%</td>
</tr>
<tr>
<td>1980</td>
<td>53.6%</td>
<td>25.3%</td>
</tr>
</tbody>
</table>

Sources: (1) Taiwan figures for 1975-78 are computed from GNP and trade statistics in Industry of Free China (various years); those for 1979-80 are derived from Taiwan's newspaper reports (various dates).
(2) Korean figures are computed from A Handbook of Korea, by Korean Overseas Information Service, Ministry of Culture and Information, Seoul, 1979. The 1979 and 1980 figures are forecast.

is a key determinant of Taiwan's economic growth and employment. That is to say, the rates of Taiwan's economic growth and employment will increase or decrease largely as a "reflection" or "spinoff" of the U.S. economic performance.

IV. CONCLUDING REMARKS

The present chapter has attempted to analyze the dynamic process in which imperialism-dependency relationships have been internalized in the post-colonial
Taiwan society. This process demonstrates the three essential characteristics that define the said relationships. First, particular historical circumstances during the late 1940s created in Taiwan an inter-governmental "dominance relation" that enabled AID to influence the remolding of Taiwanese socioeconomic structures along developmentalist lines. The remolding process involved infrastructural changes and institutional reforms which eventually led to the emergence of a dynamic private sector based on an alliance of transnational and local capital. Second, AID used local collaborative elites and institutions to facilitate changes and to internalize concepts, policies and values that are related to the developmentalist model. Third, the remolding process created conditions for the eventual "complementary integration" of Taiwan's economy with the world capitalist system in general and with the U.S. and Japanese economies in particular. The economic basis for this international integration since the mid-1960s has been export-oriented industrialization.

As far as center-periphery economic relations are concerned, the crux of the concept of dependency consists in complementary integration. In many peripheral economies, complementary integration occurs when a peripheral country engaging in export-oriented industrialization has its exports highly concentrated on
the markets of one or two developed countries, which need labor and certain primary products (such as Indonesia's oil) as complementary inputs to fuel economic expansion. It also occurs when such exports are structurally meshed in a global trading network beyond control of the peripheral country itself. In either case, transnational capital not only operates the trading network, but also controls certain key industries of the peripheral economy in question.

In the Taiwan case, transnational capital, both American and Japanese, combines production activities in several key industries with trading operations, causing a high degree of export concentration on the U.S. market and, to a lesser extent, the Japanese market. Furthermore, given the relative paucity of natural resource endowments and the relative underdevelopment of capital goods industries in Taiwan, its extraordinarily high export dependence necessarily gives rise to a high dependence on foreign supply of inputs. Japanese capital manipulates this situation to ensure that local industries, especially small and medium-sized enterprises, heavily depend on Japan for capital goods, raw materials and technology.

Taiwan's post-colonial dependency, or new dependency, has positive economic spinoffs. Lavish American aid combined with the efforts of AID to improve the
Kuomintang government's economic efficiency and to modernize Taiwan's infrastructure, on the already good foundation of what Japanese colonialism had left behind, has contributed much to the island's economic prosperity. The U.S. ideological commitment to make Taiwan a "show case of the free world" has enabled the Nationalist government to secure post-aid capital and technical assistance from both international institutions and the U.S. Government itself so that the island's economic growth can be sustained and expanded. Because of Taiwan's extraordinary geopolitical importance resulting from the hostility between the U.S. and China, the U.S. needed not only to promote a measure of economic prosperity on that island, but also to create its economic dependency relationships with the U.S. economy. Just as military dependency insulated Taiwan from mainland China militarily, its economic dependency helps to alienate the two Chinese societies socially and economically. These two aspects of dependency were interrelated and geared to the needs of imperialism. But while the externally imposed nature of military dependency made it easier to break following the U.S.-China normalization, the internalization of economic dependency in Taiwan society causes that dependency to perpetuate itself, though not without some transforming potential.
NOTES TO CHAPTER IV

1. These official remarks are quoted in Baran (1957: 199). The latter quote is from C. B. Randall, A Foreign Economic Policy for the United States (Chicago, 1954), Chapter II.

2. Development economists often treat structural transformations as if they can result from the quantitative accumulation of economic indicators. For example, continued increase in per capita income is thought to be capable of generating an equitable pattern of income distribution after an initial increase in inequality. Griffin, on the other hand, stresses conscious efforts to bring about structural transformations. In recent years, this view seems to have gained increasing following in Third World countries, where many leaders and economists have begun to emphasize "radical social transformations" and "basic changes" in the socioeconomic system as an essential condition for development. See Erb, et al., eds. (1975:8, 167).

3. The view that agricultural development is a means to industrial development is often expressed in official statements of the Nationalist Chinese government in Taiwan, though usually in a euphemistic manner. T. H. Lee, agricultural economist and incumbent mayor of Taipei City, makes this point very clear when he says, "Agricultural development is primarily concerned with the feasibility of increasing net agricultural surplus or net capital outflow from the agricultural sector. In less developed countries like Taiwan, mobilization of internal capital must depend on agricultural development" (Lee, 1971:133-134). Furthermore, Li Tsung-tao, head of JCRR (now called Commission on Agricultural Development), recently admitted that Taiwan's agricultural development has fulfilled "its mission of supporting industry" and that "the development of industry has led to the backwardness of agricultural development" (Independence Evening Post, Feb. 23, 1981).

4. In 1945, the Nationalist government took over some 180,000 hectares of public land (most of which was previously owned by Japanese sugar monopolies), a number of public enterprises in transportation and communications, salt, tobacco and wines and many
private enterprises including sugar-refining, iron and steel, aluminum, fertilizers, oil-refining, shipbuilding, etc.

5. Kerr names Sung Tzu-wen (T. V. Soong) and Kung Hsiang-hsi, Chiang Kai-shek's in-laws who ran China's economy prior to 1949.

6. Kerr names O. K. Yui (Yu Hung-chun) and C. K. Yen, both graduates of St. Johns University in Shanghai. Yui had been a protege of Kung Hsiang-hsi, succeeding Kung as Minister of Finance while concurrently serving as Managing Director of Bank of China during the late 1940s. After moving to Taiwan in 1949, Yui was head of the central banking system until 1953 when he was appointed to the Governorship of Taiwan Province; and he became Premier in 1954. Yen's role in the KMT government was even more diversified. He was Minister of Economic Affairs, Governor of Taiwan, Minister of Finance, Premier and finally succeeded Chiang Kai-shek as President in 1975.

7. For example, economics professor Lin Lin of National Taiwan University pointed out that state-run enterprises in Taiwan had "neither a budgeting system nor an auditing system" and that profits made by these enterprises did not effectively flow into the public coffer and the management was not held accountable for losses. Even Cheng Hsueh-chia, one of the Kuomintang's key political polemicists, charged that the poor performances of government enterprises had greatly contributed to the downfall of the government on the mainland. He therefore suggested that all government enterprises in Taiwan be transferred to private ownership. See Free China Semimonthly, April, 1950.

8. Quoted from an article written by Robert B. Elwood, Economic Section Chief, American Embassy in Taipei. The article was written for a forum on the issue of public enterprise vs. private enterprise sponsored by Industry of Free China. See the April 1954 issue of that Journal.

9. This amount of $532.8 million was approximately one third of total U.S. economic aid to Taiwan during the 1950-65 period. The other two thirds were allocated for military use. For a detailed account of the aid allocations, see Jacoby (1966:20-54).
10. Jacoby (1966:148) suggests that "the shift would come gradually as a result of successive offerings of shares in public enterprises to private investors to finance expansion. At some point, the government would hold only minority interests in these firms." The course of events during the past 15 years shows that he was partially correct at best.

11. This passage is quoted from Premier Chen Cheng's administration report to the Third Plenary Session of the Kuomintang's Seventh Central Committee, Nov. 12, 1953 (translation mine).


13. See K. T. Li (1967).

14. This can be seen from the fact that net profits for RCA and Zenith decreased from $364 million and $121 million respectively in 1965 to $330 million and $93 million respectively in 1975 while on the other hand, Japan's Matsushita and Sony had their net profits increased from $123 million and $17 million respectively to $328 million and $141 million respectively over the same period. See Tokyo Keizai Shimpo, Oct. 1976, quoted in Nakano (1977, p.42, Table 9).

15. These figures were reported in an October 1978 issue of the Asian Wall Street Journal Weekly, cited in China Daily News (New York), 10/28/78.

16. The U.S. share of Taiwan exports increased to 43% in 1971 and 42% in 1972 amidst the world trade boom. The percentage was 35.1% for 1979 and 34.1% for 1980.

17. For perceptive discussions on international subcontracting, see Sharpston (1975) and Landsberg (1979).

18. For detailed accounts of the electronic assembly processes and its relevance to Taiwan, see Nakano (1977a) and Zenger (1977). While electronic products exported to the U.S. contain certain parts and components made locally, these parts and components are essentially the products of labor-intensive processes.

20. This finding comes from a survey conducted by Nomura Stock Co. of Japan. See Far East Times (San Francisco), Nov. 13, 1980.
CHAPTER V

THE DYNAMICS OF DEPENDENT DEVELOPMENT

... in some dependent economies ... foreign investment no longer remains a simple zero-sum game of exploitation as was the pattern in classical imperialism ... In fact, dependency, monopoly capitalism and development are not contradictory terms: there occurs a kind of dependent capitalist development in the sectors of the Third World integrated into the new forms of monopolistic expansion.

-- Fernando H. Cardoso (1972:89)

... the course of this dependent development would be shaped, not only by events in the center of the [world capitalist] system but also by the internal evolution of peripheral societies themselves.

-- Peter Evans (1979:25)

I. CONDITIONS FOR INTERNAL EVOLUTION

Cardoso's analysis in the early 1970s of the emergence of dependent development focuses on a shift in the extractive function of imperialism towards manufacturing investment in the periphery. In that analysis, he refutes the stagnationist notion of "development of under-development" as a "play on words," contending that "it is necessary to understand that in specific situations it is possible to expect development and dependency" (Cardoso, 1972:94). Nevertheless, he apparently shares the tendency of other imperialism-dependency writers to regard
classical imperialism as "a zero-sum game of exploitation." This means that the old types of imperialist control totally inhibited the development of dependent economies and a measure of dependent development was made possible only by the emergence of new forms of imperialist control characterized by increased foreign investment in the manufacturing sectors of peripheral economies, investment that often takes the form of joint ventures. Just as classical underdevelopment and stagnation were exogenously determined by the forces of imperialism, so is the contemporary reality of dependent development.

This neglect of internal factors making for dependent development is at odds with the dialectical approach which Cardoso has subsequently developed and which we have discussed in Chapter I. In this connection, Evans improves on Cardoso by adding an internal dimension to the dynamics of change within dependent economies. As we have mentioned, Evans (1979:94) perceives the classical model of dependency as containing forces that made for its own metamorphosis -- forces of production and social classes which the very development of classical dependency created (Evans, 1979:56). In his Brazilian case analysis, these forces include the following: (1) While Brazil's export-oriented coffee monoculture during the nineteenth century resulted in "structural disarticulation" (i.e., lack of internal linkage effects), the extensive railroad networks
originally designed for the transport of coffee made substantial contributions to the growth of domestic manufactures by delivering coal, iron and other imported inputs which manufacturing industries needed, and by facilitating distribution of manufactured goods. The coffee economy provided, as a consequence of its own natural development, important parts of the economic and social overhead capital which made domestic manufacturing possible. (2) Despite conspicuous consumption of imported luxuries undertaken by the plantation-owning class, a substantial part of profits from coffee trade found its way into the development of infrastructure and later into commercial and industrial ventures, paving the way for subsequent industrialization. Thus, the coffee monoculture, by fostering capital accumulation and a new commercial and industrial bourgeoisie, was gradually transformed into a different kind of political economy.

The Brazilian experience differed from that of Taiwan in that Brazil's coffee monoculture was largely owned by indigenous dominant classes while the sugar quasi-monoculture and related food processing industries in Taiwan were monopolized by Japanese colonialists. No Taiwanese entrepreneurial class emerged to undertake capital accumulation while the landlord class was allowed to play only a limited role in commercial ventures. But a sophisticated infrastructure was created by the colonial
state to support agricultural development. This included an extensive railway network, primarily designed for the sugar industry.

The important role which railways played in economic development is well documented by historians and social scientists. We have mentioned Marx's and Evans' views on this issue. Vernon (1971) also describes how railway construction contributed to commercial and industrial boom and the growth of an entrepreneurial class in Mexico during the nineteenth century. This does not imply that economic development occurs wherever there are railways. As a matter of fact, Baran (1957:190-194) and some other imperialism-dependency writers contend that railways and other auxiliary facilities in underdeveloped countries could inhibit economic development because they created externally oriented linkages through which raw materials were extracted by dominant nations without beneficial effects on local economies. Even H. W. Singer observes that "the productive facilities for export from underdeveloped countries, which were so largely a result of foreign investment, never became a part of the internal economic structure of those underdeveloped countries themselves, except in the purely geographical and physical sense" (quoted in Baran, 1957:193). One way of reconciling these conflicting views is to examine the changing role of these infrastructural facilities during the
post-colonial era. At least in some peripheral countries, "external economies" created by such facilities have proven to be beneficial to post-colonial development, even though historically they had served as an instrument for colonial exploitation.

Taiwan's experience shows that infrastructural facilities under colonialism created both external and internal linkage effects. Simultaneously as Japanese colonialists began developing the sugar industry, an extensive rail network found its way into rural areas where sugar-cane was grown. This rural rail system was primarily designed to deliver cane crops to town-based refineries as well as sugar products from the refineries to the main north-south railway system which reached seaports. But it also served as a major means of rural transportation linking villages to towns and cities, and the sugar companies commercialized it for diverse transport services. At the end of the Japanese rule, private rail lines totalled 1,863 miles in length and the state-run north-south line and its branches totalled 994 miles (Hsieh, 1964:165). This gave a railway density of 127 meters/sq. km., second only to Japan in all of Asia.\(^1\) The correspondence between this high railway density and Taiwan's development status in Asia does not seem to be a mere coincidence. In addition to its externally oriented function, the railway system facilitated commodity exchange and the delivery of farming
inputs, especially fertilizers, and raw materials needed by town-based small manufacturing industries. Particularly worth mentioning was the 75-mile line that climbed the steep slopes of Mount Ali, one of Taiwan's main forest zones. This railway, which took 12 years to complete, enabled the Japanese to tap the island's timber resources (Hsieh, 1964:165), contributing to the growth of wood-related manufacturing.

In the post-war period, the important role of the rural rail system continued for one or two decades, before the decline of the sugar industry and the development of highways caused many rail lines to close down. Besides its contributions to rural economic development, the rail system also performed a peculiar "cultural" function: With decolonization, secondary education became increasingly available for rural children; but since schools were located in towns or cities, until the 1960s the rail system had served as a major means of commutation that helped spread secondary education to the countryside.

The railway system, highways and the hydroelectric power industry were the most important contributions which Japanese colonialism made towards Taiwan's future industrialization (Ho, 1965:35; Ranis, 1979:208). Electric power was first developed for sugar and other food processing industries. In the 1930s, the Japanese initiated plans to build an industrial base in Taiwan for
militarist purposes. This resulted in a rapid expansion of power-generating capacity, from 50,000 kw in the early 1930s to over 300,000 kw by the end of World War II (Ho, 1965:35). Successful power development supported such new industries as aluminum, chemicals, textiles, steel alloy, etc. Though continued industrial growth was hampered by the breakout of the war, these infant industries and the hydroelectric power projects laid the foundation for post-colonial industrialization of the island. It is reasonable to argue that, had the colonial rule continued after 1945, the infrastructural facilities and power-generating capacity, originally designed to support the agrarian quasi-monoculture, would have by their natural development generated new productive forces to disrupt the equilibrium of the agrarian system, leading to a new phase of colonial development in which industry played an increasingly important role. Furthermore, it is noteworthy that since the infrastructural facilities, the food -- especially sugar -- processing industries and many electrification works were decentralized throughout the rural areas, "external economies" were thus created for a relatively high degree of rural industrialization, which the Western development model has excluded in peripheral countries in general.
Another infrastructure-related contribution which colonialism made towards Taiwan's economic development concerns forestation. Large-scale forestation projects undertaken by the colonial authorities not only served the agricultural purpose of water and soil conservation; well-planned deforestation also helped foster the growth of wood-related industries such as furniture, construction and household appliances. In the colonial period, these were some of the most important manufacturing activities undertaken by the indigenous people. And their importance in the post-colonial development can be seen from the fact that by 1954, wood products were among the major import-substituting manufactures, which accounted for 66% of total manufacturing production (Ranis, 1979:218). As Table 5-1 shows, wood products appeared to lead the way as the number one contributor to GNP in manufacturing as well as to manufacturing employment. During the "easy" import substitution phase of the 1950s, wood-related industries were thus one of the key factors in the rapid transformation from an industrial structure in which food processing predominated to one with more diversification. Available data also show wood products to be a major foreign exchange earner. Between 1952 and 1964, the share of industrial products in total exports went up fivefold, from 8% to 40%. Industrial production and export growth during this period was concentrated in the textile, leather and wood and paper
Table 5-1:
PRODUCTION AND EMPLOYMENT IN MANUFACTURING, 1961

<table>
<thead>
<tr>
<th>Mfg. Industry</th>
<th>% of GNP in Mfg.</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wood and furniture</td>
<td>6.02%</td>
<td>8.54%</td>
</tr>
<tr>
<td>Metal products</td>
<td>3.06%</td>
<td>4.53%</td>
</tr>
<tr>
<td>Transport equipment</td>
<td>2.84%</td>
<td>6.29%</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>2.26%</td>
<td>2.93%</td>
</tr>
<tr>
<td>Machinery</td>
<td>2.72%</td>
<td>3.71%</td>
</tr>
<tr>
<td>Rubber</td>
<td>1.19%</td>
<td>1.57%</td>
</tr>
<tr>
<td>Basic metals</td>
<td>4.14%</td>
<td>2.45%</td>
</tr>
<tr>
<td>Paper</td>
<td>2.59%</td>
<td>3.04%</td>
</tr>
<tr>
<td>Petroleum</td>
<td>3.73%</td>
<td>1.24%</td>
</tr>
<tr>
<td>Leather</td>
<td>0.29%</td>
<td>0.33%</td>
</tr>
</tbody>
</table>

Source: Fei, et al., 1979:70.

industries (Fei, et al., 1979:53). Moreover, wood exports were larger than the exports of canned pineapple, mushroom, asparagus, rice and tea combined and more than four times as large as the total exports of cement and glass products during the period of 1972-78. Indeed, the post-colonial state in Taiwan has reaped tremendous profits from what the colonial government intended to be a means of long-range agricultural and ecological protection.

By far the most important contribution which the colonial period made towards the post-colonial economic development of Taiwan is the creation of a highly productive agricultural base with modern farming techniques. The Japanese efforts in this regard have been well discussed by economists (Ho, 1965 and 1978; Lee, 1971; Amsden, 1979; Fei, 1979; Ranis, 1979). Put in a nutshell, these
involved a good physical infrastructure (transport facilities, irrigation networks, etc.) and sophisticated institutional arrangements (farmers' associations and cooperatives, agricultural experiment stations, the tithing system, etc.) to carry out research and development, extension work and implementation of new farming methods. Coercive police force and landlord power were also mobilized to ensure the peasants' receptivity to modern agricultural technology. These development efforts helped boost farm productivity, enabling the colonial government to extract surplus not only in absolute terms (i.e., surplus realized through increased length and intensity of labor work), but also in relative terms (i.e., surplus made possible by technological progress).

The implications of agricultural surplus extraction as a development strategy during the post-colonial period will be discussed in the next chapter. Here it suffices to note that the quasi-monoculture which the colonialists created to fuel the economic expansion of their home country has been utilized by the post-colonial government to fuel the urban-oriented industrialization. To a substantial extent, Taiwan's dependent development has been shaped through a conversion of the externally oriented function of agriculture into an internally oriented one. As Ranis (1979:222) observes of Taiwan, "the agricultural
sector -- and agricultural raw-materials-based industry -- provided the main engine of economic, and, in particular, industrial growth in the 1950s . . ." Dependent development thus should be seen as a cumulative process in which capital accumulation results not only from urban industrialization under foreign and local capital alliance, but also from mobilization of rural surplus (see Chapter VI). And the internal evolution which Evans conceives as a necessary condition for dependent development to emerge includes a process of intersectoral exploitation. Instead of causing "development of underdevelopment" as Frank contends, the internal "metropolis-satellite chain" in this case is a crucial factor making for dependent development.

II. CAPITAL ACCUMULATION

During the 1950s, Baran (1957:226-228) made a case about the failure of many underdeveloped countries to translate their "potential economic surplus" into "actual economic surplus" in the form of capital formation. Drawing on Harry Oshima's empirical study, Baran mentioned a few countries where potential economic surplus could reach more than 30% of GDP while actual gross investment accounted for no more than 10% of GDP during the early post-war years. He explained this difference as follows:
The principal obstacle to rapid economic growth in the backward countries is the way in which their potential economic surplus is utilized. It is absorbed by various forms of excess consumption of the upper class, by increments to hoards at home and abroad, by the maintenance of vast unproductive bureaucracies and of even more expensive and no less redundant military establishments (Baran, 1957:228).

Taiwan's situation during the 1950s was quite similar to what Baran described. A vast and redundant government bureaucracy and a huge and unproductive military establishment, coupled with the abrupt swelling of population due to the 1949 exodus from the mainland, put great pressures on the economy, minimizing the potential economic surplus. As Table 5-2 shows, gross domestic savings were less than 10% of GNP prior to 1957. The gap between savings and capital formation was filled by the inflow of foreign capital beginning in the early 1960s and the injection of economic aid from the U.S. According to Jacoby (1966:52), U.S. capital assistance to Taiwan amounted to $810-million, or 31.1% of Taiwan's total net domestic investment during the period of 1950-63. Since the mid-1960s, unusually rapid economic growth has made it possible for gross savings to rise to the 20%-30% range (as percentages of GNP) and also to surpass gross capital formation (Table 5-2). The corresponding decrease in the consumption ratio by no means indicates austerity or thrift on the part of either the government or the urban sector. Consumption has shown tremendous increase in absolute terms simultaneously as it
Table 5-2: CONSUMPTION, SAVINGS AND CAPITAL FORMATION (as % of GNP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Government Consumption</th>
<th>Private Consumption</th>
<th>Gross Savings</th>
<th>Gross Capital Formation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>17.0</td>
<td>74.1</td>
<td>8.9</td>
<td>15.3</td>
</tr>
<tr>
<td>1953</td>
<td>15.6</td>
<td>75.9</td>
<td>8.5</td>
<td>14.0</td>
</tr>
<tr>
<td>1956</td>
<td>20.3</td>
<td>70.4</td>
<td>9.3</td>
<td>16.0</td>
</tr>
<tr>
<td>1957</td>
<td>20.2</td>
<td>69.7</td>
<td>10.1</td>
<td>15.7</td>
</tr>
<tr>
<td>1960</td>
<td>18.8</td>
<td>69.2</td>
<td>12.0</td>
<td>20.1</td>
</tr>
<tr>
<td>1961</td>
<td>19.09</td>
<td>68.20</td>
<td>12.71</td>
<td>16.15</td>
</tr>
<tr>
<td>1962</td>
<td>19.91</td>
<td>67.82</td>
<td>12.27</td>
<td>15.01</td>
</tr>
<tr>
<td>1963</td>
<td>18.68</td>
<td>64.41</td>
<td>16.91</td>
<td>15.20</td>
</tr>
<tr>
<td>1964</td>
<td>16.96</td>
<td>63.69</td>
<td>19.35</td>
<td>14.48</td>
</tr>
<tr>
<td>1965</td>
<td>17.30</td>
<td>63.32</td>
<td>19.38</td>
<td>16.83</td>
</tr>
<tr>
<td>1966</td>
<td>17.60</td>
<td>60.23</td>
<td>22.17</td>
<td>18.98</td>
</tr>
<tr>
<td>1967</td>
<td>17.71</td>
<td>59.11</td>
<td>23.18</td>
<td>20.81</td>
</tr>
<tr>
<td>1968</td>
<td>17.99</td>
<td>58.59</td>
<td>23.42</td>
<td>22.09</td>
</tr>
<tr>
<td>1969</td>
<td>18.50</td>
<td>57.18</td>
<td>24.32</td>
<td>22.25</td>
</tr>
<tr>
<td>1970</td>
<td>18.35</td>
<td>55.85</td>
<td>25.80</td>
<td>21.88</td>
</tr>
<tr>
<td>1971</td>
<td>17.75</td>
<td>53.97</td>
<td>28.28</td>
<td>22.93</td>
</tr>
<tr>
<td>1972</td>
<td>16.57</td>
<td>53.29</td>
<td>30.14</td>
<td>24.36</td>
</tr>
<tr>
<td>1973</td>
<td>15.26</td>
<td>51.75</td>
<td>32.99</td>
<td>26.13</td>
</tr>
<tr>
<td>1974</td>
<td>15.25</td>
<td>54.61</td>
<td>30.14</td>
<td>28.87</td>
</tr>
<tr>
<td>1975</td>
<td>17.38</td>
<td>57.03</td>
<td>25.59</td>
<td>30.29</td>
</tr>
<tr>
<td>1976</td>
<td>16.88</td>
<td>53.26</td>
<td>29.86</td>
<td>28.37</td>
</tr>
<tr>
<td>1977</td>
<td>17.41</td>
<td>52.52</td>
<td>30.07</td>
<td>26.83</td>
</tr>
<tr>
<td>1978</td>
<td>17.40</td>
<td>49.76</td>
<td>32.84</td>
<td>25.47</td>
</tr>
</tbody>
</table>

Sources: (1) Figures for 1952-60 are derived from National Income Statistics of the ROC, 1970 Table 5, published by C.I.E.C.D.

(2) Figures for 1961-78 are provided by Directorate-General of Budget, Accounting and Statistics, ROC (listed in Industry of Free China, June, 1979, p. 167).

has decreased as a percentage of GNP -- a fact made possible by rapid economic growth. This, however, should not obscure the fact that the rural population has been squeezed and forced to "save" through various extractive
mechanisms. The appropriation of "forced savings" generated in the rural sector constituted a major source of capital formation at least during the decade of the 1950s (Lee, 1971). We shall further discuss this point in Chapter VI.

We are interested in knowing to what extent the capitalist class contributes to capital formation. Conventional wisdom suggests that the ability of the entrepreneurial class to save for rational capital accumulation is a key factor in economic development. Political economists, especially those on the left, have a tendency to associate peripheral underdevelopment with the predilections of dominant classes in peripheral societies for conspicuous consumption at the expense of capital accumulation. Baran (1973:85, 86), for example, argues that the middle classes in backward countries were incapable of "living up to this historical challenge" of promoting capitalist development partly because "their requirements for consumption are so high that there is only little room for savings." Baran further observes:

Their [the middle classes] drive to accumulate and to expand their enterprises is continuously counteracted by the urgent desire to imitate in their living habits the socially dominant "old families," to prove by their conspicuous outlays on the amenities of rich life that they are socially (and therefore also politically) not inferior to their aristocratic partners in the ruling coalition.
Following this line of reasoning, dependency theorists prescribe a choice for Latin America "between an immediate socialist revolution or a permanent state of capitalist underdevelopment" because

the local bourgeoisie no longer exists as an active social force, but has become 'lumpen', incapable of rational accumulation and rational political activity, dilapidated by its consumerism, and blind to its 'real' interest ... (Palma, 1978:904).

Curiously, this left-wing view on the central role of the bourgeoisie as an agent of saving and accumulation for capitalist development is also widely espoused in the right-wing economic theories. R. Nurkse (1957:37), among other development economists, contends that savings are undertaken "mostly among the urban commercial classes." Arthur Lewis even goes so far as to equate capitalist savings with capital accumulation, arguing that only capitalists save and that the reason why savings are low in the underdeveloped countries is because the capitalist sector (and hence the proportion of income received in the form of profits) is small (cited in Griffin, 1973:18).

The Taiwan case study, however, reveals a different pattern in which capital accumulation may take place independently of the propensity of the entrepreneurial class to save or to consume. Under import substitution during the 1950s, the Taiwanese entrepreneurial class was weak and small, with an inefficient state capitalist system
predominating economic planning and industrial production. The government mobilized all resources at its disposal, including agricultural surplus, U.S. economic aid, profits from its own enterprises and tax revenue from the private sector, and allocated them between capital formation and consumption of the huge bureaucracy and military establishment. The role which private enterprisers played in saving for capital accumulation was insignificant. Since the 1960s, the growing entrepreneurial class has scored an increasingly large surplus, but so far that surplus has not been the most significant factor in the aggregate capital formation. We shall prove this first by sample studies, and then by comparing relevant aggregate data.

(1) In 1972, the largest 200 industrial companies earned a total profit before tax of NT$7,237.8-million, which, even if realized as saving in the entire amount, would account for only 8.6% of aggregate domestic savings of that year, though total sales of these 200 companies were equivalent to 28.6% of the 1972 GNP. Define this ratio of 8.6% as "maximum potential share of entrepreneurial savings." After allowances were made for taxation, consumption expenditures by shareholders and repatriation of profits, royalties, licensing fees, etc., by foreign firms engaging in joint ventures and technical cooperation with many of these industrial companies, the "maximum potential share of entrepreneurial savings" would be
reduced to a tiny share of actual entrepreneurial savings in the form of undistributed corporate profits and individual savings.

(2) In 1979, the top 500 industrial companies earned a total profit before tax of NT$37,471-million, amounting to only 10.5% of aggregate domestic savings of that year, although total sales of these companies were equivalent to 44.8% of the 1979 GNP. Applying the same deductions as above, the actual share of entrepreneurial savings (undistributed corporate profits and individual savings from distributed dividends) represented only a tiny fraction of aggregate domestic savings.

(3) To gauge the extent to which surplus appropriation by transnational interests affects Taiwan's entrepreneurial savings, we must look into the "transnationalized" sector, which comprises all industrial firms in Taiwan either wholly or partially owned by foreign (not including overseas Chinese) investors. (The total number of these firms with normal productive activity was 582 in 1979. See Investment Commission, 1980, pp. 2-3.) Quantitative analysis based on official data gives the surprising result in column (F) of Table 5-3. In the transnationalized sector, corporate surplus after profit repatriation by foreign investors amounts to less than 2% of gross domestic savings. This is the "maximum potential share of entrepreneurial savings," from which an even smaller share of
Table 5-3: POTENTIAL CONTRIBUTION OF CORPORATE PROFITS TO CAPITAL FORMATION BY TAIWAN'S TRANSNATIONALIZED SECTOR (582 firms in 1979) (NT$ million)
<table>
<thead>
<tr>
<th>Year</th>
<th>Whole sector profits (A)</th>
<th>Corp income tax (B)</th>
<th>Profit after tax (C) = (A) - (B)</th>
<th>Surplus after repatriation (D) = (C) x 60%</th>
<th>Gross Domestic Savings (E)</th>
<th>Max potential share of entrepreneurial savings (F) = (D)/(E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>5,436</td>
<td>1,703</td>
<td>3,733</td>
<td>2,340</td>
<td>158,054</td>
<td>1.4%</td>
</tr>
<tr>
<td>1975</td>
<td>3,981</td>
<td>1,382</td>
<td>2,599</td>
<td>1,559</td>
<td>142,477</td>
<td>1.1%</td>
</tr>
<tr>
<td>1976</td>
<td>6,894</td>
<td>1,722</td>
<td>5,172</td>
<td>3,103</td>
<td>194,348</td>
<td>1.6%</td>
</tr>
<tr>
<td>1977</td>
<td>8,542</td>
<td>2,138</td>
<td>6,404</td>
<td>3,842</td>
<td>225,264</td>
<td>1.7%</td>
</tr>
<tr>
<td>1978</td>
<td>11,475</td>
<td>2,640</td>
<td>8,835</td>
<td>5,301</td>
<td>292,063</td>
<td>1.8%</td>
</tr>
<tr>
<td>1979</td>
<td>13,923</td>
<td>3,495</td>
<td>10,428</td>
<td>6,256</td>
<td>348,840</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Sources: (1) Figures in columns (A) and (B) are obtained by aggregating data on U.S., Japanese, European and other foreign investments presented in Investment Commission (1980:72).
(2) Figures in column (E) are official DGBAS figures listed in Industry of Free China, June, 1979, p. 167.

Notes: (1) The formula used in column (D) is derived in two steps: (a) More than one half (65.3% in 1979) of the companies in the transnationalized sector have majority foreign equity; thus it is safe to assume that at least 50% of profits after tax are appropriated by foreign investors. (b) Multinational corporations operating in LDCs are known to have repatriated an average of 80% of their net profits (see Muller, 1973:137). Consequently, surplus after profit repatriation is estimated at 60% of net profits (after tax) at most.
(2) * This figure is obtained by assuming the saving ratio for 1979 to be 30%. (Gross national products for 1979 were NT$1,162,800-million.)
(3) Corporate profit taxes in column (B) are jointly paid by foreign investors and local partners, but tax rates for the former are lower. Consequently, the 50% appropriation of profits after tax by foreign investors assumed in this table appears to underestimate the actual situation.
actual entrepreneurial savings can be derived. Note that the "maximum potential share of entrepreneurial savings" in this case is much smaller than that of the top 500 Taiwan companies not only because of profit repatriation, but also because many of the largest profit-making companies do not belong to the transnationalized sector.\(^6\) (No data are available for calculating repatriated profits by foreign investors within the top 500 group.) We also note from column (F) that, with the exception of 1975 when corporate profits were severely affected by economic recession in the previous year, the maximum potential share of entrepreneurial savings shows a steady increase -- an indication of the continuing growth of the transnationalized sector.

The above evidence brings out a consistent picture concerning the relationship between corporate profits and aggregate domestic savings. At least in the Taiwan case, surplus extraction by the capitalist class is not the most significant factor in capital accumulation, despite common belief to the contrary. While actual entrepreneurial savings are impossible to calculate in the above samples, we do have data on aggregate savings by all industrial corporations of Taiwan, which are tabulated in Table 5-4. Column (B) of Table 5-4 clearly shows that aggregate corporate savings during 1961-77 never accounted for more than 12.6% of gross domestic savings. In fact, the
### Table 5-4: ACTUAL SAVINGS BY ALL INDUSTRIAL CORPORATIONS

<table>
<thead>
<tr>
<th>Year</th>
<th>Corporate Savings (A) (NT$ million)</th>
<th>As % of Gross Domestic Savings (B)</th>
<th>As % of National Income (C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>1,025</td>
<td>11.5</td>
<td>1.78</td>
</tr>
<tr>
<td>1962</td>
<td>509</td>
<td>5.4</td>
<td>0.82</td>
</tr>
<tr>
<td>1963</td>
<td>1,323</td>
<td>8.9</td>
<td>1.86</td>
</tr>
<tr>
<td>1964</td>
<td>1,999</td>
<td>10.1</td>
<td>2.35</td>
</tr>
<tr>
<td>1965</td>
<td>1,850</td>
<td>8.4</td>
<td>2.01</td>
</tr>
<tr>
<td>1966</td>
<td>1,549</td>
<td>5.5</td>
<td>1.51</td>
</tr>
<tr>
<td>1967</td>
<td>2,553</td>
<td>7.6</td>
<td>2.16</td>
</tr>
<tr>
<td>1968</td>
<td>4,258</td>
<td>10.6</td>
<td>3.13</td>
</tr>
<tr>
<td>1969</td>
<td>5,992</td>
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<td>1970</td>
<td>5,756</td>
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<tr>
<td>1971</td>
<td>5,449</td>
<td>7.4</td>
<td>2.63</td>
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<tr>
<td>1972</td>
<td>5,990</td>
<td>6.5</td>
<td>2.48</td>
</tr>
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<td>1973</td>
<td>6,482</td>
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<td>1974</td>
<td>11,118</td>
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<td>1975</td>
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<td>3.09</td>
</tr>
<tr>
<td>1977</td>
<td>18,480</td>
<td>8.2</td>
<td>3.22</td>
</tr>
</tbody>
</table>

*Sources: (1) Figures in columns (A) and (C) are DGBAS figures listed in Industry of Free China, Jan., 1979, p. 172.*

* (2) Figures in column (B) are obtained as ratios of figures in column (A) to gross domestic savings, which are in turn calculated from the statistical data listed in Industry of Free China, June, 1979, p. 167.

percentages were less than 10% for most years, a finding quite consistent with those from the three samples discussed above.

These findings suggest that there are more important domestic sources of capital accumulation than entrepreneurial savings (corporate savings and individual capitalist savings). Among them are savings by the general
public and government revenues (from taxes, monopolies, state enterprises and other sources).

(1) Savings by the general public: The magnitude of this source of capital formation can be explained under two headings: (a) Since the mid-1960s, the ratio of total household savings to gross domestic savings have varied within the 20%-30% range. This means that savings from family incomes are at least twice as large as corporate savings. (b) Official data show private savings as accounting for 42.3% of gross domestic capital formation during 1961-65, 47.4% during 1966-70 and 53.4% during 1971-74. Deducting corporate savings (Table 5-4) from this category of "private savings," we note a substantial contribution made by the general public, mainly urban middle-class families, to capital accumulation.

(2) Government revenues: Available data for 1968-78 indicate that out of the total government revenues, about 60%-70% was tax revenue, about 20% came from government monopolies and enterprises and the remaining 10%-20% came from other sources. Indirect taxes accounted for 70%-80% of total tax revenue and direct taxes accounted for only 20%-30%. Though income taxes (both corporate and personal) have been relatively small due to widespread tax evasion and to the government policy of encouraging savings and investment, the strong capabilities of the government to levy indirect taxes and to squeeze the agricultural
sector ensure a pool of revenues much larger than its annual consumption, leaving a substantial margin for investment expenditures. Since the late 1960s, this margin has ranged from 15% to more than 20% of gross domestic savings,10 and has accounted for more than 20% of total government expenditures.11 Coupled with borrowings from foreign sources, which stand at some US$6.5-billion in 1981, the government's role in capital formation has been more important than that of private enterprise. Out of a total capital formation of nearly NT$75-billion (US$1,875-million) in 1972, for example, more than half was financed from government sources. And this government role has become increasingly important since the mid-1970s.

Several qualifications are in order. First, to say that entrepreneurial savings contribute relatively little to capital accumulation is not the same as saying that the role of the entrepreneurial class as an agent of accumulation is exclusively determined by its capability to save. Its role as an agent of capital accumulation is actually larger than its role as an agent of direct saving because it generates employment and income for workers, both blue collar and white collar, and helps create other investment opportunities through backward and forward linkages. By doing so, the entrepreneurial class helps promote savings indirectly and channel available savings in society into productive activities, leading to additional capital
accumulation. Thus capital accumulation is not simply the sum total of savings -- it takes place in an interactive and cumulative process through linkage effects, or what Baran (1957:191) calls "investment snow-balling effect." In dependent economies, however, these effects could be diverted in different degrees toward dominant center economies. While no empirical studies have been undertaken to ascertain just how big these effects are on the Taiwan economy, impressionistic evidence suggests that they could be considerably larger than in many peripheral economies where TNCs come in to exploit land and other natural resources by using capital-intensive processes of production.

Second, our foregoing analysis is based on the assumption that the official data used reflect the actual profit situation of private enterprise. As a matter of fact, "undeclared" profits in Taiwan's private sector could be large due to the widespread fraudulent practice known as "double bookkeeping." These hidden profits could add to capital formation, result in capital flight abroad or go into speculative ventures.

Third, the contributions of small- and medium-sized enterprises to capital accumulation should not be overlooked. Following the Japanese pattern, these enterprises reportedly provide some 70% of total employment in the industrial and service sectors and about half of GDP.
Their wage- and salary-generating capacity is therefore enormous. While their profits are likely smaller than the aggregate profits of large enterprises, these profits are concentrated to a substantial extent in single families that own the enterprises rather than diffused as dividends. Because credit facilities in society are not as available to small and medium enterprises as to large-scale ones, their profits are plowed back into productive reinvestment more effectively. Moreover, most of the profits earned by unincorporated and self-employed firms, whose number is several hundred thousand, probably take the form of household incomes. Consequently, what we call "savings by the general public" reflect to a large extent the savings undertaken by the numerous family-styled small enterprises.

Fourth, the relatively small contribution which entrepreneurial profits make toward capital accumulation by no means implies a lack of profitability. In fact, return on capital for large enterprises in Taiwan averages between 20% and 25% -- a profit rate which is as high as transnational investors can expect (Baran, 1957: 200; Amin, 1974:17). The relatively small share of entrepreneurial savings could be a reality common to many peripheral economies; it could also be a reflection of Taiwan's particular economic structure in which large and affluent middle classes and the state play a relatively
important role as an agent of saving and an agent of resource mobilization respectively.

Some useful lessons may be drawn from our empirical study of Taiwan's experience in capital accumulation:

First, in a dependent economy with large and affluent urban middle classes and a highly extractive capability of the state, the potential and the role of the entrepreneurial class as an agent of saving could become secondary in importance. In this case, savings by the public and resources at the disposal of the state provide more important sources of capital accumulation than do entrepreneurial profits. The entrepreneurial class contributes to capital accumulation not only through direct savings, but perhaps more important, through the creation of job and income opportunities and linkage effects on the domestic economy; its role as an agent of accumulation becomes differentiated from its role as an agent of profit-making and saving. Thus, instead of blaming the "lumpen bourgeoisie" for its inability to save, dependency theorists may like to shift attention to the evolution of a national state with a strong role in resource mobilization and reallocation, and to the creation of a labor force capable of significant savings. The "progressiveness" of capitalism in promoting peripheral development may not only depend on the "progressive" attitude of the
capitalist class toward savings, as Marxists assert; the state and other social classes can become crucial factors in capital accumulation as well.

Second, the relative unimportant role of the capitalist class as an agent of saving raises a question concerning the sensibility of the government policy to confer excessive tax incentives on private enterprise in general and foreign investors in particular. Business income taxes in Taiwan have been set at low rates, within the range of 5%-25%, and a ceiling of 18% is set for foreign investors. This and other tax incentives are designed to encourage savings and investments by private enterprise (Lundberg, 1979), but their effects are questionable. Yearly losses of profit tax revenue through tax rebates and concessions are officially estimated at NT$12-billion, which was three times as large as total business taxes paid in 1972 (Lundberg, 1979:306) and twice as large as corporate savings of that year (see Table 5-4). The fact that this huge sum of money is not reflected in annual corporate savings suggests that much of it may have been turned to unproductive use, such as conspicuous consumption and capital flight abroad. If this potential economic surplus were mobilized through taxation to finance productive social and economic programs, the overall gains would probably outweigh the possible loss in terms of the
ability and incentive of the capitalist class to add to capital formation.

Finally, we note that significant capital accumulation has taken place in Taiwan despite profit repatriation by foreign investors. Over the years, U.S. and Japanese investors have scored a profit rate of around 25% in Taiwan's electronics and chemical industries, in which their investments concentrate (China Credit Information Service, 1973 and 1980). From Table 5-3 we estimate an annual US$68.83-million in repatriated profits. Combined with patent royalties and licensing fees, which averaged US$67.82-million per year between 1973 and 1977, total annual repatriation amounts to an estimated US$136.65-million (NT$4,919-million) -- a figure larger than average annual capital inflow in direct investments. As Amin (1974:17) observes, "With an average rate of return on capital of 20 to 25 percent, the flow of profits back to the advanced countries soon exceeds the influx of capital investments . . ." This is also the case with Taiwan. But capital outflow need not be a zero-sum game. Foreign capital and technology have produced not only dependency effects, but also stimulating effects on the Taiwan economy, as we shall discuss in the next two parts of this chapter.
III. IMPACT OF FOREIGN CAPITAL

Neither the amounts of direct foreign investments nor those of capital outflow reflect the actual extent and depth of the involvement of foreign capital in Taiwan's dependent development. The Kuomintang government has been caught in a dilemma when it comes to explaining such involvement. On the one hand, the government, in an attempt to counter allegations that it has placed the Taiwan economy under foreign control, is quick to argue that foreign investments account for less than a fifth of the island's total capital investments in private manufacturing. On the other, it has propagandized how foreign investments have contributed to Taiwan's economic development, with a view to proving the correctness of its policy of encouraging foreign involvement. As a matter of fact, the controlling (i.e., dependency) effects go deeper than the quantitative share of foreign investments may indicate. Both the costs and the benefits of foreign involvement are great.

As shown in Table 5-5, capital stock of foreign firms in direct investment by the end of 1979 accounted for 15% of total capital stock in Taiwan's manufacturing sector. But the actual capital funds at the disposal of foreign firms are several times as large due to local borrowings and, to a lesser extent, accumulated surplus
Table 5-5: CONTRIBUTIONS OF FOREIGN AND OVERSEAS CHINESE CAPITAL IN DIRECT INVESTMENT
(as % of Taiwan's total, 1979)  
Amount=US$ Million  
Number=1,000 persons

<table>
<thead>
<tr>
<th></th>
<th>Capital Formation</th>
<th>GDP (Value-added) in Mfg.</th>
<th>Total GDP</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amt. %</td>
<td>Amt. %</td>
<td>Amt. %</td>
<td>Amt. %</td>
</tr>
<tr>
<td>Foreign</td>
<td>3,646.1 22.66</td>
<td>915.4 5.69</td>
<td>4,561.5 28.35</td>
<td></td>
</tr>
<tr>
<td>Overseas Ch.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>107.1* 1.16</td>
<td>2,639.4 19.18</td>
<td>2,803.6 8.67</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Employment in Mfg.</th>
<th>Total Employment</th>
<th>Capital Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number %</td>
<td>Number %</td>
<td>Amt. %</td>
</tr>
<tr>
<td>Foreign</td>
<td>280 4.36</td>
<td>1,516.8 5.16</td>
<td>15.00</td>
</tr>
<tr>
<td>Overseas Ch.</td>
<td>76 1.19</td>
<td>608.9 2.07</td>
<td>**</td>
</tr>
<tr>
<td>Total</td>
<td>346 16.47</td>
<td>356 5.55</td>
<td>2,125.7 7.23</td>
</tr>
</tbody>
</table>

Sources: All figures are derived from Investment Commission (1980) except % of capital stock and % of capital stock in manufacturing, which are based on figures in China Credit Information Service (1980:6).

Notes: * This is capital outlay, estimated at 75% of foreign and overseas Chinese capital arriving in 1979. Contributions to capital formation from earned profits are not taken into account.

** Because a substantial portion of overseas Chinese capital is in non-manufacturing, it is meaningless to calculate its capital stock as a percentage of total manufacturing capital stock of Taiwan.
from undistributed corporate profits. The latter category was about one half of total capital stock of foreign firms, so that total net worth of foreign firms stood at US$2,253.8-million at the end of 1979. (Net worth is defined as the sum of capital stock and accumulated surplus.) When debt liabilities in the amount of US$4,323.2-million is added to the net worth, we arrive at a total asset of US$6,577-million for the transnationalized sector (which does not include firms with overseas Chinese partnership). It is noteworthy that the total asset is more than four times as large as total capital stock of the entire transnationalized sector. This phenomenon is quite consistent with the general pattern of TNC operations in the Third World. Empirical research has found that "of the finance capital being used by MNC subsidiaries in manufacturing, 38% comes from local 'internal' sources, largely reinvested earnings, and 40% from local capital markets" (Müller, 1973:136). In other words, only 22% of the capital funds being used by TNC subsidiaries comes from their home countries. In the Taiwan case, this percentage is only a little higher, 23%, but TNC borrowings from local capital markets run as high as 66%, leaving reinvested earnings at only 11%. This means that TNC subsidiaries operating in Taiwan use more local savings and less earned profits (as percentages of capital funds) than in other Third World countries.
Cardoso (1972:91) explains this situation of "imperialist expansion" as follows:

• • • in comparison with expanding assets of foreign corporations, the net amount of foreign capital actually invested in the dependent economies is decreasing: local savings and the reinvestment of profits realized in local markets provide resources for the growth of foreign assets with limited external flow of new capital.

The relatively small share of reinvested earnings of foreign corporations in Taiwan and their heavy reliance on local credit facilities attest to our previous argument that corporate profits of the transnationalized sector contribute little to capital formation. Because this sector, along with large local enterprises that do not belong to it, preempts the local capital market, small- and medium-sized enterprises are largely denied access to credit assistance, even though these enterprises account for 98% to 99% of total industrial and commercial establishments.15 The extent of the problem was revealed by a special forum on small- and medium-sized enterprises sponsored by Formosa magazine in October 1979:

Official data show that 85% of small- and medium-sized enterprises are in need of banking credit assistance. However, from 1973 to 1976, the proportion of bank loans made available to these enterprises averaged only 23%. This ratio was raised to 26% in 1977 and to 28% in 1978. By the end of this June, it further increased to 29% . . . Nevertheless, the so-called large enterprises, including our state-run enterprises, which constitute only one percent of total business establishments in the country, are able to obtain 70% of the credits extended by the entire banking system . . . These figures
explain why it is difficult to run small and medium firms, but easy to operate large-scale ones (Formosa, October 1979, p. 53, translation mine).

*Independence Evening Post* editorialized on this issue on March 20, 1980, charging that the "associated-monopolistic financial capitalists" worked against the public interests by allowing one percent of enterprises to appropriate three quarters of the society's savings at the expense of small and medium concerns. The newspaper suggested that there was an illegitimate alliance between financial capital and industrial capital. But it failed to point out that the Ministry of Finance has a policy which dictates quota allocations of bank credits for different types of enterprises, with preferential treatments given to large enterprises and transnational corporations.

The advantageous position which foreign capital enjoys in the local capital market is partly a result of their profitability and reputation. Recruitments of new capital by reputed transnational firms get off with success because local financial investors find stocks issued by these firms attractive. National Distillers and Chemical Corporation of New York provided a case in point. In the 1960s, this American company set up USI Far East Corporation in Taiwan jointly with local partners to produce polyethylene resins to supply local
downstream plants and overseas markets. Preferential treatments accorded this joint venture included low-interest bank loans, a 5-year tax holiday, cheap and stable supply of petrochemical raw materials from the state-run Chinese Petroleum Corp., etc. As soon as the company began to turn out products in the late 1960s, the government forbade imports of polyethylene to ensure a sort of monopolistic profits for the company. Thus when National Distillers decided to build a separate plant in the early 1970s, it was able to over-price its stocks 90 percent higher than face value, with a US$6-million worth of shares drawing in US$11.4-million. This illustrates a situation in which dependency feeds on itself: Government incentives accorded foreign enterprises make them lucrative going concerns and, in some cases, enable them to establish a monopolistic position (Schreiber, 1970: 66); the resultant profitability in turn enables transnational corporations to attract local capital at the expense of small indigenous enterprises.

As we have observed in Chapter I, foreign capital should not be seen as a homogeneous and abstract category. Its effects on a dependent economy are determined not only by its quantum, but more important, by its specific contents and functions. The capital-labor ratio will not be a meaningful variable in a production function unless it is in turn treated as a function of other variables
such as technology and managerial expertise. Thus overseas Chinese capital operating in Taiwan tends to have little catalytic effects on industrialization insofar as it is invested in relatively small-scale ventures in the service, textile and other industries that require low technology. On the other hand, it also produces little, if any, controlling effects because overseas Chinese capitalists function as individuals, not as part of a dominant economy pursuing a global strategy of capital accumulation.

The impact of Japanese and American capital is far more significant. Japanese investors in Taiwan, like elsewhere in Asia, follow a strategy of "Asian integration" that serves Japan's national development. They operate on a small scale and do not mind joint ventures. In 1979, 82% of Japanese firms in Taiwan were joint ventures, 42% having minority ownership and 40% having majority ownership, and the remaining 18% were wholly owned by the Japanese. Each of these firms had an average share of capital of only US$663,000. This seems to reflect the Japanese intent of penetrating as broad a spectrum of the Taiwanese industry as possible. The purposes are two-fold: first, to export "polluting industries" that have met with domestic resistance and those labor-intensive industries which are increasingly losing viability due to rising labor costs and dwindling
land supply in Japan; second, to shape Taiwan's dependent industrialization in such a way as to be complementary to the needs of the Japanese economy. These firms work in close alliance with Japan's trading companies, which supply raw materials, semi-products and machine parts from Japan while monopolizing the marketing of products of the Japanese firms. About 40 Japanese trading companies operate in Taiwan, including seven of the Big Ten, such as Mitsubishi, Mitsui, Itochu, Marubeni, Sumitomo, etc. In 1971, four of these trading companies alone handled US$673-million of the Taiwanese trade with Japan and elsewhere (Independence Evening Post, Jan. 30, 1975). In 1978, it was reported that Japanese trading companies controlled one half of Taiwan's exports and some 80% of its export and import trade with Japan. In addition, at least 60% of Taiwan's footwear exports to the U.S. were reportedly channeled through the Japanese trading networks. (Footwear is Taiwan's third largest foreign exchange earner, next to textiles and electronics.)

Official data (Investment Commission, 1980:50) show that Japanese firms purchased 52% of raw materials and parts from the local market in 1979. Other sources estimate a much lower percentage. In any event, much of the local procurements are from other Japanese firms, also through the Japanese trading networks. The government's policy of pushing local procurements has probably
induced some dynamic effects on the Taiwanese economy. But Taiwan's dependence on Japan for industrial raw materials, semi-products and machine parts and equipments continues to be a serious problem. That dimension of dependency has not only plagued Taiwan's trade with Japan, with a deficit running as high as US$3-billion in 1980, but also posed constraints on the capability of the Taiwan economy to upgrade itself towards a higher stage of industrialization.

American firms, by comparison, average a much larger share of American capital, US$1.8-million in 1979. Unlike the Japanese, American investors prefer majority and whole ownership. Only 55% of American firms were joint ventures with Taiwan partners in 1979 (23% having minority American equity and 32% having majority American equity), with the remaining 45% wholly owned by Americans (Investment Commission, 1980:24). This situation has occurred in spite of the Kuomintang government's professed policy of pushing at least 51% local majority partnership. Like Japanese investments, American investments concentrate in the electronics, electric appliances and chemical industries. In electronics, the predominance of American capital stands out. Eight out of the top ten electronics exporters in 1974 were wholly owned subsidiaries of American corporations while the other two were Sino-Japanese joint ventures. Almost 60% of total approved
U.S. investments through 1975 were made in the electronics industry, averaging about US$4-million per case (Zenger, 1977:87).

The idea of creating an electronics industry was initiated by the Americans with a view to stimulating Taiwan's economic growth and to helping the threatened electronics industry in the U.S. itself, which we have mentioned in Chapter IV. The dynamic linkage effects of this industry on the Taiwan economy are substantial, though technological capabilities which the industry has helped foster remain at a low level. Demand for locally made parts and components by foreign electronics firms has spurred the growth of a substantial number of local "satellite factories," to which American firms subcontract business and provide a measure of technical assistance. Many local young people who work in the white-collar echelons of foreign firms ultimately start their own business after acquiring some managerial skills and technical knowhow. In addition to electronic parts and components, the industry creates a new demand for metal parts, plastic parts, electric appliances, moulds, machine tools, etc., thereby fostering the growth of other industries. Furthermore, while foreign electronic firms primarily involve assembly operations and labor-intensive processes, a number of joint ventures have
come into being in recent years to produce more advanced parts and components for export and for domestic assembly. The increase in local procurements by the transnationalized sector reflects a differentiation and diversification in the electronics-related satellite system as a result of joint ventures and technical collaboration. But essential parts and components continue to be supplied by advanced countries, and crucial technologies remain the "secret property" of TNCs even under technological cooperation. In 1979, local and overseas procurements by foreign firms were 52% and 48% respectively (Investment Commission, 1980:50) -- a fact indicative of the increasing structural differentiation of Taiwan's industry as well as its continued dependency. Technological controls by TNCs, coupled with the striking paucity of local R & D, define a limit to Taiwan's dependent development, within which the island economy has the ability to absorb capital investments and routinized technologies from advanced countries, but does not have the ability to compete internationally with these countries as far as high-technology products are concerned.

With the expansion of state capital in Taiwan, American investment has increasingly found its way into such technologically based areas as petrochemicals. This new pattern of foreign investment is geared to a second-phase import substitution beginning in the mid-1970s.
State capital and "bureaucratic" private capital (i.e., private capital closely associated with the bureaucratic elite) entered into joint ventures with American corporations to produce petrochemical intermediates for exports and for domestic downstream firms, which also aim at exports. Import substitution in this sense is basically export-oriented, designed to reduce costs of inputs needed by export industries, inputs which would otherwise have to be imported. Because Taiwan supplies a lion's share (70% in 1979) of the Asian market for synthetic fiber and yarn (Asian Wall Street Journal Weekly, Sept. 15, 1980), foreign investments in the petrochemical intermediates industry are not only lucrative, but also stimulate the growth of local downstream firms through forward linkages. And because the state-run Chinese Petroleum Corp. supplies the basic feedstocks, such as ethylene, propylene, etc., joint ventures in this line also have backward linkage effects. Due to its profitability and strategic importance, this intermediates-producing industry is closely linked with the state and its associated private enterprises. For example, Chinese Petroleum Corp. and the semi-official Central Investment Holding Co. have a joint venture (China-America Petrochemical Co.) with Amoco Chemicals Corp. of Indiana Standard Oil Co., using the technology licensed by Indiana Standard to produce PTA (purified
terephthalic acid), a basic ingredient for synthetic fiber. Moreover, Union Carbide set up Oriental Union Chemical Corp. in 1975 jointly with three bureaucratic-related enterprises -- Central Investment Holding Co., China Development Corp. and Far East Textiles Co. -- to produce ethylene glycol, the main feedstock for making polyester fiber. To protect the monopolistic profits of this industry, the government imposes import restrictions and higher tariffs on similar intermediate products from abroad. Foreign investment and technical collaboration in this line help to maintain thousands of downstream firms producing synthetic textiles, Taiwan's largest foreign exchange earner, and another several thousand manufacturers of plastic products.

But the recent oil crisis soon disrupted the new symbiosis and put Taiwan's dependent industrialization to a severe test. Not being able to absorb increases in imported raw material costs, Chinese Petroleum and intermediates producers chose to pass on these increases to downstream firms, causing many of them to suffer losses and others to close down. Because prices of locally made intermediates were much higher than international prices, downstream manufacturers petitioned the government to lift import restrictions or else cut domestic prices. But being influenced by a "strong unified lobby" formed by the intermediates producers,
the government refused to take either action until September 1980, when the deteriorating export situation alarmed Chinese Petroleum and some of the intermediates producers that something had to be done. Realizing that "we will all die together" if downstream processors were forced to go under, Formosa Plastics, a leading intermediates producer, announced a price cut. Meanwhile, the government "threatened" intermediates producers with lifting import restrictions unless they kept prices down to international levels. (Asian Wall Street Journal Weekly, Sept. 8 and Sept. 15, 1980).

Most of the intermediates producers were not likely to comply with the government's call for price cuts. Several joint ventures reacted to the bleak situation by halting production or operating at half capacity. And Union Carbide disclosed a plan in February 1981 to relinquish ownership in Oriental Union Chemical Corp. (Asian Wall Street Journal Weekly, February 23, 1981). Producers complained that raw material costs alone were higher than the prices of final products offered by producers in the U.S. This situation may be partly attributable to dumping sales by the latter. But it also calls into question the operational efficiency and technological adaptability of an industrial superstructure that supports some of Taiwan's largest exports. A DMT project initiated in the 1970s is illustrative.
When China Petrochemical Development Corp. considered a technical cooperation agreement with Amoco Corp. to produce an intermediate for synthetic fiber, it had a choice between DMT and PTA. The former was chosen because it cost less to produce and was in great demand domestically. Meanwhile, Amoco was anxious to license the technology for DMT because it was phasing out. Having limited knowledge of new developments in the world's petrochemical industry, decision-makers within the Taiwan state corporation were not aware that PTA was going to be a cost-effective substitute for DMT. Eventually it turned out that imported PTA was cheaper than DMT which was locally produced with Amoco technology. By 1978, local demand for DMT had dropped significantly, leaving the Taiwan corporation with a large surplus inventory. Meanwhile, engineering and cost problems rendered it infeasible to convert the existing DMT plants into PTA ones.¹⁷

Unlike the old type of import substitution, this export-oriented import substitution strategy is vulnerable to the vicissitudes of the international market situation and easily exposes the weaknesses of Taiwan's state-controlled petrochemical industry. In the 1960s, a joint venture between Chinese Petroleum Corp. and two American companies, Socony Mobil Oil and Allied Chemical Corporation, was able to make monopolistic profits by
producing and selling nitrogen fertilizers to the Taiwanese peasants. This time, the CPC and its local and foreign associates are finding the downstream producers and international buyers less easy to exploit. The monopolistic practice of the state has begun to backfire. Passing on cost increases to downstream producers and exercising import control over their needed inputs soon undermine their export competitiveness. And when exports suffer, intermediates and downstream producers -- and perhaps the state corporations, too -- will have to "die together." Accordingly, the future profitability of Taiwan's petrochemical industry no longer can be based on the monopolistic controls of bureaucratic capitalism, nor on the TNC opportunism in introducing obsolete technologies. Rather, it will depend on a consensus of both parties to improve efficiency and competitiveness. A mere consensus on profit-making is far from adequate.

As the labor-intensive industrialization is phasing out in Taiwan, TNCs also find a less exploitable resource in the Taiwanese labor. The strategy of foreign investments is increasingly oriented towards the exploitation of the local market both for producer goods and consumer goods. Table 5-6 shows how the share of local sales by Taiwan's transnationalized sector has increased over time. Between 1974 and 1979, that share rose from 38% to 45%, and the share of exports declined accordingly.
Also noteworthy is the fact that in 1979, the top 500 manufacturing corporations registered only 38% overseas sales while the remaining 62% of sales were on the domestic market. Of the leading ten in export, two -- Formosa Plastics and Tatung Co. -- had 82% of their respective total sales concentrated on the domestic market, and four others had more than two thirds of their respective total sales done locally.\textsuperscript{18} The common conception that Taiwan's domestic market is "too small" is therefore misleading. (Also note that total sales of the whole economy are considerably larger than GNP, which means total value-added; consequently, it is also a common misconception to measure the relative magnitude of export sales in terms of the exports/GNP ratio, since the latter overestimates the former.) If more than half (45% in the case of the transnationalized sector) of total sales are done domestically, how can economists dismiss Taiwan's domestic market as "too small" or "limited" simultaneously as they use such words as "remarkable," "phenomenal," etc., to describe its export trade? To foreign investors, Taiwan's domestic market is nearly as large as -- and could become larger than -- its overseas markets. And it is certainly more lucrative, as competition is less tough than the international market. As far as consumer goods are concerned, increased local sales by foreign firms will inhibit the growth and expansion of local enterprises,
Table 5-6: THE SHARE OF LOCAL SALES OF THE TRANSNATIONALIZED SECTOR

<table>
<thead>
<tr>
<th>Industries with Major Local Sales</th>
<th>Local Sales (NT$ Mil.)</th>
<th>Share (% of total sales)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foods &amp; beverages</td>
<td>2,035</td>
<td>5,510</td>
</tr>
<tr>
<td>Textiles</td>
<td>2,611</td>
<td>3,946</td>
</tr>
<tr>
<td>Paper products</td>
<td>231</td>
<td>818</td>
</tr>
<tr>
<td>Rubber and plastics</td>
<td>449</td>
<td>2,208</td>
</tr>
<tr>
<td>Chemicals</td>
<td>5,054</td>
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<td>Non-metallic products</td>
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<tr>
<td>Basic metals</td>
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<td>5,751</td>
</tr>
<tr>
<td>Machinery &amp; instruments</td>
<td>2,642</td>
<td>22,652</td>
</tr>
<tr>
<td>Electronics &amp; electric appliances</td>
<td>13,686</td>
<td>36,445</td>
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<tr>
<td>Services</td>
<td>870</td>
<td>2,227</td>
</tr>
<tr>
<td>Construction</td>
<td>248</td>
<td>256</td>
</tr>
<tr>
<td>All industries (above and others)</td>
<td>30,124</td>
<td>107,917</td>
</tr>
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</table>


though the inhibiting effects are alleviated by the "gains" which local enterprisers make within the context of joint ventures. As regards producer goods (including raw materials, intermediates and parts and components), the effects of the TNC local marketing operations would depend on the prospects of export trade because, to a substantial extent, these producer goods are eventually export-oriented. When the prospects are bright, as in the 1976-79 period when Taiwan's foreign trade registered huge surplus, producer goods sales on the local market tend to generate dynamic linkage effects and
stimulate economic growth. But when cyclical downturns set in, as has occurred since 1980, weaknesses within the dependent economy are exposed, and protective measures in favor of foreign interests only serve to intensify the contradictions between these interests and local small- and medium-sized enterprises.

Consequently, the state takes on a delicate role when the development strategy is shifted to a combination of import substitution with an export orientation in the quest of continued economic growth. As labor increasingly loses its "attractiveness" as a bargaining chip, the state will have to offer new incentives to the TNCs to keep up their profit rates. Foremost among these incentives is a large and lucrative share of the local market, involving, in some cases, monopolistic marketing operations by the TNCs. (Incidentally, local sales by the transnationalized sector involve to a large extent inter-TNC transactions, resulting in an increasingly high proportion of local procurements by that sector, as we have seen.) But since the local market for producer goods has a strong export orientation, the prospects of success in the new import substitution strategy is as uncertain as the prospects of the international market situation. Under current circumstances, the economy and the transnational interests operating within it can be easily affected by the disruptive international forces of
raw material cost increases, shrinking markets and toughening competition among nations. It is thus imperative that the state make every effort to induce high-technology investments capable of producing export goods with strong international competitiveness. This may be termed "high-technology import-substitution," something that is being contemplated by the economic decision-makers in Taiwan. It aims at technological breakthroughs as a new motor force for development. Whether it will work or not remains to be seen. In the process, however, even more incentives and concessions will have to be offered to the TNCs, and a closer alliance between state, local private and foreign capital becomes a necessity. In its desperate quest to sustain economic growth -- and hence political viability -- through export trade, the state in Taiwan will likely have to further compromise its "nationalist" role in coping with transnational interests while the local economy and the local bourgeoisie become increasingly "internationalized," to use Cardoso's terminology. For a dependent economy with a strong export orientation such as Taiwan, a higher stage of industrialization may accentuate its status of dependency instead of alleviating it.
IV. IMPACT OF FOREIGN TECHNOLOGY

The motor of change in the contemporary world economy is technological innovation. There is growing evidence that the discovery and introduction of new technology of production and of new products are major determinants of the pace and direction of economic expansion.

-- Keith Griffin (1974:3)

Griffin (1974:3) contends that technological capabilities, rather than resource endowment and the capital-labor ratio, are the essential factor in determining different economic growth rates of nations. Granted the overriding importance of technology, Griffin's argument should not obscure the organic interrelationships between capital and technology. In the Taiwan case study, we find that many cases of technological collaboration (officially termed "technical cooperation") with foreign firms necessitate the replacement of old machine equipments with new ones that are commensurate with the technology to be used under the collaboration agreements; other cases require use of special raw materials or ingredients provided by the licensors. Conversely, foreign investments are normally accompanied by licensing agreements that permit the joint ventures to use technical knowhow or patents provided either by the foreign partners or other foreign firms. Thus there appears to be a correlation between approved technical cooperation
agreements and approved foreign direct investments: the former follow the latter with a certain time lag (Simon, 1981). This correlation is also partly accounted for by the need of foreign firms for backward integration, i.e., the need to render technical assistance to local "satellite factories" so as to secure the supply of needed parts and components. Complicating the relationships between capital and technology is Taiwan's official policy that permits foreign investors to use their technical knowhow or patents as part (up to 15%-20% of their direct investments) of "capital" invested in the joint ventures (Chou, 1971:116; Simon, 1981).

It nevertheless seems possible to argue that foreign technology plays a larger role than foreign capital in stimulating Taiwan's economic growth. First, the productive capabilities of the transnationalized sector, where foreign capital operates, would have been greatly reduced without the simultaneous introduction of foreign technology. Second, the impact of foreign technological collaboration extends beyond the transnationalized sector, covering not only the "satellite factories," but more importantly, larger local enterprises which have no foreign capital participation. Many of the largest companies in Taiwan are not joint ventures, but could not be what they are today without foreign technological collaboration, mainly from Japan and the U.S. These
include Formosa Plastics, Tatung Co., Far East Textiles, Yue Loong Motor Co., just to name a few. It is true that technical cooperation agreements, like foreign investments, concentrate in the four industrial segments of electronics and electric appliances, chemicals, machinery and basic metals in terms of the number of approved cases. But as Table 5-7 shows, even in these four segments, technical cooperation agreements far outnumber foreign direct investments. Note that many joint ventures among the 729 cases of foreign investments do not have technical cooperation agreements because foreign partners offer their technology in the form of "capital" participation, not "technical" cooperation; and the firms with 100% foreign ownership, which account for 27% of all foreign-invested firms in 1979, certainly do not have technical cooperation agreements. This means that as far as the four industrial segments are concerned, technological collaboration covers a much greater number of local enterprises than the difference between the cases of technical cooperation agreements and the cases of foreign direct investments (Table 5-7). Hundreds of other technical cooperation agreements lie beyond the four industrial segments, especially in plastics, non-metals, food and textiles, all of which have predominantly local ownership. It is thus clear that transnational capital influences Taiwan's dependent development not only through
direct investment, but also through technological collaboration. Both of these external forces are intertwined to a great extent, but the scope of technological collaboration is much broader than the scope of foreign investment. As Simon (1981) observes, "the Taiwan economy exhibits a high level of dependence on foreign technology to support its economic activities." A 1978 study of 206 Taiwan firms by the Investment Commission of the Economic Affairs Ministry shows that 83 firms under survey depended on licensing and technical cooperation for at least 50% of their production and 63 firms reported 100% dependence. Most of the technology used in the metal and petrochemical industries is imported

<table>
<thead>
<tr>
<th></th>
<th>Foreign Investment</th>
<th>Technical Cooperation</th>
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<tr>
<td></td>
<td>Japan</td>
<td>US</td>
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<tr>
<td>Electronics &amp;</td>
<td>190</td>
<td>86</td>
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<td>elec. appliances</td>
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<td>Chemicals</td>
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<td>50</td>
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<tr>
<td>Machinery</td>
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<td>23</td>
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<tr>
<td>Basic metals</td>
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<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>454</td>
<td>185</td>
</tr>
</tbody>
</table>

Sources: (1) Foreign investments figures are from Investment Commission (1980a: 8, 10).
(2) Technical cooperation data are from ibid (1979).
Note: Data for other industries are not included in this table. Grand total cases are 1,116 and 1,318 for direct foreign investments and technical cooperation respectively.
(Simon, 1981). The contributions of foreign technology to Taiwan's industrial growth are substantial. Simon (1981) cites a 1975 report on precision industries that "the most successful local firms in Taiwan tend to be those with technological linkages with foreign firms." The Metal Industries Research Laboratory revealed in a study conducted in 1978 that "electronics and chemicals have shown the most impressive gains as a result of the widespread use of foreign technology in these industries" (Simon, 1981).

The fact that foreign technological linkages play a crucial role in Taiwan's industrial growth should not lead one to equate technological collaboration with technological transfer and acquisition. Foreign firms under cooperation agreement are obligated to assist in the production process, but not necessarily to disseminate technical knowhow except the routinized processes. In fact, special arrangements are made to guard what is considered as crucial or "in-house" technology from being acquired by the local firms under cooperation. This is probably what Mitaku (1977:243) meant when he observed from his field study that "as far as foreign firms operating in Taiwan are concerned, none make known their technology." As early as 1966, a government investigation revealed cases where representatives were dispatched from foreign firms under technical cooperation agreement
to exercise strict control over the use of their technology so that the local partners "will never be able to manufacture the products on their own even though these products have great value" (Chou, 1971:131). Such a practice of technological secrecy has been found common particularly among the Japanese firms. A case in point is Yue Loong Motor, Taiwan's largest "auto-maker," which has been under technical cooperation with Nissan Motor to produce buses, trucks and sedans since 1958, but still remains an "assembly plant" of Nissan without acquiring the technological capabilities to produce any essential parts and components (Independence Evening Post, editorial, November 29, 1980; Ting, 1980:16). Through technological control, Nissan has been able to enjoy more than two decades of royalties and monopolistic sales of engines, steering systems, etc. to its Taiwan partner, which, in turn, enjoys monopolistic domestic profits under government "protection." In addition, the technical cooperation agreement forbids Yue Loong to export its products so that Nissan's overseas markets will not be affected by the technical cooperation. Another example of Japanese technological control is provided by Taiwan Fluorescent Lamp Co., which started technical cooperation with Tokyo Shibaura Co. in 1962 to produce the Hsukuang-brand fluorescent lamps (Industry of Free China, Sept. 1963). It was recently revealed that the crucial part of
the lamp-manufacturing process had been housed in a segregated "off-limits" area inside the Taiwan firm, to which Chinese (Taiwanese) personnel were denied access, though annual royalties paid to Shibaura by the Taiwan firm amounted to tens of million N.T. dollars (Ting, 1980:15). The same problem is suspected to exist in those local automobile "manufacturers" which have in recent years been permitted to enter into technical cooperation with Japan's Mitsubishi, Honda, etc. According to Simon (1981), many Taiwan firms claim that Japanese companies and business agents come to Taiwan only to sell machinery and equipment, but then they would reserve an important component in the machinery or the production process as the basis for a technical cooperation agreement. The extent of the problems was revealed by Economic Daily News in Taiwan, which in its June 20, 1978 editorial charged that 70% of the technical cooperation agreements with Japan had resulted in little actual technology transfer (cited in Simon, 1981).

But as we have seen in Table 5-7, nearly 80% of Taiwan's technical cooperation agreements in the four major industrial segments are with Japanese firms. Like direct investments, this extensive penetration of the Taiwan economy in the name of "technical cooperation" is an integral part of the Japanese strategy of "Asian integration," the essence of which is capital and
technological dominance. In the words of the director of Toko Inc., "We should not go overseas merely seeking cheap, plentiful labor force, as has been our method thus far. Rather, we should produce goods which need highly intensive Japanese technology, thereby displaying our technological leadership in the countries we invest in" (quoted in Nakano, 1977a:202).

Taiwan firms jump on the "cooperation" bandwagon with the encouragement of the government because it brings short-term profits, which would not be possible if they have to invest in research and development on their own. In a socio-economic milieu where R & D is absent, technical cooperation represents a peculiar form of what may be called "triple symbiosis," from which the three parties of TNCs, local enterprises and the government "benefit." Individual local firms can manage to maintain their competitiveness and profitability as long as the transient but renewable symbiosis lasts. At the macroeconomic level, the state is content to see technical cooperation help boost the growth of GNP and employment. But the long-term effects of technical cooperation have been technological dependency that cripples efforts to promote local R&D and national economic autonomy. As Parmar (1975:19) observes,

... technological dependence on the developed nations weakens efforts to achieve self-reliance. Once the leading sectors of an
economy became committed to imported technology, it is far more difficult to evolve a technology more relevant to the country's social as well as economic goals.

The grip of technological dependency is acutely felt when the economy faces an urgent need to upgrade its technological level to survive international competition.

More enterprising firms, however, have learned to minimize the effects of foreign "technological hegemony" by exploring alternative access to technical knowhow. The aforementioned fluorescent lamp company, for example, has recently shifted to cooperation with an American firm, which demanded a royalty only 10% as much as that previously paid to the Japanese firm, and committed itself to disseminating the fluorescent lamp manufacturing technology in two years. When the duration expires, the Taiwan firm will be permitted to produce lamps independently without royalty obligation (Ting, 1980). Such improved terms are largely due to the increased availability of matured technologies in advanced countries and also to Taiwan's relatively high receptivity to such technologies. The increasingly sophisticated infrastructural facilities and "external economies" in Taiwan make technology transfer more cost-effective, enabling Taiwan to take more advantage of the "product life cycle" than many Third World countries. Accordingly, technology transfer is more successful in a few leading corporations that can afford a greater share of their operating budgets.
for personnel training, research and development. Tatung Co., for example, is now capable of producing a wide variety of electric appliances, machine tools and other basic producer goods as a result of technical cooperation with several transnational firms, including Westinghouse and RCA. Technology transfer in this case appears more fruitful because the company possesses better research and training facilities and a factory system capable of backward and forward integration, though vital parts, such as color TV tubes, continue to be imported from advanced countries.

From the above discussion we can make two important observations concerning the impact of foreign technology:

First, while technological collaboration has made substantial contributions to Taiwan's industrial production, in most cases such collaboration has resulted in little substantive technology transfer and autonomy. Moreover, foreign firms normally forbid local partners to continue use of product designs and production processes under collaboration once the collaboration agreements expire; continued use of them is contingent upon renewal of contracts (Chou, 1971:31). Thus much of foreign technology stimulates the growth of Taiwan's economy without becoming an organic part of it, and the interactive process of technological collaboration is characterized by dominance-dependency relationships.
Technological collaboration therefore provides a vivid insight into the fundamental nature of dependent development: "Development" is not only compatible with "dependency," but can actually result from it.

Second, technology transfer and autonomy are achieved through an interactive process in which internal conditions play as important a role as the external forces of technological mobility. Routinized or matured technologies from advanced countries cannot take root in a peripheral economy unless a satisfactory measure of infrastructural facilities and the accompanied "external economies" exist. To break the grip of dependency, therefore, means not only to eliminate external controls, but also to foster internal changes in such a way as to make technology transfer and autonomy possible.

V. CONCLUDING REMARKS

In this chapter we have attempted to analyze Taiwan's dependent development in light of the dialectical approach formulated in Chapter I. Several findings which have important theoretical implications can be reiterated as follows:

(1) The course of Taiwan's dependent development is shaped not only by the external forces of capital and technology, but also by the dynamics internal to Taiwan society -- dynamics having an origin in colonialism.
The thesis that dependent development has resulted from the post-war change in imperialism's extractive function is therefore only partially valid. To a large extent, the process of dependent development in Taiwan can be construed as the process of self-transformation of colonial dependency. In this particular instance, the internal "metropolis-satellite chain" (i.e., exploitation of the agricultural sector) is a crucial factor making for dependent development, rather than a fundamental cause of underdevelopment as some dependency theorists have argued.

(2) Contrary to the common belief that entrepreneurial profits are the main source of capital accumulation, we have demonstrated that at least in Taiwan this is not the case. Aggregate household savings and government revenues (from taxes, state enterprises, borrowings, etc.) are far more important factors in Taiwan's capital accumulation. We also observe that the role of the entrepreneurial class as an agent of capital accumulation has become differentiated from its role as an agent of profit-making and saving. These findings should encourage further case studies to establish a broader basis for a possible re-definition of the role of the entrepreneurial class in the historical process of capitalist development.
(3) The processes of capital alliance and technological collaboration with transnational interests express dominance-dependency relationships, through which a measure of "development" is achieved. Under changed historical circumstances, "development" is not only compatible with "dependency," but also is made possible by it. At least in some peripheral economies, imperialist control is secured by promoting a measure of economic progress rather than hampering it as was the pattern of old imperialism. The controlling effects of transnational capital occur simultaneously with its stimulating effects. Insofar as dependent development is by its very nature complementary to the needs of some dominant economies, these needs define a limit within which dependent development occurs with certain socioeconomic and political consequences distinct from what may be expected of societies with relatively "autonomous" development.
NOTES TO CHAPTER V

1. See Ranis (1979:215). By 1973-74, railway density was 171 meters per square kilometer for Japan, 153 m. for Taiwan, 55.4 m. for South Korea, 36 m. for India, 30.5 m. for Sri Lanka, 14.5 m. for Pakistan and less than 10 m. for the rest of Asia. See Table 3-9 in Ranis (1979:225).

2. While some wood materials were imported, such imports as a percentage of total wood supply were insignificant -- 3.9% in 1954, 0.3% in 1961 and 0.5% in 1966. By contrast, leather and rubber imports were much larger: 44.6%, 36.9% and 44.4% for leather and 37.6%, 27.5% and 22.2% for rubber during the respective years. See Ranis (1979:219).

3. This result is obtained by aggregating exports data presented in Industry of Free China, January 1979. Exports values were NT$53,215-million for wood products (not including furniture and plywood), NT$50,277-million for the five farm products and NT$12,833-million for cement and glass products.

4. For the 1972 profits and sales figures, see China Credit Information Service (1973). Gross domestic savings for 1961-78 can be calculated from statistical data provided in Industry of Free China, June 1979, p.167.

5. For the 1979 profits figure, see China Credit Information Service (1980:54). The sales/GNP ratio is provided in ibid (1980:6).

6. While many of the top 500 firms also belong to the transnationalized sector (i.e., having foreign direct investments), others, including such largest profit-makers as Formosa Plastics, Tatung Co., Far East Textiles, etc., are wholly owned by the Chinese (mainlanders and Taiwanese). However, a great majority of the top 500 are known to have technological collaboration relationships with foreign firms.

income of 1977, which reached NT$377,272-million. It is safe to assume savings from this amount to be at least 15%, or NT$56,591-million. Thus, household savings accounted for at least 25% of gross domestic savings in 1977 (which were NT$2,252,640-million).


11. See Lundberg (1979:302, Table 4-13).

12. This can be proved in two steps: (1) Since it is known that small- and medium-sized enterprises produce about one half of GNP and that their capital/output ratio is smaller than the capital/output ratio of larger-scale enterprises, their combined capital stock is also smaller than the combined capital stock of large-scale enterprises. (Imagine that the top 500 companies have a combined capital stock one third as large as the total capital stock of the entire manufacturing sector, even though they account for less than 0.5% of the total number of firms in that sector.) (2) Empirical evidence shows that return on capital (i.e., profit/capital ratio) on an aggregate basis becomes increasingly small as the scale of enterprise diminishes. (For example, the top 100 companies had an average return on capital of 23.1% in 1979. This ratio decreased to 22% for the top 200 group and to 20.2% for the top 300 group, and so on.) From (1) and (2) we can conclude that aggregate profits for small- and medium-sized enterprises in Taiwan are smaller than aggregate profits of large-scale enterprises.

14. Data on total assets (defined as the sum total of net worth and liabilities) of the transnationalized sector are provided in Investment Commission (1980: 96, Table 10).

15. Small- and medium-sized enterprises were officially defined as enterprises capitalized at less than NT$5-million with a work force of less than 100. Since 1979, however, the amount of capital has been adjusted upward to NT$20-million and the work force to 300.

16. Figures on foreign ownership patterns and average sizes of foreign direct investments are derived from Investment Commission (1980:24, 31).

17. The DMT story is based on Simon (1981).

18. These figures are calculated from sales data provided in China Credit Information Service (1980:61, 62).
CHAPTER VI
INTERNAL CONSEQUENCES: AN INTERSECTORAL PERSPECTIVE

... the dual economy, unless consciously counteracted, produces what I have called a "process of mutual poisoning," whereby successful industrial development in the cities destroys the economic structure of the hinterland, and the hinterland takes its revenge by mass migration into the cities, poisoning them and making them utterly unmanageable.

-- E. F. Schumacher (1973:167)

I. THE STRATEGY OF DOUBLE MOBILIZATION

Much of dependency theory has claimed that the international "metropolis-satellite chain" of exploitation necessarily reproduces its counterpart on an intra-national level. Curiously, this argument forms a meeting ground that links dependency theory to its antithesis -- the developmentalist two-sector (dualist) theory, which explicitly advocates intersectoral exploitation as a condition for economic development, albeit in euphemical phraseology: so-called "intersectoral capital flow" or "transfer of agricultural surplus." But a main difference stands out. While dependency theory hypothesizes a unidirectional flow of surplus value with the inevitable result of structural distortion and unequal development, the developmentalist theory advances a "trickle down" thesis, whereby an intersectoral "balanced growth" can
eventually be achieved through such compensatory policies as agricultural subsidy when a less developed country "makes it" into the "family of mature economies" (Fei and Ranis, 1964). Thus a relatively "mature" peripheral economy such as Taiwan should provide an ideal basis for assessing the validity of both theses. Rather than pose one thesis against the other, I shall argue that successful dependent development has not led to successful "trickle down" of social and economic benefits for the rural populace, but to a deviant case of it, distorted and constrained by the dominance-dependency relationships -- or asymmetrical power relationships -- that exist between the agricultural and the urban industrial sectors.

Under colonial dependency, the externally oriented appropriation of agricultural surplus was not accompanied by any noticeable geographical movement of rural labor force. Under new dependency, however, massive labor migration has followed resource outflow from the rural sector. It is commonly believed that rural migration is a "natural" consequence of the uneven development model. But at least in the Taiwan case, there is evidence that the mobilization of rural material and human resources was deliberately contemplated by government decision-makers as an integral part of the development strategy. The subtle nature of this double mobilization strategy lies in the fact that unlike rural surplus extraction,
intersectoral labor transfer calls for no coercive or mandatory measures, but can simply result from the extractive mechanisms aimed at mobilizing agricultural resources for urban industrial and governmental use. The working out of these extractive mechanisms in Taiwan should thus be understood not only in terms of material resource mobilization, but also in terms of man-power reallocation to fuel the needs of labor-intensive industrialization. This dual character of the rural extraction policy is one of the reasons behind the government's reluctance to undertake such rural rejuvenation programs as farm price support, peasant health insurance, etc. even though financially it can well afford them.¹ For the strategic importance of the rural-based "industrial reserve army" has continued as export booms threaten the ready availability of cheap labor supply. Whatever "trickle-down" benefits may accrue to the rural populace have to come through their direct labor service to industry, not through their contributions to agricultural production. This peculiar reward system has persisted despite the fact that agricultural surplus transfer is recognized as a major factor in Taiwan's industrial development.
II. RURAL SURPLUS EXTRACTION

The first step in the Taiwan model to set the "inter-sectoral capital flow" in motion was land reform during 1949-53. The successful land expropriation from landlords not only converted a substantial part of land price payments into industrial investment, but also consolidated the hold of the government over agricultural surplus that was originally appropriated by the landlord class. Conceivably, the rural extractive mechanisms would not have functioned so effectively, had that parasitic class survived. These mechanisms consisted of (1) the rice-fertilizer barter system under which the government sold fertilizers to the peasants in exchange for rice, not cash, at monopolistic prices, in some cases twice as high as those paid by Japanese farmers; (2) compulsory purchase of rice at prices 20%-40% lower than market prices; (3) land tax in kind (rice) and other farm taxes (in kind or in cash), plus surtaxes for "national defense" and educational use; (4) interventionist controls of market prices of farm produce through various mechanisms such as dumping sales from government storage, massive imports of farm produce from the U.S. and other sources, mandatory regional division for rice dealers to eliminate buyers' competition, etc.
Available tax data enable us to obtain the result that the average tax burden of farm households with annual incomes of less than NT$30,000 (US$750) was 4.15 times as heavy as that of their non-farm counterparts in 1966. This result confirms a press report (China Times, editorial, Sept. 28, 1972) that for two decades after the land reform, agricultural tax burdens had been several times heavier than the tax burden imposed on non-agricultural families. A study reveals that land tax (the main item of farm taxes) collected in 1953 almost doubled that collected a year earlier and that from 1953 to 1965 land tax more than tripled while rice prices increased less than 20% over the same period. My field survey conducted in 1971 showed that out of an annual farm income before taxes (after costs were deducted) of NT$27,400 (US$685) per hectare of middle-grade paddy field in central Taiwan, NT$9,500 (US$237.5), or 34.6%, went to the government as taxes and fees (especially water fee), leaving a net farm income of NT$17,900 (US$447.5), which was less than a quarter of the average urban household income in that year. The heavy farm tax burden appeared to persist into the mid-1970s, as evidenced from another field survey conducted in northeastern Taiwan in 1975. It showed farm income before taxes to be NT$27,000 per hectare, with land tax and water fee totaling NT$8,400, or 31% — a pattern quite similar to what I discovered in 1971.
Government economist Shirley W. Y. Kuo coins the term "hidden rice tax" to measure the extent of agricultural surplus transfer through land tax in kind, rice-fertilizer barter, compulsory purchase of rice, land price repayments and loan repayments to the government. She implicitly assumes that all rice collections from peasants were paid by the government, at prices 20%-40% lower than market prices in various years. Thus, "hidden rice tax" is defined as the product of price differences (between market prices and government purchasing prices) multiplied by the total quantity of rice collected in a certain year. Her findings are that prior to 1963, annual "hidden rice tax" had been larger than the aggregate income tax of all Taiwan during the respective years, and that the hidden rice tax was the most important factor contributing to the decline in the share of rice production and hence to crop diversification during 1952-1960 (Kuo, 1973).

This concept of "hidden rice tax" has recently been used by some American scholars to explain the agricultural surplus extraction that had taken place in Taiwan until the mid-1970s (Amsden, 1979; Thorbecke, 1979:180-181). Unfortunately, this conceptual tool is defective and considerably underestimates the extent of rural surplus extraction by the government. Its problematic character lies in the underlying assumption that all rice collections were compensated for, albeit at prices lower than market
rates. As a matter of fact, this applied only to the category of "compulsory rice purchase." Land tax in kind (which together with compulsory rice purchase accounted for about one third of total rice collections during 1952-71) was a gratuitous category of extraction. And rice collection through fertilizer sales, which accounted for some 60% of all rice collections, was not carried out on the basis of rice price differentials, but rather on the basis of monopolistic fertilizer prices fixed by the Provincial Food Bureau. Accordingly, while it is true that "hidden rice tax" was greater than total income tax, it was considerably smaller than what the government had gained from its rural extraction. For example, the government's gains from compulsory rice purchase and fertilizer sales alone reached NT$10-billion during the decade of 1950-60 whereas total "hidden rice tax" calculated according to Kuo's formula (1973) amounted to less than NT$6-billion over the same period. Furthermore, the concept of "hidden rice tax" does not take account of surplus extraction in the forms of other farm taxes and fees. Nor does it explain agricultural capital outflow resulting from intersectoral terms of trade that have been chronically unfavorable to agriculture.

This latter dimension of agricultural capital outflow is dealt with by agricultural economist T. H. Lee (1971). He distinguishes between two concepts: "visible
capital flow" and "invisible capital flow." The former refers to agricultural surplus extracted through government mechanisms and the latter is defined as capital outflow resulting from unfavorable terms of trade. Lee's study (1971:28) shows that "net real capital flow from agriculture (which consisted of the 'visible' and 'invisible' categories) increased at a rate of 3.8% annually in the pre-war period from 1911-1915 to 1936-1940, and at an annual rate of 10% in the period from 1951-1955 to 1956-1960." Even in the recovery period of 1950-55, as large as 22% of the total value of agricultural production was transferred out of the rural sector. He observes that "government collection of rice, sugar and other important products in addition to the unfavorable terms of trade resulted in a tremendous net capital outflow from agriculture" (Lee, 1971:138). According to Lee, however, "invisible" capital transfer was far more important than "visible" transfer during the post-war period. Intersetorial terms of trade favored agriculture during 1926-30, but the tables were turned after the war: during 1950-60, "the index of prices paid by farmers increased at a higher rate than did the index of prices received by farmers. Consequently, the intersectoral terms of trade were highly unfavorable to agriculture" (Lee, 1971:91). He estimates that the invisible capital transfer accounted for more than 50% of total capital outflow from agriculture
throughout 1950-60 (Lee, 1971:139). Consequently, "the squeeze on agriculture through the policy of low agricultural prices was obviously effective" (Lee, 1971:30).

Some statistics will illustrate the price disparities: In the 1953-64 period, the general price level in Taiwan more than doubled while rice prices increased by less than 20%; in the 1966-73 period, the wholesale price level went up by 42.4% and medical costs went up by 64% while rice prices increased only by 14.5% (Chen, 1978:139). That the price disparities were a result of interventionist controls by the government can be seen from the following press report:

The Government has so far adopted a low-price policy with regard to rice, thinking that as long as rice prices are kept low and free from fluctuation, other prices will also become stable. However, despite the stability of rice prices in the past years, other prices have still shown considerable increase. . . .

In light of the household expenditure of urban consumers, rice consumption has gradually decreased in proportion while the proportion of protein consumption has increased to about three times that of rice consumption. Therefore, a slight increase in rice prices will not increase the burden of urban consumers noticeably and seems unlikely to cause fluctuations in general commodity prices, but will improve the economic situation of hundreds of thousands of farming households. This is something that deserves consideration. The Taiwan Provincial Government has recently requested the Central Government to raise rice prices somewhat, maintaining that such a price increase would immediately benefit hundreds of thousands of small farming families. However, the Central Government does not agree to do so, the main reason being that it may affect commodity prices.7
In actuality, that was hardly the "main reason."
As the above-mentioned price disparities clearly indicate, industrial price inflation took place quite independently of farm prices. By 1972, the state in Taiwan was financially strong enough to subsidize a "slight increase" in rice prices, if it really feared that even such a slight increase would affect commodity prices. The root of the problem thus has to be found in the basic interest orientation of the Nationalist ruling elites. As Griffin (1973a: 32) points out, "the Nationalists consisted of military officers, traders, merchants and businessmen. Their interests were in commerce and industry, not in agriculture." In a power structure in which the indigenous peasant class had absolutely no representation, interests of that class would be on the minds of the ruling elites only if they realized that neglect of these interests could compromise their own. That transpired a couple of years later, when international food crisis coupled with a drop in domestic rice production posed a threat of inflation, forcing the government to initiate new agricultural policies to boost productivity. But in the early 1970s when export boom necessitated continuing outflow of rural labor, it would be unreasonable to expect any governmental act of grace that would benefit the peasantry by raising the prices of their farm produce. As T. H. Lee candidly observed prior to his recruitment into the
Nationalist political elite, "The Government has purposely repressed the farmers' income so as to transfer those people in agriculture to industry. But the Government never thought about the consequences."^8

III. THE SITUATION OF FARM INCOME

The rural squeezing policy has resulted in a steady deterioration in the income situation of farm families relative to non-farm families. In a study of rural income, senior economist Chang Han-yu (1972) finds an inverse-V-shaped change in the urban-rural income disparity with 1960 as a watershed. While the 1950s saw a narrowing down of the gap, from 1960 to 1970 the ratio of rural income to urban income per capita declined from 0.6 to 0.45. And he predicts that the ratio would continue to drop to 0.32 by 1975. Farmers' income in that study nevertheless included off-farm income, whose weight in total farmers' income increased from about a quarter in the early 1960s to more than 50% by the end of the 1970s (i.e., off-farm income is now bigger than farm income in the rural income structure). To develop insights into the causes of the structural change in Taiwan's rural society, we need to isolate off-farm income so as to assess rewards accruing to the peasants for their toil and labor expended on agricultural production.
We shall not use official data because they tend to exaggerate farm incomes. Rather, we shall draw on a diversity of field surveys conducted by two Ph.D. candidates (including myself), two legislators and two young free-lance writers and researchers. The results are tabulated in Table 6-1.

While crop diversification and depressed rice prices have caused the share of rice production value to decline, wet rice cultivation remains the main farming activity in terms of acreage, labor participation, production costs and institutional relations. Fluctuations in rice prices and production costs affect most segments of the peasantry. Moreover, rice growing is not merely an economic activity, but also a political obligation to the government. This follows from the strategic importance of rice as staple food for urban workers and the military. Thus, payments of land tax and (until 1973) of fertilizer prices are required in kind (rice). Compulsory sales of rice to the government at low prices were as much an obligation as tax payments. It is mandatory to grow rice on wet farms. A "wasteland tax" is imposed on peasants deserting farmland. And high-grade land is prohibited by law from being sold for non-agricultural use. Alternatives to rice growing are further limited by the annual imports of some five million metric tons of soybean, wheat, corn, etc., which amount to more than twice as large as domestic annual
Table 6-1: SAMPLE SURVEYS ON FARM INCOME FROM RICE PRODUCTION

(Unit: NT$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Surveyor &amp; Locality</th>
<th>Farm Income per ha. (A)</th>
<th>Farm Income per capita (B)</th>
<th>Nat'l Income per capita (C)</th>
<th>Ratio (D) = (B)/(C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>Ph.D. candidate I (Changhua)</td>
<td>17,900</td>
<td>2,980</td>
<td>16,299</td>
<td>18.3%</td>
</tr>
<tr>
<td>1974</td>
<td>Ph.D. candidate II (Taichung)</td>
<td>18,800</td>
<td>3,130</td>
<td>30,833</td>
<td>10.2%</td>
</tr>
<tr>
<td>1974</td>
<td>Legislator I (west)</td>
<td>20,000</td>
<td>3,330</td>
<td>30,833</td>
<td>10.8%</td>
</tr>
<tr>
<td>1975</td>
<td>Researcher I (Ilan)</td>
<td>18,600</td>
<td>3,100</td>
<td>32,114</td>
<td>9.7%</td>
</tr>
<tr>
<td>1975</td>
<td>Legislator I (west)</td>
<td>20,000</td>
<td>3,330</td>
<td>32,114</td>
<td>10.4%</td>
</tr>
<tr>
<td>1976</td>
<td>Legislator I (west)</td>
<td>20,000</td>
<td>3,330</td>
<td>36,750</td>
<td>9.1%</td>
</tr>
<tr>
<td>1977</td>
<td>Researcher II (unspecified)</td>
<td>11,600</td>
<td>1,930</td>
<td>41,331</td>
<td>4.7%</td>
</tr>
<tr>
<td>1977</td>
<td>Legislator I (west)</td>
<td>8,500</td>
<td>1,420</td>
<td>41,331</td>
<td>3.4%</td>
</tr>
<tr>
<td>1978</td>
<td>Legislator I (west)</td>
<td>6,950</td>
<td>1,160</td>
<td>48,240</td>
<td>2.4%</td>
</tr>
<tr>
<td>1979</td>
<td>Legislator II (Changhua)</td>
<td>-4,000</td>
<td>16,299</td>
<td>30,833</td>
<td>18.3%</td>
</tr>
</tbody>
</table>


(2) National income figures in column (C) are DGBAS data provided in Industry of Free China, June, 1979.

Note: A farm household tilling one hectare of land averages between 6 and 8 members. About three quarters of farm households own less than one hectare per household.
rice output. While certain commercialized cash crops, such as mushrooms and asparagus, are more lucrative than rice production, they require capital investment and special techniques, are restricted by government quotas and yet remain highly vulnerable to over-production and to marketing manipulation by forces external to the rural communities. Crop diversification for the majority of farming families therefore takes place along the traditional line of small-scale, sideline operations. Finally, rice growing is a "must" because it provides staple food and hence ensures a sense of subsistence security for the peasants themselves.

Consequently, rewards from rice production are a major factor in determining the extent of peasant problems and tensions within Taiwan's agrarian society. Table 6-1 provides some insights into the rural reward system.

Though conducted by different people in different years, the field surveys demonstrate a consistent pattern in which farm income from rice production per hectare or per capita remained more or less on the same level between 1971 and 1976. The sharp decrease since 1977 largely reflected the rapid rise in production costs, especially labor costs.\textsuperscript{10} (Transplanting, weeding and harvesting are mostly done by hired farm workers due to the excessive outflow of agricultural labor force.) Since national income per capita has been rising rapidly
according to official statistics, farm income per capita as a percentage of national income per capita shows a steady decline during the 1970s (column D in Table 6-1). As Professor Chang Han-yu (1972) observes for the decade of 1960-70, farmers' income relative to non-farmers' income declined simultaneously as the level of national income was rising. Particularly noteworthy is the fact that, as column (D) in Table 6-1 shows, farm income from rice production per capita never exceeded 20 percent of national income per capita during the 1970s, and the ratio dropped sharply over time. Even if allowance is made for possible regional bias, Table 6-1 clearly indicates an enormous gap between farm income and non-farm income. That this gap has been worsening since the beginning of the export-oriented industrialization in the early 1960s seems to reflect the government's "double mobilization" strategy to take from the rural sector not only agricultural surplus but also labor force. While rural surplus extraction has been under way since the late 1940s, to force labor out of agriculture once the labor-intensive industrialization began necessitated a restructuring of the reward system such that an increasing gap exists between agricultural income and industrial income. That gap was first created by holding down agricultural income through the mechanisms we have discussed, but has since the mid-1970s been aggravated by rapid increase in
industrial wage rates. Higher industrial wages tend to raise the "opportunity costs" of agricultural labor, thereby causing the income gap to deteriorate further.

IV. LABOR OUTFLOW AND AGRICULTURAL DECLINE

The marginalized profitability of rice production does not necessarily cause an outward orientation of the peasantry. If intersectoral dependency is minimal or non-existent as was the case with traditional society, the rural community system may be expected to retain its cohesion as long as the subsistence life-style can be maintained through reciprocal communal arrangements on which the traditional Taiwanese rice culture was based. But when that dependency is created, an interplay between forces internal and external to the agrarian society will change the demographic composition, occupational patterns, community organization, values, and life-style of the entire rural society. An increasing gap between agricultural income and industrial income will spur a continuing outflow of agricultural labor. Whether that outflow takes the form of geographical migration or mere occupational shifts from agriculture to local industry depends upon localities under consideration. Because Taiwan's industrialization covers certain rural areas and leaves out others, research bias can easily arise from sample choices. American defenders of Taiwan's development
model are apt to cite sample surveys or official statistics which lend to the one-sided interpretation that the so-called "rural-oriented" industrialization has enabled Taiwan's rural populace to take up local industrial jobs without entailing much migration (Ranis, 1979; Fei, et al., 1979; Thorbecke, 1979). At the other end of the scale, it is all too easy to find rural communities on both the east and west coasts where heavy loss of agricultural labor force is synonymous with massive migration because little or no local industrial jobs are available.11 A more balanced study (Wu, et al., 1973) reveals that while a few townships (hsiang) near the newly developed Taichung industrial zone showed no loss of inhabitants, some townships in the neighboring Changhua County suffered heavy population loss due to the lack of local industries. According to a JCRR survey, migration of rural labor force averaged 60 thousand per year between 1950 and 1965, and 83 thousand per year between 1966 and 1969. After 1969, agricultural population shows a yearly drop in absolute number (Table 6-2). When natural population growth rates are taken into account, we obtain from data in Table 6-2 the result that over the seven-year period between 1969 and 1976, at least 1,524 thousand persons migrated from the rural sector, averaging 218 thousand per year.12 The big difference between this latter figure and the JCRR figures may be partly accounted for
Table 6-2: ABSOLUTE DECLINE IN AGRICULTURAL POPULATION AFTER 1969
(1,000 persons)

<table>
<thead>
<tr>
<th>Period</th>
<th>Agri. Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969</td>
<td>6,152</td>
</tr>
<tr>
<td>1970</td>
<td>5,997</td>
</tr>
<tr>
<td>1971</td>
<td>5,959</td>
</tr>
<tr>
<td>1972</td>
<td>5,947</td>
</tr>
<tr>
<td>1973</td>
<td>5,868</td>
</tr>
<tr>
<td>1974</td>
<td>5,802</td>
</tr>
<tr>
<td>1975</td>
<td>5,598</td>
</tr>
<tr>
<td>1976</td>
<td>5,563</td>
</tr>
</tbody>
</table>

Source: Department of Agriculture and Forestry, Taiwan Provincial Government

by the fact that the JCRR survey does not include family members who migrated but were not considered as part of the rural labor force; or it may reflect the accelerated out-migration after 1969. In any event, statistics on intersectoral migration are bound to be defective because of high intersectoral mobility and the option of not filing residential change registration, especially on the part of single migrators. Wang and Apthorpe's village study (1974:131), for example, reveals that the actual village population is less than official figures because "these figures include those who have moved out, but whose census registrations still list in the village as their place of residence." It nevertheless seems fair to observe that while rural industries absorb much labor, migration of agricultural population is also striking.
According to the above-mentioned study by Wu, et al. (1973: 18), "all five large cities and Taipei Prefecture (County) show a high gain of in-migration while all prefectures with the exceptions of Taipei and Taitung Prefectures show a high loss of population." What really matters is the fact that excessive labor drain from agriculture has hurt not only agricultural production, but also those, mostly elderly people and women, who remain to take care of the family land. A study reveals that by the end of the 1960s, 90 percent of rural youths had left the countryside while 70 percent of those who remained were over 40 years of age and another 20 percent were women and children (Wang, et al., 1971:64). This means that rural communities lose not only manual labor, but also "brain" needed for agricultural and community developments. Simultaneously as industries score impressive growth, Taiwan's agricultural production and rural community life have been on the road to deterioration. Complaints about labor shortage have been heard everywhere in the countryside, and for the first time in Taiwan's history peasants have begun deserting farmland on a large scale. East-West Center senior specialist Hwang Da-Jou wrote in 1975:

[Taiwan's] farmers are raising a hue and cry over labor shortage. Although labor migration in the past years has more or less helped to alleviate population pressure in the villages, we are unable to remedy labor shortage with farm mechanization due to various constraints. Consequently,
agricultural cultivation tends to become extensive while deserted farmland has exceeded 10,000 hectares. This is a great irony in view of our supreme policy guideline of safeguarding an abundant supply of food-stuff.13

Labor shortage pushes up production costs, thereby causing farm income to deteriorate further. A vicious circle is completed when the worsening income situation forces more labor to move away from agriculture. This vicious circle is reinforced by another one in which massive imports of grains and soybeans from the U. S. have caused farmers to abandon these traditional crops, thus perpetuating the dependence on foreign agricultural produce.14 Official data show that the planted area of wheat continually decreased from 25,208 hectares to a mere 558 hectares between 1960 and 1977 and the planted area of soybeans decreased from 53,785 hectares to 30,115 hectares over the same period.15 Rice production has fluctuated around 2.5-million metric tons per year since the mid-1960s, involving some 80 percent of total arable land. As a consequence, "agricultural" (farm, animal-raising, fishery and forestry) production growth has decreased from 5 percent during the decade of 1955-65 to 3.5 percent during the decade of 1965-75. The growth rates averaged only 1.1 percent per year between 1973 and 1975, and has turned negative for several years since 1975 (-2.3% for 1975; -1.8% for 1978; -1.0% for 1980). If we consider farm production alone, the growth rates are even smaller
(-1.8 percent for 1980). In view of the sustained high growth of industry, it is not difficult to see a process of intersectoral polarization going on within the Taiwan model. Even Li Tsung-tao, Director of Commission on Agricultural Development (formerly JCRR), has recently admitted that Taiwan's agricultural development "has fulfilled its mission of aiding and supporting industry" and that "the development of industry has led to the backwardness of agricultural development." As Huang (1977: 154) observes from his village study, "agricultural development in Taiwan has reached a point of stagnation, its future is dim and it will become an obstacle to overall economic development." Thus, the stories told by some American economists (Ranis, 1979; Fei, et al., 1979) that there exists a "balanced growth" between Taiwan's agriculture and industry and that the agricultural sector has not been exploited have no basis whatsoever in actuality.

V. SOCIAL-MORAL CONSEQUENCES

In Taiwan, intersectoral unbalanced growth implies that industry has a great capacity of labor absorption, thereby minimizing the unemployment problem as is prevailing in many Third World countries. Industrial incomes both remitted by migrants and earned in local
industries constitute more than half -- and in some cases more than 60 percent (Wang and Apthorpe, 1974:142, 200) -- of the total incomes of rural families. As we have observed, any improvement in the peasants' income situation has to come from their direct labor services to industries, including the all-pervasive "sex industry," which has come to be a major, though dehumanizing, channel of income and wealth redistribution in today's Taiwan economy. Even so, a considerable gap still exists between urban and rural incomes. To narrow this gap, the Commission on Agricultural Development has set the goal of raising farmers' incomes to 70 percent of non-farmers' incomes by the end of the 1980s so as to meet "the standard of social equity." But a quantitative comparison between urban and rural incomes conceals a social-moral dimension upon which social scientists are disinclined to touch. The incomes of a rural family, for example, are usually the result of collective efforts by the entire family, with its children, especially daughters, sacrificing schooling in order to fulfill their familial obligations, whereas more than the same amount of incomes can easily be earned by one single urban middle-class household head, whose children are likely disciplined from childhood not to engage in any labor work, but to concentrate on competitive schooling in preparation for elite-oriented careers.
This socioeconomic inequity implies that the peasantry is doubly exploited both as primary (agricultural) producers and as industrial workers. And the "double exploitation" logically follows from the government's "double mobilization" strategy which we have already mentioned. The social and moral consequences arising from that exploitation have become increasingly evident.

Simultaneously as industry drains agriculture of its productive labor, market forces make inroads into the agrarian society. The quest of manufacturing industries for the rural market is efficiently aided by a cross-sectoral communications system which the booming electronics industry has made possible. The penetration of the consumerist-oriented "ruling ideology" into the rural sector has assumed a pattern quite distinct from that suggested by James Scott's theory of peasant resistance to "cultural hegemony" (Scott, 1977). In Scott's model, the relative invulnerability of peasant society to the impingement of elite values and ideas is predicated upon relative economic autonomy, i.e., the ability of the peasantry to produce and to survive independently of a larger state or dominant classes. In Taiwan, however, the "double mobilization" strategy has undermined this condition by creating an acute demand for labor-substituting farm inputs -- chemical fertilizers, insecticides, herbicides, farming machines, etc. Local industrialists,
working in alliance with transnational corporations producing these inputs and the state apparatus (JCRR and the hierarchy of Farmers' Associations which it commands), have easily developed their market in rural areas. Furthermore, the revolutionary advances in communications technology are a powerful factor threatening the cultural cohesion and independence of traditional peasant societies. As Stauffer (1975:17) notes, "with a transistor radio in the hands of most families in poor nations and with TV in the homes of the elite and the near-elite and increasing­ly available to other sectors of the population, Third World societies have been opened to the possibility of cultural invasion to a degree that never was possible under colonial conditions." In rural Taiwan, urban values transmitted through radios and TV have reinforced the new demand for industrial goods to create a money-oriented market economy. As the norms of communal reciprocity on which wet-rice cultivation used to be based become quickly eroded, the peasant also becomes conscious of cost-benefit calculations. To defray the increasingly high costs of farm production, he is in constant need of cash money. This need is compounded by the purchase of consumer goods, which are now not only economic necessi­ties, but also, in many cases, status symbols in Taiwan's rural society. The peasant's dilemmas come when he, unlike industrial producers, fails to secure reasonably
high prices for his products, and yet, for reasons we have already discussed, there is no escape from rice production. To help make ends meet, mobilization of his family labor for non-farm jobs becomes an economic imperative that threatens the integrity and cohesiveness of the peasantry as a social class.

Thus, the Taiwanese peasantry is deeply involved in the market economy without being able to realize a decent margin of profits which that economy is supposed to deliver. Oppressed by social forces beyond his control, the peasant needs to reorient himself outwardly. Yet, a whole set of sociocultural, political and economic factors put constraints on his freedom to leave the land. These dilemmas imply that the transition towards a market economy is far from complete. In the process, the peasantry suffers not only from that transition, but also from the incompleteness of it. Torn between inward and outward orientations, between the old attachment to land and a new quest for profits, the Taiwanese peasantry has become a disoriented social class, without whose productive labor in both agriculture and industry the Taiwan model of dependent development could not have worked as it has.

During my casual interviews with peasants between 1971 and 1975, grievances and cynicism about the degradation of agriculture were a recurring theme of conversations. Farming no longer conferred occupational pride, partly
because rewards were marginalized and partly because communal solidarity and reciprocity associated with rice farming were replaced by a depersonalized wage system. The erosion of communal norms has resulted from the forces of the capitalist economy at work in two different directions: First, the excessive outflow of agricultural labor creates a new demand for work teams specializing in transplanting, harvesting, etc. These teams demand higher wage rates than unskilled labor wages in industry because of greater toil and hardship in (rice) farming. Second, with the penetration of the market economy, commercial values are introduced into the village while peasants are faced with objective needs for cash money. As Huang's case study (1977) reveals, villagers are so preoccupied with cash money and "off-farm" work that they no longer feel obligated to render communal service on a gratuitous basis. Wang and Apthorpe's study (1974:179) also shows how a "firmly established" wage system and concomitant commercial values have affected the interpersonal relationships within the farm families: even family members refuse to do overtime work unless they are paid for it.

Agricultural degradation inevitably led to the self-degradation of the peasantry -- a false consciousness of what I call "cross-class identity," in which peasants want their daughters to be married into other social classes than their own and hope that their children and
grandchildren would never engage in farming, but would follow some middle-class occupations in the city. Paradoxically, however, their emotional attachment to farmland remained strong. By all accounts, old peasants throughout the rural communities in Taiwan seem to echo the same worry and concern that in a generation from now, no one would be left to carry on farm work in the countryside. Although inured to toil and hardship, old peasants were apparently embittered by a new sense of alienation as if they were deserted not only by society, but also by their own children. By 1980, peasants' suicide rates were the second highest among all walks of life in Taiwan. A medical study by a prominent Taipei hospital observes the following:

Faced with changes in the economic structure, farmers do not know where to go from here. And the outflow of rural youths helps to heighten the fears of older farmers. This is probably the main reason behind their particularly high suicide rates.20

VI. CONCLUDING REMARKS

The Taiwan case study suggests that the "trickle down" concept may not square with the social objectives of economic development as far as rural society is concerned. In advancing the "two-sector" development theory, economists do not seem aware of a fundamental distinction between the proletariat and the peasantry. The former is born out of the industrial bourgeoisie, with whom it
interacts in its struggle for a livelihood. The latter, by contrast, is a primordial social class who can produce and survive in a way largely independent of other classes. Accordingly, the demand for the rights to subsistence security and a measure of economic and cultural autonomy is relatively strong on the part of the peasantry (Scott, 1975; 1977). When the needs of the industrial sector impair these rights along with the sociocultural fabric of peasant society, the eventual "trickle down" of benefits in the form of "off-farm incomes" will provide no remedy for restoring that society to healthy development. As Huang (1977:153) observes from his village study, "on the one hand, the material life of the rural residents has been significantly improved, but on the other hand, agricultural productivity as well as the entire community appears moribund." And despite the efforts and funds which the government injected into the rural economy after 1973 in order to boost agricultural production, peasants "have responded reluctantly and skeptically" (Huang, 1977:153). Clearly, it takes more than material means to rejuvenate the rural community and agricultural production.

While no one knows what the best alternative will be, it seems clear that a fundamental prerequisite for rural redevelopment is to rectify the ideological bias of developmentalism, in which agriculture and the peasantry
are seen as a means to an end, made to serve industry gratuitously without concern for adverse consequences. Currently, the technocratic elites who administer Taiwan's development model are imbued with such developmentalist values and concepts as epitomized in T. H. Lee's statement: "agricultural development is primarily concerned with the feasibility of increasing net agricultural surplus or net capital outflow from the agricultural sector. In less-developed countries like Taiwan, mobilization of internal capital must depend on agricultural development. The development of agriculture and the application of economic squeeze on agriculture are closely related to government strategies for agricultural development" (Lee, 1971: 133-134). As long as such values and concepts predominate the process of decision-making, there will be little hope for the rejuvenation of the rural community and agricultural production. A genuine approach to "balanced growth" presupposes recognition of agricultural development as a holistic part of national development, and of intersectoral relationships as mutually reinforcing and cooperative rather than exploitative. To achieve this reorientation would require a great deal of countervailing power on the part of the peasant class to alter the intersectoral dominance-dependency relationships inherent in the model of dependent development. At least in the foreseeable future,
such a countervailing power base is unlikely to emerge within Taiwan society.
NOTES TO CHAPTER VI

1. In a move to boost rice production following the global food crisis in 1974, the government initiated a rice price support program which offered "guaranteed" prices to purchase farmers' rice on an "unlimited" basis. Less than a year later, however, the quota eligible for government purchase was limited to 970 kg. per hectare, amounting to about one fifth of the output. As the present chapter will make clear, this partial price support program has generated little, if any, effect on rice productivity, partly because the quota is too small, and partly because the bureaucratic red tape and unreasonably high requirements placed on rice quality, dryness, etc. have turned farmers off. Ultimately, the program is said to benefit middlemen more than farmers -- middlemen who work in collusion with Farmers' Associations to fill the government quota with rice they purchase at lower market prices.

2. These tax data are from Survey on Household Income and Expenditure of Taiwan Province, Provincial Government, 1966.

3. These results are obtained from Annual Report on Tax Statistics of Taiwan Province, published by the Taiwan Provincial Government, July, 1966. Also see Chen (1978:138).

4. My 1971 survey was conducted in two villages in Pu-yen Hsiang (township), Changhua County. A total of 12 households were surveyed with regard to input quantities and costs, farm taxes (land tax and water fee), rice output and prices. Farm sizes of the surveyed households varied between 0.7 hectare to less than 2 hectares. There were some variations in rice output per hectare, but production costs and taxes showed a more or less uniform pattern.


9. Official data on farm incomes have a tendency to pass off production value (i.e., prices multiplied by total output) as 'incomes' as if farming needs no production costs. For example, the Department of Agriculture and Forestry of the Provincial Government put farm "incomes" per hectare as NT$87,385 for 1973 and NT$123,564 for 1974, which exaggerated actual farm incomes per hectare by at least five times. The officials in charge did not seem aware of the fact that these figures were even larger than disposable incomes per household for residents in Taipei City (which reached NT$115,340 in 1974).

10. Possible regional bias involved in the localized survey process appears minimal in this case. Reason: practically all surveys shown in Table 6-1 were conducted in the mid-western plain (including Changhua and Taichung) where rice productivity represents the statistical mode of the whole island, varying between 5,000 kg. to 6,000 kg. per hectare for the summer crop (see United Daily, 6/6/1977). The low farm income situation shown in Table 6-1 is substantiated by the well-known village studies conducted by Wang and Apthorpe of the Institute of Ethnology, Academia Sinica, Taipei. Wang and Apthorpe (1974:142) obtained a combined farm income of NT$659,157 for 34 hectares under survey, averaging NT$19,387 per hectare.

11. An investigation was conducted in February 1976 in a southern rural community with 4,200 hectares of farmland and a population of 50,000. It was found that 84% of the population had moved out and that 90% of the remaining labor force was middle-aged women, who worked even on the Lunar New Year holidays (Taiwan Times, February 8, 1976). Furthermore, Wang and Apthorpe's village study (1974:134) also reveals that "since most of the men work away from home, family finances are usually managed by women."

12. Official population data show Taiwan's population increased 15.2% from 1969 to 1976. (See Statistical
Thus, if there had been no migration from the rural sector, agricultural population should have been at least 7,087 thousand by 1976. The difference between this figure and the actual rural population figure (5,563 thousand) in 1976 gives the number of migrants during 1969-76.


14. Annual imports of grains and soybeans average around 5 million metric tons while domestic production is only 0.2 million metric tons (Central Daily, Sept. 21, 1980). A renewed contract was signed in May 1981 between Taiwan Government and American grains exporting companies for the supply of at least 17.2 million metric tons of grains and soybeans over the next five years, which cost more than US$4-billion (Asian Wall Street Journal Weekly, May 11, 1981).

15. See statistical data in Industry of Free China, Jan. 1979, p. 164. Only domestic corn production shows some substantial increase, but still constitutes a small percentage (about 5%) of annual corn imports.

16. These figures were released by JCRR and its successor, the Commission on Agricultural Development in various years. For the 1980 figures, see Independence Evening Post, April 9, 1981.


18. United Daily (June 11, 1975) estimated that at least 230,000 women were engaged in prostitution in 1975, both legally and illegally, some 70% of them being unemployed women workers. "Sex" business has now become an all-pervasive "sideline" operation -- in addition to legal prostitution -- that penetrates many segments of urban life, including hotels, restaurants, barbershops, etc.


20. The medical report was released by the Veterans' (Jung-min) Hospital in Taipei, quoted in China Daily News, Nov. 18, 1980.
CHAPTER VII
INTERNAL CONSEQUENCES: A SOCIO-POLITICAL PERSPECTIVE

While this [the 1972 coup in the Philippines] might be viewed as an example of "political decay," I think it more instructive to conceptualize the change as the creation of a political system within a dependency in consonance with the stability demands of transnational economic actors. . . . The turn to authoritarianism represents a widening of the political gap between the "developed" and the "underdeveloped" nations: it is the political analogue of the widening economic gap between rich and poor countries.

-- Robert B. Stauffer (1974:173)

In Taiwan, as in other rapidly developing authoritarian states, economic expansion and political control can be mutually reinforcing rather than functionally incompatible.

-- Edwin A. Winckler (1981:21)

I. THEORETICAL BACKGROUND

The methodological schema presented in Chapter I includes propositions (I and II) that allow for the study of political consequences of dependent development. We are concerned with how dependent development produces new divisions and alignments of sociopolitical forces and how the resultant contradictions may affect political changes in the dependent society. At issue are two opposite schools of thought concerning the effects of economic development on political development. One school, which is associated with the modernization theory, resorts to
deductive reasoning from the Western experience that a pluralist, democratic political system can hopefully emerge as economic development results in material affluence, widespread education, the rise of a middle class and competing interest groups as well as the decline of traditional elites. Moreover, since this school sees instability in Third World countries as resulting from ideological conflicts, consensus-based pluralist politics is expected to replace ideological politics and bring about "stability" by accommodating divergent interests through a "rational" political process of bargaining and compromise. This line of prescriptive thinking has been disproved by what has transpired in the Third World political scene. Consequently, it has increasingly come under criticism from a second school of social scientists (O'Donnell, 1973; Stauffer, 1974; Evans, 1979; Bodenheimer, 1971; Adelman, 1980), whose empirically based researches reveal similar patterns of political degeneration in which dependent industrialization is accompanied by strengthened authoritarian-military control. Rather than produce "bourgeois democracy," economic development in the Third World is predicated on and reinforced by "bourgeois autocracy." And "stability" is not achieved through political consensus based on democratic pluralism, but on the contrary through retrenchment and repression of the pluralist functions.
To throw light on this paradoxical nexus between economic development and political degeneration, we need to analyze the conflicts and alliances between external forces and internal social classes and groups as well as intra-systemic divisions and alignments which dependent development helps create. In this connection, Galtung's imperialism/dependency model appears inadequate for the explanation of the dialectical complexities of inter-systemic and intra-systemic interactive relations. For the notion of "harmony of interests" (between the center in the Center nation and the center in the Periphery nation) obscures not only the ambivalent position of collaborative ruling elites, but also intra-elite cleavages and conflicts. Moreover, the notion of "disharmony of interests" (between the periphery in the Periphery and the periphery in the Center) tends to overlook the potential of international mass alliance and solidarity, as exemplified by the Japan-based grass-roots action against dictatorships and human rights violations in Asia, particularly in South Korea. Stauffer's study of political changes in the Philippines (1974; 1975a) provides vivid insights into the complexities of intra-elite divisions and alignments in relation to foreign interests, revealing how certain segments of "the center in the Periphery" could be in total "disharmony of interests" with "the center in the Center" while other segments of
the ruling elites opt for collaboration. The divisions and alignments in Stauffer's study include:

(1) Government technocracy centering around President Marcos formed a triple alliance with TNCs and the transnationalized segments of private enterprise to push dependent industrialization.

(2) Nationalist elite in the Philippine Congress allied with nationalist groups in society to oppose dependent development while advocating greater nationalistic control over the economy. Some segments of the ruling elites in the Constitutional Convention and the Supreme Court also took similar nationalist positions.

(3) Traditional agrarian elite who controlled the Congress also opposed industrialization for their own interests by blocking the passage of legislation that would tend to foster industrialization. Curiously, this traditional segment of the ruling elites was also allied with "the center in the Center" (i.e., U.S. political elites), suggesting a situation in which intra-elite conflicts may also include a conflict of interests among the collaborative ruling elites over the basic orientation of national development and over the terms of collaborative relationships with the Center -- a conflict that
is closely related to the legacy of colonialism and to the differentiation of groups-in-interests among the Center's political and economic elites (i.e., the TNCs perceive different interests in the ex-colony from the Center elite who supports the continuation of the colonial economy based on agricultural export-crops and a land-owning system.)

The pre-coup nationalist movement in the Philippines thus found allies in the counter-elite while enjoying a broad social base of mass support. The extremely unequal distribution of economic benefits had already alienated not only the masses, but also segments of the middle class and of the national bourgeoisie. The resurgent peasant guerrillas in the late 1960s also supported the nationalist movement, thereby adding a radical dimension to it. Conflicts and tensions mounted as nationalist elites spoke -- and the Supreme Court decided -- against the legitimacy of the special "parity" rights and privileges conferred on American nationals while American elites intervened in efforts to preserve these rights and privileges. The pressures put on the collaborative technocracy were aggravated by the resistance to changes from the Congressional landed elite. Consequently, when the "triple alliance" (between the technocracy, the
"internationalized" bourgeoisie and TNCs) was determined to forge ahead with the new model of dependent industrialization, the political system response was not only to repress the nationalist movement and to tighten authoritarian control over civil rights and freedoms, but also to eliminate major political institutions (Congress, Constitutional Convention and the Supreme Court) from their decision-making roles, thereby causing the Philippine political system to degenerate from its previous "overdevelopment" into a state of "underdevelopment" (Stauffer, 1974; 1975a). In short, there occurred a process of political involution (or "political decay") in which democratic pluralism was retrenched and repressed to meet the demands of the "triple alliance" for "stability" in an economic base that excluded the masses from participation both as consumers and as producers.

Parallel to the breaking down of democratic pluralism were cases of the breaking down of political and economic populism in Latin America and elsewhere. The populist order represented a re-alignment of sociopolitical forces that accommodated mass interests but alienated the middle classes, the collaborative elites and their foreign allies. Unlike the Philippine case, the destabilizing forces under populism did not come from the masses, but from the excluded middle and upper classes and foreign interests that were linked to these classes. However,
the logic of political changes remained the same: When mass participation, whether under democratic pluralism or populism, constituted obstacles in the way of dependent development, political exclusion of the masses became necessary in order to create an equally exclusionary economic base. In either case, reliance on the "center in the Center" to supply means of system-altering violence was a decisive factor in the turn toward authoritarianism and the resultant increase in the "political gap" between the Center and the Periphery (Stauffer, 1974). But as repeatedly cautioned in Chapter I, "external determinism" must not be our guide of thinking in explaining the motives behind the system-altering processes. In other words, serving transnational interests is not the only explanation for the turn to bureaucratic-authoritarian control. Nor do "joint benefits" for the Center center and the Periphery center offer an adequate explanation, as Galtung's theory seems to imply. From the perspective of dependent development, we must address the question of capital accumulation. When the developmental strategy of a peripheral country shifts from "easy import substitution" to the production of capital goods and/or consumer durables, the economy is likely faced with severe balance-of-payments problems and an urgent need for capital mobilization. Under such circumstances, the technocratic elite is tempted to resort to bureaucratic
authoritarianism as a means of meeting the need for capital accumulation at the expense of political and economic participation by the masses, as exemplified by the experiences of Brazil in 1964 and Argentina in 1966 (O'Donnell, 1973; Kurth, 1979). The repression of wage rates is also motivated by the need to increase the attractiveness of the dependent economy as a base of foreign investment and the competitiveness of its manufactured products on the world market. Furthermore, in a country such as Brazil where per capita GNP was too low ($340 in 1966) to generate effective demand for automobiles on the domestic market, a policy of redistributing income and wealth from the working class to the middle and upper classes became necessary in order to foster the automobile industry and other luxury goods industries as the most dynamic part of the economy (Evans, 1979:48; Kurth, 1979:360). In this case, political degeneration is not explained in terms of contradictions stemming from inter-systemic and intra-systemic conflicts and alliances of sociopolitical forces, but in terms of contradictions at the economic base, which emerge during the transition of economic development from the phase of non-durable consumer goods production to the phase of capital goods and/or consumer durables production. In any event, the basic argument holds that political degeneration in the Third World stems to a large extent from contradictions
inherent in dependent development, whether sociopolitical or economic in nature.

If the emergence of populist and authoritarian political systems does correspond to certain phases of dependent development, it would be of great interest to inquire into what future phases in the development process may militate in favor of political liberalization or democratization. Moreover, if intra-systemic conflicts over the orientation of national economic development and the terms of relationships with the Center nation caused the Philippine political system to degenerate from democratic pluralism into bureaucratic authoritarianism, we must look into the conditions under which the trend of degeneration can be reversed. Evans (1979) and O'Donnell (1973) advance the argument that in more developed peripheral countries, repression is likely to intensify because the urban working class in these countries grows in size and tends to become organized, politicized and activated. "The aim is to return the working class to the political position it held before it became urbanized and organized (albeit organized only partially and under the wing of the state). Repression is the only way to enforce such a step backward" (Evans, 1979:48). Similarly, Adelman (1980:215) argues that political developments from the 1960s on led to a dispelling of the myth of a positive association between economic development and
greater political participation. And "most of the economically successful countries in Asia became more rather than less centralized and less rather than more respecting of human rights." However, Adelman (1980:233-234) does suggest that the "positive association" between economic and political development will hold when high levels of socioeconomic development have been reached. During the long transition, non-autocratic options of political systems are few and unviable. Kurth (1979:361-362), on the other hand, makes two alternative predictions for the political future of Latin countries. One possibility is that Latin countries continue to be dependent on foreign capital and technology and also to be in debt to international banks; consequently, there will be continuing pressures for the perpetuation of labor-repressive authoritarian regimes. Another possibility is that more developed Latin countries such as Spain and Brazil will benefit from the product life cycles of automobiles and other consumer durables and thus become the most cost-effective producers in these industries. "For the United States and Western Europe in the near future, Spain and Brazil could be the best bargains in consumer durables, just as Italy and Japan were in the 1960s." Kurth suggests that the export-led growth of consumer durables in Spain and Brazil "could provide, as it did in Western Europe in the 1950s-1960s, the economic
basis for more liberal politics." By contrast, Evans and Stauffer would not pin hopes for political development on economic evolution alone. They rather perceive "confrontation" between the "triple alliance" and the alienated masses as a decisive factor in achieving "defeudalization" and "the redistribution of economic rewards and political power" (Evans, 1979:13, 329; Stauffer, 1974:174).

II. THE TAIWAN ANOMALIES

A few anomalies are observed when we attempt to explain Taiwan's political development in terms of the above theoretical framework. In the Taiwan case, the causal nexus linking political degeneration to dependent economic development is not as clear and significant as in the Philippines and Latin America. For important intra-systemic reasons, military authoritarian rule existed in Taiwan long before the establishment of the new dependency structure. Unlike the Philippines where the political system degenerated or "decayed" from a previous position of "overdevelopment," the political system in Taiwan is characterized by long-term rigidity of autocratic control. Accordingly, while political repression in the Philippines included the curtailment or elimination of the decision-making and countervailing functions of certain government institutions, in Taiwan where such functions are either highly centralized or
non-existent to begin with, political repression simply means arrests of dissidents, banning of liberal publications, crackdowns on occasional mass rallies and riots, etc. And yet, government violence is seldom directed against labor. The "no-strike" clause in the martial law, strict party control and manipulation of all formalistic "labor unions," coupled with certain sociocultural and political factors internal to Chinese society in Taiwan, ensure the "docility" and powerlessness of labor. And martial law and other anti-labor policies have been in full force since the late 1940s -- more than a decade before the arrival of transnational capital. Thus, military authoritarianism in Taiwan is clearly geared less to the needs of dependent industrialization than to the need of eliminating political opposition to a regime whose lack of legitimacy necessitates mobilization of coercive apparatuses, including martial law, secret police, a political party that controls and monitors all social institutions, invisible informant networks, and, more recently, ultrarightist terrorist actions against opposition leadership.

Because military authoritarianism is not directly tied to dependent development, we also observe a lack of responsiveness of Taiwan's political system to shifts in developmental strategies. As Kurth (1979) has perceptively demonstrated, populist politics were as well
suited to the "easy import substitution" (non-durable consumer goods production) phase of industrialization in Latin America during the 1960s as liberal politics were to a similar phase in Europe during the first half of the nineteenth century. But the authoritarian iron hand clamped down once the priority shifted to capital goods/consumer durables production, as we have seen. In the Philippines, democratic pluralism gave way to bureaucratic authoritarianism when the "triple alliance" was determined to push more capital-intensive dependent industrialization. Even in South Korea, we notice a correspondence between the intensification of political dictatorship and the reordering of development priorities under the Park regime. But in Taiwan, such a politico-economic correspondence appears lacking. During the 1950s, when "populist" land redistribution brought stability to the rural sector and when "easy import substitution" was underway, Taiwan society saw even tighter political control and repression than in the 1960s and the 1970s -- mass jailing and execution of political dissidents, minimal freedom of the press, limited electoral participation, strict control over population movement and traveling, etc. With the advent of foreign investments and export-led industrialization in the 1960s, the political system apparently made no moves to strengthen its authoritarian controls. On the contrary, in line with the American
demand to create a "Free China" image for anti-Communist propaganda, a facade of "freedom" was brought into being in non-political spheres where the "stability" demands by both the regime and foreign capital were not violated. Even electoral politics have been significantly expanded. Minor channels of political participation are opened up to oppositional politicians and intellectuals, though counter-balanced with intermittent crackdowns to prevent the opposition movement from becoming well organized and from establishing a firm power base. In short, dependent industrialization in Taiwan is not a primary factor making for military-authoritarian controls. Rather, it tends to create a socioeconomic basis for the relaxation of certain aspects of the Kuomintang-typed military authoritarianism.

A number of factors account for Taiwan's anomalies in the causal nexus between dependent industrialization and political degeneration found in the Philippines, Latin America and other Third World countries. The pre-existence of the Nationalist authoritarian rule along with its anti-labor policies certainly obviated the need to prepare repressive apparatuses once dependent industrialization got underway. But this fact does not explain why there have been no noticeable labor unrest and intra-elite conflicts over dependent industrialization and the resultant suppression-resistance cycles as have occurred
in other peripheral societies. Reasons underlying the said anomalies have to be found in the contradictions at the economic base and among socio-political forces, and also in the sociocultural features particular to Taiwan society.

In the Philippines, the continuation of colonial vested interests after decolonization provided ammunition for anti-TNC, anti-American fervor among the nationalist counter-elite and masses alike. In Taiwan, however, colonial interests were entirely taken over by the Kuomintang following Japan's military defeat in 1945. With decolonization, remnant proponents of the Taiwanese nationalist movement lost their anti-colonial cause. In fact, some of them eventually developed close economic and personal ties with the Japanese -- a phenomenon that can be explained by the Taiwanese disenchantment with the Kuomintang, by the sociocultural relationships established under colonialism and by the ambivalent position of Taiwanese landlords discussed in Chapter III. Between 1945 and 1960, American and Japanese investors, who might be accused of "neo-colonial" exploitation, had not set foot on Taiwan's economic scene. As we have mentioned in Chapter IV, the predominant state-owned enterprise system during that period was unpopular particularly among intellectuals and private enterprisers. Consequently, the sentiments in society were not against
foreign economic ties, but rather against the inefficient "nationalist" control over the economy. Moreover, widespread discontent with the Kuomintang rule fostered a good-old-days type of feelings towards Japan among many indigenous Taiwanese. And pro-American feelings generated by U.S. aid and official propaganda were already high in society except a relatively small number of hard-core nationalists. Under these socioeconomic circumstances, the opening up of Taiwan's economy to American and Japanese transnational capital was generally received as a better alternative to the inefficient bureaucratic etatisme. The notion of national economic control, which has been so important to the Philippine nationalists since the 1950s, had no appeal in Taiwan society. Not only was the "national bourgeoisie" too small and too weak to assert themselves against possible foreign impingement, but they simply profited from joint ventures and a new economic policy aimed at promoting private enterprise. This particular socioeconomic background gave rise to a predominant re-alignment of socio-political forces in favor of dependent industrialization. Consequently, the military-authoritarian apparatus need not concern itself with intra-systemic conflicts over this issue, except perhaps to announce the banning of a small but intellectually forceful current of anti-TNC nationalism during the late 1970s.
Labor has posed virtually no challenge to the technocratic elite either, not only because martial law forbids labor "disturbances," but also because a set of sociocultural and political factors make for labor "docility." At the sociocultural level, we note that Taiwan's manufacturing industries rely mostly on young workers. Official statistics show that more than half of manufacturing workers fall within the age bracket of 15 to 24. Field researchers visiting factories report the overwhelming impression that "industry [in Taiwan] depends solely on adolescents" (Gates, 1979:395, c.f. Kung, 1981:footnote 1). From the viewpoint of employers, the most important reason for using young workers is that they are more willing to accept low wages than older workers with a family to support. In a sense, the costs of reproducing an "industrial reserve army" are passed on to other social classes, especially the peasantry, thus keeping industry "flourishing in Taiwan at minimal expense to the capitalist" (Gates, 1979:397). A further inquiry reveals that more than 40 percent of manufacturing workers are females, mostly from rural areas.

The sociocultural and political implications of this industrial labor force composition are significant. First, norms of mutual financial support and other reciprocal obligations between young workers and their families prevail in a sociocultural context in which familial
ties remain strong, particularly in rural areas. Young workers are obligated to make remittances home while the family performs the role of "social welfare" in times of unemployment and other contingencies. One well known example is the 1974 recession when tens of thousands of laid-off young workers returned to the countryside to seek family "protection" from unemployment. The incompleteness of the destruction of traditional social norms by the capitalist system is thus instrumental to dependent development, not only in helping the political system to resolve the problems of labor "disturbances," but also in providing moral stimuli for rechanneling urban incomes into the rural sector so as to prevent agricultural production from breaking down entirely.

Second, the role of adolescents in Taiwan as industrial workers takes on a strong transitional character. The "cheap labor" policy, along with the concomitant lack of workers' power and labor protection measures, deprives the working class of a sense of devotion to work and a sense of self-esteem as workers. Having acquired more individualist-oriented values and higher expectations than the older generation, young workers in Taiwan are in constant need of seeking alternative opportunities -- better paid jobs, attending colleges, going abroad, and even aimless transfer to other workplaces just "for a change." When aided by the increasingly high social
mobility which economic boom has made possible, this mental outlook has been translated into notoriety for extraordinarily high turnover rates of adolescent labor. In a sense, the high turnover rates suggest a sort of "flexibility" in labor-management relations that obviates the need of the political system to mobilize repressive apparatuses against industrial workers. The transitional character of adolescent labor is particularly striking among female workers, who look to marriage as a turning point for a brighter future. Because young workers do not perceive factory jobs as a life-time career and do not identify themselves with the working class, they have no class consciousness or moral incentives to fight for class interests. Instead, "the experience of working in a factory is, for most, an intense socialization toward middle-class values and bourgeois dreams" (Diamond, 1979: 321). This false consciousness of "cross-class identity" is a cultural product of dependent capitalist development, a product that, like the middle classes and the bourgeoisie themselves, constitutes a stabilizing element in the political system.

Third, the need to strengthen military-authoritarian controls over industrial workers is partly offset by traditional norms of authoritarianism at work in the socialization processes of schools, families and the larger society. Young workers are socialized into
authority-directed roles by parents, teachers, and communities before taking up industrial jobs. Such a sociocultural background facilitates industry's personnel management in imposing bureaucratic-authoritarian discipline, which can be conceptualized as a functional substitute for the labor-repressive authoritarian role of the political system. Kung's (1981) field study of female workers in Taiwan provides some fresh insights into workers' mental attitudes and what she calls a "vertical relationship between worker and foreman." Unlike the factory system in Japan where a foreman maintains a "horizontal relationship" with his workers by forming a team with them, the Taiwanese foreman is seen by workers as "a representative of management," whose job is to enforce discipline and work requirements. The interpersonal alienation that results from the bureaucratic-authoritarian attitudes of personnel management is one of the causes of high labor turnover rates. As Kung (1981: 194) observes, "Though many women say they would like their foremen to show more concern and feeling, they also do not want to be 'bothered' by someone who is seen to be a representative of management." The managerial authoritarianism is closely related to the traditional authoritarian norms mentioned above, and its viability depends to a large extent on workers' conformity to
these norms. The "docility" of female workers is typified by the following observation:

The unwillingness of many workers to ask for information only exacerbates their difficulties. A group leader cited the following case as an example: "A girl on my line burned her hand with her soldering iron but didn't tell any one. She was afraid she would get into trouble and would be scolded. It wasn't until the next day when I noticed the swelling that I sent her to the nurse. That's how it is with many of them who come to work for the first time; they are young, they don't have their parents here, and they don't have the nerve to say anything." (Kung, 1981:191-92).

Not all workers are so "docile." Older workers with a family to support tend to be more daring to stand up for their own rights and interests, albeit rarely on a collective basis. Particularly since the mid-1970s, many labor incidents have occurred. In December 1980, for example, intense labor-management conflicts arose in several northern factories as a number of "rebellious" workers were fired in their attempts to organize unions (Independence Evening Post, 12/29/80). On the whole, however, traditional social norms still seem to influence the perceptions of both labor and management with regard to workers' power. Employers tend to see workers' attempts to organize themselves as acts of "rebellion" rather than as legitimate actions within the context of participatory pluralist politics. On the other hand, the Taiwanese working class cannot be expected to develop their countervailing power before they learn to consider
labor problems from a collective class perspective rather than in terms of narrow individualist interests. Despite the relatively high degree of capitalist development in Taiwan, the Taiwanese working class is far less organized and politicized than its counterparts in the Philippines and many other Third World countries. In addition to the sociocultural factors making for the underdevelopment of Taiwan's organized labor, there are political factors that are perhaps more important in impeding the growth of workers' power. We shall discuss this political dimension in Part IV.

III. TRANSNATIONAL CONNECTION IN POLITICAL DEGENERATION

I have demonstrated that political degeneration in Taiwan follows a pattern distinct from the cases of the Philippines and Latin America, i.e., (1) military-authoritarian controls preceded dependent industrialization; (2) there is little need for political system response to shifts in developmental strategies because a set of sociocultural factors impede the development of workers' countervailing power and because the intra-systemic alignment of sociopolitical forces was predominantly in favor of dependent industrialization. I have not argued, however, that dependent industrialization has produced no consequences for the political system and the
working class. In fact, as I shall demonstrate in the following paragraphs, dependent development in Taiwan has contributed to the long-term rigidity of the military-authoritarian rule and to the suppression — albeit in subtle forms — of workers' democratic rights and powers while simultaneously making for some development of participatory politics under the KMT's party control.

There are allegations in the development literature that anti-labor policies in many less developed countries (LDCs) are causally related to the presence of TNCs (Kumar, 1978:69-72). Kumar suggests a dichotomous distinction between those LDCs which adopt anti-labor policies because of their needs for foreign investment and those countries which repress the rights and powers of labor for political and ideological reasons irrelevant to transnational interests (Kumar, 1978:71). By implication, TNCs in the latter category are cleared of the responsibility for labor repression and, for that matter, other aspects of anti-democratic controls. The Taiwan case, however, reveals a more complicated pattern of inter-systemic interactions with regard to transnational impact on political development in the periphery.

We have seen in Chapter IV how the U.S. Government exerted strong influence over the course of Taiwan's economic development. Paradoxically, while the U.S. directed Taiwan's economy along a line parallel to the
American private-enterprise system, it has consistently advocated a policy of not pushing Taiwan's political reforms in the direction of democratization. In the words of Jacoby (1966:148-149),

... the U.S. did not use economic assistance as a lever to bring about political reforms. The lever was used only to induce economic reforms. Efforts to force the pace of political and social change would have created unrest and uncertainty within the Chinese (Nationalist) government, and between it and the people of Taiwan ... Meanwhile, the unquestioned political stability of the Chinese government provided a framework within which rapid economic development could occur. A choice must sometimes be made between rapid development and full democracy in developing countries. The case of Taiwan suggests the wisdom of concentrating upon development.

The U.S. objection to democratization in Taiwan was made clearer by a policy recommendation by Karl Rankin, American Ambassador to Taipei during the 1950s, who contended that "in view of important U.S. national security considerations, it [U.S. aid] should not be used in an attempt to 'reform' the Chinese government along democratic lines." The underlying assumption of this foreign policy guideline was -- and still is -- that democratization would undermine "stability" which is vital to U.S. interests in Taiwan. An earlier example of the unwillingness of the U.S. to support democratization in Taiwan was provided by the case of Lei Ch'en, a member of the KMT political elite who split with the party to spearhead a democratization campaign during the 1950s.
Initially, the U.S. Information Service (USIS) and Asia Foundation gave financial support to Lei's vanguard journal, Free China Semimonthly, because of its dedication to American democratic ideals. But when the journal gained in popular support and became threatening to the government as an opposition force, the two American institutions withdrew their support, allegedly because the U.S. did not want to "impose American political ideals on the KMT." And when the journal was banned and Lei and his associates were arrested and jailed in 1960, the U.S. Government kept silent (Israel, 1964:64). Three decades (1947-1976) of secret arrests, jailings and executions of political dissidents had passed before a U.S. Congressional mission headed by House Foreign Affairs Committee chairman Thomas Morgan arrived in Taipei in November 1976 to inquire for the first time about the "condition of Taiwan's political prisoners" (Asian Wall Street Journal, 12/27/1976). In 1977, American Embassy in Taipei reportedly urged the Kuomintang government for "clean and fair elections," apparently convinced that well-conducted electoral politics would make for political "stability." It turned out that local elections in that year were preceded by the arrests of several leftist-oriented young intellectuals who called themselves "Taiwan People's Liberation Front" for sending threatening letters to transnational corporations operating in Taiwan,
and were immediately followed by a mass riot in protest of election rigging by the Kuomintang cadres. Thus the American Embassy reportedly had to "seriously reassess the consequences." Possibly due to the Embassy's reversed perception that elections in which opposition candidates actively participated could lead to "instability" rather than "stability," the Carter Administration urged the Peking government to agree to a U.S. plan to prematurely announce the forthcoming establishment of U.S.-China diplomatic relations on December 15, 1978, only a few days before a major "parliamentary by-election" was scheduled to take place in Taiwan. The Kuomintang government reacted by canceling the election, in which opposition candidates promised to win an "overwhelming victory." This incident has led members of the opposition movement to accuse Washington and Peking of "conspiring" to thwart the growing oppositional force so as to preserve the status quo of the island. While no hard evidence is available for assessing the actual motives behind the pre-mature announcement of U.S.-China relations, the indifferent attitudes which Washington has taken toward Taiwan's political repression since the U.S.-China normalization are interpreted by many as an accentuated continuity of the U.S. policy against democratization in Taiwan.
The U.S. disapproval of political democratization, coupled with its continuing military and economic supports for the Taipei government, has gone a long way toward perpetuating the military-authoritarian rule and the rigidity of political development in Taiwan. Above all, the viability of the autocratic regime has been enhanced by the supply of means of violence to Taiwan's security apparatus from the United States. James D. Seymour of Amnesty International in the U.S.A., testified to this issue in the U.S. Congress in 1977:

Aid to Taiwan has been a prime example of anti-majoritarian interference in the internal affairs of another country. The United States has interfered in the internal affairs of Taiwan and helped perpetuate minority (Kuomintang) rule in many ways. Most flagrant was the training and financial support given to the security apparatus. Unfortunately, the details of this activity have been kept largely secret. But during the 1950s and at least well into the 1960s this was one of the U.S. Central Intelligence Agency's main functions there. Local CIA station men were on intimate terms with the leaders of the ROC secret police, and contributed considerably to that institution's effectiveness.8

To shed light on how the U.S. "training and financial support given to the security apparatus" of the Kuomintang government were related to Taiwan's dependent economic development, it is important to note the activities of Ray Cline, former head of CIA station in Taipei, and the Georgetown University Center for Strategic and International Studies (CSIS) which he heads.9 As a staunch KMT
supporter and executive director of CSIS, Cline directs this ostensibly "academic" institution to engage in study projects on Taiwan and lobbying for the KMT government, which includes organizing free trips to Taiwan for Congressional aides and other pro-KMT individuals such as Roger Fontaine, who is Cline's son-in-law and a Reagan policy advisor, and Robert Downen, a CSIS fellow on Cline's staff. Funding of CSIS partly comes from a group of prominent Taiwan businessmen headed by Ch'en-fu Koo (Ku Ch'en-fu), an industrial magnate and a member of KMT's collaborative ruling elite, and partly comes from big foundations and business corporations in the U.S., presumably with business interests in Taiwan. By the middle of 1980, Koo and the association of businessmen (i.e., Taiwan's Chamber of Commerce) he chairs have contributed US$50,000 and have promised a second installment of US$47,000 (The Washington Post, 6/29/1980).

Two organizations are functionally and financially related to CSIS. One is the "Coalition for Asian Peace and Security" (CAPS) -- a new pressure group for "Taiwan interests," of which Cline himself is president and Downen is director. Downen's functions within CAPS include attacking the State Department officials for "their efforts to curry favor with the Chinese Communist regime" and calling for the sales of advanced jet fighters and sophisticated Harpoon missiles to Taiwan.
The other organization is the "Free China Committee," which is part of the old "China Lobby," and of which Cline is a vice president. In addition to sponsoring free Taiwan trips, functions of these KMT supporters also include lobbying for weapon sales to Taiwan and for better access to U.S. officials by the Taipei government.

Particularly noteworthy for our discussion on political degeneration is the fact that these people also lobby "against dissidents within Taiwan" (The Washington Post, 6/29/1980). At a Congressional hearing on Professor Chen Wen-cheng's murder case held on July 31, 1981, it was disclosed for the first time that the U.S. Government sold riot control equipment to Taiwan. Rep. Stephen Solarz, chairman of the Asian and Pacific Affairs Subcommittee, declared at the hearing that as a result of Chen's death, "the State Department already has delayed export of $300,000 worth of riot control equipment" to Taiwan (UPI, 7/31/81).

Those who are familiar with Cline's past activity and association in Taiwan will not be surprised by these roles which he is currently playing. A couple of days after The Washington Post published David Leight's article on Cline, Chairperson Tina Chang of Formosan Association for Human Rights sent a letter to that newspaper to remind the editor of "an important omission"
about Cline's past role as the head of CIA in Taiwan. Among other things, Chang wrote,¹⁰

Cline was for many years head of the vast CIA establishment on Taiwan. During these years, when the Chinese Nationalists were brutalizing the Taiwanese, the CIA gave the internal security apparatus much help. The dreaded secret police were then headed by now-President Chiang Ching-kuo, a close friend of Cline.

Some of the democratic activists who were arrested during that period (1950s and 1960s) remain in prison. There they have been joined by numerous other political detainees, particularly during the past eight months. Many of these prisoners of conscience have been tortured and some have been murdered, by CIA-trained functionaries.

IV. CONSEQUENCES FOR LABOR

It is thus clear that the "security apparatus" in Taiwan received aid and training from "powerful transnational economic and political actors" to entrench an originally autocratic political system in accord with the "stability" demands of these "actors" (c.f. Stauffer, 1974). Initially, in the 1947-1960 period, the repressive apparatuses were aimed at civilian disturbances (including "labor disturbances") that might threaten the "stability" of the Nationalist regime as well as the "strong common interests" between the regime and the United States (Jacoby, 1966:62). With the inception of dependent industrialization these apparatuses have taken on an additional function of protecting transnational
economic interests operating in Taiwan. Even if these interests have never pressured the Kuomintang government into enforcing additional labor-repressive measures (preliminary evidence suggests that they have), their presence in Taiwan has added to the difficulty in phasing out the military-authoritarian controls and to the rigidity and inflexibility of the political system in accommodating oppositional demands for changes. As suggested by our thesis of "interactive dynamics of dependency" presented in Chapter I, political underdevelopment in peripheral societies makes both the economy and the political system vulnerable to external power impingement. In those countries where the law-making and countervailing capabilities of legislative institutions are strong, transnational corporations have more difficulty in pushing their own interests at the expense of indigenous nationalist or labor interests unless system-altering violence is applied to retrench or eliminate the legislative functions, as has happened in the Philippines. In a polity like Taiwan where the legislative branch is underdeveloped, performing little more than the formalistic function of "rubber-stamps" for the executive branch, labor cannot hope to establish its countervailing power through the countervailing capabilities of the legislative body, which are lacking. In traditional Chinese society, labor and, to a lesser
extent, the national bourgeoisie were oppressed by a comprador/state alliance without legislative protection. Today, the "national bourgeoisie" has joined as a junior partner in a stronger "triple alliance" which includes transnational interests and which, like the old compradore/state alliance, bypasses the legislative branch of the government. A "triple alliance" without legislative interference implies that the "lobbying" capabilities of local private capital and transnational capital can be enormous. Curiously, a great number of Legislators and National Assemblymen have built their personal wealth and power by serving as "lobbyists" for private enterprises, such as in securing privileged loans from the state-controlled banking system.

The lack of workers' power makes them vulnerable to impingement by the "triple alliance." To accommodate foreign investors, the government promulgated a "provisionary" base wage law in 1968, a law that set the monthly base wage for all industries at NT$600 (US$15). Though actual wages were much higher, the base wage law was intended as a legal basis for legitimizing the low-wage practices by industries. A journalist commented on this anti-labor law in 1974:

... As we have learned, the reason behind so low a base wage is that government authorities in charge of financial and economic affairs want to attract foreign investments with cheap labor so as to accelerate the domestic economic
development. Consequently, there is no way of changing the law even though the problem of low base wage has been known for so many years.

The overly low base wage has produced effects on actual market wages. Look at classified ads for worker recruitment in the newspapers. All electronics companies offer somewhere around NT$1,500 (US$37.5) for women workers. Really, a monthly wage of NT$1,500 for 8-hour working days is too much on the low side.

Labor shortage eventually forced the government to adjust the legal base wage upward, and industrial wages have risen rapidly during the past few years. But the powerlessness of labor vis-à-vis the "triple alliance" continues. Labor researcher and journalist Wang Hsing-ching (1976:40) observes that the only occasion for urban workers in Taiwan to exercise "political power" is when they vote for candidates sympathizing with labor during elections. Elsewhere he contends that "the maximum power which Taiwan's workers can wield is to withdraw themselves from the labor market." By contrast, the powers of local and foreign capital are enormous:

Trade associations and chambers of commerce in Taiwan have unified purposes and centralized powers, exerting powerful influence over public opinion and government decision-making. Above all, their "lobbying" function should not be overlooked . . . For example, the American Chamber of Commerce brought into play its "lobbying" function early this year and made the government's executive departments take necessary steps to actively bring about the full supply of work force . . .
Just how the government was amenable to the demands of
the Taipei-based American Chamber of Commerce is documented
in an investigation report released by Asian Center
(1978:14). The report quotes James Smith, president of
the Chamber:

In 1976, we had an acute labor shortage. The local electronic and textile industries
were recovering strongly from a recession and employees that had been laid off were not
anxious to return from the farms. The government was petitioned and responded with timely,
concrete help. A media campaign was initiated to urge the workers back. Selected schools
cooperated with early graduations to increase the work force. Unnecessary and unwarranted
wage escalations that could have led to long-range uncompetitiveness were restrained.
I could cite numerous similar instances where our Chamber has brought critical issues to the
attention of the Republic of China Ministries and got action.

A less than benign aspect of TNCs' "lobbying"
function is to pressure the government into killing
proposals for the improvement of working conditions and
of workers' benefits. Among such proposals killed under
TNC pressure was one that purported to provide women
workers with breast-feeding time during the 8-hour work
day.\textsuperscript{13} It is not a matter of whether the government
has the interests of workers at heart. It is a matter of
asymmetric power relationships, and a matter of strategic
considerations motivated by the need to accommodate
transnational interests in order to "accelerate the
domestic economic development." But the "triple alliance"
does share a common aversion to the demand by segments of Taiwan's working class for independent unionization. According to official statistics, Taiwan had 1,227 labor "unions" in 1978, with a total membership of 596,937, which was less than one third of the industrial labor force in that year. But as the Asian Center report (1978:15) and other sources make clear, all unions are government-controlled. The Interior Ministry often appoints union presidents and plant managers are typically union representatives and directors (c.f. Kung, 1981: footnote 19). The main function of unions is to enforce discipline and political mobilization, such as distributing propaganda and donating money for the government's infrastructural projects. This function is necessitated by the regime's determination to eliminate workplaces as rallying points for possible revolutionary mobilization, as occurred during the mainland era. Equally important is the necessity of reassuring foreign investors of a "docile and disciplined" labor force that will never compromise their "stability" demands. It is small wonder that when labor-management disputes arise, "the union not only refuses to speak for workers, but on the contrary, it takes side with the capitalists to intimidate us workers and kick us around." In cases of more serious conflicts, the government sometimes tries to reach a compromise by persuading management to meet workers
half-way while securing a promise from workers that similar incidents would never be repeated. A rare case of "walk-out" against General Instruments in 1975 provided an instructive glimpse into the inner workings of the union system. In September 1975, the American company announced that due to recession the company would not distribute the Autumn (Moon) Festival bonus, which was equivalent to one-half month's wages. Workers' representatives in the union reacted by calling on workers to stop work and go outside. Some 5,000 workers reportedly cooperated in staging a "walkout." The Asian Center report (1978:15; c.f. Zenger, 1977:88) describes the negotiation process as follows:

Management apparently refused to negotiate with the union and would only talk to the government officials who quickly descended on the plant. Both management and KMT officials realized that news about the incident would be very bad for the stable foreign investment reputation and they reached an agreement whereby half the bonus would be reinstated if the government would make a complete investigation of the incident, prosecute those responsible and make sure it didn't happen again.

It is thus clear that not only the government, but also private enterprises are against independent union power. Transnational capitalists oppose organized labor out of profit motives. Local capitalists' anti-labor attitudes are rooted both in profit motives and in sociocultural authoritarianism. As we have noted, they tend to see independent unionization as an illegitimate act of
"rebellion" that violates traditional authoritarian norms within a political culture that is alien to the concepts of opposition and countervailing power. As for the government, KMT party officials have gained much notoriety for siding with management during labor disputes. But we have also heard that a few officials in the government's labor departments take pro-labor attitudes, convinced that opening up legitimate access to workers' rights and powers will reinforce the system rather than undermine it. An example can be drawn from the labor-management conflicts in northern factories which we have mentioned. After the conflicts ended with the firing of those who attempted to organize unions, a County official in charge of labor affairs made the following statement:

As workers' knowledge has gradually improved in recent years, they have also become increasingly conscious of their legitimate interests. To safeguard their rights, an inevitable trend is unfolding that workers one after another are initiating the organization of labor unions. If, instead of finding ways to resolve the problems of workers' welfare, firms and companies only needlessly attempt to break up union organization, conflicts will certainly develop between both parties. Predictably, if management does not make efforts to improve relations, similar incidents will continue to come on the stage.  

But without support from higher authorities, there is little these officials can do to help labor. In the final analysis, defending workers' rights and interests
is unlikely to come as an act of grace from labor officials or higher authorities. Rather, it has to depend on workers' own struggle to establish their countervailing powers both in society and in government. With this understanding in view, a number of intellectuals and workers concerned with labor problems have joined the democratic opposition movement in recent years, adding something of a "class" dimension to a movement that was originally aimed at political power redistribution for a new generation of Taiwanese intellectual elite.

V. POLITICAL PARTICIPATION

In many Third World countries, dependent development minimizes mass political participation because lower strata of the populace are excluded economically. As Evans (1979:29) observes, "Because they [the masses] are effectively barred from economic participation, to allow them political participation would be disruptive. Social and cultural exclusion follows from political and economic exclusion." In Taiwan, where a number of factors have contributed to a more equitable pattern of income distribution, constraints on political participation stem less from economic exclusion than from other aspects of the dependency structure and from factors internal to Taiwan's political system.
The intra-systemic constraints center around the Kuomintang's paranoia toward the potentials of both class and ethnic mobilizations on the part of the Taiwanese masses and elites. The aversion to class mobilization is a hangover from the mainland era when the regime was overthrown by a Communist-led class movement; and the aversion to ethnic mobilization has arisen from the ethnic tensions and conflicts (between mainlanders and native Taiwanese) which culminated in a mass massacre in March 1947, but have tapered off particularly during the past decade or so. From a political perspective, the 1949-53 land reforms represented an earlier attempt to ward off revolutionary mobilization along both class and ethnic lines. By expropriating the landholdings of landlords and diverting them into commercial and industrial ventures, the government eliminated a dominant and formerly collaborative class under colonialism, who was involved in the anti-KMT uprisings in February 1947 and whose loyalty the KMT could not command. By distributing land to peasants, the regime hoped to improve its legitimacy in rural society and to mobilize the peasants for political support, particularly during local elections. But unlike populist regimes in some Third World countries, the KMT consciously avoids horizontal class appeals. Rather than foster political consciousness and a mass power base among the peasantry, the regime cashes in
on inter-regional and intra-regional conflicts in rural society to create vertical factional alignments, thereby fragmenting the peasant class while coopting the collaborative rural elite in elections along factional lines. In urban centers where factionalism is relatively weak, the strategy is two-fold: first, to coopt pro-KMT elites by mobilizing segments of the urban populace who either owe allegiance to the regime (such as dependents of the military and civil servants) or are under the KMT's party control (such as school bodies); secondly, to use coercive measures and divisive techniques to minimize and atomize the oppositional candidacy. In addition, election-rigging techniques are widely used in both rural and urban areas. Thus, until recent years, elections were largely a controlled game for endorsing the legitimacy of the regime while effectively excluding the oppositional elite from political participation. The frustrations which broad segments of the indigenous middle classes experienced in being politically excluded found an outlet in economic mobility channels which have increasingly opened up to them as a result of dependent industrialization. Unlike some Latin American countries where economic exclusion leads to political exclusion, in Taiwan economic participation can be conceptualized as a compensation for political exclusion.
In the long run, dependent industrialization in Taiwan has contributed to political changes in two conflicting directions. On the one hand, it creates pressures and demands for democratization and power redistribution. On the other, the strong community of interests among the regime, the dependent bourgeoisie and transnational economic and political actors necessitates measures to counteract these pressures and demands to ensure "stability" and preservation of the status quo. The oppositional demands for changes do not come from the industrial bourgeoisie. Unlike the "conquering bourgeoisie" in the nineteenth-century Europe who served as a motor force for political liberalization, the Taiwanese industrial bourgeoisie is a dependent class whose prosperity depends on its symbiotic relationships with both the Nationalist Chinese state and transnational interests. And in contrast to the Brazilian bourgeoisie who possesses cultural power to operate its independent mass media, the Taiwanese bourgeoisie is denied such a power base from which to preempt some of the socialization processes. Its dependency prevents it from translating the means of production at its disposal into means of political socialization; and it has no need to do so insofar as its "lobbying" function is sufficient to meet its demands for profits and capital accumulation. However, by creating socioeconomic mobility channels, the bourgeoisie has
indirectly contributed to the growth of a middle-class intelligentsia with increasing cultural and political sophistication. From the early 1970s onward, the politically oriented segments of the intelligentsia managed to operate a number of journals, notably The Intellectuals, Taiwan Political Review, China Tide and Formosa. Until the middle of the 1970s, the intellectual interest was primarily in demanding an opening up of the closed political system to elitist participation in the name of "majority rule." After the banning of Taiwan Political Review in 1975, a populist trend centering around China Tide began to unfold. Between 1976 and early 1979, China Tide addressed a series of socioeconomic issues, including the plight of the peasantry, labor problems and foreign economic control. This populist trend broadened the intellectual perception that politics must not be confined to power redistribution for a new generation of intellectual elite, but should be directed to the grass roots as well. Thus the democratization movement since 1977 has taken on a populist orientation, with the opposition leadership advocating not only changes in the political structure, but also socioeconomic reforms.

The flowering of the democratization movement coincided with a period when increasing diplomatic isolation of the regime forced Chiang Ching-kuo to attempt
"Taiwanization" as a way out of the political impasse. Channels of cooptation, mainly elections, were expanded to recruit Taiwanese "talented youths" into the party and government hierarchies. The name of the game was to forge a mainlander-Taiwanese alliance to promote Taiwan as a new "political entity" whose legitimacy could hopefully be salvaged by the inclusion of a large segment of the native elite in the political processes. A crucial test of the feasibility of this accommodative strategy came in 1977. Local elections in that year were marred by tensions and conflicts between the KMT and the oppositional candidacy. Even some "talented youths" already recruited into the KMT hierarchy seceded from the party in order to run for public offices by appealing to anti-KMT sentiments in society. A mass riot broke out in Chungli where thousands of angry citizens set fire to a police station in protest of ballot-tampering by the KMT. Armoured troops were called out, but presumably in keeping with Chiang's accommodative policy, the troops took no repressive action. The incident signified a humiliating defeat for the KMT while considerably boosting the morale of the opposition. The re-alignment of sociopolitical forces following the Chungli Incident had significant implications for Taiwan's political development. On the one hand, encouraged by their victory, intellectuals and politicians in the opposition began working on a coalition
strategy for the first time in three decades. On the other, an intra-party struggle was underway within the KMT to reassess the accommodative policy. Li Huan, one of Chiang's right-hand men who was in favor of accommodation and liberalization, fell into disgrace while the conservative faction headed by Wang Sheng who advocates tightened military authoritarianism has grown increasingly powerful and influential. Rather than opt for reconciliation, both the KMT and the opposition were heading for a major confrontation.

During the "parliamentary by-election" campaigns in the following year, the well-coordinated oppositional coalition proved to be overwhelmingly popular, promising to win a landslide victory. In response, an ultra-rightist group, allegedly organized by the conservative faction of the KMT, began its provocative action. Contradictions between both sides were sharpened by the abrupt announcement of U.S.-China normalization and the consequent canceling of the approaching election. From the standpoint of the opposition, derecognition of the Nationalist regime by the United States signified an almost complete loss of its legitimacy and a crucial historical juncture that would determine Taiwan's future course. Not surprisingly, the alignment of the oppositional forces was stepped up in the direction of forming an "opposition party." The regime responded by arresting
Yu Teng-fa, a senior opposition leader and chief coordinator of the oppositional coalition, in January 1979.

More than 30 opposition leaders defied the martial law to organize a demonstration protesting "political persecution" -- the first of its kind in three decades. Centering around the new journal Formosa, the democratic movement rapidly gained in popular support. The journal reflected an integration of the aforesaid elitist and populist political ideals and enjoyed an unprecedentedly large circulation. It sponsored forums on peasant and worker problems. And it set up offices in various cities, offices that also served as local bases for potential grass-roots mobilization. Because of the growing support for the democratic opposition movement, the regime was once again faced with an "authoritarian dilemma": If the regime opted for repression, it risked further loss of its own legitimacy; but if it chose to tolerate, it risked the loss of "stability" and even of political power to a counter-elite whose outlook on oppositional politics was shaped partly by Western democratic values and partly by a mixture of ethnic antagonism and traditional "revolutionary" expectations.20 One way to resolve this dilemma was by combining the dual tactics of repression and accommodation. Simultaneously as the ultra-rightist group was stepping up its terrorist actions against opposition leaders and Formosa offices,
the KMT offered to set up mechanisms for friendly "political communications" with the opposition leadership. But when the opposition decided to appeal to the masses by holding a Human Rights Day rally in Kaohsiung City on December 10, 1979, the regime also decided that it was time for a major crackdown. With the arrests of practically all opposition leaders associated with Formosa following the rally, the democratic movement quickly receded into a low ebb.

VI. CONCLUDING REMARKS

Modernization theorists have predicted that economic development in the periphery will lead to democratic pluralism just as it has in the West. We have drawn on Taiwan's experience to show why this cannot be the case even with a more developed peripheral economy such as Taiwan. Rather than bring about democratic pluralism, dependent development in Taiwan has led the political system into a new phase of politico-military authoritarianism when the regime must learn to cope with an increasingly legitimized opposition, which dependent development has helped create. Yet, unlike the Latin American cases where a higher stage of dependent industrialization entails heightened autocracy, the Taiwan model is characterized by what may be termed "authoritarian dualism" whereby the dual tactics of repression and accommodation
are used to ensure the viability of the regime under changed socioeconomic and political circumstances. On the one hand, we observe in Taiwan a "phase-oriented" pattern of repression parallel to what Evans (1979:48) and O'Donnell (1973:53) have argued: As dependent industrialization progresses, the coercive apparatuses need to be "geared to exclude the already activated urban popular sector."

The difference is that in the Latin American cases, the "phase-oriented" repression stems from economic exclusion of the masses while in Taiwan it stems primarily from political exclusion of the indigenous oppositional elite. Moreover, in Latin America, the aim of repression is to return the activated urban proletarians to the position they held before they became activated and organized (Evans, 1979:48) whereas in Taiwan the aim is to prevent the oppositional forces from becoming organized and establishing a mass power base. On the other hand, however, the cost of denying the opposition access to political participation increases as the middle-class-based oppositional forces become more economically powerful and politically legitimized. Especially after the Chungli Incident, it has become increasingly clear that continued alienation of the counter-elite can be a destabilizing factor. Consequently, accommodation on a selective basis is as important as repression. Only from this perspective of "authoritarian dualism" can we
explain why the regime has to continue opening up electoral politics to the moderate segments of the opposition after the Kaohsiung Incident simultaneously as it steps up discipline on campaign activity. The name of the game is system-maintenance, not democratization.
1. For fuller discussions and critiques of the "modernization" perspective on the relationships between economic development and political development, see Bodenheimer (1971) and Adelman (1980).


3. Official statistics put the percentage of women workers in manufacturing at 33% during the early 1970s. The percentage has increased over the years. Female factory workers were estimated at half a million in 1972 (Kung, 1981:184). Given the fact that the manufacturing work force in 1972 was 1.19-million (see statistics in Industry of Free China, January, 1979), female workers accounted for more than 40% of the manufacturing work force in that year. Furthermore, Huang Fu-san (1977a:21) cites other sources to show that female workers constituted 42.46% of the manufacturing work force (86% in the garment industry, 79% in textiles and 60% in electronics).

4. The high turnover rates of labor are often cited by foreign investors in Taiwan as a reason (or excuse) for their reluctance to finance workers' training programs (see Simon, 1981). Even skilled workers change jobs frequently. The Asian Wall Street Journal Weekly (10/20/80) quoted a Taiwan business executive in the computer industry as saying, "We have found that many companies are reluctant to buy computers, not because they don't have the money, but because they are worried about the high turnover rate of programmers and systems analysts."


7. Initially, many in the opposition blamed Peking for "conspiring" with Washington in making the December 15, 1978 announcement to coincide with the scheduled election in Taiwan. Subsequently, however, a prominent opposition leader, who requested anonymity, looked into the matter and confirmed that it was the Carter Administration which took the initiative to arrange for the premature announcement.

8. Prof. James Seymour testified at the Hearings on Human Rights on Taiwan held by the Subcommittee on International Organization, Committee on International Relations, U.S. House of Representatives on June 14, 1977. This quote is from his prepared Testimony (mimeo.).


10. Tina Chang's letter to The Washington Post was dated July 1, 1980 (copy by courtesy of Prof. James Seymour).

11. Quoted from Hsieh Pei-chi, "Current Conditions of Labor and Wage Problems, Part I" (in Chinese), Independence Evening Post, 5/1/74. Note that average wages in manufacturing have increased significantly since that time. (Translation mine.)

12. Quoted from Wang Hsing-ching (1976:40). (Translation mine.)

13. Interview with labor researcher Linda Arrigo in April 1981.

14. See The Yearbook of ROC, Taipei, 1978, p. 507. Kung (1981:205) cites some other source that puts the total number of labor unions at 635 in 1974. She observes that at the electronic factory where she conducted her research, manufacturing managers are the union's standing directors while about 100 union representatives are elected by workers. The representatives meet only once a year. The practice seems to differ somewhat from one firm to another.

(Translation mine.)

17. In 1979, incomes of the topmost 20% of the Taiwan population were reportedly only 4.2 times greater than the bottom 20% (New York Times, 8/8/80). The accuracy of this figure is doubtful in view of the tendency of official income statistics to overestimate farm incomes. It is true, however, that Taiwan has a more equitable distributional pattern than many Third World countries. Several factors contribute to this, including land redistribution, a sizable number of small and medium enterprises, availability of job opportunities and the government policy of providing for the needs of some two million refugees from the mainland.

18. Chen Cheng, the Nationalist military and political leader who initiated the land reforms, suggested that the political purpose of the land reforms was to ward off "Communist agitators" who might "infiltrate into the villages" to "take advantage of the rapidly deteriorating condition to fish in troubled water." See his Land Reform in Taiwan, p. 47.


20. I borrow the concept of "authoritarian dilemma" between repression and accommodation from Edwin Winckler, "State System and Class Incorporation on Taiwan (draft)," in Winckler, ed., Authoritarianism and Dependency on Taiwan, N.Y.: Sharpe, 1981 (forthcoming).
Important research findings in this dissertation have been summarized in Chapter II and the last part of Chapters IV, V, VI and VII respectively. Rather than repeat the summary, this concluding chapter will review the Taiwan model of politico-economic development from a world-system perspective and assess the possibilities of the future trend of that model. Special emphasis is placed on an analysis of the conditions under which military-authoritarianism in Taiwan may converge toward the "phase-oriented" patterns of bureaucratic-authoritarianism found in Latin America and the Philippines.

I. TAIWAN IN THE WORLD-SYSTEM

There is a tendency in the social sciences to focus Ph.D. dissertation topics on intra-societal micro-unit studies. My dissertation deviates from that tendency, not only by studying economic development on a macro level, but also by crossing disciplinary boundaries to achieve a sort of eclectic synthesis among related disciplines. As such, I am afraid that some specificities
and particularities, such as regarding the content of capital accumulation, may have been lost in the trade-off for "operational dimensions," even though the methodological presentation in Chapter I has criticized this problem. On the other hand, by working on the interdisciplinary synthesis, we are fulfilling our basic methodological premise that the studies of dependency concern the consequences of external forces for internal socioeconomic and political structures. In a sense, we are also attempting to restore socioeconomic studies to the vantage position of classic political economy, which John Stuart Mill regarded "not as a thing by itself, but as a fragment of a greater whole; a branch of social philosophy, so interlinked with all the other branches that its conclusions, even in its own peculiar province, are only true conditionally, subject to interference and counter-action from causes not directly within its scope."¹

As socioeconomic researches broaden to cover the world-system, the economic concepts of "micro" and "macro" become a matter of relativity. Indeed, from the world-system perspective, case studies of national economies may well be regarded as a "micro" endeavor. Just as micro-societal studies in socio-anthropology ultimately must be tied in to a broader sociocultural context, case studies of "micro" national economies have to be cast into the broader framework of the
world-system, so as to enable us to understand what particular structural positions these economies occupy within that system, how their respective development statuses fit in a cross-national context, and so on. This "world outlook" legitimizes criticisms leveled against certain establishment economists who pride themselves on the "success stories" of a few peripheral economies such as Taiwan without concern for the problems faced by the LDCs in general.

The analytic tools of the world-system theory do not seem well developed enough to enable us to pinpoint the structural position of Taiwan within the world-system. But the following observations are instructive:

We have noted that the growth and expansion of TNC investment in manufacturing are central to the emergence of dependent development in some peripheral economies. Let us try to identify a subset of peripheral economies such that (1) TNC manufacturing investment is highly concentrated in this subset (designate the degree of concentration by \( \lambda \)); (2) within this subset, TNC manufacturing investment accounts for a considerably high percentage (\( \beta \)) of total TNC direct investment and (3) that percentage (\( \beta \)) is considerably larger than the percentage (\( \gamma \)) for all peripheral economies as a whole.² If such a subset of peripheral economies can be found, then we can say that these economies have become
differentiated from other peripheral economies and play a more important role in the expansion of the world-system as far as manufacturing is concerned. Rearrange the empirical data in Evans' book (1979:295-296) and we can readily see how that subset has emerged in the evolution process of the world-system in which manufacturing investment has increased in importance (see Table 8-1). In 1950, while U.S. manufacturing investment was highly concentrated in seven countries (including Brazil, Mexico, Argentina, Columbia and Venezuela), i.e., $d = 84\%$, that investment accounted for only $19\%$ of total U.S. direct investment in the seven countries ($\beta = 19\%$), a percentage which was not much different from its counterpart for the entire Third World ($\gamma = 15\%$). However, a quarter century later, U.S. manufacturing investment in the Third World more than doubled as a percentage of total U.S. foreign direct investment therein ($\gamma = 32\%$), whereas the percentage for the seven countries (also including Brazil, Mexico, Argentina, Colombia and Venezuela) which had the largest U.S. manufacturing investment sharply increased to $63\%$. According to Evans (1979:297), "as manufacturing becomes more important, but continues to be concentrated, the role of these countries becomes increasingly central to the overall growth of the imperialist system." He lists
Table 8-1: EVOLUTION OF THE WORLD-SYSTEM AS SEEN FROM CHANGES IN U.S. OVERSEAS MANUFACTURING INVESTMENTS

<table>
<thead>
<tr>
<th>Year</th>
<th>TI</th>
<th>ti</th>
<th>MI</th>
<th>mi</th>
<th>( \lambda = \frac{mi}{MI} )</th>
<th>( \beta = \frac{mi}{ti} )</th>
<th>( \gamma = \frac{MI}{TI} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>5,735</td>
<td>3,783</td>
<td>846</td>
<td>711</td>
<td>84%</td>
<td>19%</td>
<td>15%</td>
</tr>
<tr>
<td>1974</td>
<td>28,479</td>
<td>11,111</td>
<td>9,122</td>
<td>7,028</td>
<td>77%</td>
<td>63%</td>
<td>32%</td>
</tr>
<tr>
<td>India (1974)</td>
<td></td>
<td>345</td>
<td></td>
<td>234</td>
<td></td>
<td>68%</td>
<td></td>
</tr>
<tr>
<td>Taiwan (1974)</td>
<td></td>
<td>413.75</td>
<td></td>
<td>351.65</td>
<td>85%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: All figures except those of Taiwan are from Evans (1979:295, 296). For the Taiwan figures, see Footnote 2.

Notations: TI = Total U.S. foreign direct investments in the Third World.
            ti = Total U.S. foreign direct investments in the seven countries (including India for 1974) having the largest U.S. manufacturing investments.
            MI = Total U.S. manufacturing investments in the Third World.
            mi = Total U.S. manufacturing investments in seven countries (including India for 1974).
this "distinctive and critical subset of Third World countries" among the "semi-periphery."

In terms of these defining criteria, Taiwan is eligible for a structural position within the world-system comparable to that occupied by the subset. Between 1960 and 1974, U.S. direct investment in Taiwan (on an approved basis) totaled U.S.$413.75-million, of which at least 85%, or US$351.65-million was in manufacturing. These figures compare favorably with those of India, which is included in the subset (Evans, 1979:295). Moreover, $\beta = 85\%$ for Taiwan (88.7% as of 1979) is higher than that ratio for any individual economy within the subset or the subset as a whole ($\beta = 63\%$ as of 1974).

As a result of TNC manufacturing investment, the growth and expansion of Taiwan's manufactured exports have been phenomenal. From 1952-54 to 1973-75, manufactured exports as a percentage of total exports increased from 5% to 82% (Scott, 1979:352, Table 5-13). According to one source, the rates of increase in Taiwan's manufactured exports were so much faster than twelve leading exporting countries that while in 1953 her manufactured exports were a negligible 0.017% of the combined manufactured exports of the twelve countries, by 1976 her share had climbed to 1.6% (Scott, 1979:310-311). Consequently, by the middle of the 1970s, Taiwan had become one of the major Third World countries exporting
manufactured goods. According to Mahbub ul Haq (1975:159), manufactured exports of developing countries constituted (in the mid-1970s) only 7 percent of world manufactured exports. But Taiwan, South Korea, Hong Kong, Singapore, and Mexico were said to represent on their own nearly three quarters of all the exports of manufactured goods from the Third World (Amin, 1976:213). The rapid expansion and diversification of Taiwan's manufacturing sector are some of the main criteria that define its dependent development while launching it to the structural position of "semi-periphery."

But it is important at this point to keep the Third World's developmental problems in perspective. As a recent Third World Quarterly article points out, "The very success of some developing nations only serves to underline the fact that one fifth of the world's population is still living in a condition of such abysmal poverty that the operation of normal market forces has little or no meaning. The stark and awful truth is that after three decades of international aid programmes, there are more poor people in the world than ever before" (Braine, 1979:45). A decade ago, the World Bank deplored the growing gaps of wealth and income among rich and poor nations and also within poor nations themselves, a situation that compelled Robert McNamara to caution that "it is a question of time before a decisive choice must
be made between the political cost of reform and the political risk of rebellion . . . Social justice is not only a moral imperative; it is a political imperative as well." 4 Almost one decade after McNamara made that statement, some 800 million human beings are living in a condition which the World Bank's 1978 World Development Report describes as "so characterized by malnutrition, illiteracy, disease, squalid surroundings, high infant mortality and low life expectancy as to be beneath any reasonable definition of human decency." And the report concludes that this "will remain a problem of enormous dimensions at the end of the century." 5

The problems of growing poverty and inequality have occurred not because of lack of economic growth, but rather amidst it. During the 1960s, these problems worsened simultaneously as the U.N. targeted goal of 5 percent growth rate was achieved by the underdeveloped world. The grim picture has remained for the last decade. As Adelman (1980:215-216) observes:

The basic issue of economic development in the 1970s became: What is the relation between the development process on the one hand and domestic income distribution and poverty on the other? Systematic statistical investigations indicated that, in most developing countries, there occurred a long process of decline in the relative incomes of the poorest as a direct consequence of accelerated economic development. For a large proportion of humanity, this decline extended to absolute incomes as well. Only
among the most developed third of non-socialist developing countries were there some countries in which the relative incomes of the poor rose with economic development. And even there, the rise was not automatic: it occurred in some countries but not in others.

The empirical survey lends credence to Evans' argument that "industrialized dependent development not only left unresolved the fundamental problems of classic dependence, but it did not even offer any obvious route to their solution. The new political economy . . . left the mass of the population as excluded as it had been from the export economy, more so in relative and psychological terms" (Evans, 1979:94).

II. THE SEMI-PERIPHERAL PARADOX

Against this dim background of world development, Taiwan appears to be one of the few brighter spots on the Third World economic scene. The economic boom of the 1970s has been translated into different degrees of material gains for broad segments of Taiwan's population. As the private sector ramifies into more than half a million enterprises (mostly small ones), two new middle classes have come into being. One is composed of small and medium enterprisers who own the means of production. The other comprises managerial, technical and other professional people who do not own the means of production but gain wealth through their expertise. To these
two is added another middle class identified with the state: public functionaries, white-collar employees in state-owned enterprises, school teachers, etc. The three middle classes differ in their political orientations: the owning middle class is largely apolitical and will be concerned about politics only to the extent that it furthers or impedes their business interests; the professional middle class has a higher degree of political awareness due to intellectual sophistication, and many within that class are reform-minded (note that these two classes overlap to some extent); the state-oriented middle class, whose members are mostly KMT party members, largely shares the same political conservatism with the upper and the ruling classes, though liberal partisans are growing in number. Despite these differences, broad segments of the middle classes in Taiwan, along with its upper and ruling classes, ideologically and psychologically identify themselves with the rich core nations rather than the periphery of the world-system. This dimension of what may be called "cultural dependency" has resulted not only from foreign cultural penetration, but more importantly, from economic dependency relationships whose concrete expressions are the extensive trade relations, capital alliance and technological collaboration, which we have discussed in Chapters IV and V. And the dependent industrialization in Taiwan has created
a material basis for broad segments of these classes to emulate the consumption patterns and life styles of the rich core nations. As a "semi-peripheral" economy, Taiwan has entered what Wallerstein (1974) calls "middle sectors" of the capitalist world-system which look up to the core as the model. What Wallerstein does not mention is the fact that while a "semi-peripheral" society comes closer to the core economically, its political system can remain in the same underdeveloped state as peripheral societies in general, resulting in what may be termed a "semi-peripheral paradox," a paradox in which Taiwan finds itself. Unlike many peripheral countries where both economic and political gaps widen in relation to the core nations, the widened gap in Taiwan is between domestic economic development and political development. At a time when Taiwan is forging a closer economic alliance with core-based transnational interests, its political system stagnates in the state of rigid dictatorial authoritarianism. What are the implications of this "semi-peripheral paradox" for the Taiwan model?

In recent years the North-South contradictions are fostering a growing awareness among peripheral countries of the need for collective concerted efforts to alter international power relationships. Shifts in these power relationships in favor of the South would allow
peripheral countries greater autonomous power to regulate TNC behavior, to respond to domestic pressures for reforms and to reduce external dependency. But the fact that Taiwan psychologically identifies itself with the North and lacks in "Third World consciousness" makes it impossible for Taiwan to join this collective action. Rather, it will continue to be one of those developing countries which opt for "the prospects of becoming dependent partners of rich countries, their docile clients, or, in a few cases, disciplined rebels maintaining themselves aloof from international systems" (Erb, 1975:152).

Just as the populist movement and labor movement in the U.S. have facilitated the growth of democratic pluralism, peripheral solidarity and collective action can hopefully lead to international political pluralism, whereby peripheral countries obtain countervailing power to engage in "collective bargaining" with the North. To some extent, this collective approach compensates for political underdevelopment in individual countries -- underdevelopment which makes these countries vulnerable to international power impingement and which minimizes the responsiveness of the political system to internal pressures for progressive changes.

By keeping itself aloof from peripheral solidarity, Taiwan will have no share in whatever international
political pluralism may emerge as a result of collective efforts. Coupled with the lack of domestic democratic pluralism, this means that the political system in Taiwan will continue to have little leverage vis-a-vis transnational interests as it attempts to upgrade its industrial structure under the collaboration of transnational capital. This also means that the people of Taiwan will continue to have great difficulty in pushing reforms aimed at a host of developmentally related problems, ranging from the chronically repressed rights of workers and peasants to extremely severe ecological destruction by industry.

A case uncovered by the Asian Center investigation (1978:15) is illustrative. In mid-1977 a group of some 20 foreign companies in Taiwan threatened to move their investments elsewhere because they were sued by a Taiwan provincial agency for violation of safety and sanitation regulations. As a result, a new agency for arbitration was set up to appease transnational corporations. It is responsible directly to the Economic Affairs Ministry, which possesses overriding power to make decisions with regard to relations with foreign investors without any legislative interference.

In a 1979 testimony at the U.S. Senate Foreign Relations Committee, Professor Richard Kagan noted that 19 out of 24 major rivers in Taiwan had been completely
polluted and that industrial pollution had seriously affected the health of Taiwan's populace in general and school-children in particular. In a series of interpellations at the Legislative Yuan between 1979 and 1980, Legislator Huang Shun-hsing detailed how industrial development in Taiwan had poisoned soil and crops, polluted farm produce and caused harm to human health. Noting that industrial pollution in Taiwan is a serious problem for agriculture and for the social ecology as a whole, Huang cited statistics to show that out of a total of four hundred thousand hectares of irrigable wet land in Taiwan, more than fifty thousand hectares had been so polluted that different degrees of crop failure had resulted (Huang, 1980:268-269). "But the social institutions for pollution control progress much slower than economic development, so that the ecology continues to be destroyed and victims have emerged in an endless stream. The Executive Yuan or the Economic Affairs Ministry should have made a prudent choice by coordinating with agencies concerned and consulting ecological and agricultural experts. But these authorities have not done this; on the contrary, they are adopting the outdated model from which the U.S. is seeking to shift away" (Huang, 1980:272; translation mine).

Clearly, there is very little the Legislators and the people can do to check the social and ecological
abuses which Taiwan's dependent industrialization has generated. They simply do not have the necessary political power to counteract the all-powerful "triple alliance."

III. THE FUTURE OUTLOOK

The "semi-peripheral paradox" should thus draw attention to the full importance of political development at this historical juncture when Taiwan's economy is faced with problems of a transition toward a new phase of dependent industrialization. Just as peripheral solidarity and collective action are needed to alter the imbalance of the North-South power relationships, at the intra-national level basic changes are also needed to create countervailing power bases whereby the people of Taiwan can hope to bring pressures to bear on the "triple alliance." This is particularly important in view of the possible escalation of military-authoritarianism, which we shall discuss in the following paragraphs.

Signs of such an occurrence are already on the wall. Even common citizens in Taiwan are saying that the Kaohsiung crack-down on the opposition movement in December 1979 has facilitated the mandatory large-scale price hikes of fertilizers (70%), electricity (50%), petrochemical raw materials (30%) and other items associated with the state enterprise system. Indeed,
from an economic perspective, the current cycle of the tightening of authoritarian rule in Taiwan may be conceptualized as partly motivated by the need of the dependent economy to cope with a transitional period beset with energy crisis, rising wages, high inflation and the resultant setbacks in export trade.

The political intervention of economic activities by the state contrasts with the apolitical nature of the "trickle down" process. Improvements in workers' wages and peasants' "off-farm" incomes have come as a "natural" consequence of economic evolution, not as a political consequence of mass struggle or legislative intervention in favor of the working class and the peasantry. The weakness of the "trickle down" concept can easily be exposed as the authoritarian state opts for phase-oriented political control. That is to say, under the existing condition of unequal power relationships in Taiwan society, a difficult economic transition can tempt the state to wipe out the "trickle-down" gains for the masses overnight, thereby beginning a new vicious circle of economic exclusion and political exclusion comparable to the Latin American cases.

The Brazilian experience is again instructive. If Kurth's analysis (1979) reflects historical facts, then there exists a causal relationship between the growth of the steel industry and political development. According
to Kurth, the expansion of steel production in England, France and Prussia beyond the capacity of steel absorption by domestic railway construction during the second half of the nineteenth century had led to the imperialist ventures of warship-building and railway construction activity in colonies. In the 1920s and the 1930s, the urgent need to develop external steel markets also contributed to the rise of fascism in Germany. But during the 1950s when steel was used for automobile production, it ushered in a new era of consumerist affluence and prosperity making for the legitimation of liberal democracy, the deradicalization of the European working class and the "demarxification" of socialist parties. Furthermore, Kurth observes that the growth of the Brazilian steel industry during the 1960s and the 1970s could only be geared to automobile production, giving rise to the phase-oriented authoritarianism with extremely exclusionary effects, which we have discussed in Chapter VII.

Interestingly, the government in Taiwan has recently come up with similar plans to upgrade Taiwan's industry. In September 1980, the "highest authorities" of the Kuomintang regime, including President Chiang Ching-kuo and the Economics Ministry, decided to establish an automobile industry under capital and technological collaboration with a Japanese motor company, either
Toyota or Nissan. With a total capital investment of US$1-billion and an initial production capacity of 220,000 cars per year, the new project is intended to be a "locomotive industry" that will create a system of auto-related satellite machinery and metal-working industries and help transform the Taiwan economy into a technology-oriented capital-intensive phase of industrialization (Asian Wall Street Journal Weekly, 9/15/80 and 7/13/81).

The government has assigned a key role to the state-run China Steel Corporation in the development of the new automobile industry, with an aim to use its steel products for car manufacturing. And Chairman Y. T. Chao of China Steel has been chosen to supervise the planning of the Sino-Japanese joint venture (Asian Wall Street Journal Weekly, 9/15/80).

The need of China Steel to find new markets for its products is understandable in view of the worldwide slump of the steel industry over the past few years. Even after the shutdown of a number of steel mills, that industry is still operating at only 60 to 70 percent capacity in various parts of the industrialized world (Frank, 1980: 308). In Taiwan, China Steel was capitalized at US$462-million by 1979, the largest among all state enterprises except Taiwan Power Company. But its profit situation is not quite as impressive. During the 1981
fiscal year (from July 1980 to June 1981), for example, earnings of the corporation stood at US$50-million, representing a 37.5 percent drop in profit from the previous fiscal year. And the corporation is forecasting an even sharper drop in profit, 68 percent, for the current (1982) fiscal year. Moreover, the last fiscal year registered no growth in sales of steel products (Asian Wall Street Journal Weekly, 7/13/81). The shrinking demand for steel and the decline in steel prices on the world market affect not only the export prices of Taiwan's steel, but also its domestic prices. Coupled with rising wages and operating costs on the one hand, and stiff competition from imported Japanese steel on the other, China Steel is apparently faced with the same marketing problems that confronted the Brazilian steel industry more than a decade ago. Developing an automobile industry is the answer -- it would help both China Steel and the government's new industrialization plans. As Chao pointed out, "Taiwan companies must be stimulated to provide a market for this increased (steel) output," and "a focal point of stimulation should be creation of a complete automotive industry in Taiwan" (Asian Wall Street Journal Weekly, 7/13/81).

According to the government's planning, half of the output of the new auto venture will be sold on the domestic market. If both the domestic and international
auto markets are brisk, all may go well. But as John McDougall, Executive Vice President of Ford Motor, warned, it is untimely for Taiwan to undertake such an ambitious venture because of shrinking world market demand for automobiles and the energy crisis (Associated Press, 12/30/80; Asian Wall Street Journal Weekly, 2/9/81). If the prospective auto industry has to depend heavily on the domestic market for its survival -- and for the survival of the satellite plant system which it is to create, then a redistribution of wealth and income from lower classes to middle and upper classes could be the logical consequence as has happened to Brazil. This problem will be particularly serious if the purchasing power of Taiwan's middle classes weakens as a result of economic downturns. In that case, the existing pattern of relatively equitable income distribution in Taiwan would have to give way to an exclusionary pattern of dependent industrialization that entails a heightened autocracy to enforce the "new economic order."

This hypothetical situation illustrates one of the possibilities that the political system in Taiwan may degenerate further in response to difficulties that are likely to arise during the economic transition in the years ahead.

The possibilities of political degeneration are enhanced by inter-elite and intra-elite conflicts over
the future course of Taiwan's political development. Despite the Kaohsiung setbacks, moderate segments of the oppositional elite are still maneuvering to revive the democratization movement aimed at basic changes in the political system, such as repeal of martial law, restructuring of a superannuated and impotent legislative system, etc. Presumably, the ultimate goal of the movement is to form an opposition party to counteract the Kuomintang's single-party controls. Within the Kuomintang itself, moreover, impact of the political movement that culminated in the Kaohsiung Incident has spurred a younger generation of the KMT elite to search for moderate reforms. But as the patterns of intra-systemic political struggles suggest, reformist forces are inevitably subject to pressures and resistance from the conservative in power. While the liberal KMT faction sees reforms as a positive factor making for system-maintenance, the conservative regard them as a negative factor that would threaten their vested interests and also play into the hands of the indigenous opposition or the "Communists." Thus fundamental and sharp differences reportedly exist between the two factions (Los Angeles Times, 10/7/81). And if the military-authoritarian oligarchs cannot tolerate reformist partisans, much less will they tolerate the democratic opposition movement. Indeed, the aim of
the oligarchic bloc, headed by General Wang Sheng and supported by Chiang Ching-kuo himself, is to block all reforms and restore the so-called "political discipline" (Los Angeles Times, 10/7/81). As Winckler observes on Taiwan,

There are young and progressive military officers as well as old and reactionary ones; and the role of the military may become more decisive, regardless of economic development. In any case, the principal obstacles to both "Taiwanization" and democratization have been those mainlanders in the party headquarters who have a vested interest in the status quo and genuinely fear letting popular sovereignty outgrow party control (Winckler, 1981:21).

Consequently, elite conflicts will intensify when economic downturns increase social problems and pose a "cruel choice" between economic benefits for the masses and continued economic growth, when Chiang Ching-kuo passes away from the political scene, and when Taiwan is faced with increased pressures for reunification from mainland China. The accommodative policy of the regime will then be carried out on an increasingly selective and restrictive basis while pressures for repression mount. Eventually, a military coup to dislodge the oppositional elite and reformist partisans from the political processes is a real possibility. Since a capital-intensive phase of industrialization requires the technocratic elite to play a more important role in managing the economy, a close alliance between the
military and the technocracy appears to be a political and economic necessity. If that happens, the Taiwan model would converge toward the phase-oriented patterns of bureaucratic-authoritarianism, in which not only the masses but also the counter-elite are repressed in order to create an exclusionary political structure in accord with an exclusionary economic base during a new phase of dependent industrialization.
NOTES TO CHAPTER VIII


2. These quantitative criteria are based on Evans' interpretation of the "semi-periphery" from the perspective of TNC investment in manufacturing. See Evans (1979:295-296).

3. Total U.S. direct investment in Taiwan during 1952-79 was US$659.6-million, of which 88.7% was in manufacturing. (Computed from Statistics on Overseas Chinese Investment, Foreign Investment, Technical Cooperation and Taiwan's Overseas Investment, published by Investment Commission, August, 1980.) Thus, for the 1960-74 period under consideration, we can safely assume U.S. manufacturing investment in Taiwan as accounting for 85% of total U.S. direct investment.


6. For fuller and perceptive discussions on peripheral solidarity and collective action, see Erb and Kallab (eds., 1975) and Chase-Dunn (1975). Furthermore, Tanzanian President Nyerere's article (1979) dealing with the strategy to forge a broad Third World "united front" for negotiations with the North is also insightful.

7. See China Credit Information Service (1980:78). Taiwan Power Company and Chinese Petroleum Corporation were capitalized at US$918-million and US$333-million respectively.
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