TAIWAN'S ECONOMIC DEVELOPMENT: A TEST OF MERCANTILISTIC MODEL

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I. INTRODUCTION

In the past two decades, the economic development of the Newly Industrializing Countries (NICs) has been the focus of academic research, East Asian NICs in particular. Meanwhile, dependency theory has dominated the research agenda on economic development of the Third World. It could describe how those developing countries were incorporated into the capitalist world system and, as a result, became underdeveloped. But, it is not able to tell us how a group of developing countries could reach semi-peripheral status, although it could account for the relationship between dependency and underdevelopment. Consequently, it could not generate policy recommendations concerning how those poor developing countries could overcome their disadvantages and launch a full-fledged industrialization.

However, many scholars have viewed the role of strong state in economic development as the major factor contributing the rising of East Asian NICs (Amsden, 1985, Cheng and Haggard 1987, Cumings 1984, Gold, 1986, Johnson 1982, Lockwood, 1965, Prestowicz 1988). Other scholars have proposed the state-center approach to study international political economy (Gilpin, 1987; Cumings, 1984). In fact, this model, often labelled as the mercantilistic model, has been utilized to analyze the contemporary political economy of those industrialized nations. Therefore, I will make attempt to develop a coherent mercantilistic model to investigate the development of the newly industrializing countries and to test this model with the case study of Taiwan's development.

II. MERCANTILISTIC MODEL

A. Assumptions of the Contemporary Mercantilism

In the first place, nation-states will continue to be major actors in international society. The world is fundamentally a self-help system and states exist in a formal anarchic environment. That is, there exists no legitimate or legal authority empowered to control, direct, or watch over the behavior of the states (Russett and Starr, 1989). Without a central authority to regulate international activities, nations, therefore, have to rely upon themselves to protect their own interests. Whatever the means they choose, self-help remains that ultimate reality and the imperative at the heart of a nation's thinking. As a consequence, nation-states and the interplay of national interests are regarded as the primary determinants of the future world economy (Gilpin, 1975). In other words, most international activities are interactions among nation-states. Although some argue that regionalism and integration can be very useful for dependency reversal, their functions in assisting Third World development are quite dubious. For the moment, concerted actions among nation-states for real development do not work. In his empirical study, Hirsch found that "whatever their potentials, regional organizations have not been successful in aiding their members, as a group, to get out of the dependency networks" (Hirsch, 1980). Up to now, almost all recognized NICs have reached high-degree industrialization by means of their individual efforts and respective relations with other nations, especially industrialized countries.

Secondly, because of growing resource constraints, the emergent world order will be characterized by intense international economic competition for markets, investment outlets, and sources of raw materials. For the non-OPEC developing countries, the problem of economic competition is more urgent. With the dramatic increase of oil price in the 1970s, those oil-importing developing countries have borne heavy financial burden and even fallen into debt. The most important way to ease their burdens is to earn necessary hard currency through foreign trade and investment. What makes things even worse is a limited market available for them, because their markets are mainly located in a relatively small group of industrialized countries. The NICs will have difficulties in consolidating their gains in the face of growing Northern protectionism (Hart, 1983).

The bitterness of competition in the world economy has become the major concern of nations around the world. As a result, their policy priority becomes how to obtain capital and materials at their immediate disposal so as to accomplish their national economic and political objectives, contrary to liberal economists' thought that in the interest of world efficiency and domestic welfare, the nation-state's control over economic affairs will continuously give way to multinational corporations, the Eurodollar market, and international institutions better suited to the economic needs of mankind (Gilpin, 1975).

The final assumption concerns the autonomy of the state in development. For these dependent countries, an extensive restructuring of capital would be an immediate task for dependency reversal. While a country could adjust its pattern of production, imports, and exports to maximize its economic returns under different environmental conditions, such adjustment might be directed by either the state or the private sector. The fact is that in most developing countries this job is done by the state because of the weakness of the entrepreneur class left behind by the colonial administration. On the other hand, the state possesses more qualified and necessary human resources, because public office holding means more power and money than those of the private sector, especially in the early post-colonial period. However, to achieve the restructuring of capital, the state must possess a considerable degree of "relative autonomy" from the various ownership groups of "fractions of capital" that are to be affected (FitzGerald, 1982). According to this idea, the state alternative requires a strong political system in which the state is capable of resisting pressures from domestic groups in order to formulate a coherent strategy and change social and economic structures (Hamilton, 1982; Block, 1981; Krasner, 1981).

In the meantime, the state must also meet challenges from abroad. In addition to the competition with the dominant class in appropriating resources from the economy and society such that it can maintain internal order, the state also competes with other actual or potential states in surrogate of their respective domestic groups (Skocpol, 1979). The stress on state's resistance to foreign political and economic interference–autonomy from foreign intervention–presents another aspect of state autonomy.

As a consequence, to assure autonomous status, the state must deal with, at least, three decisive groups (i.e. the dominant class, the subordinate class, and foreign capitalists). In the rest place, the state, defined as a set of administrative, policing, and military organizations headed by executive authority (Skocpol, 1979), has to demonstrate that it is a unified body. In other words, organizations within the state, based on their self-interests, must reach consensus on major political and economic issues (Hamilton, 1982; Block, 1981; Krasner, 1978). Furthermore, this consensus differentiates these organizations from other social groups or classes. Therefore, the state is able to hold its position, while there are interest conflicts between state and other social groups of classes. That is that there exists a state ideology. Although a cohesive and self-interest state is a necessary condition for state autonomy, the sufficient condition should not be neglected. A sufficient condition for state autonomy means that the state can successfully constrain three groups, i.e., the dominant class, subordinate class, and international capitalists, while the state has conflicts with them on certain issues. With coercive power in the military and police forces, the state, it is argued, can exercise its authority over those social groups (Hamilton, 1982; Block, 1981; Skocpol, 1979). Moreover, state authority in economic activities provides another way to constrain social groups, especially dominant classes and international capitalists (Hamilton, 1982; Block, 1981).

B. Characteristics of the Contemporary Mercantilism

The term "mercantilism" traditionally refers to a collection of ideas on economic policy characteristic of the period of pre-industrial capitalism dated from 1600 to 1750. This "traditional mercantilism" was oftentimes characterized by three elements. First, there was a strong role of the state in economic activities in order to increase its wealth and power. In that period, we saw a strengthening of the state structures, at least in core states and in semi-peripheral ones, as a way of coping with their economic problems, such as balance of payment and unemployment (Wallerstein, 1980). The most outstanding examples in the Far East were the Dutch East Indies Company, which monopolized the trade of the East Indies and set up the Dutch colonial administration there; and the British East India Company, which conquered much of India and extended its trading operations to China. Most important, these companies were incorporated groups of private merchants, licensed by the state, and granted the political and military authority necessary to establish and maintain their trading monopolies vis-a-vis other colonial powers (Michael and Taylor, 1956).

Second, the wealth of a country consisted in the quantity of precious metal in circulation or in hoards within its border (Johnson, 1974). For example, Spain created a vast colonial empire in the Americas in the sixteenth century. The immediate result was a rapid growth of transatlantic trade, the volume increasing eightfold between 1510 and 1550, and threefold again between 1550-1610. The central focus of this trade was bullion (Wallerstein, 1974). In fact, the Empire's economic structure (1492 to 1600) reflected the prevailing mercantilist theory that economic activity should enhance the power and prestige of the state, measured on the basis of gold or silver bullion (Skidmore and Smith, 1984).

Third, the way to increase that wealth was to secure a surplus on the balance of payments, usually identified with a balance on merchandise trade (Johnson, 1974). Then international trade was carried on through great chartered companies which attempted to establish as much of a monopoly as possible against the competition of rival trading nations. Eventually, they wanted to have a surplus in external trade.

To summarize up, traditional mercantilism can be defined as state policies of economic nationalism revolving around a concern with the circulation of commodities, both in terms of the movement of bullion and in the creation of balance of trade.

By and large, contemporary mercantilism follows a similar pattern. It is mainly concerned with state economic policies with the purpose of acquiring wealth and power through industrialization, although there are some minor differences. It consists of the following characteristics: (1) the intervention of state or government with parallel growth of private sector; (2) the focus of intervention on rapid capital formation; (3) focus on economy-related policies, not trade policy only.

In the first place, a strong presence and intervention of the state in the economy is regarded as the major instrument. In this regard, contemporary mercantilism is identical to the traditional mercantilism with a strong and visible hand pushing for genuine development.

For developing countries or late developer, the role of state in the economy is very important for rapid economic development. According to the world system perspective, there exists mobility in this world capitalist system, especially that peripheral nations can ascend to the semi-peripheral position. This means that there is a consistent and patterned movement between nations as to who shall occupy various positions in the international hierarchy. In this regard, Wallerstein (1979) contended that although the respective positions of core and periphery are relatively stable over time, the development of the forces of production within the peripheral naton may shift its position in the world system and give it greater leverage in dealing with the core. Accordingly, not only can a peripheral nation be raised to the semi-peripheral position but also a semi-peripheral country to the core position (Wallerstein, 1979). In fact, many students of the Third World's economic development uphold the argument that the Third World might be able to do what those industrial or core nations had done and to build up an integrated economy where strong connection between traditional sector and modern sector and a complete economic cycle exist (Mahler, 1980; Snyder and Kick, 1979; Brandt, 1981; Caporaso, 1981; Krasner, 1981).

Admitting the existence of upward mobility in the world system, we have to find out the sources of upward mobility. In attempting to find out that, new is tempted to compile a long list of variables representing all the causal sources mentioned, such as market size, income level, state intervention, opportunities provided by changes in the global division of labor, etc. Among them, state intervention is regarded as the most important one. While holding that there exists an upward movement ormobility in the world system, Wallerstein (1979) suggestes some development strategies for those countries. Those strategies are described as follows: (1) the strategy of seizing the chance; (2) the strategy of promotion by invitation; and (3) the strategy of self-reliance. Wallerstein himself indicates that the strategy of self-reliance "is a path being pursued not by all peripheral countries, but by very few." Although some peripheral actors have followed the strategy of self-reliance, none of them have been elevated to semi-peripheral position. Communist China, for example, insisted on this strategy of development for more than two decades, but had to give it up. Therefore, our discussion will emphasize the other two. As a matter of fact, the other two strategies have been widely applied by developing countries for the purpose of achieving a higher status in the hierarchy and some of them, eventually, have accomplished these goals, namely, the NICs. With careful examination of those two strategies, the involvement of state is indispensable. While discussing "seizing the chance "during the world-market contraction, an aggressive state can intervene in economic activities by taking advantage of the weakened political position of core countries and the weakened economic position of domestic opponents of state intervention. Respecting "promotion by invitation: strategy, the state takes initiatives to invite foreign investors in general, multinational corporations in particular, to invest and strengthen its industrialization.

However, state intervention need not mean the demise of the private sector at all. In this regard, it is quite different from the state intervention in those socialist countries where no formal private sector exists. Despite the active role of government in economic affairs, the state would set bounds for its activities and let the private sector maintain most of its original functions in national economy. In some instances, states even offer various kinds of assistance to the private sector for its external expansion and protection against foreign competition. Looking back to the history of mercantilism age, state intervention was originally directed to give assistance to those high private corporations expanding their external market (Wallerstein, 1980). At any rate, contemporary mercantilism, unlike its ancestor in the seventeenth century, subscribes to the economics of the neoclassical school. It accepts the logic of market and, in principle, does not deny the virtue of an international division of labor based on comparative advantage (Haas, 1983).

Secondly, intervention would mainly focus on the promotion of rapid capital formation. It is noteworthy about the definition of wealth. For traditional mercantilism, wealth was regarded ad as the quantity of precious metals in circulation or in hoards within its borders (Johnson, 1974). While discussing mercantilistic policies, many contemporary scholars emphasize the desire for a balance-of-trade surplus (Blake and Walters 1983; Gilpin, 1975; Wallerstein, 1980). Desire for a trade surplus, I think, would be too limited to cover contemporary mercantilistic policies. For me, capital would be much better treasure for any developing countries and is defined as: all manufactured productive resources, such as tools, industrial equipment, structures, and artificial improvements to land. (Dolan, 1977). Economists argue that the backwardness of some developing countries is not attributed to the shortage of natural resources, but to insufficient capital necessary for mobilizing natural resources. Therefore, I argue that all economic policies adopted by the state are for the purpose of speeding up capital formation, not hoarding bullion.

Thirdly, intervention would be reflected not only in trade policies but also in other economic policies such as investment and economic planning, whereas traditional mercantilism mainly dealt with trade policies (Skidmore and Smith, 1984; Johnson, 1974). Nowadays, international economic activities are so complicated that we cannot concentrate on trade policy without touching upon other economic policies. Consequently, my mercantilistic model is applicable to various kinds of economic and economy-related policies.

C. Why the State Can Intervene

In the beginning, we must define the concept "state". This concept has been used widely and in an ambiguous way such that it is very difficult to differentiate state from government. Here, the state is constituted, we argue, by not only the government (constituted in various branches levels, etc.) having formal control of the state apparatus, but also the civil and military bureaucracies, or state apparatus (Hamilton, 1982; Skocpol, 1979; Duvall and Freemen, 1981).

First of all, I offer a functional explanation about how the state can intervene in economic activities. Gerschenkron (1966) argues that the industrialization process in the more backward countries requires (among other things) "the application of institutional instrument for which there was little or no counterpart in an established industrial country. For example, where capital formation was accomplished in Great Britain through the exertions of individual capitalists, later industrializers (such as France and Germany) required the investment banks for the same purpose. For those later developers, a more powerful institution is needed. Therefore, he suggests that state would be the institution which could fulfill the same functions played by either the British individual capitalists or the investment banks in Germany and France. It is argued that agents of the state perceive that the private sector is unable to surpass some fundamental structural barriers, since the history of the dependency syndrome—the prolonged dependence on foreigners for production as well as supply and consumption—created structural deficiencies which agencies of the state have sought to alleviate through state enterpreneurship or state intervention (Duvall and Freeman, 1981).

Let us take the problem of capital formation as an illustration. The most pervasive problem for the Third World's development lies in the lack of capital. A cyclic pattern is usually applied to describe the importance of capital in development process. According to the eyelic pattern, the primary key to growth is seen to be capital accumulation, which permits increasing production through facilitating patterns of investment. Essential to healthy development cycle is the level of net savings and investment (Henroit, 1979; Bognar 1968).

However, the "vicious cycle of poverty" exists in this development process and threatens those developing countries particularly. That is the slowness in economic growth in developing countries results mainly from poverty, which reduces savings and investment. Low levels of savings and investment, in turn, lead to low productivity and to the perpetuation of low incomes.

Being aware of this danger, the question of how to avoid and/or break up this vicious cycle has already attracted much concern from the Third World nations (Li, 1988). With regard to the solution of that problem, to speed up capital formation would be the most important step one should take.

Capital formation remains a very difficult task for most developing countries. Unlike the industrialized countries, the LDCs could not count on the private sector or entrepreneur class to carry out the function of speeding up capital formation simply because they have a weak entrepreneur class. In peripheral societies, the private sector is either in alliance with or dominated by foreign capital through various kinds of penetration, such as foreign trade, foreign investment and foreign finance. In other words, control over resources may be directly of indirectly exercised by foreign capital backed by the relevant core nation. Subsequently, the capital needed for national development could not be used for the interest of the peripheral society as a whole, and is substantially under foreign direction. Thus, the state had to play a more aggressive role in capital accumulation when a peripheral nation seeks to make a bread through in economic development (Hamilton, 1982).

As a matter of fact, the role of state in NIC's development is the most outstanding example. In the past two decades we have observed NICs maintaining consistent economic growth and rapid industrialization. Many factors might have contributed to their success. What makes those countries so different, most students hold implicitly and explicitly, lies in the active involvement of state in economic activities as push and pull force for its exonomic development. The intervention of the state has brought about a rapid capital formation among the NICs. Every conceivable method was utilized for capital accumulation including, but not limited to, the provision of favorable loans and the regulation of labor and its demands, the securing of market shares, and the governmental guarantees for foreign loans and investments to private sectors. States also set stiff tariff walls and rigid trade quotas to protect infant industries from foreign competition and accelerated the export drive by establishing "trading firms" which specialize in exports. They attempted to inject more capital to further investment which, in turn, would lead to higher production and per capital income.

Secondly, long-term political stability maintained by the political system is another consideration. To achieve stability, the political system must be capable of handling the potential conflict of interests among social groups. One way to stablize those conflicts is to include all of them into one political party and allow them to participate in the process of decision-making. In fact, it has been the way taken by most nations to cope with those social groups. With their interests aggregated and articulate within the party, they would accept the behind-the-scene bargaining at any rate. Otherwise, they would take their issues to the public directly and find more radical way to express them. Consequently, the state administered by the ruling party, could have more latitude while dealing with some important issues.

Furthermore, political dieology plays a vital role when a nation selects strategies for its economic development. During the period of revolution or national liberation, political elites were instilled with a certain kind of ideology. Almost all leaders of the revolutionary and liberation movements protrayed themselves as champions of social justice and equality, and advocated correction of the ill effects produced by then dominant classes. As a result, many leaders in developing countries were heavily exposed to socialist thought, form moderate to extreme radical. In most cases, their dieology is incorporated into the constitution and influences their philosophy of administering the state. Based on this ideology, they conceived blueprints for national reconstruction and, furthermore, how to make policy decisions in the future. When a nation comes to select the strategy for its economic development, this ideology usually works as a guiding force. With the emphasis on socialist principles, a strong interventionist state is inevitable.

D. How The Mercantilistic Policies Works

Having reviewed what is contemporary mercantilism, three major elements can be identified. The first one is the strong presence of the state in economic activities. The second one is mercantilistic policies, including economic planning, trading policies, investment policies, capital formation. Two basic propositions are developed and based on these elements. In the first place, it is argued that with the state as exogenous variable; strong mercantilistic policies will increase capital formation substantially. Second, a strong capital formation will break up the linkage between foreign penetration and underdevelopment.

In the first step, the state is the dynamic force behind the implementation of mercantilistic policies. As a relatively autonomous entity, the state could consistently carry out policies for the benefit of the people as a whole. These policies consists of (1) how to distribute resources; (2) how to promote industrial exports; (3) how to obtain foreign capital, but with regulations on it; (4) how to create a pool of capable labor.

With general principles and objectives set up in the plan, a dramatic growth rate can be attained with limited available resources. This kind of effort to coordinate resources has widely been used and in such a complicated manner that the state needs to create an office with a large number of staff to handle economic planning. This fact tells us of the rising importance of planning in advance. Trading policies encourage experts of industrial goods as well as restrict some imports. Export promotion policies set the target at both earning badly needed hard currency and maintaining a large scale of economy in its industrial sector. Import restrictions are mainly for the purpose of protecting its infant but vital industry. Although capital and technology can be imported through foreign trade, encouraging foreign investment would have greater results. However, foreign investment should be directed to the place where that nation needs it most. As a result, some regulations ought to be set on it. The development of human resource has been neglected by most developing countries. To create a pool of capable labor would be a long-term effort and would have very slow regurns. But, the returns surely would be very large. The role of the state in education would include investment into public education as well as encouragement of private educational institutions.

A second linkage is the one between mercantilistic policies and capital formation. The provision of good investment environment by the state would be the focus. The state would adopt various types of policies for promoting domestic and foreign direct investment. For example, many Third World governments have already provided assistance, such as tax holiday, favorable loans, tariff reduction, provision of convenient infrastructural facilities and transportation. In fact, competition for foreign capital is quite stiff among LDCs, because every LDC can offer the above-mentioned incentives. However, an LDC is much more competitive if it has well-trained labor force, in addition to those material incentives. In this regard, well-developed educational policies would demonstrate their importance in economic development. As a matter of fact, it is the key to the development of

NICs.

However, foreign investment should be directed. Without proper regulations, the influx of foreign direct investment might be harmful for the host LDC, leaving alone any constructive assistance. Therefore, a rising number of LDCs have introduced comprehensive legislative regulations governing the inflow of foreign direct investment (Salehizadeh, 1983). These regulations mainly aim at two aspects. First, they would direct private capital in accordance with the needs of national economic development. Secondly, they would encourage export expansion.

In addition to foreign capital, the mercantilistic policies also encourage the development of state capital for the benefit of the people. In fact, some students have argued that the role of state capital is the dynamic underlying the development of NICs (Crane, 1982; Amsden, 1979). They classified capital into three sub-categories: state, national, and international capital and counted state capital as the only independent capital, certain to be used for the interest of the society as a whole. Under these circum-stance, state capital would be a major subject in capital formation.

There are ways to stimulate state capital formation directly and indirectly. Needless to say, entering the economy in the form of state enterprise would be the most direct and immediate method (Caporaso, 1982). The necessity of state capital in development results in the creation and extention of state owner-ship of means of production. In the last two decades, a strong tendency towear state enterprises has been established and the number of state enterprises in the Third World has increased dramatically. Furthermore, state enterprise have come to dominate large segments of many LDC economies (Gillis, 1980). After all, principles should be set for the establishment of state-owned enterpreses. First, the government should directly manage important public utilities and enterprises affecting the nation's economic well-being as a whole (Li, 1988). Second, the state should invest in productive projects of "more concern to national objectives." (FitzGerald, 1982).

The second proposition concerns how the mercantilistic policies could affect underdevelopment in the Third World. It is argued that dependency results in the slowing of capital formation partly because of the repatriation of profits and withdrawal of foreign capital, partly because of foreign trade deficit, and partly because of high debt service. All these mechanisms of foreign penetration cannot be controlled by the host state. With a slower capital formation, underdevelopment would inevitably be the only result. In order ot break up this low capital formation and underdevelopment relationship, something has to be done regarding the control of foreign capital and domestic private capital dominated by foreign capital. As I discussed before, the state would be the most important instrument. With its mercantilistic policies and enterprises, the state could reduce its reliance on foreign capital and improve domestic capital formation. Eventually, a genuine development would be supported by its own capital.

III. TAIWAN'S DEVELOPMENT: A TEST OF MERCANTILLISTIC MODEL

A. Japanese Colonialism (1895-1945): The Origin of Dependency

With regard to the analysis of Taiwan's development, it would not be complete without tracing back to the era of Japanese colonialism from 1895 to 1945. Taiwan was incorporated into the capitalist system by the Japanese colonialists, although it was opened up for trade with all western powers in 1860. Therefore, a historical review of the colonialism would help us understand (1) how a core nation created its colonial empire with the dependency of the periophery on it; (2) how this dependency later affected the development of the periphery.

In 1684, Taiwan was officially integrated into China on the ground that Taiwan held the key to the defense of China's coastal provinces and could be turned into a stronghold for attacking the mainland. In 1894, war broke out between China and Japan over the question of Korea, and China was defeated by Japan. In the peace treaty of Shimonoseki, signed in April 1895, China agreed, along with other concessions, to cede Taiwan to Japan. Since then Taiwan had been colonialized for 50 years until 1945 when Japan surrendered to the Allied Forces and gave up sovereignty over Taiwan.

Japanese colonial administration followed the pattern of the western colonial powers. First of all, Japan colonialists set a vertical interaction relation, i.e., an interaction across a gap in processing level (Galtung, 1971). In other words, an unequal exchange relationship was set between the core, Japan, and the periphery, Taiwan.

From the begining, the commercialization of agricultural products occupied the priority of the colonial government's economic policy. The purpose consisted in a simple scheme that Taiwan was to become an agricultural appendage of Japan and to help Japan feed its growing industrial population. In turn, Japan could provide industrial and consumer goods and services to Taiwan. In other words, the Japanes government intended to build up Taiwan as an agricultural exporting colony and a market to absorb Japanese industrial products. As a matter of fact, it created an unequal exchange between them, because Taiwan's primary products could not exchange an equivalent value of Japanese manufacturing goods (Ho, 1978). Therefore, it made every effort to improve Taiwan's agriculture. For example, new rice variety with high yield was introduced and the irrigation system was repaired and expanded. More important, Farmer's Association was organized under colonial government's auspices. Bascially, the major function of the association was to assure higher growth rate of products and to obtain surplus products as much as possible for the purpose of exports.

Meanwhile they neglected and delayed the indigenous industrial development deliberately. Not until Japan began war preparation in the mid-1930s did the colonial government begin to promote industrial development. In fact, from the beginning of Japanese rule the principal sector of industry consisted mainly of food processing which had very close relations with agricultural sector. As late as 1930, food processing accounted for 64 percent of all registered factories, 55 percent of factory employment, and 76 percent of the gross value of factor production. Moreover, of the food processing industries, the most important was sugar refining.

In a word, through 50-year colonial rule of Japan, an unequal exchange relationship was formulated between agriculture-oriented Taiwan and industry-oriented Japan. From 1900 to 1939 around two thirds of Taiwan's imports were industrial goods. Furthermore, more than 80 percent exports was agricultural goods in the same period.

Moreover, a feudal interaction structure was used to maintain and reinforce this unequal exchange system and was characterized by trading partner concentration and commodity concentration (Galtung, 1971). The combined effect of these two concentrations is a dependency of the periphery on the core.

In fact, Japanese colonialists led Taiwan into a two-commodity economy, namely rice and sugar. While examining the composition of Taiwan's export, it can be found that these two commodities accounted for most of Taiwan's export during the colonialist administration in the twentieth century. In the 1900s, rice and sugar together constituted 76.2 percent of total export and in the 1930s it was increased to 84.5 percent. With regard to trading partners, it was Japan who dominated Taiwan's external trade during colonial rule. Taiwan's principal trading partners from 1896 to 1930 were China, Japan, Great Britain, and the United States. In 1896–1900 period, Japan was the second most important trading partner accounting for 19.6 percent of Taiwan's export and 27 percent of import. But in 1911-1915 period, Japan's share of Taiwan's external trade increased to more than 70 percent and this phenomena lasted to the end of Japanese colonial rule in 1945.

Thirdly, it is argued that a dynamic indigenous bourgeois class plays a very important role in core development (Welsskopf, 1979). However, there has been no similar growth found in the periphery, because of the impact of the western colonization and economic domination by the core. Those colonialists did introduce certain features of capitalism–growing commercialization of the economy, increased domestic and foreign trade, new investment in raw material extraction and transportation–but they did not stimulate the development of an indigenous bourgeoisie or a free wage-labor force. On the contrary, the colonialists even discouraged the emergence of the bourgeois class. As a consequence, the established unequal exchange would last longer without the existence of indigenous bourgeois class. The best way of preventing the emergence of indigenous bourgeois class was those discriminatory measures within the colonial system. Taiwan's experiences during colonialism was one example.

The idea of privilege is at the heart of the colonial relationship and that privilege is undoubtedly economic. It was true for Japanese colonialization in Taiwan from 1895 to 1945. At that time, Japanese corporations in Taiwan were all given special right to monopolize and, consequently, they literally controlled the production or export of most profitable products such as sugar, rice, tea, pineapples, and others (Shaw, 1979).

The export surplus, which was obtained mainly from sugar and rice, was very substantial. This surplus was controlled by both the colonial government and the Japanese corporations. A large amount of the surplus was transferred back to Japan. From 1935 to 1939, incomplete records indicate that there was an average net outflow of investment income and capital from Taiwan amounting to nearly 50 million yen per year (Ho, 1978). In addition, the colonial government in the later period of Japanese rule also made large contribution to the Japanese treasury. From 1936 to 1943 this amounted to 125.5 million yen, and in the last few years of the war, it was estimated that each year 100 million yen were repatriated to Japan to pay for war expense (Huang, 1960). Under these circumstances, the surplus left to reinvest and distribute was meager. In other words, Taiwanese were deprived of rights to access the surplus and determine the allocation of the surplus.

However, the situation was worsened by the tax structure. The tax structure was such that a preponderant share of the burden fell on the Taiwanese consumers and the rural sector. Ironically, the burden of the direct taxes on the corporate sector was insignificant (Ho, 1978). Owing to the control of surplus allocation and of tax structure by the Japanese, it is inevitable that the distribution of income would be greatly unequal and favorable to the Japanese.

It was colonial government who established a modern school system in Taiwan. Ironically, this school system was mainly for the Japanese children in Taiwan, not for the Chinese children there. The native Chinese children had to overcome various obstacles to obtain the admittance to the school. It is clear that the majority of Taiwanese children of school age never attended school during the colonial rule. During the 1930s, official statistics reveal that less than 50 percent of Chinese youngsters were in school (Kublin, 1973).

The colonial government began to set up a more permanent type of elementary school, the common school, under Kadama's administration. The percentage of Taiwanese school-aged population enrolled in common school maintained quite low. Most of Taiwanese common school graduates became governmental clerks and interpreters immediately after graduation. With regard to secondary education, able common school graduates who were dissatisfied with clerkship or local community leadership role were to be carefully channeled into the two professions–teaching and medicine. But, while heavy Japanese admissions to vocational and normal schools curtailed the number of places in these institutions available to Taiwanese after 1922, secondary academic schooling was even more obviously a Japanese dominance.

In 1928, for the first time, Taiwan had an university–Taihoku Imperial University. However, as Tadao's description of Taihoku in 1929, Taihoku Imperial University was occupied by Japanese from Taiwan and Japan. Taiwanese were very few in comparison with the Japense. Tadao's description was still true in 1945 (Tsurumi, 1977). From 1928 to 1944. In Taihoku the total Taiwanese enrollment was 786 as compared with 2,998 Japanese. Discrimination even extended into fields of study selected by students. Taiwanese were induced into the study of those subjects that were considered not subversive such as medicine. Therefore, out of those 786 Taiwanese students, 513 majored in medicine (Shaw, 1973).

Consequently, we may reason that this kind of discrimination would reduce Taiwanese' capability in self-government, because most of them were trained as clerk and interpreter and would maintain Taiwan's dependence on Japan for provision of human resources necessary for industrialization such as advance technicians, management experts.

In aggregate statistical figures, Taiwanese, of course, enjoyed a quite high economic development which should. In turn, improve the living standard and quality of life. But, with detailed analysis, it is revealed that most Taiwanese did not enjoy what they should have had. In other words, Taiwanese were exploited seriously by Japanese through unequal exchange, because (1) they could not have a fair share with regard to surplus; (2) a preponderant tax burden was fallen on Taiwanese; (3) most profitable businesses were in the hands of Japanese. After all, the Japanese accumulated a staggering amount of capital in Taiwan during 1895-1945 period and transferred it back to their homeland.

In sum, Taiwan's dependency on Japan had been deeply rooted by the end of Japanese colonialism in 1945. This depdency has detrimental effects on Taiwan's development since then and has troubled decision makers.

B. A Dependency Reversal?

Taiwan was returned to the Republic of China (ROC) and became a province of China immediately after the defeat of Japan in 1945. The island's economy at that time was almost in ruin, resulting from bombing by the U.S. Air Force during World War II was well as the sudden loss of the Japanese market. What intensified postwar economic dislocations was that the government of the ROC, preoccupied with its struggle against the

Chinese communists on the mainland, was unable to aid Taiwan. Not until 1949 when the ROC government moved its seat to Taiwan, following the communist victory on the mainland, did economic reconstruction begin.

However, one legacy left behind by the Japanese colonialists limited government's options with regard to economic development. That is that the dominance of agriculture remained in Taiwan's economy. Agricultural products were major exports until the middle 1960s. In the years from 1952 to 1965, agricultural products and processed agricultural products constituted over 50 percent of Taiwan's total exports. Of course, the balance of payment of Taiwan in that period depended on the international price of those agricultural products. For example, owing to a very favorable international sugar price in 1964, Taiwan, for the first time in postwar period, enjoyed a 5-million-dollar balance of payment surplus. Furthermore, sugar and rice still accounted for more than a third of exports during 1953-1964 period.

With the dominance of agricultural sector and the war-damaged industry, the government started its economic development with the emphasis on agriculture in the early 1950s. The essence of its agricultural development mainly lied on a very successful land reform carried out by the goernment in three phases. In the first phase begun in 1949, all farm rents were reduced from an average of 50 percent of the estimated annual yield of the main crop to a maximum of 37.5 percent. During the second phase begun in 1951, the government sold public land, acquired after the war from the Japanese, to tenant farmers at a price no greater than ten years' rent, payable in ten annual installments. In the third phase begun in 1953, the government initiated a "land-to-tiller" program, under which the landlords were compelled to sell to the government all land exceeding 3 hectares of rice paddy and in turn the land was sold to the tenant farmers. The tenants paid for the land in ten annual installments while the landlords were compensated by the government, in part in rice and in part in the stock of four government enterprises confiscated from the Japanese (Ho, 1978).

In fact, the government realized very early in the course of economic development that the agricultural sector is not only a source of food also a source of investment capital and raw materials required by the industrial sector. Moreover, industry depends on the export of agricultural products in exchange for needed equipment and supplies, and must look to the rural population in marketing its manufacturers (Li, 1976). Then, a balanced strategy of joint agricultural and industrial growth, therefore, was adopted by the government in the early 1950s, and was best described by the government's slogan: "Developing agriculture by virtue of industry and fostering industry by virtue of agriculture" (Ho, 1978). This strategy resulted in an integrated economy and reduced the sharp division between modern sector and traditional sector. Moreover, it accelerated indigenous industrialization in the early 1960s under a revised slogan: "Developing agriculture by virtue of industry and fostering industry by virtue of exports" (Ho, 1978). This new strategy took shape in order to solve the problem of a small domestic market and called for the industrial sector to turn increasingly toward the world market. Since then, the indigenous industrialization increased in a more dramatical way. For example, industrial goods constituted 8.1 percent of total exports in 1952; 32.3 percent in 1960; 90.8 in 1980 (shown in Table 4). Further, the high degree of industrialization can be demonstrated by means of its ratio to GDP and, as shown in Table 5, industrial products accounted for 18 percent of GDP in 1952; 24.9 percent in 1960; 45.7 percent in 1980.

Along with high degree of industrialization, what made the development theorist amazed was a very equal income distribution in Taiwan, even in comparison with some industrial nations (McBeath, 1978; Weaver & James, 1981; Ho, 1981). In terms of Gini coefficient, the income distribution in Taiwan is getting more equal as time passed on. According Kuo and others, the Gini coefficient was 0.558 in 1953; 0.44 in 1959; 0.288 in 1978 (Kuo et. al., 1981).

Both the high rate of economic growth and egalitarianism in terms of income distribution have led some scholars to conclude that Taiwan's economic development reflects a dependency reversal in the world system and its ascent to a semiperipheral position is indisputable (Amdsen, 1979; Crane, 1982; Barrett & Whyte, 1982). Now, the question we turn to is: why could Taiwan ascend?

C. **The Role of State in Taiwan's Economy:**

Taiwan's success in economic development has attracted attention of American scholars recently and most of them credit the ROC government on Taiwan with playing an outstanding and generally positive role in fostering rapid economic development (Ho, 1978; Amsden, 1979; Weaver & James, 1981; Crane, 1982; Barrett & Whyte, 1982). In addition to facilitating development with the government-sponsored infrastructure construction as most other nations do, the government of Taiwan has provided guidance and intervention in order to achieve effectiveness and maintain equality.

For the political leaders in Taiwan, the highest principles guiding Taiwan's development lies in Dr. Sun Yat-sen's Doctrine of *San Min Chu I* or *The Three Principles of the People* (Wei, 1970). K.T. Li, one of the most important figures behind Taiwan's success, indicates that "the economic policy of the Chinese government has been guided by the Principle of People's Livelihood..." (Li, 1976). According to Sun's ideology, in the process of development, the dependence on foreign capital and technology would be inevitable. He spoke of welcoming foreign trade and capital as long as that development could be organized in such a manner as to "ensure the mutual benefit of China and of the countries cooperating with us." (Sun, 1927) More important, an interventionist role for the state is the center of Sun's scheme. In his mind, state not only regulates foreign capitals and technology but also formulates its own capital for the benefits of the people as a whole (Gregor et. al. 1981). Therefore, those decision makers would accept the necessity of a positive state intervention into Taiwan's economic development.

Another reason concerning the positive role of state in Taiwan's development was a very weak entrepreneur class in the early days. During its 50-year colonial rule, the official policy of the Japanese government was to limit the role of those Taiwanese in both political participation and economic activities. As we discussed before, most Taiwanese were trained as clerk or interpreter. Even those who got a chance to receive higher education were mainly medicine majors. Moreover, almost all business with scale were administered by either Japanese government or Japanese corporations. The combined effects of those discriminations seriously reduced Taiwanese' capability in handling middle- or high-level administration both politically and economically. Under these circumstances, the RGC government on Taiwan had to get involved in economic activities positively. As a matter of fact, a group of middle- and high- level administors and technicians came to Taiwan after World War II, especially with the government moving its seat to Taiwan in 1949 and they filled the vacuum left behind by the Japanese (Wei, 1979).

Of course, there are several ways with which government intervenes in the economy. First of all, economic plan is applied to coordinate the allocation of scarce resources in an effective and efficient manner. The economic plan serves as broad guidelines for economic development, rather than as detailed work programs with no flexibility (Li, 1976). According to the plan, targets for both overall national economy and each individual sector are set first. For the purpose of fulfilling those targets, the plan, further, regulates certain economic activities, such as capital formation, public and private investment, public and private consumption, inter-sectoral and intra-sectoral development relationship, education, research and development, utilization of natural resources, and so on. For example, in order to upgrade its industry, the economic plan would allocate more or, at least, proportional resources to education and professional training for hi-tech technicians, to development of hi-tech industry, and to research and development on hi-tech. Ever since 1953 when the government launched the first economic plan, this plan has become the central nerve of Taiwan's economic development.

Next, state enterprise is another means used by the state to promote development. The existence of state enterprise has something to do with its political heritage. The political leadership on Taiwan, at the very beginning of their development, invoked the economic programs of Dr. Sun Yat-sen as their policy rationale (Gregor and Chang, 1983). According to the doctrine developed by Dr. Sun, to build up state capital is simply the development of state industries. He argued that if the industries are carried on by the state, the rights and privileges which they bring will be enjoyed by all the people and the unequal distribution of wealth and property would be avoided (Sun 1927). What increased the weight of the state enterprises further in Taiwan's economy was the take-over of those corporations left by the Japanese after 1945 (Amsden, 1979; Crane, 1982). In 1952, as much as 56 percent of total industrial production, as well as 56 percent of manufacturing output, were accounted for by state enterprises (CEPD, 1981). These two figures reflected the importance of state enterprises in early stage of development.

However, encouraging the free play of private enterprise remains consistent with government policy. The government not only directly manages important public utilities and enterprises, also plans and helps carry through the development of important industries under private ownership (Li, 1976). This policy, of course, is in accordance with Sun's doctrine. Under this policy, the government has transferred the ownership of some industries into private hands; on the one hand some transfers were done during the land reform period (1949-1953) and shares of stock in each of the four government enterprises designated for transfer to private ownership was given to the landlords as payments for the purchase of land, which was resold to the tenant farmers later

(Ho, 1978). On the other hand, in some new industries the government has built new factories which, once in the black, have been transferred to private owners (Amsden, 1979). In addition, many new and profitable industries have been built by the increasingly prosperous private owners. Consequently, in 1980 only 18.2 percent of total industrial production, as well as 13.8 percent of manufacturing output were accounted for by the state enterprises (CEPD, 1981). But, the importance of state enterprises in economy has changed in a clear trend with regard to capital formation. State enterprise sector constituted 42.6 percent of gross domestic capital formation in 1952; 33.9 percent in 1960; 28.7 percent in 1970; 37.1 percent in 1980 (CEPD, 1981). These figures reveal that the relative position of state enterprise sector in domestic capital formation does not show a clear secular trend, whether rising or declining, in the last thirty years, although there were fluctuations. Moreover, it indicates that state enterprises could assist Taiwan's development by means of encouraging state capital formation.

Thirdly, the government on Taiwan intervenes in foreign investment so as to obtain necessary capital and technology. Taiwan, like most developing countries, needs foreign capital and technology for its industrialization. In fact, a unanimous consensus among political leaders is that a rapid economic development must rely on foreign investment for the moment. In the 1950s, Taiwan did not worry about the problem of foreign investment, because of the large amount of U.S. aid poured into Taiwan (Jacoby, 1966). For example, in the first four-year economic development plan (1953-1956), U.S. aid constituted 41 percent of total amount of investment; 37.9 percent in the second four-plan (1957-1960) (Yeh, 1981). Overall, the U.S. aid did make significant contribution in the early stages of development.

In the early 1960s, Taiwan had to search for alternative sources of development capital with the understanding that the U.S. aid would not last for a long time. International lending institutions, such as World Bank, International Development Association, International Financial Corporation, Asian Development Bank, were contacted by the ROC government. From 1961 to 1971, these institutions provided around 447 million grants and loans for public and private enterprises with the guarantee of the government (Yeh, 1981). In addition, it received loans from Japan twice in 1965 and 1972 respectively (Yeh, 1981). After all, it was getting harder and harder to obtain favorable loans, owing to rapid economic development in the 1960s. It took three and a half year to negotiate a loan from Japan, for example. What bothered the government more was the attached conditions with those loans, limiting the options for Taiwan's development. As a consequence, direct foreign investment became the best alternative. More important, the inflow of foreign investment was instrumental in solving two key problems; the first was the infusion of new technology and the other was to solve the problem of marketing (Wu & Yeh, 1978). Since 1960, several vital laws have been passed so as to create favorable investment climate.

In the first place, these laws consist of regulations on direct foreign investment so as to make them suitable to Taiwan's development. Incentives and privileges offered to oversears Chinese or foreigners making investment in Taiwan are governed by a number of laws and regulations, including the Statue for Encouragement of Investment, the Statute for Investment by Foreign Nationals, and the Statue for Investment by Overseas Chinese. According to the provisions of these Statutes, foreign investments shall be confined to those which fall in any one of the following categories:

1. investments in manufacturing enterprises which make products needed domestically;
2. investments in enterprises which have an export market;
3. investments which complement important industrial, mining, or communications enterprises;
4. investments in enterprises which are engaged in scientific and technical research and development;
5. investment in other enterprises which are conducive to the economic and social development of the Republic of China on Taiwan (IDIC, 1982).

Through these regulations, the government can ascertain that direct foreign investments could be helpful for Taiwan's development and fit its needs.

In addition to traditional incentives such as tax holidays and accelerated depreciation, certain important privileges and protections for overseas investors are given as follows:

1. all net profits and interest earnings can be converted and remitted;
2. overseas investors may, after the first year's business operations apply for repatriation of 20 percent of the invested capital each year;
3. protection is guaranteed against government expropriation or requisition for 20 years, if the foreign investment in an enterprise is 45 percent or more of the total registered capital;
4. overseas investors may have 100 percent ownership of the enterprises they invest in (IDIC, 1982).

Overall, the government plays a vital role in the investment process. On the one hand, it introduced incentives to affect both the size and direction of investment. On the other hand, it plays the role of a guarantor for both public and private enterprises in order to obtain loans from international financial market. Owing to its high credit rate in financial market, resulting from its sustained economic development, it is quite easy for Taiwan to get access to the banking community. One indicator is that more than 31 foreign banks have branches and representitives stioned in Taipei (IDIC, 1982).

IV. CONCLUSION

A dramatic structural change in the international system has occurred since the early 1970s and affected the North-South dependency relationship. Two vital groups of developing countries have emerged, namely, the Organization of Petroleum Exporting Countries (OPEC) and the NICs. Their success lies in their rapid economic growth and industrialization. As a consequence, their bargaining power vis-a-vis the Northern industrialized countries has been enhanced, especially with regard to world economic affairs. From another perspective, it is feasible that the "exploitation" from the North could be reduced significantly. Most importantly, their ascent from peripheral position demonstrates a dependency reversal, and, as a result, encourages other developing countries struggle for higher status.

Then, the two models–OPEC model and NIC model–could be emulated by their fellow developing countries. In spite of its influence, the OPEC model has its own limits, because its power rests on one vital strategic commodity–petroleum. The fact is that not every developing country has this kind of unique edge at its disposal. For those developing countries lacking strategic commodity, they definitely could not follow the OPEC model. For those developing countries with strategic commodity other than petroleum, to follow the steps set by the OPEC is almost impossible. In fact, many nations have emulated the OPEC model and established commodity cartels to enhance their bargaining power, but none of those cartels has succeeded. Furthermore, the cumulative effect of reduced consumption combined with the rising supply from non-OPEC producers resulted in a glut in tworld oil supply and in March, 1983 OPEC was forced for the first time in its history to lower its posted price. Although OPEC is not likely to collapse in the near future under the pressures of a buyers' market, dependence on petroleum has the problem of reliability in the long run.

In terms of their economic behavior, the NICs have great significance for the future international economic system. As a matter of fact, more and more developing countries have followed the example of the NICs to improve their industrial capability, such as Thailand, Malaysia, and Indonesia. For NICs, their rapid industrialization depended on skillful management of their economy, not on strategic commodity. A skillful management was concerned with three major elements: (1) the capability and capacity of the state; (2) state policies on economic affairs; (3) the quality of the labor forces. The combined effects of these three elements account for the development of those NICs. Therefore, a mercantilistic model has been developed in order to describe, explain, and predict NICs' development in the first place. The case of Taiwan demonstrated the excellent power of the mercantilistic model on description and explanation. Although its capability on prediction is in question and needs further investigation, the policy suggestions obtained from the mercantilistic model would contribute much to other developing countries.

The principles generated from mercantilistic model could be utilized by other developing countries. It is true that Taiwan, like other NICs, has its own special backgrounds and, therefore, its development programs can not be copied completely. However, the preceding case study of Taiwan provides, at least, an example concerning how state intervention works in national development. It goes without saying that state intervention into economic affairs has been prevalent in the Third World. But only a handful of them has succeeded. Why have most of them failed? According to the mercantilistic model, it might have something to do with their neglect of the constraints on state intervention. With the state intervention as backbone of its development programs, the state should also make every effort to cultivate a strong indigenous entrepreneur class with independence. In sum, mercantilistic model does offer a good alternative for developing countries, although it does not guarantee their success.

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台灣的經濟發展歷程
——重商主義模型之檢驗

摘　要

自一九七〇年代開始，新興工業化國家（尤其是亞洲四條小龍）在經濟發展或工業化方面的成就爲學術及實務界研究的焦點。大多數研究學者認爲强勢的國家在發展過程中扮演十分重要的角色。所謂重商主義模型或國家中心主義模型應運而生。台灣在日據時代已發展成極端依附日本的關係。一九五〇年後，中華民國政府在經濟發展歷程中扮演十分强勢的地位，主導經濟發展的規劃及執行。重商主義模型在此得驗證。與其他開發中國相比，中華民國在台灣的成就的確十分驚人，其所獲致之經驗也可作爲其他第三世界國家發展之參考架構，然而遵循重商主義模型所制定之政策並不必然保證其能獲得勝利。