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# **Cross-Strait Economic Integration and the Transnationalization of Taiwan**

**Jasper Karim Dominik Green**

**Submitted for Doctor of Philosophy in  
International Relations**

**University of Sussex**

**September 2014**

I hereby declare that this thesis has not been submitted, either in the same or different form to this or any other University for a degree.

**Signature .....**

UNIVERSITY OF SUSSEX

JASPER KARIM DOMINIK GREEN

THESIS SUBMITTED FOR DEGREE OF DOCTOR OF PHILOSOPHY IN INTERNATIONAL  
RELATIONS

CROSS-STRAIT ECONOMIC INTEGRATION AND THE TRANSNATIONALIZATION OF  
TAIWAN

SUMMARY

This thesis provides a neo-Gramscian account of Cross-Strait economic integration (CSEI) between Taiwan and China and challenges the realist and liberal underpinnings which define the CSEI literature. I argue that rather than occurring between two separate state apparatuses which respond to an objective market-led integration process, that both the political and economic dimensions of CSEI should be understood as components of a single process. I theorize Taiwan's policy parameter as confined by a Cross-Strait historical bloc in which Taiwan's capitalist class and the Chinese Communist Party are hegemonic.

I start by arguing that CSEI can only be understood in terms of social order and the social basis of Taiwan's state and develop a regionally focused neo-Gramscian framework to account for it in terms of a Cross-Strait historical bloc. To better contextualize Taiwan's contemporary social order parameters, I first examine the social basis which enabled and eventually diluted the bureaucratic autonomy on which the Kuomintang's one-party rule was based between 1945 and 1988. Afterward, I examine the erosion of the KMT's elite bureaucratic autonomy and the social order parameters set by Taiwan's newly hegemonic Cross-Strait historical bloc between 1988 and 2000. I then examine the Democratic Progressive Party's CSEI openings between 2001 and 2008 in the context of both its historical bloc confined policy parameter and an increasingly populist identity politics in Taiwan which diverted the citizenry's attention from economic matters. I conclude by examining the unprecedented CSEI deepening which occurred since the KMT's return to power in 2008 and argue that this is a culmination of the historical bloc's long-term policy parameter. But, I also examine to what extent a capital-defined CSEI has spurred forth an increased contestation process and to what extent this may signal that a counter historical bloc is coming into shape in Taiwan.

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## Interviews<sup>1</sup>

Chang Feng-yi – Executive Director, Taiwan Labor and Social Policy Research Association, 25/12/2012.

Chang Hiao-Feng – PFP Legislator, 04/01/2013.

Chen Yi-chen – DPP Tainan Councillor, 09/01/2013.

Chien Hsih-Chieh – Convenor, Anti-Poverty Alliance, 17/12/2012.

Gao Wei-kai – Labor Party, Hsinchu County councillor, 03/01/2013.

Hang Shr-shian – General Secretary, Taiwan Federation of Financial Unions, 27/12/2012.

Hung Ching-hsu – Spokesperson, Tax Reform Alliance, 24/12/2012.

Ke Yi-min – Convenor, Raging Citizens Act Now, 27/12/2012.

Lai Wei-chieh – Chairman of the Board, Green Citizens' Action Alliance, 08/01/2013.

Lin Hsu-fen – DPP Legislator, 03/01/2013.

Lin Ming-tse – Secretary General, Trade Union of Electrical, Electronic and Information in Taiwan, 03/01/2014.

Lin Tzu-wen – Independent Labor activist and organizer, 25/12/2012.

Pan Han-Shen – Director, Green Party, 04/01/2013.

Sun Yu-lian – Secretary General, Taiwan Labor Front, 24/12/2012.

Tang Shu – Vice Chairman, Labor Party, 28/12/2012.

Tien Chiu-chin – DPP Legislator, 08/01/2013.

Wu Yong-yi – Labor Organizer, Taiwan International Workers Association, 07/01/2013.

## Anonymous Interviews<sup>2</sup>

Interview 1 – Chairperson, leading solar panel firm, 30/11/2012.

Interview 2 – Senior Technology Director, leading semiconductor firm, 02/01/2013.

Interview 3 – Technology Development Staff, leading LCD Firm, 1/12/2012.

Interview 4 – Senior Vice President, leading Biotechnology Firm 09/12/2012.

Interview 5 – Technological development staff, IC Equipment Firm, 19/12/2012.

Interview 6 – Associate Technical Manager, Notebook Computer firm, 01/01/2013.

Interview 7 – Manager, Refined Petrochemical firm, 08/12/2012.

Interview 8 – Ex-Plant Manager, Chi Mei Petrochemicals China branch, 22/12/2012.

Interview 9 – Executive Vice President, leading petrochemical firm, 18/12/2012.

Interview 10 – Plant manager, Kaohsiung Petrochemical firm, 06/01/2013.

Interview 11 – Chairperson, Precision Machinery Firm, 11/01/2013.

Interview 12 – President, Yacht Making Firm, 01/12/2012.

Interview 13 – Independent Business Consultant, 08/01/13.

Interview 14 – Specialist, Southern Taiwan Science Park Administration, 09/01/2013.

Interview 15 – Senior advisor in Economic Planning Agency, 04/12/2012.

Interview 16 – Deputy General Secretary of National level labour union, 25/12/2012.

Interview 17 – Tainan City councillor, 30/12/2012.

Interview 18 – Aid at the Prime Minister's office, 08/01/2013.

Interview 19 – Manager, LED firm, 10/01/2013.

Interview 20 – President, light weight electric boat firm, 20/12/2012.

Interview 21 – Manager, now defunct LCD equipment firm, 29/12/2012.

Interview 22 – Legislative aid, 08/01/2013.

<sup>1</sup> I conducted all interviews in Mandarin and have audio recordings on request.

<sup>2</sup> I have anonymized the following interviews either on request or as a matter of practice. Because of the critical nature of the study, I have anonymized all interviews with private sector managers or staff and government officials so that I could engage in my analysis without reservations.

## **Common Abbreviations**

ARATS – Association for Relations Across the Taiwan Strait  
 ASEAN – Association of Southeast Asian Nations  
 CCP – Chinese Communist Party  
 CFL - China Federation of Labor  
 CLA – Council of Labour Affairs  
 CSEI – Cross Strait Economic Integration  
 DPP – Democratic Progressive Party  
 ECFA – Economic Cooperation Framework Agreement  
 EDAC – Economic Development Advisory Conference  
 EOI – Export Oriented Industrialization  
 EPZ – Export Processing Zone  
 ERSO – Electronics Research and Service Organization  
 IC – Integrated Circuit  
 ISI – Import Substitution Industrialization  
 ITRI - Industrial Technology Research Institute  
 KMT - Kuomintang  
 LCD – Liquid Crystal Display  
 LE – Large Enterprise  
 LED – Light Emitting Diodes  
 MAF – Mainland Affairs Council  
 NCIC - National Council of Industry and Commerce  
 NTD – New Taiwan Dollar  
 OBM – Original Brand Manufacturing  
 ODM – Original Design Manufacturing  
 OEM – Original Equipment Manufacturing  
 PFP – People’s First Party  
 PRC – People’s Republic of China  
 ROC – Republic of China  
 SEF - Strait Exchange Foundation  
 SME – Small and Medium Size Enterprise  
 SOE – State Owned Enterprise  
 TAO – Taiwan Affairs Office  
 TCTU – Taiwan Confederation of Trade Unions  
 TINA – There is No Alternative  
 TLF – Taiwan Labor Front  
 TNS – Transnational state  
 TRA – Taiwan Relations Act  
 TSMC – Taiwan Semiconductor Manufacturing Corporation  
 UF – United Front  
 UMC – United Microelectronics Corporation  
 VIC – Vanguard International Semiconductor Corporation  
 VLSI – Very Large Scale integration

## **Introduction**

On February 28, 2004, the Taiwan nationalist Democratic Progressive Party (DPP) organized an impressive mobilization in which one million of its supporters locked hands and formed a continuous human chain along Taiwan's coast. Symbolically, this mobilization was framed by the DPP as signalling the party's resolve to preserve Taiwan's sovereignty from China's encroachment. But, despite the impressive political theatre, the human chain had little effect on the Chinese Communist Party's (CCP) unification strategy which was based on the combination of a threat of war in the case of a formal declaration of Taiwanese independence and the intensification of Cross-Strait economic integration (CSEI), a process which intensified fully from 1988 onward. A deepening CSEI is central to the CCP's unification strategy because it facilitates Taiwan's economic dependence on China and because it allows the CCP to constrain Taiwan's long-term policy parameter toward a China-friendly pathway through its control over Taiwan's capitalist class which has invested heavily in China. Even more importantly, however, despite publicly striking a principled Taiwan identity advancing and sovereignty preserving posture throughout its two terms in office between 2000 and 2008, the DPP actually lifted numerous existing restrictions on CSEI with China. That a self-professed Taiwan nationalist party pursued a unification advancing economic policy may appear to be a baffling phenomenon, but it indicates that regardless of sovereignty implications, that Taiwan's two major political parties, the DPP and the more China-friendly Kuomintang (KMT), have pursued an equally CSEI enabling policy course from 2000 onward. The difference between the two party's CSEI policies was only a matter of tempo and degree, not substance.

Within much of the scholarly literature, the DPP's CSEI enabling policy course is interpreted as an outcome of the party leadership's awareness of the unavoidable and economically vital nature of CSEI for Taiwan. This understanding of CSEI is based on underlying and taken for granted liberal assumptions which are dominant in the CSEI literature and which propose that CSEI, in a typical free market fashion, leads to the upgrading of Taiwan's economic composition along a comparative advantage and market-defined pathway (Dent, 2003; Sutter, 2002). Such liberal assumptions have themselves become a tool of legitimation by which the "beneficial" nature of CSEI is presented as objectively valid and beyond reproach while Taiwan's citizenry has also been encouraged to accept CSEI on the basis of an expert consensus on its desirability (Roy, 2004). A liberal interpretation of a CSEI-induced national prosperity (henceforth to be referred to as the economic narrative) has been propagated so effectively throughout Taiwan's financial, business and media institutions that a majority of its citizens associate CSEI with Taiwan's collective interest. As such, despite a majority of Taiwan's citizens indicating a status-quo friendly and unification-averse political stance, nearly 70 % simultaneously voice their support for CSEI (Ma, 2009, p. 18).

Based on the perceived economically beneficial nature of and strong degree of popular support for CSEI, the Cross-Strait dynamic tends to be tidily summed up in the literature in a binary-like economics vs. politics schematic. According to this view, Taiwan's citizens are faced with a collective choice between either an economically vital but sovereignty-impeding CSEI, or an economically harmful but sovereignty preserving economic isolationism (Keng & Schubert, 2010; Roy, 2004). Because of the strong degree of support for CSEI, the mainstream view posits that Taiwan's citizenry soundly veer toward the former. As an outcome, a majority of the CSEI literature tends to be aimed at providing an account of the relative tilts in Taiwan toward either an economic or political direction. Needless to say, such a binary-like approach is not only over simplified and reductionist, but also fails to correspond to the reality of the CSEI dynamic.

At a closer inspection, not only did CSEI not lead to an increased socio-economic prosperity in Taiwan, but it was rather accompanied by an ever-deepening socio-economic malaise which refers to a prolonged economic slowdown and a consistent deterioration of Taiwan's socio-economic welfare. The roots of Taiwan's socio-economic malaise were already observable in the 1990s when CSEI first visibly intensified (having been more incremental in nature during the 1980s) while manifesting fully after 2000. In welfare terms, Taiwan fared particularly poorly and a historically low unemployment rate grew from an already increased 3% in the 1990s to more than 5% after 2000 while real wages also declined annually and have continued to do so until this day (Driffield & Chiang, 2009; Kong, 2005; L. Wang, 2011). As an outcome, inequality in Taiwan has increased significantly and has manifested itself in the so-called M shaped society phenomena by which Taiwan's middle class has grown slimmer while the discrepancy between the wealthy and the poor has grown at a pronounced rate. In terms of the labour process, CSEI also did not lead to a visible improvement of Taiwan's labour norms which continue to be centred on intensive and long-hours based work practices. This has been so much the case that Taiwan has consistently ranked as having among the world's longest working hours, securing a higher ranking even than Japan (Bulard, 2012; Fell, 2005).

Correlation, of course does not equate to causation, but it is impossible to deny that the pronounced capital flight toward China which underpinned the CSEI process has been an important factor exacerbating Taiwan's socio-economic malaise. Although challenging to liberal proponents of CSEI, such an outcome is not surprising, especially in the context of the two central aims which guided the investment decisions of Taiwan's capitalist class in China. These were to make inroads into China's large domestic market and to secure lower production costs by outsourcing production processes to China. In terms of the first aim, Taiwan's capitalist class fared unevenly while successful inroads into China also did not necessarily correlate with

positive externalities in Taiwan. But, in terms of the second aim, although Taiwan's capitalist class was enormously successful, the social cost of the capital flight and production outsourcing was an increased unemployment and a deteriorating labour and wage environment in Taiwan. Although liberals are willing to acknowledge that job losses have occurred, they argue that such job losses are confined to lower-end labour processes and that they are necessary for Taiwan's economic upgrading which will create plenty of new jobs that are more in tune with its comparative advantage (Lui, F.T. and Qiu, L.D., 2001). But in Taiwan's case, not only have limited new jobs been created, but outsourced jobs have also extended far beyond the scope permitted by liberals and have occurred all along Taiwan's value chain (Driffield & Chiang, 2009; Kobayashi, 2005).

When Taiwan's CSEI induced socio-economic malaise is acknowledged, it is most commonly shaped by an economic nationalist perspective which blames this malaise on a vertical hollowing-out of Taiwan's value chain to China (Driffield & Chiang, 2009; Kobayashi, 2005). The economic nationalist position's widening of the scholarly debate is to be welcomed, but its analysis also remains wanting because it fails to account for the CSEI's class defined nature which has proceeded primarily to advance the interests of Taiwan's dominant sub-contracting based capitalist class. Although Taiwanese firms are advanced in relative terms, a majority continue to engage primarily in either Original Equipment Manufacturing (OEM) or Original Design Manufacturing (ODM) production, the latter of which is slightly more advanced than OEM because it also includes some design functions. Excluding a very slim number of core technology or brand value possessing firms such as TSMC and Acer, a predominantly sub-contracting industrial composition has ensured that Taiwanese firms tend to only enjoy very low profit margins. Rather than pursuing innovative business strategies or investing more heavily in R&D, however, the majority of Taiwan's firms have rather pursued a cost-down strategy by securing revenues primarily through reducing production costs (Breznitz, 2007). When perceived this way, it is clear that Taiwan's capital flight to China was an unavoidable outcome of its industrial composition which, in turn, has further strengthened Taiwan's sub-contracting industry features.

It is true that many of Taiwan's firms have not yet outsourced all of their production processes to China, especially in terms of more technologically or capital-intensive production processes. But at the same time, without viable economic upgrading and job creation, the overall outcome of CSEI has been negative for Taiwan's social welfare. But, despite the collective costs of this capital flight, it remains the case that Taiwan's capitalist class has advanced its interests and has profited enormously through the CSEI process. Because class is so central to CSEI, it is clearly not possible to examine CSEI without focusing on the class drivers and class contradictions

which underpin it. Taiwan's deteriorating labour regime, for instance, is an outcome of both sub-contracting induced cost-down imperatives, but also more general contradictions in the resource allocation process between the capitalist and non-capitalist classes. As such, other than immediate challenges posed by capital flight, CSEI has also significantly increased the bargaining power of employers to set labour conditions and to constrain Taiwan's government policy toward a capital advancing pathway. It is thus not difficult to discern that the welfare impeding outcomes of CSEI have been a direct result of Taiwan's OEM/ODM capital defined social order features. Such an understanding directly challenges both liberal assumptions of a socially conducive CSEI process while also overcoming the reductionist hollowing-out schema by theorizing CSEI within its appropriate class context.

The failure of the CSEI outcomes promised by liberals to materialize problematizes the previously mentioned politics vs. economics binary and suggests that CSEI poses challenges on both economic and political grounds for Taiwan. This being so, the Taiwanese state's CSEI enabling policy becomes even more counter-intuitive because it challenges both Taiwan's sovereignty while also exacerbating Taiwan's socio-economic malaise. Despite this, a common realist assumption remains as prevalent within the CSEI literature as the liberal assumption and conceives of Taiwan's CSEI enabling policies as an outcome of economic necessity and as being guided by the state's aim of advancing Taiwan's collective interest (Dent, 2005; Sutter, 2002; Xin, 2010; W. Zhang, 2001). Such an interpretation is clearly erroneous, but because it is so dominant in the literature, it has been the central impediment which has limited the analytical rigour of CSEI theorizing to date. This being so, it should be clear that CSEI can only be explained accurately once the policy parameters which shape Taiwan's state are theorized first. Given the fact that CSEI is so evidently class defined, it is imperative that Taiwan's state policy be examined with specific reference to its social and class basis before which assumptions of its political autonomy must remain in question.

## **Research Questions**

The main research question I examine is why has Taiwan's state facilitated a prolonged CSEI process? To answer this, I explore two main sub-questions, namely how can CSEI be understood in terms of Taiwan's social order and what was the CCP's role in shaping it? and how can the limited contestation against CSEI be understood in terms of its successful legitimization? To address these questions, I also examine a number of more specific questions which focus on key junctures of Taiwan's post-WWII social order and which combined will allow me to answer my main research question and sub-questions. Because the question of a separable political autonomy is crucial to theorizing the nature of Taiwan's state, I first examine

what the social basis of Taiwan's hard developmental-state was between 1949 and 1978 to address how the KMT's elite bureaucracy's secured its pronounced political autonomy during this time? I then examine how a prolonged changing social basis of Taiwan's state led to a continued, but much weakened elite bureaucratic autonomy during Taiwan's soft developmental-state era between 1978 and 1988? I then examine how Taiwan's changing social basis of the state led to the dissolution of a separable political autonomy during Lee-Teng-hui's presidency between 1988 and 2000 and what the social basis of Taiwan's state was after this? Because CSEI only fully intensified during Lee's presidency, I also examine why his administration allowed CSEI to proceed? I then examine why and how the DPP's Taiwan nationalist Chen Shui-bian administration significantly liberalized existing CSEI restrictions, especially in the context of an intensified socio-economic malaise which became fully evident during his presidency? Finally, I explore how the KMT's President Ma Ying-jeou was able to pursue an even more pronounced CSEI deepening after 2008 despite Taiwan's continually worsening socio-economic malaise? But, I also ask to what extent a more visible social contestation against CSEI during Ma's administration may be reflective of a weakened CSEI legitimation?

## **Theoretical and Argument Overview**

As the above overview illustrates, I take issue especially with the realist and liberal predicates on which the mainstream CSEI analysis is based. Although the realist and liberal approaches are separate, both tend to inter-twine within the CSEI literature to shape the mainstream analysis. As such, I don't engage with the realist and liberal approaches as separate, but rather as un-reflexive predicates on which a majority of the CSEI analysis is based. Before I proceed further, it will first be useful to outline the core assumptions that define both the realist and liberal predicates which I will return to again in the following chapter at more depth.

The liberal predicate is based on the assumption that CSEI is a rule-like and market-led process which advances Taiwan's collective economic interests. Despite its claim to objectivity, the liberal predicate is influenced heavily by the normative assumption that a market-led CSEI is not only desirable, but that it is the single most conducive path possible toward advancing Taiwan's collective social welfare. Because the engine for this "objective" CSEI induced welfare enhancement is the concept of a comparative advantage-led upgrading, a liberal perspective equates and collapses the economic interests of the capitalist class with the collective interest of the citizenry. As such, liberal proponents of CSEI oppose state interference in the CSEI process because it is argued to impede the market from functioning properly. But, based on the previous overview of the correlated social outcomes which accompanied Taiwan's

prolonged CSEI, it is clear that such a CSEI induced welfare enhancement did not materialize, a fact which seriously challenges the liberal predicate's claim to objectivity. This failure to correctly theorize the CSEI process is an outcome of the negation among liberals to account for the very real class contradictions which shape and define the CSEI process.

Because I focus especially on the question of the state, the realist predicate tends to be the most visible focal point of my analysis. As noted, the realist predicate is based on the central assumption that Taiwan's state is an autonomous and agency-bound actor which is guided by the *modus operandi* of advancing Taiwan's national or collective interest. A realist analysis tends most often to be coupled with a liberal predicate so that Taiwan's state is either conceived of as actively enabling CSEI or as forced to do so because of an economic necessity which trumps the state's long-term sovereignty imperatives. But, as I argue, this understanding cannot be substantiated if the liberal predicate of a CSEI-induced economic prosperity is problematized. Regardless of the untenable nature of its analysis, I argue that the realist predicate of an autonomous state in Taiwan is so deeply engrained in the literature that a deeper exploration of Taiwan's state policy in terms of its social basis remains seriously lacking to date. The prevalence of the realist predicate is especially problematic because it has also influenced the analysis of the more critical and class-focused literature. As such, although some scholars have argued that Taiwan's state policy has advanced capitalist interests which do not coincide with Taiwan's collective interest, they have not parted paths entirely from the concept of its continued political autonomy (Driffield & Chiang, 2009; Kobayashi, 2005). For these reasons, a clear theoretical precision to understand Taiwan's state remains under-developed and I will address this lacuna especially by arguing that Taiwan's state was inherently capital advancing because its social basis was one in which its capitalist class was dominant.

I critique the realist and liberal predicates on the basis that the market is not an objectively welfare enhancing and rule abiding mechanism and that the assumption of a separable state autonomy can also not be substantiated in Taiwan's case. Both dimensions, I argue, are composites of a unified social order which cannot be theorize independently of social relations and class. To overcome the limitations of a realist and liberal analysis and to theorize CSEI in terms of its social basis, I apply a neo-Gramscian framework to theorize Taiwan's CSEI policy in terms of a Cross-Strait historical bloc. The historical bloc is a conceptual tool which refers to class alliances between hegemonic and allied classes that shape and define the policy parameters of the state. (Cox, 1983) I argue that from the 1990s onward, Taiwan's Large Enterprise (LE) owning capitalist class became hegemonic and forged a Cross-Strait historical bloc with the CCP which thereby also secured a capacity to shape Taiwan's social order. The LE capitalist class distinction from a much larger Small and Medium (SME) enterprise owning

capitalist class is crucial to my analysis because I identify the LE capitalist class specifically as hegemonic and as shaping the policy parameters of Taiwan's state. The LE capitalist class can be understood as Taiwan's equivalent of a transnationally oriented capitalist class which is economically most consolidated and politically most powerful. Although it is difficult to demarcate specifically where the category of the LE capitalist class begins, LEs are generally publicly traded in the stock or over the counter market and will have employees numbering in the thousands or tens of thousands while enjoying direct access to the highest echelons of the political establishment. As for the CCP, I theorize its political autonomy on the basis of a passive revolution-enabled contender state which operates in opposition to neoliberal encroachment and which has actively shaped the Cross-Strait historical bloc to advance its interests (van der Pijl, 2012).

By applying a Gramscian framework, I demonstrate that the artificial separation between an objective market and an autonomous state is untenable and that both are separate facets of Taiwan's social order which can only be theorized as a whole. Furthermore, a theorizing of CSEI on the basis of a Cross-Strait historical bloc also demonstrates that the Gramscian approach is well-suited to theorize non-Northern inter-state relations through the concept of regionally operating historical blocs more generally. As such, my analysis also implicitly critiques a more dominant global capitalist type application popular among Gramscians which focuses centrally on a binary-like neoliberal social order convergence process and an anti-capitalist resistance against it (Gill, 1995a; Rupert, 2000). Such a conception is challenged by Taiwan's internationalization toward China which, I argue, can be understood in terms of the fractional composition of its OEM/ODM capitalist class due to which its immediate economic interests are centred primarily in China. I ground this understanding on the Gramscian framework's conception of a national point of social order legitimation and foreground the possibility of a continued geographical variation between globally and national/regionally dominant capitalist classes (Cox, 1981, 1983). This, I argue, ensures that differing fractional compositions of capital influence the susceptibility of nationally hegemonic classes toward either a Northern-emanating historical bloc or regionally operating historical blocs as in the case of the Cross-Strait historical bloc.

My analysis is based on the assumption that Taiwan's Cross-Strait historical bloc only became hegemonic by the early 1990s and before which a state-controlling elite bureaucracy enjoyed a pronounced political autonomy on the basis of a prolonged passive revolution. Passive revolution refers to a strategy of rule by which a regime managing class secures a political autonomy through limiting and balancing the relative strength of major classes so that no single class becomes powerful enough to impinge on its political autonomy (Cox, 1983). In chapters

3 and 4, I focus primarily on the social conditions which enabled this elite bureaucratic autonomy in order to examine how a changing social basis of Taiwan's state led to its progressive diluting during this time. The originally Chinese KMT first set up in Taiwan a provincial government in 1945 and then set up its official Republic of China (ROC) government in 1949 after its retreat from China. With the arrival of the KMT's transplanted elite bureaucracy and a two million strong Chinese diaspora, I argue that the autonomy of the state-managing elite bureaucracy is to be understood in terms of its disconnected regime features from Taiwan's social base and its ethnically homogenous elite bureaucratic composition. In addition, I also explore other factors which enhanced the elite bureaucracy's political autonomy such as a crucial US support, a highly developed colonial infrastructure of rule inherited from Japan, and Taiwan's predominantly agrarian society in which both class consciousness and civil society were under-developed. On this basis, I then examine the advances made by the elite bureaucracy to secure a long-term passive revolution by systematically weakening Taiwan's elite classes and securing the long-term foundations for Taiwan's class equilibrium.

On the foundation of its passive revolution, I agree that the elite bureaucracy adopted an archetypal developmental-state (statist) policy framework. As a developmental-state, the KMT's elite bureaucracy empowered a specialist economic bureaucracy to plan and lead Taiwan's successful economic development according to a national plan (Amsden, 1979; Wade, 1990). But, I argue that the statist literature remains limited because of its primary focus on the institutional and policy parameters of Taiwan's developmental state while focusing insufficiently on the class basis on which the political autonomy for a prolonged statist social order was secured. As an outcome, statisticians have failed to provide a satisfactory account for the progressive weakening and eventual erosion of the elite bureaucracy's autonomy. In addition, I also argue that statisticians have failed to understand the elite bureaucracy as a distinct class which has secured its economic and political privileges through an organic connection with the state. As such, I argue not only that the elite bureaucracy shared a common interest, but that it also shared a strong consensus toward preserving its political autonomy. This being so, I explain the elite bureaucracy's pursuit of a consistent statist development in terms of its need to deliver welfare-enhancing development which secured it the regime legitimacy necessary for its prolonged one-party rule.

After theorizing the class features of Taiwan's statist social order, I proceed to account for the class formation trajectory induced by the KMT's statist development and examine how this affected Taiwan's social order between 1949 and 1988. The KMT's statist economic development progressively brought into existence rapidly expanding and increasingly defined labouring, middle and capitalist classes. But, despite this being so, I argue in chapter 3 that

between 1949 and 1978, that Taiwan can be conceived of as a hard statist social order in which the elite bureaucracy secured an unchallenged autonomy, remained unresponsive to interest articulation among Taiwan's social forces while also freely wielding the coercive apparatus of the state to discipline its opponents. Although this was secured on a purely disciplinary basis during the KMT's early rule, the KMT's long term passive revolution also required a prolonged *transformismo* by which the elite bureaucracy relied on the Taiwan's Leninist party-state to absorb and co-opt key class actors within the state. In addition to formal co-optation into the state, *transformismo* can also be understood as a process of extensive relation building between the elite bureaucracy and targeted classes by successfully wooing them to concede to a subservient position (Cox, 1983). During the hard statist social order, such a *transformismo* was controlled and confined to ancillary roles in which no significant power was at stake. Despite the elite bureaucracy's continued autonomy, I argue that from the late 1960s onward, a historical bloc increasingly came into shape between the elite bureaucracy and Taiwan's LE capitalist class. This was because LE capitalists, although facing constraints on capital consolidation and politically subservient to the elite bureaucracy, were, nonetheless, the prime beneficiary of the statist development model while also enjoying the closest relationship among all of Taiwan's classes with the elite bureaucracy.

Despite the elite bureaucracy's success at maintaining a prolonged bureaucratic autonomy, it was also undeniable that its autonomy weakened progressively. This became especially evident during Chiang Ching-kuo's presidency between 1978 and 1988 and was an outcome of the KMT's successful capitalist development due to which a successful passive revolution could only be secured for a definite timeframe. The weakening of the elite bureaucracy's political autonomy was a result of a changing social basis of the state by which ascendant classes advanced on previously off-bounds political spaces while eventually dissolving a remaining political autonomy altogether. In Taiwan's case, this inter-twined with its political democratization trajectory and was an outcome of two fundamental processes. The first was the rise of a pronounced social contestation while the second was a diluted and increasingly fragmented elite bureaucratic consensus. Both were unavoidable because the KMT's prolonged sojourn on Taiwan eventually led to the elite bureaucracy's progressive integration with the social base from which it operated. On this basis, I argue in chapter 4 that Chiang's presidency can be understood as a qualitatively separate soft statist social order in which the elite bureaucracy's autonomy weakened while it also had to become significantly more responsive to Taiwan's social forces. This was especially so in the case of the elite bureaucracy – LE capitalist class historical bloc which increasingly underpinned the stability of the statist social order. I argue that this led to an intensified interest harmonization between the elite bureaucracy and the LE capitalist class so that Taiwan's economic policy was now oriented increasingly toward

satisfying the short-term interests of the LE capitalist class. Reflective of this was the fact that although long term strategic statist development policy was still in operation, that it was now only applied to absolute national priority initiatives.

The elite bureaucracy's policy responsiveness to the LE capitalist class was particularly crucial in the context of Taiwan's increasingly unmanageable rise of social contestation. At a most visible level, Taiwan's rising contestation was catalysed by the KMT's waning regime legitimacy which resulted from its increased international de-recognition during and after the 1970s. But, at a more fundamental level, Taiwan's increased contestation was an outcome of the KMT's successful economic development policies which resulted in a better educated populace and a much more clearly defined class composition. Paradoxically, however, I argue that the unmanageable nature of Taiwan's contestation was an outcome of the KMT's ethnic monopolization of power and its prolonged success at repressing a class based contestation. As such, Taiwan's contestation process was ultimately channelled toward a specifically anti-KMT democratization movement which was composed of more issues-focused social movements as well as a nativist democratization movement. But, despite the increasingly difficult to manage nature of Taiwan's social contestation, a weakened elite bureaucratic autonomy was secured until Chiang's death in 1988. This was because the elite bureaucracy secured the continued acquiescence among the LE capitalist class toward its senior role while also securing a sufficient social assent among Taiwan's citizenry to its continued one party rule. This assent, I argue, was secured on the basis of the continued disciplinary features of the KMT regime, the effectiveness of its propaganda apparatus and its regime-led political liberalization and islander promotion drive in which islanders were for the first time promoted into the elite bureaucracy.

Because Taiwan's statist social order came to an end after Lee Teng-hui's presidency in 1988, I proceed in chapter 5 to examine how the elite bureaucracy's autonomy eventually dissolved altogether. Although I account for this as a culmination of Taiwan's development induced changing social basis of the state, I explore the immediate dissolution process in terms of a fractured elite bureaucratic consensus. I examine this fracturing as an outcome of an already diluted bureaucratic consensus due to the elite bureaucracy's prolonged interest harmonization with the LE capitalist class, but also a visible ethnic split within the elite bureaucracy itself. This split took place between mainlander dominated elite bureaucrats who attempted to secure a continued monopoly on political power and a Lee Teng-hui led reformist alliance composed of islander and some allied mainlander elite bureaucrats. Scholars such as Wang Jenn-hwan (1996) have correctly pointed out that the LE capitalist class, although courted by both factions, eventually granted its support to the reformist alliance and due to which the anti-reformist bureaucratic faction was eventually dislodged. But, although correctly understanding the

process of the elite bureaucracy's dislodging from power, I advance on Wang's approach by theorizing this process in terms of a newly forged hegemonic historical bloc and based on which I propose that a separable political autonomy eroded throughout the 1990s.

On the basis of the historical bloc, I proceed in chapters 5 through 7 to examine a rapidly intensifying CSEI trajectory. The CSEI process began very gradually in the 1980s during which time prohibited investment types in China were still punishable by law. Despite this, the elite bureaucracy did tolerate some very limited China-bound capital migration for small-scale sunset industry firms. Toward the latter half of the decade and the early 1990s, coinciding with Taiwan's democratization, CSEI also quickly manifested itself with full intensity. Although it is true that President Lee did eventually attempt to constrain CSEI after 1996 due to his Taiwan nationalist proclivities, he was unsuccessful in doing so. I argue that this was because Lee's administration actively courted and relied on the support of Taiwan's LE capitalist class. The attempt by the Lee administration to constrain a hegemonic LE capitalist class from investing in China was most likely due to the erroneous assumption of a continued residual political autonomy. The untenable nature of this assumption was quickly demonstrated by the LE capitalist class' intensified investments in China which rendered the policy meaningless. Although the LE capitalist class remained critical of Lee's CSEI policies, it continued to support him due to the unenforceable nature of his attempted CSEI constraints and Lee's otherwise overwhelmingly capital-friendly policy course. But, at the same time, the LE capitalist class also leveraged its influence to ensure that all major candidates for the 2000 presidency committed to a CSEI enabling policy course. Thus, following Chen Shui-bian's victory in 2000, Taiwan's politicians no longer just tolerated CSEI, but also proactively enabled and made way for it to occur at a much deeper and more intensified level which I examine in chapters 6 and 7.

Before concluding this overview, there is one final question that must be addressed, namely how it was that a socio-economic malaise exacerbating and capital advancing CSEI process secured such a strong degree of support in Taiwan. This, I argue, can only be understood in terms of Taiwan's social order and the hegemony of Taiwan's Cross-Strait historical bloc. In order to understand this, I examine ideational processes and the hegemonic narrative on which Taiwan's historical bloc secured its hegemony. Paradoxically, I argue that it was the rise of a Taiwan nationalist and identity politics which enabled the Cross-Strait historical bloc's hegemony by diverting the citizenry's attention from material and economic issues from the 1990s onward. Rather than a unified Taiwan nationalism, I argue that Taiwan's contested sovereignty and its fractured identity perceptions were unresolvable because a hard-line Taiwan independence and more China-friendly unification-favouring demographic possessed entirely different national imaginations. This binary defined the outermost parameters of Taiwan's politics toward which a

majority status quo favouring demographic tilted in either direction. As such, rather than a left-right cleavage, the KMT and DPP's electoral positioning was defined by a first instance identity cleavage. On this basis, I theorize, Taiwan's national identity politics as a central element of its hegemonic narrative. This, I argue, was because of its attention diverting effects which allowed for a wide acceptance of an economistic narrative that linked Taiwan's collective welfare with its market defined social order and CSEI trajectory.

Due to the centrality of identity in defining party support, I argue that both the KMT and the DPP secured a *carte blanche* to pursue an equally capital friendly policy course without being held accountable by their electorates. It is also this dynamic which I argue in chapter 6 that has paradoxically enabled the DPP to pursue a CSEI-enabling policy framework. This, I argue, was because the DPP was successful at channelling Taiwan's national identity discourses and debate toward a populist and emotive, but primarily state level focus in which specifically economic processes such as CSEI were written out of the narrative. As such, I argue that in economic terms, a common sense developed by which Taiwan's citizens overwhelmingly accepted and celebrated a capital flight driven CSEI process as being in tune with their economic interests. As I will argue in chapter 7, it was only after a relative nuancing of Taiwan's identity politics that more tangible non-identity issues have once again factored more centrally within its political discourse. But, I will proceed sceptically toward the possibility of a counter-historical bloc as coming into existence because Taiwan's contestation continues to be defined by an inter-twined Taiwan identity and class agenda.

## Chapter Summaries

In Chapter 1, I develop a set of conceptual insights in relation to the existing literature. By doing so, I first argue that the mainstream CSEI literature tends to an asocial and ahistorical direction due to the centrality of liberal and realist predicates in guiding its analysis. I argue instead that CSEI can only be theorized in terms of the social basis on which it is defined and which requires an account of the relative degree of political autonomy enjoyed by Taiwan's state. Because I posit that Taiwan's state policies are capital advancing and that CSEI should be understood on such terms, I argue that it is necessary to first explore how a previous statist elite bureaucratic autonomy eroded in Taiwan. In terms of established interpretations of Taiwan's statist social order, I argue that they offer valuable insights on institutional, geopolitical and production related dimensions of Taiwan's social order, but that it is important to integrate such insights within a macro-level account which can then examine how such variables affected Taiwan's class composition and social order. Although I explore a number of macro-level accounts that advance with considerable degrees of success to historicize Taiwan's social order

features, I argue that none have correctly accounted for the erosion of Taiwan's political autonomy and its now LE capital defined policy parameter. On this basis, I posit that the CCP has secured a considerable degree of influence over Taiwan's policy parameter through an alliance with its dominant LE capitalist class and that I intend to examine CSEI on such terms.

I proceed in chapter 2 to develop my intended application of the neo-Gramscian framework to theorize Taiwan's CSEI policy in terms of the social basis of its state. In doing so, I argue that a neo-Gramscian framework is strongly suited to a regional analysis which veers from a more common global capitalist tendency within the literature. To substantiate this understanding, I argue that a Gramscian approach tends toward a plural social orders conception of global order because of its national point of departure which understands transnational social orders as having to be legitimated at the national level and on which a plethora of regional historical blocs can impinge upon. In the case of intra-capitalist social order variation and internationalization pressures, I argue that a national point of legitimation couples with a pronounced interest variation among regionally uneven capital fractions to shape the social order parameters of states on the basis of given historical blocs. To theorize CSEI, I identify a distinct Cross-Strait historical bloc forged between the CCP and Taiwan's LE capitalist class as having shaped Taiwan's social order and state policy parameters. In order to theorize both the CCP's role in the Cross-Strait historical bloc and the process by which a previous elite bureaucratic autonomy eroded in Taiwan, I also identify the concept of passive revolution to theorize both dimensions. Finally, to theorize Taiwan's transition from a statist to capital advancing social order, I also identify the statist historical bloc, *transformismo* and the hegemonic narrative as central to my analysis. .

In chapter 3, I examine how the KMT's elite bureaucracy secured a necessary autonomy for Taiwan's prolonged hard statist social order between 1945 and 1978 during which it ruled in a highly disciplinary and unresponsive fashion toward Taiwan's social forces. Through the concept of passive revolution, I examine how the KMT's ethnically homogenous and transplanted elite bureaucracy advanced to shape Taiwan's class composition to attain a long-term class equilibrium. Because the elite bureaucracy secured its economic and political interest from the state, I explain its prolonged commitment to a statist development path as guided by legitimacy gaining imperatives to secure a necessary acquiescence among the citizenry to its disciplinary rule. As such, I argue that the prolonged durability of the hard statist order can only be explained with a specific focus on the social basis of Taiwan's state. I focus especially on a consensual dimension to the KMT's rule by examining how the elite bureaucracy secured a necessary acquiescence among all of Taiwan's major classes to enable the effectiveness of its disciplinary rule. I examine this acquiescence in terms of the elite

bureaucracy's *transformismo* by which it relied on ideational, disciplinary and absorptive apparatuses of the KMT's Leninist party state. At a most causal level, I argue that the effectiveness of the elite bureaucracy's *transformismo* relied particularly on Taiwan's under-developed class consciousness and I explore how direct processes of rule and more diffuse production and social order features combined to impede such a class consciousness from developing. An increasingly economically influential LE capitalist class, I argue, was the exception to the rule and was thus targeted for the most intensive *transformismo* which led to the gradual formation of an elite bureaucracy-led statist historical bloc which did not yet, however, alter the hard statist features of Taiwan's social order during this time.

In chapter 4, I examine Taiwan's soft statist order between 1978 and 1988 during which time a weakening passive revolution led to a significant erosion of the elite bureaucracy's political autonomy, the securing of which also required it to become more responsive to Taiwan's social forces. I argue that this was an unavoidable outcome of a prolonged social transformation in Taiwan by which its transforming class composition impinged on and confined the elite bureaucracy's political autonomy. I identify the elite bureaucracy's weakened autonomy as an outcome of both a rising social contestation and a prolonged historical bloc induced interest harmonization between it and the LE capitalist class. In terms of Taiwan's social contestation, although I account for the KMT's international de-recognition as a catalyst, I theorize its increase as an outcome of long-term class formation induced social change which led to the eroding acquiescence, especially among the labouring and middle class, to the elite bureaucracy's continued rule. I will argue, however, that Taiwan's increasingly active social movements did not develop into a viable counter-historical bloc due to the failure of a central class agenda to develop therein. Although social movements developed instead into a nativist democratization movement, I argue that the elite bureaucracy, nonetheless, had to become more responsive by elevating political *transformismo* to the elite bureaucratic level and also by deepening its historical bloc with Taiwan's LE capitalist class. It is on this basis that I account for the elite bureaucracy's increased responsiveness to short term capital interests in its policy formation. But, I argue that a soft statist order did continued to hold because the elite bureaucracy secured a continued dirigisme which was now, however, only wielded to absolute national priority development initiatives.

In chapter 5, I examine how a prolonged changing social basis of Taiwan's state led to the dissolution of its developmental state and Taiwan's transition toward its currently LE capital advancing social order. I examine the dissolution of the statist order in the context of a fractured elite bureaucratic consensus and the newly hegemonic stature of an LE capital-led historical bloc. I argue that this historical bloc served as the social basis for a Lee Teng-hui centred

reformist alliance within the KMT to dislodge the elite bureaucracy from its continued control over Taiwan's state. To account for the historical bloc's hegemonic stature, I argue that the rise of a Taiwan identity politics was crucial because it fractured Taiwan's social movements while also diverting the citizenry's attention from a more specifically class focused political discourse to an identity focused discourse. As such, I argue that a rising Taiwan identity politics became a crucial tool of policy legitimation for Lee's capital advancing administration because it de-politicized economic policy while allowing politicians to secure a captive support base on the basis of identity affinities. Therefore, I argue that a class politics did not develop among Taiwan's social movements and due to which they failed to develop into a counter historical bloc. Finally, in relation to a rapidly intensifying CSEI trajectory, I also expand my analysis to theorize it as proceeding on the basis of a Cross-Strait historical bloc. Composed of Taiwan's hegemonic LE capitalist class and a contender state-managing CCP, I argue that the Cross-Strait historical bloc began to impose a unified logic on Lee's administration toward intensifying CSEI and which it was powerless to resist.

In chapter 6, I examine how the Cross-Strait historical bloc advanced to secure substantive CSEI openings from the DPP administration. By doing so, I explore especially how a commonly perceived labour friendly and Taiwan nationalist DPP was able to legitimate its capital-advancing and CSEI deepening policy. I will explore this question especially in the context of Taiwan's visibly worsening socio-economic malaise which I argue to be an outcome of its OEM/ODM capital advancing social order and CSEI trajectory. I argue that the DPP's pursuit of such a CSEI enabling policy course was due both to the hegemonic stature of the Cross-Strait historical bloc and the party's proactive reorientation toward securing the support of Taiwan's LE capitalist class. Although initially legitimating its policy on centrist grounds, I argue that the continually worsening nature of Taiwan's socio-economic malaise instead led the DPP to legitimate its policy through its self-repositioning as a hard-line Taiwan nationalist party. This, I argue, was such a successful strategy that Taiwan's political discourse quickly came to be defined almost entirely by the Taiwan identity debate which almost entirely overshadowed class and economic issues. Coupled with its successful co-optation of its previous social movement allies, I argue that Taiwan's divisive identity politics led to the de-politicization of economic policy while also enabling the DPP to secure a captive Taiwan nationalist support base. This support base, I argue, did not challenge the DPP's CSEI liberalization due to the party's legitimation of it as a purely economic matter. But regardless of the DPP's reorientation, I finally argue that the CCP, nonetheless, wielded the Cross-Strait historical bloc to secure the DPP's eventual electoral defeat in 2008.

In chapter 7, I examine how the KMT's return to power and its subsequent CSEI deepening

policies can be conceived of as a logical culmination of the Cross-Strait historical bloc's policy parameter. But, at the same time, I also argue that the Cross-Strait historical bloc faced significant challenges to its continued hegemony. This, I argue, is especially evident in the intensification of Taiwan's social contestation which was spurred forth by the combination of an increased socio-economic malaise and a receding intensity of the Taiwan identity debate. After exploring the factors that led to the receding intensity of the Taiwan identity debate, I argue that Taiwan's discursive climate became much more receptive again to non-identity issues and I examine how Taiwan's social movements resurfaced in this context. To date, I argue that Taiwan's social movements have not yet developed into a viable counter-historical bloc due to the failure of a central class agenda to develop within them. As such, aside from a number of highly specific victories, I argue that it has only been in the case of CSEI that Taiwan's social movements have mobilized most successfully and that this is because social movements have been defined by an underlying Taiwan nationalist current which enabled them also to draw in the support from Taiwan nationalists more generally. For the time being, I argue that social movements have succeeded at moderating CSEI somewhat by making the elite-led nature of the process more difficult to justify. Still, I argue that the hegemony of the Cross-Strait historical bloc remains intact. But, at the same time, I also explore underlying tensions between the CCP and the LE capitalist class which is especially cogent in the pressures faced by the CCP to address Taiwan's socio-economic malaise or risk losing long-term support for a CSEI deepening.

## Chapter 1: Literature Review

In this chapter, I engage with the existing literature and develop a set of conceptual parameters by which I intend to examine CSEI on the basis of Taiwan's social order. To do so, I first examine the specifically CSEI focused literature and argue, by and large, that it fails to theorize CSEI due to the centrality of liberal and realist predicates in guiding its analysis. The centrality of the predicates, I argue, has led to an asocial and ahistorical CSEI theorizing which is based on an un-reflexive and untenable separation between delineated economic and political spheres which are devoid of social relations. In reality, I argue, that the spheres are two facets of Taiwan's social order which can only be theorized as a totality. To proceed, I first problematize the liberal predicate on the basis that a capital-led CSEI has failed to deliver on promised economic and welfare gains and I argue that this is because it neglects to account for the class contradictions which underline CSEI. I then problematize the realist predicate of Taiwan's state autonomy as similarly untenable because it cannot account for why Taiwan's state has allowed for CSEI to proceed despite the challenges it poses both to Taiwan's sovereignty and collective socio-economic welfare. Because class contradictions have so evidently defined the CSEI trajectory, I argue that CSEI can only be theorized through an explicit focus on the class and social basis of Taiwan's state. To do so, I develop insights from the economic nationalist, sociological and policy studies literature to posit that the outcome of a capital-defined CSEI process has been a deepening of Taiwan's socio-economic malaise. But, I argue, that this socio-economic malaise can only be understood when it is theorized within the context of Taiwan's social order which advances the interests of a predominantly sub-contracting LE capitalist class and which, in turn, has also shaped the course of CSEI.

In order to theorize Taiwan's policy parameter as being capital defined, I argue that it is first necessary to historicize its post-WWII social order to account for how a previous elite bureaucratic political autonomy eroded. To do so, I engage with the developmental state literature and argue that although Taiwan was a developmental state until 1988, that statist fail to account sufficiently for the social basis which enabled a necessary elite bureaucratic autonomy. Although I also examine a number of illuminating geopolitical and production-centred accounts, I argue that Taiwan's statist order can only be theorized by integrating the respective processes focused on by each approach in a combined fashion. On this basis, I examine a number of macro-level accounts which more correctly identify the social basis that enabled a previous elite bureaucratic autonomy and how its transformation led to a progressive dilution and eventual dissolution of this autonomy. I argue that it is particularly important to account for the elite bureaucracy's political autonomy on a consensual basis and for which Taiwan's under-developed class consciousness was crucial. Although Taiwan's statist development was an important factor which facilitated the citizenry's acquiescence to the elite

bureaucracy's disciplinary rule, I argue that it also led to social transformations which eventually eroded the elite bureaucracy's political autonomy. To theorize this process, I argue that a historicist framework is crucial which must be able to account for how institutional, production and ideational processes defined the social basis of Taiwan's state throughout its development history. By proceeding in this way, I argue that it is possible to discern how Taiwan's elite bureaucratic autonomy quickly eroded after the dissolution of Taiwan's statist order. This, I argue, is because Taiwan's state became capital defined and after which the CCP secured a capacity to shape Taiwan's policy parameter through its control over Taiwan's dominant LE capitalist class and that CSEI should be understood on such terms.

### **Section 1.1: Cross-Strait Economic Integration and Taiwan's State**

A process of CSEI between Taiwan and China began from the 1980s onward and progressively intensified thereafter. By the 1990s, CSEI became so pronounced that a majority of Taiwanese firms already had investments and business interests in China while Taiwan also became progressively more economically dependent on China thereafter. Due to Taiwan's contested statehood, however, a pronounced CSEI process has posed challenges toward its long term sovereignty. Many scholars have attempted to provide an account of CSEI which can grapple with the paradoxical relationship between its economic and territorial features. To date, however, serious conceptual muddles continue to define the literature because most CSEI scholars base their analysis either on untenable liberal or realist predicates or, as is most often the case, a combination of both.

At the most general level, the primary research motif which defines the CSEI literature is how to account for Taiwan's state policy toward a sovereignty encroaching CSEI process. Most CSEI scholars approach this question from a quasi-dialectic schema which conceives of CSEI as being unquestionably beneficial for Taiwan's economic development and social well-being, but which then is contrasted with the sovereignty impeding effects that it poses for Taiwan (Chao, 2004; Y.-H. Chu 1999; Dent, 2001; Kastner, 2005). Some scholars are genuinely alarmed over CSEI-induced sovereignty repercussions and argue that Taiwan's state apparatus has correctly attempted, but generally failed to constrain a deepened CSEI due to the propensity of Taiwan's capitalist class to circumvent attempted policy constraints (Deng, 2000). But, because of the perceived importance of CSEI for Taiwan's economic prosperity, a majority of CSEI scholars tend to support the intensification of CSEI. The mainstream interpretation of CSEI is best encapsulated in terms of Taiwan's citizens as having to choose between 'bread and love,' or in other words, between economic prosperity and political affinity (Keng, Chen, & Huang, 2006). The prevalence of such a 'bread vs. love' type conception within the mainstream CSEI literature

has led to an analysis which attempts to provide an account of CSEI as occurring on two separate economic and political spheres. The dominance of a ‘bread vs. love’ type interpretation of CSEI within the literature is largely due to the centrality of liberal and realist predicates in guiding its analysis and due to which CSEI is rarely examined at a deeper and more critical level.

Due to the prevalence of the ‘bread vs. love’ position, in economic terms, most scholars hold the liberal assumption that CSEI is unquestionably beneficial for Taiwan’s collective economic interest. Although CSEI scholars do not always focus specifically on the question of state-level relations between Taiwan and China, adherents to a ‘bread vs. love’ perspective tend to hold either explicit or implicit realist assumptions of an independent state autonomy and agency in Taiwan. But, due to their prioritizing the economic in the first instance, they propose normatively that Taiwan’s state should disband any attempts at impeding CSEI. This is based on neo-classical understandings of transnational trade and economic relations as following objective and law-like rules which are disconnected from social relations and which are held to lead to the most socially conducive economic outcomes possible. As such, the CSEI trajectory is said to occur within a typical comparative advantage and market-led schema which leads to economic growth and which consequently also advances the collective welfare and prosperity of Taiwan’s citizens (Dent, 2005; Sutter, 2002; Xin, 2010; W. Zhang, 2001). For this reason, a majority of CSEI scholars tend to argue that the economic decisions of private economic actors are concomitant with the citizenry’s collective interests because they allow for the most rational and market optimizing outcomes possible. As such, Taiwan’s China-bound investment is argued not only to result in a more efficient allocation of economic resources, but also a consequent economic upgrading in Taiwan which, in turn, is predicted to further enhance Taiwan’s collective economic welfare (Roy, 2004).

In economic terms, although both China and Taiwan are said to benefit from CSEI, the mainstream interpretation of CSEI posits that Taiwan stands to benefit in particular due to its more advanced economic composition. This assumption is often substantiated with reference to Taiwan’s IT sector and its prominent role in global IT production chains (Sturgeon & Lee, 2004). At a most general level, it is proposed that China’s value for Taiwanese firms lies primarily in its provision of a low-cost, but efficient production environment and a large domestic market which can be captured by Taiwanese firms (Chase, Pollpeter, & Mulvenon, 2004; Fuller, 2005). Due to the perceived technological and economic gap between Taiwan and China, liberals also commonly propose that Taiwanese capital is crucial toward China’s economic development and upgrading (Chao, 2003, p. 287; Chase et al., 2004). Generally, liberals not only postulate Taiwan’s economic superiority in the short-term, but also in the

longer-term because of institutional and economic factors such as Taiwan's freer functioning market economy, simpler trade regulations and better infrastructure. Such factors, they argue, ensure that Taiwanese firms will only outsource labour-intensive production processes to China while continuing to upgrade their business operations in Taiwan (Cavey, 2003, p. 22). Finally, in terms of China's specific importance for Taiwan, liberals are also prone to identify a cultural and linguistic proximity between the two which not only provides a unique advantage to Taiwanese capitalists investing in China, but also allows for the development of a synergetic and complementary CSEI process between the two (Steinfeld, 2005).

Aside from postulating on the merits of outsourcing to China, 'bread vs. love' proponents of CSEI are also prone to highlight an inevitability factor at work which is argued to drive CSEI forward regardless of political or socially motivated attempts at altering its capital-defined parameters. It is not difficult to tell that this is a context specific variant of the oft-encountered There Is No Alternative (TINA) position which holds that due to a process of economic globalization and various accompanying institutional changes, that the pursuit of neoliberal economic policies is an irresistible and path dependent process (Chao, 2004; Dent, 2005; Leng, 2002; Sutter, 2002; W. Zhang, 2001). Some TINA proponents of CSEI, however, propose more accurately that attempted CSEI limiting policy restrictions in Taiwan have been reversed largely due to the structural force imposed by the collective weight of its capitalist class (Y.-H. Chu, 1999; Sutter, 2002). But, despite this being so, they tend to celebrate the CSEI process as crucial toward advancing Taiwan's collective economic interest.

Due to the liberal account's optimistic analysis toward the desirability of an inevitable market-led CSEI integration process, a clear prescription emerges as to Taiwan's most appropriate policy framework toward CSEI. This prescription allows for no legitimacy or space for the mediation of the CSEI process due to the demarcation of it as a purely 'economic' matter which leads to the greatest possible good in Taiwan and which is argued to be separate from non-economic social and political processes. As such, winners of CSEI are presented as being responsible for the bulk of Taiwan's economy and as the key economic actors driving forward Taiwan's economic upgrading which, in turn, advances the collective welfare of its citizenry (Y.-H. Chu, 2009, p. 58). Denny Roy, for instance, pursues such a line of reasoning and posits that due to the unambiguously economically beneficial outcomes of CSEI which are beyond reproach, that opposition to CSEI can only stem from an emotional reasoning based either on identity type calculations or political baggage (Roy, 2004).

From the above overview, it is not difficult to tell that the mainstream CSEI analysis is itself political as it internalizes the interests of capital and collapses it with the citizenry's collective

interest. As such, in order to correctly account for Taiwan's state policy, it is crucial first to examine whether liberal predictions that a capital-led CSEI results in welfare enhancement and economic upgrading in Taiwan have materialized. Although it will be argued subsequently that Taiwan's historical economic development trajectory was accompanied by consistent economic and social welfare enhancements, this trend no longer held from 1990 onward. Of course, this cannot be argued to be a sole outcome of CSEI and scholars such as Lin Thung-hong (2009) are correct to analyse such trends in terms of Taiwan's wider capital friendly social order within the parameters of which both Taiwan's domestic and CSEI policies are pursued. Engaging in a rigorous and meticulous class analysis, Lin demonstrates that it is only Taiwan's capitalist and intelligentsia classes which have benefited economically from its post-1980s social order. Lin finds that Taiwan's other major class demographics have fared poorly and that they have experienced marked welfare declines, a finding which mirrors my own analysis.

Lin's study points to the importance of analysing CSEI in terms of social order and class. But, in addition to doing so in a more abstract sense, it is also important to account for the specific features of Taiwan's dominant capitalist class which has important implications both for its domestic social order and its CSEI trajectory. This is especially important in the context of the popular liberal assumption that CSEI occurs between a more backward China and a more economically advanced Taiwan. This assumption is correctly challenged, however, by other scholars who argue that Taiwan's industrial composition is nowhere near as advanced as is commonly assumed. Huang Chenwei (2011), for instance, argues that Taiwan's economic composition is semi-peripheral because its capitalist class primarily manages production processes in the periphery for the global core. Huang's adherence to a world-system approach, however, results in a strong degree of structural determinism and other scholars such as Dan Breznitz (2005, 2007) identify similar economic features, but have done so in a less deterministic way. Breznitz theorizes Taiwan's economic features in terms of its sub-contracting based industrial composition which he argues to be the outcome of a failure among Taiwan's capitalist class to upgrade toward the global core. As such, Breznitz argues that Taiwanese firms are located primarily within a low-margin defined and economically stunting OEM/ODM production model. Breznitz' argument is useful because it suggests that Taiwan's predominantly sub-contracting industrial composition can be understood in terms of more contingent factors such as a no longer tenable state-led technology development model and a generally risk and innovation averse capitalist class in Taiwan.

A most immediate implication of Taiwan's sub-contracting economic position is that its capital migration to China is not due to the conscious upgrading strategy as proposed by liberals. Rather, it is a necessary outsourcing response to cost-down production pressures which arise

from the very slim margins that Taiwan's OEM/ODM production model allows for. Such findings are mirrored particularly in the economic nationalist critique of CSEI which understands it as occurring in terms of a so-called industrial hollowing out process of Taiwan's value-chain to China (T.-J. Chen, 2003; Kobayashi, 2005). Tain-Ju Chen, for instance, identifies CSEI as not only leading to an outsourcing in downstream production, but that upstream production processes also follow suit to compete with cheaper inputs produced in China and to maintain closer relationships with their down-stream clients. Under such conditions, economic nationalists argue that the interest of Taiwan's labouring class is challenged due to Taiwan's reduced production and economic activity which directly leads to a much increased unemployment and a generally deteriorating labour environment (Kobayashi, 2005). The economic nationalist position is also reductionist, however, because it does not develop an account of the class basis of the state and due to which it holds realist-influenced assumptions of Taiwan's state as an autonomous actor which struggles, but fails to constrain Taiwan's outsourcing to China. In economic terms, rather than a mechanistic vertical outsourcing process, economic nationalists also do not adequately identify the causal role of Taiwan's OEM/ODM type economic composition in shaping its outward capital flight. Most problematic, however, is that economic nationalists are particularly alarmed toward China as the destination of Taiwan's capital flight, but not so much the process of capital flight itself.

Despite defining the parameters of analysis within the mainstream CSEI literature, it is clear that the centrality of liberal and realist predicates have led to a muddled analysis. Because the predicates are so central to my critique of the literature, it is prescient for the fundamental assumptions that underline both predicates to be outlined before proceeding further.

The liberal predicate which has already been shown to be highly problematic, accepts the core tenant of liberal economic theory of an objective and rule abiding market mechanism which can only proceed according to comparative advantage defined market signals. Although liberal theorists often deny it, theirs is a deeply political stance which proposes a standardized policy course that must allow for an ever deepening laissez-fair policy. Because of the centrality of the liberal predicate, the mainstream CSEI literature has generally failed to disentangle the interests of Taiwan's LE capitalist class from its non-capitalist classes. As such, the mainstream literature has similarly failed to correctly theorize the CSEI process in terms of Taiwan's capital advancing social order more generally and the OEM/ODM features of Taiwan's capitalist class more specifically.

In addition to the liberal predicate, the mainstream account suffers similarly from an often overlapping realist predicate which has also limited the analytical rigour of more critical

accounts. At a most fundamental level, the realist predicate refers to an *apriori* assumption that states enjoy a genuine political autonomy. The realist predicate often takes the form of the classical realist state-as-actor conception in which states are conceived of as seeking to advance the national interest. But, the realist predicate can also take the form of the conception that politicians and policy makers possess a distinct autonomy and interest which operates independently to and which may, at times, clash with the interests of dominant classes or social forces.

Because realist and liberal assumptions form un-reflexive and untenable *apriori* predicates which guide the analysis of the extant literature, rather than illuminating underlying dynamics of Taiwan's social order or CSEI, they have instead had a distorting effect on it. With the capital advancing and socio-economically challenging nature of CSEI substantiated already, attention can now be turned to a more focused examination on Taiwan's political process to address the question of its political autonomy. After doing so, it can then be explained why Taiwan's state apparatus allowed for and enabled CSEI to progressively deepen from its onset onward.

## **Section 1.2: The Social Basis of Taiwan's State**

From the overview so far, it is already clear that CSEI has occurred in a largely capital-defined fashion in Taiwan. Although it is true that Taiwan is economically dependent on China, it is also difficult to deny that the scale and intensity of Taiwan's capital flight has challenged the interests of its non-capitalist demographics. As such, a state complicity cannot be so easily accounted for in realist terms as a matter of necessity or as being guided by the aim of advancing the collective interest of Taiwan's citizenry. Rather, to satisfactorily account for the capital advancing features of Taiwan's state policy, it is necessary to first develop an understanding of Taiwan's state in terms of its class basis and which can only be done by historicizing Taiwan's post-WWII social order. This is because it is crucial to first account for the question of when and how a previous elite bureaucratic political autonomy eroded so that Taiwan's post-1988 CSEI policy parameter can be understood as being capital-defined.

### **1.2.1 The Developmental State**

Many scholars have focused on theorizing Taiwan's post-WWII social order, but most have done so by focusing on the policy and institutional features of its state. This is because Taiwan belongs to a very small group of countries in the global South which successfully attained a developed country status after WWII. The liberal account of Taiwan's economic development is

by far the most influential and theorizes Taiwan's post-WWII development in neoclassical terms as occurring in a context of the state's close adherence to free market policies. Just as is the case with CSEI, liberals also tend to accept realist predicates of a state autonomy in Taiwan during its development history. But, liberals argue that Taiwan's state officials wisely pursued a generally hands-off and market-led development policy which relied on Taiwan's comparative advantage to determine its developmental success. In terms of policy specifics, liberals understand economic policy as having been guided by aims such as the securing of a stable export incentive system, limited government intervention, well-functioning labour and capital markets and conservative budgeting (Balassa, 1988; S. P. S. Ho, 1978; Little, 1979). In addition, liberals also accept that the state intervened at times in the market to provide public goods such as infrastructure and education and to actualize free market conditions by correcting market distortions when necessary (McCord, 1989). In economic terms, liberals accredit Taiwan's developmental success as resting on an export oriented industrialization (EOI) path by which limitations of a small domestic market were overcome through international trade. As for Taiwan's industrial composition, liberals most often point to its economic success as relying on its dynamic web of SMEs which were connected into a responsive, cost effective and relatively technologically sophisticated one-stop subcontracting network (Lam & Clark, 1994).

Although Liberals are correct to identify Taiwan's state as autonomous throughout its development history, they are wrong to posit that Taiwan's state-managing elite bureaucracy allowed for Taiwan's economic development to occur in a market-led fashion. In terms of identifying Taiwan's policy features, the statist position, which developed in criticism of the liberal literature, provides a much more illuminating account. Statists conceptualize a distinct non-liberal East Asian development path which is characterized by a largely uniform set of policies and development features (Amsden, 1979; W.-W. Chu, 2001; Wade, 1990). The statist model places primacy on a powerful state which is led by developmentally minded bureaucrats who foster and guide rapid national upgrading by intervening directly in the economy according to a national development plan. Taiwan's state, under the aegis of such agencies and bureaucrats, is understood to have pursued a heterodox economic development policy which distorted market signals by guiding investment toward targeted sectors. As such, statist also argue that bureaucratic agencies correctly established direct ownership or control over strategic sectors to foster overall economic upgrading. In social terms, statist development is celebrated due to its leading to rapid economic growth and a general social welfare improvement which can be measured through indicators such as literacy, health, life expectancy and per capita income.

Identifying individual developmental states is not difficult, but the identification of core features which are shared by and define all developmental states is. Despite this being so, there is still a

very common tendency within the statist literature to examine and identify all East Asian developmental states under a uniform heading (Amsden, 1994; Wade, 1992; Weiss, 2002). But, the difference between even the two most commonly cited and indisputable developmental states, Taiwan and South Korea, is vast enough to challenge such a lumping. South Korea's economic development, for instance, relied much more heavily on highly leveraged large conglomerates and foreign lending while its development trajectory was also characterized by a more turbulent regime of social and political control and the development of a more militant labour movement (Cumings, 1984; Deyo, 1989; Park, 2000). Such variation suggests that it is counterproductive to theorize developmental states only in terms of all-encompassing economic and policy formulas in which they can be pinned down. Rather, due to the degree of variation between developmental states, it is important to develop a more fundamental understanding of developmental states so that qualitative variations such as those between Taiwan and South Korea can be accounted for in terms of differences between their social or class basis.

Despite class foundations being crucial toward enabling and defining developmental states, it is still important to appropriately identify the binding features of developmental states. Due to the nature of plan-oriented economic development and the need for a state managing elite bureaucracy to stand above and discipline social forces, one stylized prerequisite on which statist social orders rest is that they must enjoy a sufficient autonomy from social forces (Grabowski, 1994, pp. 415–416). Although an elite bureaucratic autonomy can be explained in terms of the social basis of the state, the question first remains as to what explains the elite bureaucracy's prolonged pursuit of a statist development path. In Taiwan's case, some scholars have pointed to nationalism as the defining element and have developed personalized accounts which accredit successful statist development to the integrity and virtue of state officials (W.-W. Chu, 2001). But, at a closer inspection, the prime factor for the elite bureaucracy's commitment to statist development was rather a perceived regime threat for which welfare enhancing development was crucial to secure it a necessary degree of regime legitimacy and social acquiescence toward its disciplinary rule (Zhu, 2002). Thus, in political terms, developmental states can be understood as having been established on the principle of legitimacy to 'promote and sustain development' which 'aims at the fundamental transformation of the economic order' (Castells, 1992). But, rather than arising in a vacuum, the source of the policy can be more correctly traced to development disciplining regime threats. It is worth clarifying that although such threats are often external regime threats, fears of a domestic regime destabilizing discontent can also be considered as a statist development disciplining threat perception.

The development of such a more specific understanding is necessary to overcome the limitations that arise from common institutional or policy based accounts of development states

which lack specificity and theoretical precision. For instance, among the commonly identified core features of developmental-states such as capital controls, export oriented industrialization and bank-firm state collaboration (Shin, 1998; Wade & Veneroso, 1998, p. 11), all were institutional responses to the elite bureaucracy's need to attain a welfare enhancing economic development necessary to secure its stable rule. It is only within the broader parameters of such a more fundamental understanding of the developmental state that the conceptual tool can gain the theoretical precision necessary for effective usage, especially because the conditions which enable developmental states are highly contingent. But once prospective developmental states are identified, the conceptual tool becomes enormously useful toward providing a necessary structure and conception by which to examine the effects of statist development on class formation and the social basis of Taiwan's state.

Before returning to the question of class, it is necessary also to examine a secondary debate which arose in relation to the developmental state literature regarding the international context within which Taiwan developed. The central question explored in this debate is whether or not East Asian developmental states should be understood as the exception or the norm within the global system. As such, there can also be identified a specific geopolitical perspective which argues that Taiwan's developmental state was only viable because of a contingent and atypical geopolitical context. Bruce Cumings, for instance, has argued that Taiwan (and South Korea) should be understood as belonging within a wider regional system in which Taiwan served firstly as a receptacle for outdated Japanese industries while then coming under US protection after WWII within a global Cold War context in which it was essentially invited to develop toward the semi-periphery (Cumings, 1984). Despite identifying contingent geopolitical factors which enabled Taiwan's atypical development trajectory, geopolitically concerned analysts acknowledge that Taiwan was a genuine developmental state. But, at the same time, they understand Taiwan's statist social order to have been determined by and only to have lasted as long as the historically-specific Cold War juncture during which the US permitted and tolerated heterodox statist development in crucial frontline states such as Taiwan (Tsai, 2002; Zhu, 2002).

There is little doubt that international factors such as Taiwan's colonial experience and the US' proactive role were instrumental to its successful development. In terms of America's role, for instance, it not only helped to influence Taiwan's developmental policy consensus, but it also provided generous aid and preferential market access despite Taiwan's protectionist economic development policies (Gills, 2000, pp. 389–390; Tsai, 2002, p. 149). As such, the geopolitical critique is important because of the tendency among many statist toward ever increasing generalizations of statist development who promote the view not only that a statist policy logic continues to define Taiwan's social order, but that the statist development framework can be

emulated by countries throughout the world (Amsden & Chu, 2003; Amsden, 1994; Thurbon, 2007; Weiss, 2003). This understanding of the developmental state is not only theoretically wanting, but it also fails to account for the effects that social transformation and a changing social basis of the state have on the durability of developmental states. Fortunately, such a looser understanding of the development state is not inherent to the statist approach and more critical statisticians such as Robert Wade acknowledge that the statist social formation rests on unique global circumstances and domestic conditions which make it 'too stringent' to be met by many other states (Wade, 1992, p. 316).

Despite its merits, an overly geo-politically concerned analysis also risks developing a one-sided account of developmental-states as being over-determined by the international system. A much more fruitful approach rather is to account for statist social orders within their simultaneously international and domestically defined context and to identify a first-instance variable on which both dimensions impinge and on which they can be integrated, namely class and social order. By accounting for the developmental state in such a more integrated fashion, specificity is maintained by avoiding overgeneralizations toward the applicability of the concept while a temporally and geopolitically confined application can also be avoided. For one, the validity of a historically specific understanding of the developmental state has already been put into question with the development of China which shares many core features of typical developmental states and which will be explored at more depth subsequently (Deans, 2004).

### 1.2.2 The Dissolution of Taiwan's Developmental State

Now that the importance of theorizing Taiwan's developmental state within its social basis has been established, the question that naturally arises is how it was that Taiwan's statist social order eventually dissolved. A number of scholars have focused on this question and they tend to understand this dissolution as a natural outcome of the always transitory nature of statist development which eventually is superseded by a more appropriate free market policy framework (Y.-Y. Chen, 2007; C.-H. Huang, 2002a). This understanding is not a peripheral take on the theory as even more critical statisticians such as Robert Wade also only champion statist development to overcome problems of late development and after which more market conforming policies can take their place (Wade, 1990, p. 368). It is true that such a transitional statist trajectory is corroborated in all acknowledged developmental states that have attained a successful developed country status thus far. This being so, there is little merit in defending the developmental state as a permanent fixture, but at the same time it is important not to uncritically accept a transitory nature as somehow inbuilt in the genetic code of the statist social formation without assessing how and why this is the case. To do so, however, it is necessary to

focus specifically on development induced class formation processes which fundamentally altered the class basis of Taiwan's state and which consequently weakened the elite bureaucracy's political autonomy.

There have been some attempts by statist to make up for the lacuna on the social basis of the development state to provide a more sophisticated account of a necessary elite bureaucratic autonomy and the class basis on which it can be secured. Peter Evans, in particular, has focused on this question and has developed the useful concept of embedded autonomy to account for periods in which a prolonged, but weakened bureaucratic autonomy continues to hold during latter stage developmental transitions toward higher value added economic compositions. Because of the natural consolidation of powerful capitalist classes during such transitions, Evans argues that the elite bureaucracy can maintain its autonomy by deepening networked and collaborative relationships with various civil society interests. But in doing so, Evans argues also that the elite bureaucracy no longer only stands above, but is also itself dependent on an influential capitalist class with which it shares numerous mutual interests (Evans, 1995). Despite the usefulness of concepts such as embedded autonomy, there is a tendency among its proponents to extrapolate and extend periods of embedded autonomy significantly for what is really only a brief and transitional window in which limited autonomy is maintained before it erodes. This point is raised by Mark Beeson, for instance, who cautions that the challenge has always been in achieving the right degree [...] of "embedded autonomy"—in other words, bureaucratic agencies that were not only capable and coherent, but also were sufficiently close to society and economic actors to implement policy and "guide" development [with] the danger [having] always been that such agencies become too close, "captured," and the servants of particularistic interests' (Beeson, 2009, p. 10).

In Taiwan's case, challenges of embedded autonomy pointed to by Beeson were never overcome while an embedded autonomy also only defined Taiwan's social order for a very brief window of time during the 1980s. Even during this brief window, however, due to prolonged processes of interest harmonization between the bureaucracy and the rapidly ascending LE capitalist class, only a very limited degree of an effective elite bureaucratic autonomy was maintained. As will be subsequently demonstrated, although useful toward explaining a brief transitory window during the 1980s, lingering assumptions of Taiwan's continued embedded autonomy are not tenable. Despite this, embedded autonomy type conceptions are often relied on by statist, realists and liberals alike to argue for a continued political autonomy in Taiwan by which the state is said to continue advancing Taiwan's collective interests. As noted, after Taiwan's brief 1980s window of an embedded autonomy, the statist social order quickly dissolved thereafter. The inability of statist to account for this process is because they underplay the centrality of the

social basis of the state in defining its policy parameter. As such, although Evans' account is clearly a theoretical advance and a step in the right direction, it also unfortunately suffers because it underplays the contradiction of interests which defines the elite bureaucratic – LE capitalist relationship that is so crucial to the elite bureaucracy's political autonomy. Furthermore, embedded autonomy type accounts also underplay the class tensions which undermine the stability of a continued elite bureaucratic autonomy outside of the elite bureaucratic – LE capitalist relationship.

The main reason for the failure of the statist approach to account for Taiwan's social order transition is a still insufficient focus on the social basis of its state. For one, it does not account for the importance of the acquiescence among major classes toward the elite bureaucracy's rule to enable a prolonged political autonomy. To make up for this lacuna, the Marxist influenced production-centred literature is useful, but also provides only a partial account of the social basis of Taiwan's state because of its more narrow focus on the production process. This is an outcome of its central focus on explaining Taiwan's strong degree of labour passivity toward a capital advancing social order and labour process. As such, proponents such as Shieh Guo-Hsiung (1992) and Hill Gates (1979) have focused particularly on Taiwan's SME scaled industrial composition and argue that it has diluted Taiwan's class consciousness. This, they argue, was due to various ideational processes which, due to the relative ease and common aspiration among workers to set up SMEs, fostered a so-called part-time proletariat mentality and a tendency toward self-exploitation among the labouring class (Shieh, 1992). But, just as statist have reified the state, production-centred accounts have reified the production process instead as both defining class consciousness, but also as determining the parameters of Taiwan's social order. Thus, although highly illuminating toward Taiwan's class composition during the statist period, production-centred accounts have not been able to explain the dynamic changes which led to the dissolution of Taiwan's developmental state after 1988. To explain this, it would have been necessary for the micro-level processes focused on by its proponents to be integrated within a macro-level framework that is able to account for the role that institutional, production and ideational processes have had on shaping Taiwan's class composition.

Thus far, it has been established that both statist and production-centred accounts of Taiwan's social order have been unable to explain the process of historical change which led to the dissolution of its developmental state. Fortunately, some scholars have advanced beyond such a more reductionist line of analysis and have accounted for Taiwan's social order within a wider scope of focus which encompasses numerous variables and social processes. Thomas Gold (1986), in particular, has consciously set out to provide a more dynamic and non-reductionist account of Taiwan's statist order which specifically aims to incorporate inter-determining

economic, political and social spheres into its analysis. Thus, rather than an instrumentalist understanding of the state, Gold develops a more advanced conception of it by accounting for the various relations existing both within the state and between the state and society. As such, Gold holds that state - society relations can be understood according to two poles, one in which the state is little more than a puppet to powerful domestic or foreign interests and the other by which it enjoys complete autonomy from such interests (Gold, 1986, pp. 18–19). Based on this conception, Gold accounts for Taiwan's statist social order in terms of state-society relations which veered toward the latter pole during the 1980s.

Gold's study is valuable as a signpost toward a more integrated analysis of Taiwan's statist social order by examining it with a stronger emphasis on the social basis of the state. But, although Gold's study is a crucial advance, it also at times loses specificity due to its failure to identify a central variable such as class on which identified spheres of focus impinge upon and on which Taiwan's social order can be more concretely theorized. Engaging in a similar macro-level analysis, Hee-Yeon Cho and Eun-Mee Kim overcome such limitations by establishing a necessary specificity on which Taiwan's late statist social order can be understood and do so in terms of the central variable of class. As such, they argue that the state cannot be understood without taking into account the specific class conditions which enable it. To do so, Cho and Kim develop the useful distinction of state autonomy veering between the 'autonomy to coordinate class relations toward development' and the 'autonomy to coordinate policy instruments toward development.' They stress that statists only understand autonomy in the latter sense and that they therefore only acknowledge the more directly visible behavioural aspects of the state while neglecting its social basis (Cho & Kim, 1998). As such, Cho and Kim's argument suggests that although an elite bureaucracy may enjoy effective autonomy on which the statist social order can be understood, that such autonomy can also be theorized in class terms as resting on the formation of a developmental alliance in which development is carried out as a hegemonic project (Cho & Kim, 1998, p. 154). It is not difficult to tell that, over time, a developmental alliance between the elite bureaucracy and the LE capitalist class became ever more central toward enabling a prolonged elite bureaucratic autonomy in Taiwan.

The application of a widened, but class focused macro-level approach not only allows for Taiwan's state to be theorized in terms of its social basis, but also for processes of social transformation to be examined in terms of their effect on the elite bureaucracy's autonomy. Furthermore, the elite bureaucracy can also be theorized in class terms as possessing a distinct economic and political interest which was maintained through its organic relationship with the state. Such a widened conception of the developmental state allows for a clearer account of the relative positions of the core class interests within the KMT's developmental alliance at any

given time. By doing so, it is also much easier to examine the process by which capital interests eventually ascended to dissolve the elite bureaucracy's autonomy altogether. This is theorized particularly well by Hsiao Hsin-Huang (1995) and Wang Jenn-hwan (1996) who argue that the LE capitalist class ascended so rapidly during the 1980s that it forged a viable alliance with an islander dominated reformist faction within the KMT. Wang's account focuses particularly on the process of the capture by examining how this alliance of interests proceeded to dislodge the elite bureaucracy from its organic connection with Taiwan's state. After the state's capture, both Wang and Hsiao understand Taiwan's state apparatus as being confined within an alliance of interests forged between the LE capitalist class and capitalist/special interest-like KMT affiliated political/factional politicians. Although accurately theorizing the process of Taiwan's social order transition, Wang and Hsiao have not, however, identified the over-determining nature of Taiwan's LE capitalist class toward which politicians were increasingly beholden to. But, this is largely because of the more dated nature of the studies as, during the time of writing, it was still very difficult to predict the full ascent of Taiwan's LE capitalist class because this was still very much a process that was in motion.

With the dissolution of the statist social order and the eroded autonomy of a bureaucratic/political class, Taiwan's state policy from the 1990s onward can be theorized straightforwardly as being unambiguously capital advancing. This being so, the only question that remains is how Taiwan's capital friendly and CSEI advancing social order was legitimated. This is a particularly prescient question because Taiwan's social movements were very active during its democratization and among which was also an active labour movement. All social movements, however, became progressively more marginalized after Taiwan's democratization and for this reason, many scholars have attempted to address why this was so. Among the most commonly identified causes are intra-social movement factionalism, a successful political co-optation as well as a general docility due to longer-term ideational legacies of the KMT's propaganda and a production process induced labour passivity (Gates, 1979; G.-S. Hsieh, 1992; Minns & Tierney, 2003). Although all such factors had a role to play, other scholars more correctly identify a primarily ideational process which diluted the coherence of Taiwan's social movements in the context of a democratization and Taiwan nationalist narrative which increasingly came to the fore within it (H.-H. Chen, 2009, 2012).<sup>3</sup> Only some scholars correctly identify the centrality of a Taiwan identity politics not only toward diluting a social movement coherence, but also toward pacifying the citizenry more generally (Buchanan &

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3 There also exists an extensive body of literature which examines the genesis and discursive currents of Taiwan's cultural and political identity perceptions, much of which focuses on the development of a distinct Taiwan identity (i.e. C.-L. Lin, 2002; A. Hsiao, 2000; Hughes, C., 1997). This body of literature tends to focus either on understanding the discourses of Taiwan identity on its own terms or in relation to nation-building in Taiwan. But, because I approach identity discourses in the context of their emotive and de-politicizing effect on class and economic issues, I do not engage with it as a distinct body of literature in my analysis. This is because it speaks to a different research question and motif.

Nicholls, 2003; Minns & Tierney, 2003; Wang, 1996). This, as I will also demonstrate, was because of the diverting effects of Taiwan's divisive identity politics from non-identity political issues.

By now, it is clear that following the dissolution of Taiwan's development state, that its policies can be accounted for as being capital defined. But, before concluding, it is necessary to return briefly to the CSEI process to account for the role that an autonomous CCP has secured toward shaping Taiwan's social order. Due to the economic dependence of Taiwan's LE capitalist class on China, it is an unavoidable question as to what the relational dynamic was between it and the CCP. This is especially important because of the CCP's strategy to secure its influence over Taiwan's LE capitalist class to shape the parameters of Taiwan's social order. Due to the economic relationship between Taiwan and China and the assumed more advanced nature of Taiwan's capitalist class, many mainstream CSEI scholars have posited a perceived increase in the political influence that Taiwanese capital wields over the CCP's policy making apparatus (Skanderup, 2004; Tung, 2005a). Tung Chen-Yuan, for instance, argues that *taishang* (Taiwanese capitalists in China) organizations such as the Taiwan Invested Enterprise Association (TIEA) have not only been successful in shaping China's investment policies, but that they have even gained some degree of influence to moderate China's Taiwan policies (Tung, 2005a, pp. 164–168).

Claims of Taiwanese capital's political influence in China are entirely untenable. This is especially so in the context of China's rapid economic development due to which the CCP has gained a defining degree of influence over Taiwan's LE capitalist class. It is true that China depended on all variants of Taiwanese capital in economic terms during its earlier stages of economic development, particularly in the 1990s. This, however is much less the case now as China's economic development has occurred so rapidly that it now possesses a similarly powerful base on which to foster economic upgrading. As such, other scholars have more correctly argued that Taiwan's capitalist class is now valued by the CCP primarily in political terms due to the likely transformative political outcomes which continued CSEI has on Taiwan (Kahler & Kastner, 2006, pp. 534–535; Tanner, 2007). This assessment is very much correct and the CCP has clearly gained a strong capacity to shape Taiwan's social order through its alliance with Taiwan's LE capitalist class, a point which will be explored at much more depth subsequently.

Due to the changing social basis of Taiwan's state, it is clear that a statist enabling elite bureaucratic autonomy eroded throughout the 1990s and that Taiwan's social order became capital defined thereafter. It is on this basis that Taiwan's CSEI policies can be understood and

for which it is necessary to explore the social foundations of Taiwan's social order in a historicist fashion.

### **1.3 Conclusion**

In this chapter, I engaged with the existing literature to develop the conceptual insights on which my subsequent analysis on CSEI and Taiwan's social order is based. To do so, I problematized the realist and liberal predicates which guide the extant CSEI analysis as having led to an asocial and ahistorical account of CSEI as occurring on two separate economic and political spheres. Instead, I argued that CSEI can only be theorized in terms of the capital defined social basis of Taiwan's state on which both the economic and policy dimensions of CSEI can be accounted for. Because this harks to fundamental questions of Taiwan's state autonomy, I argued that an understanding of CSEI necessitates the historicizing of how a previous elite bureaucratic autonomy eroded in Taiwan due to a changing social basis of its post-WWII state. To do so, although I accept that Taiwan was a developmental state until 1988, I argued that the statist literature has not sufficiently accounted for the social basis on which its elite bureaucratic autonomy was enabled. This, I argued, is especially crucial in terms of a consensual dimension by which the elite bureaucracy had to secure a sufficient assent among Taiwan's major classes to enable its political autonomy and disciplinary rule. Although Taiwan's statist development was crucial to this acquiescence, I also argued that the class formation and social transformation induced by such development eventually weakened the relative degree of the citizenry's acquiescence over time which led eventually to the dissolution of Taiwan's developmental state. To theorize this changing social basis of Taiwan's state, I argued that it is necessary to account for important institutional, ideational and productive processes and how they affected Taiwan's class composition. Although I examined a number of accounts that have done so, I also concluded that none have yet correctly theorized Taiwan's eroded political autonomy and its capital-defined post-statist social order features. On this basis, I posited that the CSEI trajectory can be understood in terms of a social order shaping alliance forged between the CCP and Taiwan's dominant LE capitalist class which combined impinges on and shapes Taiwan's state policies.

In this chapter, my analysis has shown the flawed nature of the liberal and realist predicates which shape the CSEI literature by drawing attention to a first variable social basis which defines both the economic and political dimensions of Taiwan's social order. Once attention is placed on the social basis of Taiwan's state, my analysis suggests that it is not difficult to overcome challenging questions that mainstream scholars struggle with as to why Taiwan's state pursued a simultaneously capital advancing and sovereignty encroaching CSEI policy. To do

so, however, my analysis suggests that it is necessary to first account for the nature of Taiwan's state and for which it is also necessary to historicize it in terms of its post-WWII social basis. Because such a historicizing of Taiwan's social order shows that Taiwan's state became captured by capital interests following the dissolution of the developmental state, I suggested that CSEI can be theorized on the basis of a combined logic which impinges from the CCP and Taiwan's LE capitalist class. To proceed on this basis, however, requires a deeper level theoretical account, especially in terms of how it is possible to integrate and harmonize the geo-strategic imperatives of the CCP with the economic interests of Taiwan's LE capitalist class. In the following chapter, I will outline and develop a neo-Gramscian framework which is capable of not only accounting for Taiwan's state as being defined by a Cross-Strait historical bloc, but which can also account for how this historical bloc became hegemonic by theorizing Taiwan's social order transition from a statist to capital advancing social order.

## Chapter 2: Neo-Gramscian Theory and Regional Order

After setting out the importance of examining CSEI in terms of the social basis of Taiwan's state, I develop in this chapter the neo-Gramscian framework which guides my analysis. My analysis is based on the Gramscian understanding of the state as being a composite of both an institutional apparatus of rule and its civil society basis which is shaped by inter-defining productive, institutional and ideational processes. Veering from a more common global capitalist analysis which focuses on theorizing a global neoliberal social order convergence process and anti-capitalist resistance against this, I argue that the Gramscian framework can also be applied in a much more regionally focused fashion. To do so, I develop the concept of the regional historical bloc as central to my analysis. By proceeding in this way, I am able to theorize CSEI through the concept of the Cross-Strait historical bloc forged between the CCP and Taiwan's LE capitalist class as both shaping Taiwan's social order and driving its internationalization toward China. In terms of the theoretical basis of my analysis, I argue that a regional understanding of global order is tenable because of the Gramscian understanding of transnational social orders as having to both emanate from and to be legitimated at the national level. As for a theoretical basis to theorize intra-capitalist social order variation, I argue that this can be understood as a combined outcome of the Gramscian framework's national point of departure and the continued tendency toward intra-capitalist interest contradictions between regionally hegemonic capitalist class fractions. By examining CSEI on this basis, I demonstrate not only the necessity of theorizing CSEI in terms of social order, but also the strong applicability of the Gramscian framework toward examining regional social order formation processes more generally.

In order to apply the concept of the Cross-Strait historical bloc, it is also necessary to account for both the CCP's political autonomy and the process by which a similar KMT elite bureaucratic autonomy eroded in Taiwan. I account for both through the Gramscian concept of passive revolution. Because the CCP's role in the Cross-Strait historical bloc has been largely consistent, I theorize its autonomy on the basis of a continued passive revolution enabled 'contender state' social formation from which an outward regional order shaping logic can be identified. As for the KMT's previous elite bureaucratic autonomy, I apply the concept of passive revolution to account for both the social basis of the state's political autonomy and how its progressive change led to the eventual erosion of this autonomy. To do so, I also identify three additional conceptual tools as central to my analysis, *transformismo*, the statist historical bloc and the hegemonic narrative. By relying on this set of theoretical tools, I am able to theorize Taiwan's social order with particular emphasis on the elite bureaucracy's autonomy gaining *transformismo* and its historical bloc with a subservient LE capitalist class. By applying

this combination of theoretical tools to explore the changing social basis of Taiwan's state, I am able to account for how a development induced class formation and social transformation process affected Taiwan's elite bureaucratic autonomy at every juncture during Taiwan's post-WWII development history. By proceeding in this way, I am finally also able to account for the dissolution of the elite bureaucracy's political autonomy in terms of an LE capitalist class forged historical bloc which relied heavily on a hegemonic narrative which was a composite of an economistic narrative and a divisive national identity politics debate.

## **Section 2.1: Neo-Gramscian Theory**

The neo-Gramscian framework can be applied to theorize CSEI within the social order parameter within which it is defined. But to do so, it is first necessary to outline the basic features of the framework so that its applicability to CSEI can be substantiated. In the broadest sense, neo-Gramscian theory understands international relations as being defined by historical blocs forged between dominant classes vested in particular modes of production and allied classes which extend beyond national borders to define transnational social orders. This understanding is a widening of Antonio Gramsci's original theory which was developed to theorized national processes of historical bloc and social order formation (Gramsci, 2005). By theorizing the state in terms of its social basis, neo-Gramscians conceive of the state as a composite of both an institutional apparatus and its civil society basis which refers to the social foundations that must be won over before stable rule can be secured (Augelli & Murphy, 1993). More specifically, civil society refers to the various institutions, collective organizations and political spaces in which the citizenry establishes a collective identity, or put more simply, the realm in which the 'I becomes the we' (Murphy, 1994, p. 31). In other words, civil society refers to the social foundation on which inter-subjective meanings are established and which frame the parameters and ideational foundations of social orders (Cox, 1999).

Within liberal democratic systems in which the visibility of disciplinary processes of rule recedes, the leadership of historical blocs become stable when they attain a hegemony by which a defining degree of assent is secured among major classes toward social orders which advance the interests of hegemonic classes. To secure such an assent, hegemonic classes commonly have to engage in the granting of limited concessions to subaltern classes. But, more importantly, a hegemony also entails that a hegemonic class must articulate and disseminate a hegemonic narrative which universalizes its interests so that it can be accepted by a majority within all social classes as corresponding with their interests. It is also within the realm of civil society that historical blocs and hegemonic narratives are challenged by potential counter historical blocs and counter-hegemonic narratives. Similar to the historical bloc, the counter historical bloc refers to an oppositional class alliance which contains a central class such as the labouring

class and which develops various alliances with allied classes to secure a viably expanded social basis on which to dislodge established hegemonies (Cox, 1983, 1999).

Because of the importance of civil society, the capacity to theorize ideational processes within their class context is a defining feature of the Gramscian conception of social order. As such, the Gramscian framework is also strongly placed to incorporate insights from discourse analysis while being able to do so on the basis of class and social order (Bruff, 2005). A particularly relevant example which demonstrates the utility of a neo-Gramscian approach is the legitimization of a neoliberal policy course which was adopted from the 1980s onward and which also has some parallels with the liberal legitimization of CSEI. On purely economic terms, a neoliberal policy course has been legitimated both as being co-determinate with the citizenry's welfare and as being economically unavoidable due to an objective globalization process (Steger, 2005). In addition to a direct legitimization, ideational processes have also had an effect on shaping the parameters on which policy debates occur. The success of the neoliberal policy legitimization, for instance, relied heavily on the advantage enjoyed by the capitalist class to utilize mass communication mediums and institutional actors to legitimate neo-liberal policies. Furthermore, ideational legitimization also involves the exclusion of particular perspectives from the popular discursive sphere as is evident in the cordoning off of economic policy as falling under the remit of economists and other 'specialists' who understand such complex issues. As an outcome, critical voices have been granted a much more peripheral discursive legitimacy while often also being presented as ideologically bound, unscientific, or ignorant by the mass media (Rupert, 2000; Steger, 2005).

As a historicist approach, the neo-Gramscian theory's utility lies especially in its open-ended framework which can account for the state within its always changing social basis. This is an outcome of the Gramscian framework's state-based starting point and its triangular analysis which conceives of the class basis of social orders as being shaped by inter-determining production, institutional and ideational processes (Cox, 1981, 1983). Although the three spheres are not linear in their mutual inter-determination, for ease of discussion, they can be traced in a linear fashion. Production, for instance, shapes the objective existence of the myriad of classes that compose given social orders. Different modes of production are always understood as bringing into existence dominant classes which then seek to secure and extend the modes of production on which their class interests are based, a process which also simultaneously limits the interests of other classes. To do so, however, ascendant historical blocs must secure control over the state in order to establish the institutional parameters necessary. But, in order to attain control over the state, historical blocs also have to secure the ideational assent of all major social classes and for which the spread of viable hegemonic narratives is necessary.

On the basis of the Gramscian approach outlined thus far, it is clear that it is a highly suitable framework to account for historical change and the effects thereof on the state's policy parameter. This being so, it also corresponds with many of the conceptual insights I developed in the previous chapter. But before applying the framework to theorize CSEI and Taiwan's social transformation process, it is also necessary to develop a more specific account of the theory's functional fit toward theorizing regional social orders.

## **Section 2.2: Regional Social Order Variation**

Because CSEI occurs primarily at a regional level, the question of the state's role in shaping transnational social orders is particularly crucial to my analysis which remains at the state level. In terms of Gramscian theory, although its conception of transnational social orders and historical blocs is state transcending, the state is also understood as being central to transnational social order formation processes. This is because at a most general level, transnational social orders have to first emanate nationally before they can be extended globally through transnational historical blocs while transnational social orders also have to be legitimated at the national level. But, despite the open ended and continually state-based features of the Gramscian theory, many neo-Gramscians have instead developed a specifically global account of transnational social order. This is due to a very common adherence among Gramscians to a global capitalist perspective which understands capitalism as a largely monolithic and functionally coherent system. As such, global capitalist Gramscians have theorized global order primarily in terms of a neoliberal capitalist social order convergence and anti-capitalist resistance binary while social order variation has hardly factored as a matter warranting serious concern.

Before proceeding further, it is important to first identify theoretical differences between global capitalist Gramscians whose analysis is developed on the foundation of the state and self-professed Gramscians who argue that the state is no longer central to the contemporary global order. Among the latter, William Robinson (2005) takes this logic furthest by arguing that due to increasingly global circuits of capital accumulation, that the current global order is one in which 'transnational capitalists and allied dominant strata integrate horizontally and in the process move 'up' cross-nationally [by] penetrating and utilising numerous national and transnational state apparatuses to forge their rule' (Robinson, 2005, p. 4).' As an outcome, Robinson proposes that a transnational capitalist class now no longer relies primarily on states to forge its rule, but also on various transnational institutions and private bodies. But, rather than existing alongside of or as a transnational extension of the state, Robinson argues that

states are themselves being incorporated as functional components within a global capitalist class-managed transnational state (TNS) which is a composite of both states and transnational institutions of rule. Because the TNS is conceived of as a unified and singular system of rule which can only be theorized as a totality, Robinson argues that Gramscians should part paths entirely with a continually state-centred analysis (Robinson, 2005, pp. 6–7).

Despite its confident analysis, the TNS thesis is unable to account for a continued variation among national and regional capitalist social orders. For one, in terms of CSEI, the TNS thesis fails to account for Taiwan's internationalization toward China while it is also unable to account for China's continued contra-neoliberal development logic. For the TNS thesis to be valid, given Taiwan and China's deep economic integration within a global capitalist market, both should have increasingly merged to become functional components within the TNS. This has not occurred, however, and the reason for this discrepancy is the inability of the TNS thesis to account for a continued diversity of capitalist social orders because of its attempt to move beyond the state as a central unit of analysis which, ultimately, is at the root of such variation. In addition to the failure to account for the possibility of regional intra-capitalist social orders, Robinson's exhortation to part paths with the state is also problematic in Gramscian terms due to the centrality of the state toward legitimating transnational social orders. This point is, for instance, made by Craig Murphy who posits that it is on national governments that institutional imperatives have to be created and legitimated which force civil society actors to respond to the logic of capitalism which operates at a more global level (Murphy, 1998).

Because of the attempt by TNS theorists to sidestep the state, their analysis veers qualitatively from the global capitalist Gramscian approach. But, despite a continued state-centred analysis, Global capitalist Gramscians postulate on a very similar process of global capitalism-induced social order convergence (Gill, 2000, 2002; Rupert, 1998, 2003). The reason for this line of analysis is pointed to by Murphy's aforementioned exhortation of a global capitalist logic which is the core theoretical motif on which global capitalist Gramscians develop their analysis. This is based, in part, on genuine processes of global capitalist policy convergence which intensified after the late 1970s in the context of both a conscious coordination among transnational capitalists and more structural processes such as an increased internationalization of production and financial integration (Gill, 1995a, pp. 400–402; Rupert, 2003, p. 190). But, although global capitalist Gramscians are correct to identify an abstract logic of capital and a general tendency toward policy convergence, they have problematically interpreted this tendency in very concrete terms. As an outcome, despite methodological differences with the TNS approach, global capitalist Gramscians have similarly identified a transnational historical bloc-led social order convergence process which advances in opposition to all other social interests throughout the

globe.

Given the national point of departure among global capitalist Gramscians, the question quickly arises as to how it is that they have been able to advance an analysis of global social order convergence without running into difficulties at the level of the state. Even the most vocal advocate of a capitalist convergence process, Stephen Gill, accepts that capital ‘cannot operate outside of or beyond the political context, and involves planning, legitimation, and the use of coercive capacities by the state’ (Gill, 1995a, p. 422). As such, to justify a global social order convergence line of analysis, global capitalist Gramscians are careful to theorize a posited social order convergence in a somewhat less totalizing fashion than proponents of the TNS. Global capitalist Gramscians, for instance, are willing to accept that contradictions do remain cogent at the level of the state due to the transnational historical bloc’s continued reliance on states to advance its favoured policies (Gill, 1995a, p. 422). Because they accept the need for a national legitimation process, global capitalist Gramscians are also willing to acknowledge that there can exist different modes of capitalist social organization such as the East Asian, Rhineland, and *laissez faire* models and due to which they also acknowledge that a global hegemony is impossible to attain (Gill, 1995b).

Despite accepting the possibility of inter-capitalist social order variation, Gill leaves this point under-theorized and proposes instead the concept of supremacy to allow for a continued focus on global capitalist social order convergence. Unlike hegemony, the concept of supremacy denotes a process by which a non-hegemonic historical bloc secures successful rule over a fragmented opposition through both consent and coercion. Thus, a global social order convergence is argued to be advanced by a transnational historical bloc which promotes an ideational narrative promoting neoliberal capitalism, but also through a crucial coercive dimension which disciplines states to pursue market conforming policy (Gill, 1995a). In terms of this disciplinary aspect, Gill focuses particularly on a process dubbed as the new-constitutionalism by which he argues that states are pressured to adopt a constitutionalized neoliberal policy framework and toward which they are monitored intensively. The process itself is conceived of as taking place through supra-national institutions such as the WTO and the IMF in which neoliberal policy norms and best practices are first formulated and constitutionalized so that such a policy course has been effectively removed from popular accountability (Gill, 2002).

Although global capitalist Gramscians examine convergence in terms of a more pronounced coercive dimension, they do not examine regional contradictions which shape social order convergence processes and which give rise to regional social order variation. Despite

acknowledging the impossibility of a global hegemony, global capitalist Gramscians continue to base their analysis on a Northern-emanating transnational historical bloc which, along with regionally allied capitalist and elite classes, is said to advance global social order convergence (Gill, 1995a, p. 404-405; Gill, 1993, pp. 34–35). As such, Global capitalist Gramscians argue that the cleavage between capitalist and non-capitalist social organization has been internationalized while contradictions have to necessitate a conscious challenge toward the discipline of capital to warrant a place in their analysis. On this basis, excluding right wing populist social mobilization, global capitalist Gramscians have posited that a loosely organized global anti-capitalist alliance has come into shape within which a plethora of resistance movements such as environmentalists, feminists and indigenous movement are collapsed (Gill, 2000; Rupert, 1993). But this kind of arbitrary lumping is very problematic as it postulates a uniformity that does not exist while also neglecting to account for the often regionally specific nature of class contradictions which cannot be so easily reduced to a consciously global anti-capitalist logic. In the case of Taiwan, for instance, the anti-capitalist heading has limited analytical value because it fails to account for the overwhelming and largely un-reflexive support among Taiwan's citizenry toward its capital-defined social order and CSEI project. Furthermore, in Taiwan's case, a misplaced class element has rather developed into a fully-fledged identity and cultural politics which has dominated the discursive currents of its political discourse.

This inability of a global capitalist Gramscian approach to theorize CSEI and regional specificity is an outcome of its underplaying of continued fractures within either side of the capitalist and anti-capitalist binary. But, a Gramscian account of social order does not have to be applied in the reductionist fashion by which global capitalist Gramscians have applied it. Robert Cox, for instance, makes a strong case for the neo-Gramscian theory to be applied in a more open-ended way and has cautioned specifically against developing a line of analysis which is based too much on a first degree abstraction type understanding of capital and social order. As such, Cox has emphasized an increased social order variation and has foregrounded this as a theoretical motif which warrants particular attention in the current global juncture (Cox & Schechter, 2003, pp. 89–90). This is despite Cox's instrumental role in first theorizing an American-led post-1970s neoliberal convergence process, a process that he now accepts as having become significantly weakened because of an increased global opposition to the spread of neoliberal values and practices (Cox, 2007, p. 522). Rather than lumping such a resistance process under a single anti-capitalist heading, Cox has remained more sensitive to the often inter-subjective cultural values which have defined instances of anti-neoliberal resistance at the regional level. As an outcome, Cox argues that the spread of market civilization has slowed down because it has had to become more socially embedded in the various civil societies and

social orders on which it encroaches (Cox & Schechter, 2003, pp. 89–90).

Despite identifying an increased variation among regional social orders, Cox has left much of his analysis at a broader and more generally theoretical level. Thus, although it is a theoretical advance, further clarification is necessary as to why the ideational node should be singled out specifically within the Gramscian triangle as the most important factor which shapes social order divergence in the current juncture. Also, the binary identified by Cox between neoliberal encroachment and regional cultures of resistance risks the development of a similar global encroachment vs. resistance type conception of global order and the identification of regional anti-capitalist cultural uniformities which do not necessarily exist. By doing so, the risk also remains that the often class distorting and capital advancing effects of a cultural identity politics is underplayed. In Taiwan's case, for example, a crucial factor for the hegemony of the LE capitalist class was the rise of a divisive and populist nationalist identity politics which diverted the citizenry's attention from a material politics so that a simplistic economic narrative secured a generally un-reflexive popular support. The fact that class contradictions often become entangled with and potentially overshadowed by a national identity politics clearly suggests that it is crucial to peer beyond static conceptions of culture so that class can continue to be a central variable of analysis.

Despite the importance of an ideational node in shaping social order variation, it is clearly not the sole or even central factor which explains such variation. An identity induced support for a deepened capitalist social organization was not isolated in Taiwan's case, but mirrors a more general tendency by which capitalist social order has secured a much higher degree of support outside of the global North (Stephen, 2010). What this suggests is that civil society can only ever be conceived of as an arena which contains a multiplicity of interests which compete therein. Within this tapestry of interests, it is far from assured that a strong anti-capitalist consensus has or is likely to emerge in the foreseeable future which may significantly challenge the spread of capitalist policies. Given the difficulty to develop an anti-capitalist consensus, attempts to theorize a specifically global anti-capitalist alliance are likely to impede the prospects of such an alliance from developing in the first place due to the regional specificity of class contradictions. This suggests that rather than an encroachment vs. resistance binary, whether of the global capitalist or cultural Gramscian variety, that it is more important to first identify the regional hegemonic nexuses within which regional orders are advanced.

### **Section 2.3: Inter-Capitalist Regional Social Orders**

Because of the inability of a cultural or ideational dimension alone to explain Taiwan's

internationalization toward China, it is clear that additional explanations are needed to account for this process. Because of the capitalist features of Taiwan's social order, its internationalization to China also requires an identification of a specific motor which drives this process forward and for which the productive node of the Gramscian triangle is crucial. Once this dimension is theorized, it will then also be possible for me to identify the specific theoretical tools on which my analysis is based.

### 2.3.1 Capital Fractions and China's Contender State

As the previous chapter's analysis suggests, Taiwan's internationalization toward China was driven by the fractional composition of its hegemonic sub-contracting LE capitalist class. But, because the effects of the factional nature of capital on social order variation and internationalization processes is under-developed within the Gramscian theory, a number of valuable insights from other Marxist accounts of the state can be integrated with the Gramscian approach. The specific insight referred to here is that social order variation can also be theorized in terms of contradictions between regionally or nationally situated capital fractions and the likelihood of nation-states to remain more responsive to regionally operating capital fractions. This is a loosening of a state-capital nexus type account proposed by scholars such as Gonzalo Pozo-Martin (2007) and Ray Kiely (2006) who propose a symbiotic relationship which, rather than occurring between states and a diffuse capitalist class, occurs between states and nationally situated capital fractions. Thus, they argue that although globalizing tendencies can be identified, that such tendencies are better understood in the context of global inter-capitalist collaboration which occurs on the conduit of the state and at the behest of domestically situated capital fractions which benefit from this process. But, the process itself is argued to occur in a context of competitive collaboration between different state-capital nexuses (Kiely, 2006). Such insights are valuable because they draw attention to the possibility of understanding capitalist state policy also in terms of national and regionally operating class interests as opposed to abstractions of a singularly coherent global capitalist class.

A state-capital nexus type account of capitalist state policy is located on the other end of the national-transnational spectrum because of an unambiguous bias toward making the nation-state the main focus of analysis which runs counter to the state transcending neo-Gramscian approach. But, the tendency of state apparatuses to remain beholden to regional/national interests is a viable assumption which cannot be easily ignored by global capitalist Gramscians because of their continued state-based analysis. For the purpose of my analysis, a state-capital nexus is particularly useful as a theoretical addendum on which variation between capitalist national/regional social orders can be understood. As such, in accounting for a

national/regionalizing tendency, this should be understood as a regionalizing counter-pull against the globalizing tendencies theorized by Gill and Rupert. In this way, the multiple pressures acting on state apparatuses can be understood as linked and interrelated while simplistic logics of over-determination can be avoided. Not only does this allow for the overcoming of both national and transnational biases, but it also allows for both dimensions which so clearly shape the contours of the global order to be accounted for and due to which qualitative variation among social orders can be theorized.

Once it is accepted that state apparatuses remain responsive to both a Northern-emanating transnational historical bloc and regionally operating historical blocs, theorizing the global order solely in terms of a singular neoliberal capitalist logic becomes much more difficult to justify. This is because despite sharing a general interest in the advance of global capitalism, different factions of capital fare differently under the neoliberal international order and the question quickly arises as to why domestically bound capital factions necessarily have to internationalize toward a global level in the first place. In the case of Taiwan, my analysis shows that its internationalization to China was affected primarily by the sub-contracting nature of Taiwan's capitalist class which ensured that it was particularly susceptible to the CCP's initiative toward forging a Cross-Strait historical bloc. This suggests that it is not so much the global hegemony or supremacy of an abstract category of capital which shaped Taiwan's policy parameter, but rather Taiwan's domestically hegemonic LE capitalist class. Therefore, Taiwan's relatively weaker economic standing coupled with the sub-contracting features of its LE capitalist class were the most important variable which determined the economic direction of its internationalization toward China. Because this process can be theorized in terms of the class basis of Taiwan's state policy, there is no need to revert to a territorial logic to account for it.

For economically more influential countries, other than shaping the direction of their internationalization, the factional features of domestically hegemonic capitalist classes is also likely to shape the degree to which their policies will challenge a Northern emanating transnational historical bloc. The reason for this is the very real contradiction of interests between regional capitalists and advanced core capitalist classes based in the global North. For one, a Northern capitalist class has remained the chief beneficiary of the current neoliberal order which seeks primarily to advance the interest of Northern capital fractions at the expense of less advanced regionally situated capital fractions. Securing this are neoliberal global governance norms which have pressured non-Northern states to abandon infant industry or domestic capital advancing policies and to compete directly with advanced Northern capital fractions. With disparities between the global North and South protected further by rules on intellectual property rights, the overall outcome of an adherence to neoliberal policy norms has been that

value-added accrues disproportionately to core capital fractions while non-Northern capital fractions have tended to specialize primarily in lower value-added subcontracting type economic processes. As such, without a pronounced role for the state and industrial policy, both viable value creation and technological upgrading are next to impossible (H.-J. Chang, 2002; Wade, 2003).

The scope of this thesis does not allow me to explore the possibility of outward historical bloc formation processes from liberal capitalist rising power states because China's social order cannot be understood in terms of a capitalist hegemony. This is because of the strong degree of political autonomy enjoyed by the CCP and due to its control over and limitation on the development of China's civil society. In China's case, however, its outward regional social order shaping effects can be explained in terms of the class basis of its state due to the CCP's successful passive revolution. Before proceeding, it is important to note that due to the strong parallels between China's current statist order and Taiwan's pre-1988 statist order, that both can be understood in terms of a similar passive revolution (Gray, 2010, 2011). Because I have already placed a significant degree of focus on Taiwan's pre-1988 social order and because I will continue to do so in the following chapters, I account here mainly for the CCP's passive revolution in order to first develop a stronger understanding of the Cross-Strait historical bloc.

Passive revolution refers to a strategy of rule through which a dominant class secures a viable social order shaping autonomy by balancing the relative strengths of major classes within given national territories so that no single class becomes powerful enough to challenge this political autonomy. The primary means by which dominant classes secure a passive revolution is by utilizing the state's disciplinary, absorptive and ideational apparatuses of rule. Thus, in addition to policy constraints which limit particular classes from gaining excessive influence, absorptive practices of *transformismo* are also relied on extensively for key class actors to be either absorbed into the state apparatus or to be targeted for special alliance formation (Cox, 1983). At the same time, ideational processes of rule are also relied on extensively through the propaganda apparatus of the state which is crucial to securing a popular acquiescence among all major class/social demographics toward a passive revolution based rule. For now, the most important point to make is that in the case of Taiwan and China, that their elite bureaucracy can itself be understood in class terms because both secured their economic and political privileges through maintaining an organic connection with their respective state apparatuses. Based on such an organic connection with the state, the pursuit of a Listian development path in China can be explained in terms of a state-managing class which 'foster[s] guide[s] and direct[s] capital accumulation' (van Apeldoorn et al 2012, p. 475).

In terms of China's social order, a distinct outward push toward regional historical bloc and social formation processes is shaped particularly by its counter-hegemonic development features. This point is made convincingly by Kees van der Pijl who, although also basing his analysis on a capitalist encroachment vs. resistance schema, has identified a very useful third option to conceive of social order, the Hobbesian contender state. Such a contender state formation, van der Pijl argues, can be adopted by late-developing countries to resist Northern encroachment and he identifies China's contemporary social order as the most notable contemporary example of a contender state. Van der Pijl's analysis of the social basis of China's contender state has parallels with Kevin Gray's (2010) theorization of China's social order in terms of passive revolution. But, van der Pijl focuses primarily on how China's state-led development strategy can be conceived of as a form of resistance against a Northern capitalist encroachment process which seeks to open up contender states such as China and to 'dispossess [and replace] state classes [by] governing class[es] submitting to liberal global governance' (van der Pijl, 2012, p514). Van der Pijl argues that China is a contender state *par excellence* which not only challenges the global power structure, but that the CCP has also secured a considerable leverage and disciplinary capacity vis-à-vis both the capitalist and labouring classes in China (van der Pijl, 2012).

Although van der Pijl has provided a convincing account of China's role as a contender state, his analysis has also stopped short of examining what the outward effects of its contender state social formation are. This is a very crucial point as once alternative logics are identified, particularly in the case of a rising power state such as China, the question cannot be avoided as to how such rising powers will impinge on surrounding territories through regional historical bloc formation processes. Due to the plethora of influences that surrounding states come under, it is likely to be somewhat more difficult to identify so clearly the degree to which the CCP has shaped national policies through regional historical bloc formation processes. But, in the case of Taiwan, the degree to which the CCP has shaped its social order has been highly pronounced due to the long-term and very visible nature of the CCP policy priority to unify Taiwan to which enormous political and economic resources have been placed.

### 2.3.2 Concepts of Analysis

With the motors for China's pull on Taiwan and Taiwan's push toward internationalizing to China theorized, I can now identify the main theoretical concepts that my analysis is based on. In terms of CSEI, I rely most centrally on the concept of the Cross-Strait historical bloc to guide my analysis. Within the Cross-Strait historical bloc, I argue that it is Taiwan's Large Enterprise (LE) owning capitalist class which is hegemonic. This class, although integrated within global

production networks, perceives its core economic interests as being intricately tied to an ever-deepening CSEI process. As for the CCP on the other hand, I argue that it has successfully relied on the economic dependence of Taiwan's LE capitalist class on China to forge an alliance with it toward the specific aim of shaping Taiwan's social order and policy parameter. On this basis, I theorize the CCP as an external participant within the Cross-Strait historical bloc which has attained a crucial capacity to discipline Taiwan's LE capitalist class. The inclusion of the CCP as a central actor in the Cross-Strait historical bloc is based on the assumption that its elite bureaucracy has attained a distinct autonomy on the basis of China's passive revolution enabled contender state. The motivation for the CCP elite bureaucracy's aim of securing Taiwan's unification can be understood in terms of its domestic regime stability concerns which have relied heavily on a nationalist regime legitimation. As such, the CCP's elite bureaucracy has to be perceived by the Chinese citizenry as advancing China's national interest, especially its core interests on issues such as Taiwan's unification with China (Shirk, 2007).

A second key concept I rely on to theorize Taiwan's post-statist social order is the hegemonic narrative on which the Cross-Strait historical bloc has secured its hegemony in Taiwan. Taiwan's hegemonic narrative, I argue, contains two key ideational components, the first of which is an economistic core that presents Taiwan's inevitable capital advancing domestic and CSEI policies as corresponding to the citizenry's collective interest. As I will demonstrate, this has remained a very simplistic narrative and the reason for which is the second component of the hegemonic narrative which relates to Taiwan's divisive identity politics. A Taiwan identity politics, although not propagated specifically by the LE capitalist class toward securing its hegemony has, nevertheless, had such an effect because it has diverted the citizenry's attention from a class and issues-based politics by creating irresolvable identity cleavages with scant material implications. Due to the centrality of the identity debate in Taiwan's politics, I argue that it has effectively led to a de-politicization of economic policy and due to which the economistic core of Taiwan's hegemonic narrative has tended to be un-reflexively accepted.

Because I argue that it is necessary to theorize the social basis of Taiwan's state to correctly account for CSEI, I also rely extensively on the concept of passive revolution to account for Taiwan's changing social order features during its statist order. I apply passive revolution to theorize the KMT's elite bureaucratic autonomy in the same way that I have applied it to account for the CCP's political autonomy with the only key difference being that Taiwan was not a contender state. On this basis, I argue that Taiwan's elite bureaucracy secured an organic relationship with the state by shaping Taiwan's class composition so that the strengths of major classes were in a general equilibrium. To theorize how Taiwan's prolonged historical change affected the elite bureaucracy's autonomy, I also rely on the concept of *transformismo* to

theorize how the elite bureaucracy co-opted and depoliticized Taiwan's major classes. This, I argue, was crucial for a consensual dimension to Taiwan's statist order by which an acquiescence among all classes and social groups was necessary for a prolonged passive revolution. As a part of this process, I also rely on the concept of the statist historical bloc to theorize the statist order and identify a core alliance between the elite bureaucracy and a subservient LE capitalist class. By relying on this combination of concepts, I examine how a prolonged passive revolution led to a changing social basis of Taiwan's state which necessitated an intensified *transformismo* and which, in turn, weakened the elite bureaucracy's autonomy further. Occurring in parallel, I utilize the concept of the statist historical bloc to examine the relative advance of the LE capitalist class vis-à-vis the elite bureaucracy which culminated in the eventual dissolution of an elite bureaucratic autonomy when the Cross-Strait historical bloc became hegemonic.

Now, with all theoretical concepts identified, it is important to outline explicitly how they are inter-related facets of a single comprehensive theoretical framework which I apply to answer my central research question. It is only by applying the concepts of passive revolution, *transformismo*, the statist historical bloc, the Cross-Strait historical bloc and hegemonic narrative together that I am able to explain how a previous political autonomy dissolved and how Taiwan's state became confined within the parameters of a hegemonic Cross-Strait historical bloc which wielded it to advance its interests.

Throughout Taiwan's statist social order, I first rely on the concept of passive revolution to explain how the KMT's elite bureaucracy secured a distinct political autonomy through coercive, ideational and co-optive processes of rule which enabled a prolonged class equilibrium. To examine the LE capitalist class' progressively increasing influence during the statist era, I then apply the concept of the statist historical bloc to examine how this process occurred within the context of an elite bureaucracy forged and dominated class alliance with the LE capitalist class which was aimed at prolonging its autonomy. I analyse this alliance through the conceptual lens of *transformismo* for which the LE capitalist class was the priority target, but which I also apply to examine the elite bureaucracy's policy of selective co-optation more generally which targeted all classes. By relying on this triangular set of theoretical tools, I analyse how an intensifying *transformismo* and weakening passive revolution enabled the progressive ascent of the LE capitalist class until passive revolution conditions became untenable when Taiwan transitioned toward a liberal democratic social order.

After Taiwan's democratization, I apply the final two concepts of the Cross-Strait historical bloc and hegemonic narrative to examine Taiwan's LE capital defined social order parameters.

The Cross-Strait historical bloc veers from the statist historical bloc because it both included the external participant of a passive revolution enabled CCP elite bureaucracy and because its central LE capitalist class attained an effective hegemony. I explore this process through the concept of the hegemonic narrative which allows me to examine how the Cross-Strait historical bloc secured the ideational assent among Taiwan's major classes toward the desirability of a capital defined social order and CSEI. As such, my application of the five inter-connected theoretical tools enables me to develop a single comprehensive framework to account for both the erosion of Taiwan's previous statist political autonomy and its transition to a Cross-Strait historical bloc defined social order on which basis I examine the CSEI trajectory to date.

## 2.4 Conclusion

In this chapter, I developed my intended application of the neo-Gramscian framework to examine Taiwan's social order and CSEI policies. I argued that a Gramscian approach is well suited to theorize regional social order formation processes and that it can be applied to theorize CSEI on such terms. Challenging a global capitalist analysis on social order convergence, I argued that a Gramscian framework can also be applied to account for a continued process of regional social order variation. In the case of CSEI, I argued that it can be accounted for in terms of a continued inter-capitalist social order divergence process which can be theorized on the basis of the Gramscian framework's national point of departure and the continued intra-capital fractional contradictions which manifest themselves in an often regional fashion. It is on this basis that I then theorized the susceptibility of Taiwan's hegemonic LE capitalist class toward a CCP emanating Cross-Strait historical bloc and Taiwan's internationalization toward China. But, because I argued that the hegemonic stature of the Cross-Strait historical bloc can only be substantiated through a historicist account which can explain for the erosion of Taiwan's post-WWII political autonomy, I also identified the concepts of passive revolution, *transformismo* and the statist historical bloc as central to my analysis. Finally, to account for the discursive dimension by which the Cross-Strait historical bloc attained its hegemony, I identified the hegemonic narrative as being further theoretical tool on which my analysis is based. In the case of Taiwan, I argued that its hegemonic narrative was a combination of a core economistic narrative and a divisive Taiwan identity politics which depoliticized economic issues and which also enabled the wide acceptance of Taiwan's citizenry toward the economistic core of its hegemonic narrative.

I have demonstrated in this chapter that the Gramscian approach is well suited to theorize CSEI. As my analysis suggests, not only can the Gramscian framework be applied to account for the relative degree of the political autonomy enjoyed by Taiwan's elite bureaucracy at any given

time, but also that it can similarly account for why and how this autonomy eventually eroded. By proceeding in this way, my analysis demonstrates the functional fit of the Gramscian framework to examine CSEI without the need to rely on realist or liberal predicates of an un-theorized political autonomy or objective market-defined CSEI. Furthermore, my argument also shows how the realist and liberal predicates have led to a rigid and static analysis which is unable to account for the parameters of Taiwan's state in terms of its progressively changing social basis. As such, by relying on the Gramscian framework, I also demonstrated how I will be able to theorize Taiwan's progressive integration toward China and that it is the class and social order basis which is at the root of both the economic and political manifestations of CSEI. By doing so, my analysis also demonstrates how it is that CSEI cannot be understood in a relational sense as occurring between two separate state apparatuses, but rather a singular Cross-Strait historical bloc defined process which impinges on Taiwan's state. Theorizing CSEI along such a social order logic, I am able to develop a much more coherent, succinct and analytically precise account of CSEI in a way that is simply not possible for a realist and liberal guided analysis. By relying on the framework outlined thus far, I will proceed in the following chapter to begin with my empirical analysis and first examine Taiwan's hard statist era.

### Chapter 3: The Hard Developmental State

In the previous chapter, I developed my intended application of the neo-Gramscian framework to examine Taiwan's CSEI policy through the concept of the Cross-Strait historical bloc. In this chapter, I begin my empirical analysis by historicizing Taiwan's hard statist social order between 1945 and 1978 to examine how a previous elite bureaucratic autonomy was maintained during this time. I argue that the hard developmental state was characterized by the elite bureaucracy's unchallenged political autonomy, its unresponsiveness to interest articulation from Taiwan's social forces and its highly disciplinary and coercive rule. Veering from dominant institutional and geopolitical interpretations of Taiwan's developmental state, I argue that the elite bureaucracy's political autonomy can only be accounted for in terms of the social basis of the KMT's state and I apply the concept of passive revolution to theorize it. At the pinnacle of the KMT's power structure, I argue that the elite bureaucracy can be conceived of as a distinct elite bureaucratic class which secured its economic and political interests from an organic connection with Taiwan's state. On this basis, I examine how the KMT's disconnected and ethnically homogenous elite bureaucracy advanced to alter Taiwan's class composition to level the influence of its most powerful classes to secure a prolonged class equilibrium for its passive revolution. By theorizing Taiwan's hard statist order within its class basis, my analysis suggests that it is necessary to move beyond an un-reflexive and un-theorized assumption of Taiwan's state autonomy to account for the social basis which enabled this autonomy in the first place. By accounting for the elite bureaucracy in class terms, I also show that the policy features of Taiwan's developmental state can be theorized in terms of its advancement of the elite bureaucracy's core interest of securing an effective political autonomy which necessitated Taiwan's welfare enhancing development.

The main reason for the elite bureaucracy's prolonged commitment to a statist development path was its instrumental role for Taiwan's passive revolution. In addition to facilitating a prolonged class equilibrium, Taiwan's welfare enhancing statist development was crucial to the elite bureaucracy's autonomy because it secured a necessary acquiescence among the citizenry to its one party rule. Statist development was, however, a double edged sword because it led to a prolonged class formation trajectory typical of capitalist development which had a diluting effect on the elite bureaucracy's prolonged political autonomy. During the hard statist era, I argue that the elite bureaucracy preserved its autonomy through a successful *transformismo* by which it wielded the KMT's Leninist party-state apparatus to co-opt and de-politicize Taiwan's major classes. This was effective because the KMT's ethnic rule and Taiwan's production and development features combined to dilute a class consciousness on which the elite bureaucracy then successfully applied its disciplinary, absorptive and ideational apparatuses of rule. The only

exception was the LE capitalist class which enjoyed an increased economic influence and which was thus targeted for the most intensive *transformismo*. Despite the elite bureaucracy's control over its consolidation, I argue that the LE capitalist class consented to its dominance because it owed its economic influence to a continued subservience to the elite bureaucracy and because it also benefitted from statist development more generally. As such, I argue that a historical bloc gradually came into shape between the elite bureaucracy and the LE capitalist class which did not, however, alter Taiwan's statist policy parameters yet. My analysis demonstrates that it was only because of a consistent *transformismo* that the KMT's passive revolution held and toward which a consensual dimension was critical. By examining Taiwan's statist social order in this way, I am not only able to account for the relative degree of the elite bureaucracy's autonomy in class terms, but also how the elite bureaucracy strengthened its autonomy during this time.

### **Section 3.1: The Social Foundations of Taiwan's Developmental State**

Taiwan was ceded to the KMT in 1945 by the allied victors of World War II on the basis that Japan unlawfully colonized it from China in 1895 and that it was now to be returned to China's legitimate Republic of China (ROC) government which was ruled by the KMT. This ceding occurred despite China's still ongoing civil war between the KMT and the CCP which came to an end only after the KMT's defeat in 1949. Between 1945 and 1949, the KMT installed a mainlander-staffed provincial government in Taiwan which was tasked with the primary aim of resource extraction to fund the KMT's war effort in China (Gold, 1986, p. 50). After its defeat, the KMT retreated in 1949 to Taiwan and set up its official ROC government there as having legal sovereignty over all of China. Due to Taiwan's frontline state stature in a global Cold War context as part of the island chain surrounding the communist People's Republic of China (PRC), the US provided pivotal support toward helping the KMT secure a necessary international legitimacy and regime stability. For one, the US quickly accepted the legal fiction that the ROC was the legitimate government of China and set up official relations with it on that basis. This ensured that the KMT received the full gamut of US diplomatic support (crucial help toward the securing of the ROC's seat in the UN), military support (the Formosa Resolution in 1955 authorized the US army to defend Taiwan if it was attacked by China) and economic support (Clark, 1989, p. 91; Rigger, 2000, pp. 137–138; Wade, 1990, p. 82; Zhu, 2002, p. 15).

From the onset of its rule in 1945, the KMT established an authoritarian, one party state in Taiwan. Its success at securing a stable authoritarian rule rested on a number of factors, the most important of which was Taiwan's under-developed class consciousness and civil society which led to a lack of viable social contestation toward the KMT's rule. The longer-term roots for Taiwan's under-developed civil society were shaped by its colonial experience during which

time it was incorporated into a Japanese defined colonial division of labour as an agricultural economy. As such, the Japanese colonial administration set up in Taiwan a coercive administrative apparatus in which senior administrative and commercial positions were under a Japanese monopoly (Wade, 1990, p. 232). Throughout the colonial period, Taiwan's economy remained predominantly agricultural while farmers and peasants were subject to the colonial administration's mandatory buying relations by which they had to sell their produce to Japanese-controlled trading houses at Japanese determined prices (Gold, 1986, p. 38). Although it is true that the colonial administration intensified its industrialization of Taiwan from the 1930s onward, this remained limited while Japanese capital also accounted for 90% of ownership over modern industries during this time. As such, only 7% of Taiwan's male labour force had experience working in the industrial sector by 1940 (W.-W. Chu, 2001, p. 55). There were, of course, notable examples of powerful capitalist families in Taiwan, but they were generally confined to a slim group of collaborators toward whom targeted legal exceptions were made (Gold, 1986, pp. 39–40). Thus, as a rule, the Japanese administration tended to substitute for the capitalist/entrepreneurial class in Taiwan while also seriously restricting its development of a class consciousness and active civil society (Cumings, 1984, pp. 10–11).

Although the KMT succeeded at establishing its provincial government in Taiwan, the very turbulent nature of its rule led to an increased popular resistance against it. This, however, was difficult to predict as Taiwan's colonial experience and stunted class formation not only allowed the KMT's provincial government to win a strong degree of popular support at the onset of its rule, but also to secure control over 90% of Taiwan's economy under mainlander-staffed state commissions (Roy, 2003, p. 64). The KMT's provincial government was set up along hard authoritarian lines in which a provincial government-managing bureaucratic cadre enjoyed an unchallenged political autonomy while relying heavily on the disciplinary apparatus of the state to crush all dissent. The provincial government's rule was also corrupt and, coupled with its intensive resource extraction, quickly led to serious economic turbulence. As such, Taiwan's provincial government faced a rapidly growing popular disillusionment which was exacerbated, in particular, by a severe hyperinflation crisis in which annual inflation rates measured at 500% between 1946 and 1948 (Thorbecke & Wan, 2007, p. 55). Due to the provincial government's hard authoritarian features, Taiwan's citizenry lacked suitable arenas to vent frustrations and eventually revolted. This began in response to an incident on the 28<sup>th</sup> of February, 1947 in which police officers severely beat a female street vendor and which catalysed a festering discontent to spill over in a regime challenging direction while rioting spread throughout the island (Y.-Y. Chen, 2007, pp. 93–94).

Rather than engaging in a political dialogue, the KMT opted to discipline participants in

Taiwan's island-wide rioting. At the same time, the KMT also relied on the pretext of quelling Taiwan's revolting to seriously weaken its still relatively more defined elite and landlord classes which were most likely to challenge the KMT's monopoly on power. As such, Governor Chen Yi called for reinforcements from China to not only suppress the revolt, but also to kill an estimated 20,000 islanders, an event which is commonly referred to as the 228 incident. The killings were carried out systematically and were aimed at Taiwan's elite demographics which included lawyers, journalists, landowners, professors, entrepreneurs and students (Y.-Y. Chen, 2007, pp. 93–94). In addition to weakening Taiwan's elite interests, The 228 incident was also instrumental toward inducing a long-term political passivity among the citizenry who tended to associate political involvement with danger (Gold, 1986, p. 52). Aside from its psychological aftershocks, the 228 incident also offered a pretext for the KMT to implement martial law which suspended all rights and protections guaranteed by the ROC constitution in Taiwan from 1949 to 1987 (Wade, 1990, p. 237). After this, the KMT relied extensively on the disciplinary apparatus of the state to secure the citizenry's consent to its rule. As such, it also set up a vast network of informants to identify perceived subversives for arrest or execution, the total numbers of which are estimated at 90,000 and 45,000 respectively (Roy, 2003, p. 90). Because the KMT's founding narrative committed the party to the democratization of China, Taiwan's authoritarian rule was legitimated as a deviation from the KMT's democratizing thrust which was necessary because of the unfinished civil war between the KMT and the CCP (Rigger, 2000, p. 137).

The KMT's Leninist party structure was crucial toward its prolonged rule in Taiwan by allowing political power to be secured at the pinnacle of the party-state structure. The KMT was led by the strongman leader, Chiang Kai-Shek, who held the three most powerful posts on the land indefinitely which were head of state, party chairman and commander of the military and around whom a strong personality cult was developed (Roy, 2003, pp. 82–83). Within the KMT, at the highest level of its power structure were the central committee and central standing committees, the composition of which were generally by appointment of the party chairman (A.-C. Tan, 2002, pp. 153–154). As such, power was monopolized by a slim group of mainlander elite bureaucrats who were loyal to Chiang and who along with him, most directly controlled Taiwan's party-state. Underneath this level, a robust Leninist party structure paralleled and superseded equivalent state structures at each level and allowed for hierarchically organized party organs to control the state (T.-J. Cheng & Lin, 1999, pp. 225–226). To secure the elite bureaucracy's *carte blanche* political control, the KMT also froze legislative elections and granted an unlimited tenure to delegates elected from thirty provinces in the 1947–48 mainland legislative elections (of which Taiwan counted as one) until the retaking of the mainland (Minns & Tierney, 2003, p. 106). In addition to its political control, the elite bureaucracy also secured a strong degree of control over Taiwan's state revenues and its economically influential State

Owned Enterprises (SOEs) (Y.-Y. Chen, 2007, p. 133). Thus, in addition to a rigorous political and organizational capacity, the elite bureaucracy also secured a strong economic self-sufficiency which further strengthened its autonomy (Y.-P. Wu, 2004, p. 107).

Because the elite bureaucracy derived both its economic and political interests through its control over the state, it possessed a distinct class interest which held so long as it secured its effective political autonomy. The Leninist features of the KMT were also enormously useful toward this aim by securing the elite bureaucracy's control over Taiwan's social forces. Taiwan's Leninist party-state structure was wielded in a corporatist fashion so that the elite bureaucracy could co-opt and control all major classes and to secure a relative class equilibrium among them for its successful passive revolution. All social interests were required to join state mandated organizations which were integrated into national level peak organizations in which major social groups such as labour, industry, the youth, farmers and professionals were organized. In the case of the capitalist class, there were three peak organizations which represented the whole of Taiwan's industry. The Federation of Industry and the Federation of Commerce represented the manufacturing and service sectors while the National Council of Industry and Commerce (NCIC) represented all of Taiwan's LE capitalist interests (Y.-H. Chu, 1994, pp. 118-119). The KMT's Department of Social Affairs determined who held key positions within the three peak organizations whose chairman have always been party members while many have also secured posts in the KMT's Standing committee (H.-H. Hsiao, 1995, pp. 86-87). Because the power structure of peak organizations flowed back to the elite bureaucratic level, the elite bureaucracy succeeded in utilizing such organizations not only to reach, but also to demobilize, control and co-opt Taiwan's key social demographics (Y.-H., Chu, 1994, p. 116; H.-H Hsiao, 1995, p. 77).

It is particularly remarkable how long the elite bureaucracy sustained its autonomy without it being eroded by newly ascending class interests. In addition to aforementioned institutional factors, the elite bureaucracy's political autonomy was strengthened particularly by the ethnic features of the KMT regime by which the elite bureaucracy was composed only of mainlanders who enjoyed close relations with Chiang (Y.-Y. Chen, 2007, p. 135). The most immediate social basis for the elite bureaucracy's rule was an approximately 2 million strong mainlander population which by 1949 had fled China to join Taiwan's 6 million islanders. Having no property or jobs, a majority of mainlanders were employed as military personnel or civil servants who derived their interests from the state. This ensured that they also had a stake in the elite bureaucracy's continued primacy in Taiwan. The elite bureaucracy was well aware of the autonomy strengthening utility of an ethnic strategy of rule and it set out to consciously strengthen the islander – mainlander cleavage to the extent that a majority within both demographics experienced a prolonged and mutual sense of otherness. The elite bureaucracy

thus secured a captive support base by circulating the narrative that it was only the KMT and its followers which were representative of authentic Chinese culture and who were its collective guardians amidst a population which occupied its outermost fringe. This cleavage was strengthened further by differences in spoken language between the predominantly Min Nan speaking islanders and Mandarin speaking mainlanders (Minns & Tierney, 2003, pp. 107–108).

During the onset of the elite bureaucracy's rule, it also advanced to radically shape Taiwan's class composition and thereby secured an even stronger foundation for its long-term autonomy by implementing a far reaching land reform program between 1949 and 1953. Although the US also actively supported the program for developmental and geo-strategic reasons, the elite bureaucracy was its prime beneficiary because land reform was instrumental to its regime stability (Gold, 1986, p. 65). As a part of the land reform program, the KMT sold to peasants all of the farmland it gained from Japanese nationals and Taiwanese landlords who were mandated to sell holdings above three hectares of paddy field to the state. Much of this land was then re-sold to peasants at the significantly undercharged price of two and a half times the annual yield (Kay, 2002, p.1081; Roy, 2003, pp. 100–101). Although land reform was aimed at reducing the possibility of land inequality-induced social discontent, it also had the intended effect of pre-emptively destroying Taiwan's still most powerful landlord class. This was mainly achieved by the KMT's undervalued compensation scheme which reimbursed landlords via 70% land bonds and 30% stocks in four government industries. Most of the ex-landlord class quickly re-sold its stocks, not long after which the stock market rebounded while land prices also increased and due to which a majority of the landlord class became bankrupt while only a minority succeeded in joining Taiwan's growing capitalist class (Ka & Selden, 1986, p. 1298).

After securing a stable passive revolution, the elite bureaucracy began in the 1950s to enhance its regime legitimacy through prolonged *transformismo* by co-opting and widening islander participation within permitted political spaces. Although the elite bureaucracy permitted an electoral politics, the logic of *transformismo* is clear in the fact that permitted election categories were carefully screened so that no national resources or powers were at stake. As such, permitted elections were primarily confined to non-national level political posts at the city council level or at the Taiwan provincial government level which was tasked with implementing provincial government policy, but which was legally superseded by the ROC government. Even in the case of permitted election categories, the KMT secured its political dominance by banning alternative political parties, controlling the media and utilizing the party's enormous resources to secure the victory of its candidates (Roy, 2003, p. 84). Additionally, the elite bureaucracy also relied on party-controlled political factions, or regionally based political special interest groups, to secure electoral victory in Taiwan's various permitted elections at the

township, county/city and provincial government level. Ideationally speaking, the elite bureaucracy had little to fear because its propaganda was so successful that it secured an overwhelming acquiescence toward its rule among the citizenry, especially because indoctrination was central to Taiwan's party controlled education system. As such, the elite bureaucracy controlled all aspects of the curriculum to promote Chinese nationalism and to indoctrinated pupils to unquestioningly consent to the KMT's authoritarian rule (Y.-Y. Chen, 2007).

The state-controlled education system in Taiwan demonstrates the central importance placed by the elite bureaucracy on the ideational aspects of its rule. At the core of the KMT's regime legitimation was a narrative of the KMT's rightful sovereignty claim over China and a progressively more important economic component which emphasized the KMT's successful and welfare enhancing economic development of Taiwan. As will subsequently be argued, the KMT's development was welfare enhancing and relatively egalitarian, a fact which has led many scholars to question the degree to which the KMT was guided by a genuine commitment to social equality. Some, for instance, highlight the centrality of Sun Yat-sen's thought in the KMT's founding ideology who, heavily influenced by socialist thinking, called for equitable income distribution, state ownership over key economic sectors and the containment of the excessive concentration of private capital (San, 1995, p. 28; Thorbecke & Wan, 2007, p. 56; Wade, 1990, p. 261). But, the influence of a genuine commitment to Sunist ideals is questionable in the context of the KMT's rule in China which was predatory and rent seeking while the party leadership was also closely associated with landlord interests (Cho & Kim, 1998, p. 137; Clark, 1989, p. 89). A better route to understand the KMT's development policy, instead, is pragmatic necessity. It is clear, for instance, that the KMT's statist policies during the 1950s were primarily guided by the need to secure both a stable rule and to develop the physical capacity necessary for an eventual defeat of the CCP. Reflecting this, Taiwan's defence expenditures accounted for approximately 65% of its national budget before 1965 (M.-C. Tsai, 1999, p. 103).

Although Taiwan's economic development was a secondary policy aim during the 1950s, the elite bureaucracy visibly foregrounded the importance of a welfare-enhancing development as its central policy aim throughout the hard statist time period. This was especially so when the un-tenable nature of Chiang's aim of a military re-conquest of China became clear after consistent US refusals to commit militarily and the CCP's eventual testing of an atomic bomb in 1964 (Roy, 2003, pp. 113–115). In order to secure its long-term rule, the elite bureaucracy correctly equated the failure to attain a welfare enhancing economic development with the increased risk of regime-destabilizing social discontent which was particularly cogent in the

context of a feared CCP encroachment on Taiwan. As such, economic development was coupled directly with regime security and was viewed as a necessary prerequisite toward winning the sufficient social acquiescence necessary for the elite bureaucracy's continued authoritarian rule (Wade, 1992, pp. 314–315). This dynamic became particularly visible during and after the late 1960s when ever-more visible attempts were made to link the KMT's regime legitimacy with Taiwan's economic development (Gold, 1986, p. 73). Based on this, the elite bureaucracy circulated and extended a narrative which equated Taiwan's economic and social prosperity with a continued anti-Communist, economic development drive which necessitated one-party rule, personal sacrifice and absolute loyalty to the party (Woo-Cumings, 1998, pp. 335-336). This narrative was designed to appeal to all of Taiwan's social classes so that an increasingly developed bourgeoisie composed of both islanders and mainlanders would consent due to its favouring of stability and growth while workers and peasants were also expected to consent in their hopes to take part in and benefit from Taiwan's momentous economic growth (Gold, 1986, p. 90).

Although specific policies have not been examined yet, it is clear that the elite bureaucracy secured firm and viable foundations for a longer-term passive revolution in Taiwan. In addition to securing an unchallenged political autonomy, the elite bureaucracy was also in a strong position to manage Taiwan's class formation trajectory through a robust set of institutional and ideational levers throughout the hard statist period.

### **Section 3.2: The Formation of the Statist Historical Bloc**

Now that the broader parameters of Taiwan's statist social order have been delineated, attention can be placed on an examination of the class formation processes brought into motion by Taiwan's statist development. But to do so, it is first necessary to provide a brief account of the KMT's development policies. It is only after providing such an account that a more concise understanding can then be developed toward historicizing changes in the social basis of Taiwan's state.

Before accounting for the overall thrust of the KMT's development policies, it is important to first identify the institutional features of its developmental apparatus. Tasked with facilitating Taiwan's industrialization was a dedicated economic bureaucracy which was led and coordinated by a small group of powerful individuals within the executive branch composed of elite bureaucratic planning personnel, cabinet ministers and SOE managers who reported directly to Chiang (Wade, 1990, p. 195). Before proceeding, it is useful also to clarify the difference between the terms, elite bureaucracy and economic bureaucracy which I, at times, use

interchangeably in my analysis. The elite bureaucracy, as already noted, refers to the KMT's regime managing elite bureaucratic cadre who were at the apex of the KMT's party-state structure and who collectively shaped the parameters of Taiwan's social order and managed its passive revolution. The economic bureaucracy, on the other hand, refers to specialist bureaucratic cadre tasked with implementing economic policy in specialist development agencies such as the Council for Economic Planning and Development. But, because the economic bureaucracy operated within the parameters set by the elite bureaucracy while high level economic bureaucrats also at times joined the elite bureaucracy, although my analysis remains focused at the elite bureaucratic level, I revert to the term economic bureaucracy when addressing questions of policy implementation.

### 3.2.1 Statist Development Policies

The KMT's statist development path came into shape after 1949 when the elite bureaucracy first attempted to stabilize Taiwan's ongoing hyperinflation crisis. This crisis was brought under control by the early 1950s during which time Taiwan's industrial output also once again reached pre-war production levels (Roy, 2003, pp. 96–97). The first of the KMT's policies which were conducive to a long-term statist development path was its aforementioned land reform which secured the foundations for Taiwan's long-term egalitarian growth trajectory. As an outcome of land reform, some two million Taiwanese gained property rights for the first time while in the longer term, it was a causal factor which led to 79% of Taiwan's farming population to work on its own land (Roy, 2003, p. 101). Additionally, the destruction of Taiwan's landlord class was also developmental because landlord classes are traditionally most likely to oppose statist industrialization as it directly challenges its economic interests (Cho & Kim, 1998, p. 137).

In terms of specific development policy features, the first stage of the KMT's statist development took place on an Import Substitution Industrialization (ISI) basis during the 1950s. The overall thrust of ISI involved targeted resource transfer from the agricultural sector to the manufacturing sector and a simultaneous upgrading of Taiwan's industrial composition. During this stage, the elite bureaucracy relied particularly on its dirigisme to extract a necessary agricultural surplus through its monopoly over the supply of crucial agricultural inputs such as fertilizer (Amsden, 1979, pp. 356–357; Kay, 2002, p. 1082). Rates of exchange for the supply of crucial inputs were skewed so that fertilizer, for instance, measured at between 1.7 and 2.9 times the fertilizer import price between 1954 and 1960. The elite bureaucracy also controlled the agricultural export market which allowed it to secure further surplus extraction through export pricing discrepancies which fluctuated between 2.2 and 3 times higher than the compulsory

purchase price (Ka & Selden, 1986, pp. 1303–1305). Despite its exploitative nature, the KMT's resource extraction policy remained tenable in the context of KMT-facilitated annual agricultural rate production growth which measured at 4.4% during the 1950s and 3.9% during the 1960s (Amsden, 1979, pp. 353–354; Clark, 1989, p. 163).

Accompanying its agricultural extraction, the KMT also focused on developing targeted sectors such as the 1950 priority development sector, textiles. To do so, the economic bureaucracy implemented numerous typically statist development policies such as erecting tariff barriers and the provision of fiscal aid and technological support to newly established firms in targeted sectors (W.-W. Chu, 2001, pp. 75–76). In addition to a channelling of the agricultural surplus to the industrial sector, Taiwan's low cost agricultural output also aided its industrialization because artificially low food prices allowed for a slower than average wage growth which was crucial to EOI industrialization (Ka & Selden, 1986, p. 1306). As an outcome of the KMT's statist development policies, Taiwan's industrial output doubled between 1952 and 1958 while a substantial industrial sector also came into shape by the end of the decade which included plastics, artificial fibres, cement, glass, fertilizer, plywood and textiles (Wade, 1990, p. 77). The support of the US was also particularly important during this stage of Taiwan's development, especially in terms of its provision of generous market access to Taiwanese exporters and its tolerance of Taiwan's protectionist and heterodox trade policy (M.-C. Tsai, 2002, p. 144). Furthermore, the US aim of aiding the KMT to attain economic self-sufficiency also led to a generous resource transfer so that US non-military aid alone financed 40.7% of Taiwan's gross domestic capital formation between 1952 and 1960 (Barrett & Whyte, 1982, p. 1068).

By the early to mid-1960s, primary ISI ran its course and the KMT reoriented its development policy to promote a much intensified EOI development path. To facilitate EOI, the KMT passed a barrage of new policies which devalued Taiwan's exchange rate, lowered the tax rates for exporting firms and which established Export Processing Zones (EPZ) throughout the island (Y.-Y. Chen, 2007, pp. 130–131; Haggard, 1986, p. 350; H.-H. Hsiao, 1995, p. 79; M.-C. Tsai, 2002, p. 135). By the early to mid-1960s, however, the textile sector and other primary ISI industries began to face increasing protectionist pressures internationally while also reaching the summit of their respective product cycles (Ranis, 2007, pp. 39–40; Wade, 1990, pp. 79–80). Due to such conditions and in the context of Taiwan's now largely industrial economic composition, the economic bureaucracy implemented a secondary ISI policy in which heavy and chemical industries were developed and shielded during this time. Generally speaking, secondary ISI industries were predominantly in materials (intermediates) and capital goods sectors which were both very capital and technology intensive and which possessed very large economies of scale (Schive, 1995, pp. 13–15). Many secondary ISI firms were SOEs and tended

to occupy the commanding heights of the economy in sectors such as petroleum refining, steel, shipbuilding, heavy machinery, transport equipment, and public utilities (C.-H. Huang, 2002a, p. 101). Due to the state's heavy involvement in the economy during this time, its share of gross domestic capital formation increased from 34.7% in 1973 to a high of 57.7% in 1975 while remaining at close to 50% throughout the rest of the decade (Gold, 1986, p. 109). By the end of the 1970s, Taiwan's prolonged statist development trajectory led to the formation of a tripartite industrial structure in which SOE's dominated the upstream, LE's dominated the intermediate-stream while SMEs concentrated at the downstream (Y.-P. Wu, 2004, p. 105).

### 3.2.2 The Consolidation of the LE Capitalist Class

In terms of class, the most immediate outcome of Taiwan's industrialization was that it spurred a class formation process which led to the increased economic influence of a distinct LE capitalist class. For the time being, the elite bureaucracy succeeded to contain and manage its consolidation on a continued basis of passive revolution, but it was also clear that it was the LE capitalist class, in particular, which was targeted for the most intensive *transformismo*. Over time, this led to the development of an increasingly defined statist historical bloc forged between a dominant elite bureaucratic class and a subservient LE capitalist class whose interests were, however, increasingly aligned.

During the KMT's first two decades of rule, due to the still relatively unconsolidated nature of Taiwan's capitalist class, the elite bureaucracy secured an unchallenged and unconstrained political autonomy. As such, the elite bureaucracy also secured a strong disciplinary capacity and implemented its policy by fiat (Thorbecke & Wan, 2007, p. 55). Furthermore, to manage the LE capitalist class formation process, the elite bureaucracy also secured an effective control over the vetting process of Taiwan's most powerful LE capitalists to ensure their loyalty and subservience to the regime (Gold, 1986, pp. 88–89; Y.-P. Wu, 2004, pp. 108–109). Often, the elite bureaucracy itself identified individual capitalists to start firms. A particularly famous example of this practice is Wang Yung-Ching who founded Formosa Plastic, a firm which eventually became dominant in the midstream of the plastics sector and which grew to be Taiwan's largest business group during the 1980s, employing 31,200 employees at an annual sales volume of \$1.6 billion (Wade, 1990, p. 66, 80). Stephen Haggard correctly understands this process as one in which the state has, in essence, created the industrial bourgeoisie (Haggard, 1986, p. 356). In addition to creating the bourgeoisie, the elite bureaucracy's political autonomy was also strong enough to allow it to intervene directly in firm-level management decisions. This dynamic is particularly evident in the KMTs forced mergers of existing firms when deemed necessary to attain viable market consolidation or crucial technology-driven

upgrading aims. One famous example of this is the KMT's merger of five synthetic textile manufacturers into the Hualong Corporation (Gold, 1986, p. 102).

A prolonged history of engagement and an increase in the economic influence of Taiwan's LE capitalist class also posed a challenge to the degree of autonomy enjoyed by the elite bureaucracy in the longer term. As such, the further into Taiwan's hard statist social order, the more the elite bureaucracy had to rely on available institutional mechanisms to maintain and secure its continued autonomy. The elite bureaucracy's control over the banking system was particularly instrumental with this respect because it enabled it to both steer capital flows and to discipline Taiwan's LE capitalist class when necessary. Not only did the state own nearly all of Taiwan's banks, but employees in state controlled banks were also officially civil servants who came under the institutionalized control of the bureaucratic apparatus (Park, 2000, p. 157). Taiwan's financial control was strengthened, in particular, by its closed capital account and the elite bureaucracy's absolute control over monetary policy which can be observed in the fact that Taiwan's Central Bank of China reported directly to the president (C.-H. Huang, 2002a, pp. 109–110). Although some very limited private sector involvement was permitted at the periphery of the finance sector, Taiwan's financial system was overwhelmingly bank-based and loan-oriented. Unlike SMEs which were generally excluded from bank lending, the elite bureaucracy secured a decisive control over Taiwan's LE capitalist class which was highly dependent on bank lending due to the lack of alternative funding streams (Wade, 1990, pp. 160–161). But, most importantly, the elite bureaucracy's banking control enabled it to both pursue its industrial policy while also actively controlling the pace of capital consolidation toward limiting the economic influence of the LE capitalist class outside of the party's control (T.-J. Cheng, 1990, p. 143).

In addition to a state controlled financial system, the elite bureaucracy also relied on other institutional levers to constrain excessive capital consolidation. Among such levers, for instance, was the need of state approval for capital goods importation, technology imports, credit allocation and a continued state control over entry barriers in given industrial sectors (Wade, 1990, p. 185, 270). Even in terms of handpicked LE capitalists such as Wang Yung-ching, continued restrictions remained on vertical integration. Thus, when Wang attempted to establish oil refining and supply facilities in the Middle East during the mid-1970s, he was prohibited to do so under the pretext that petroleum was a strategic resource which must remain in the hands of the state and the state owned Chinese Petroleum Corporation (Wade, 1990, pp. 128–129). In addition to the general aim of limiting excessive capital consolidation, Wang's case was also indicative of the elite bureaucracy's policy imperative to maintain the state's monopoly in the upstream SOE sector which was important to its continued political autonomy. This was

especially so because SOEs were Taiwan's most consolidated economic interests which measured at a total asset value that exceeded by several times the combined asset value of Taiwan's top 500 private enterprises (Q. Tan, 2000, p. 50). As such, a continued elite bureaucratic control over SOEs not only secured it enormous financial resources and personnel placing opportunities, but also ensured that a vital segment of the LE capitalist class remained under the direct control of the state.

Despite the various policy levers that were in place, the increasingly consolidated nature of the LE capitalist class also ensured that the elite bureaucracy had to progressively intensify its targeted *transformismo* policy to absorb and co-opt LE capitalists. One method by which this occurred was through the KMT's Leninist party-state structure which allowed the elite bureaucracy to recruit influential business members for political office, intensify joint investment opportunities and to provide numerous positions to LE capitalists on governing boards in trade and business organizations (H.-H. Hsiao, 1995, p. 83). A prolonged *transformismo*, however, also unwittingly led to the development of an increasingly close alliance between the LE capitalist class and the elite bureaucracy. As such, it was unavoidable that some degree of interest harmonization occurred between the two. This was so much the case that from the late 1960s onward, Taiwan's social order can be conceived of as based increasingly on the interests of a statist historical bloc forged between a dominant elite bureaucracy and a subservient LE capitalist class which increasingly underpinned the stability of Taiwan's statist social order. Although the elite bureaucracy actively curtailed the economic and political influence of the LE capitalist class, it is important to note that LE capitalists also voluntarily acquiesced to the elite bureaucracy's leadership. This was to be expected, however, because Taiwan's LE capitalist class owed its economic standing to its close ties to the elite bureaucracy while the elite bureaucracy's statist developmental policy was also crucial to the economic growth from which the LE capitalist class benefitted. At a most general level, it was also the case that the private sector's share within the industrial structure increased relative to the public sector's share, thus signalling an overall expansion of capital accumulation processes despite existing limitations.

The fact that *transformismo* was relied on so much more intensively during this time indicates clearly that despite Taiwan's passive revolution, the increased capital consolidation of the LE capitalist class led to a marked increase of its influence vis a vis Taiwan's other major classes. But, because the LE capitalist class was part of the capitalist class more generally, it is also important to examine how SME owning capitalists fared within Taiwan's statist social order. SME's accounted for a majority of Taiwan's firm composition and the total number of which rose from 51,389 in 1961 to 152,871 in 1988 (Lui & Qiu, 2001, p. 60). In terms of employment,

SMEs, which during this time were defined as hiring less than 100 employees, absorbed 42.7% of total manufacturing labor in 1966 while absorbing 47.9% by 1986 (Schive, 1995, p. 10). Although SME's can now be defined to include firms hiring as many as 300-500 employees, a number of surveys from 1966 to 1986 show that more than 95% of all manufacturing units hired less than 50 employees. Due to the scale economies and the much more consolidated nature of SOEs and LE's, although SMEs accounted for 97.72% of the total enterprise composition ratio by 1989, they only accounted for 46.3% of Taiwan's industrial production in value terms (H.-H. Hsiao, 1995, p. 83).

The prevalence of SMEs raises the important question as to what relationship the elite bureaucracy had with Taiwan's SME capitalist class and what explains its acquiescence to the elite bureaucracy's leadership despite its lack of responsiveness to SME capitalists. This is an especially prescient question because of Taiwan's hierarchical relations of production in which LEs closer to the top of the production chain secured the majority of profit margins while sub-contracting SME's bore higher risks and also reaped much slimmer profit margins (C.-H. Huang, 2002a, pp. 174–175). This has led some commentators to argue that the KMT has pursued a policy of neglect toward SMEs (Y.-P. Wu, 2004, pp. 108–110). But, other than structural impediments which limited SME margins, this view is difficult to sustain as the KMT's export promotion policy did not discriminate between large and small enterprises while both benefitted from its economic development policies at a more general level (Schive, 1995, p. 13). Furthermore, the KMT's control of the upstream sector was also beneficial to SMEs as it assured the provision of stable inputs at lower average prices than equivalent prices on the international market (Y.-Y. Chen, 2007, p. 140; Wade, 1988, p. 47). Additionally, SME's also benefitted from the KMT's role in moderating the pace of wage growth and securing labour peace. It is for this combination of reasons that SME owners generally acquiesced to the KMT's continued one-party rule.

The elite bureaucracy's statist development policy, despite proceeding on a basis of an unchallenged elite bureaucratic autonomy and dirigisme, also led to the unavoidable consolidation of an LE capitalist class which secured a relatively increased economic influence. Although it is true that the elite bureaucracy succeeded at managing the process of the capitalist' class consolidation, the LE capitalist class did also become increasingly economically powerful and enjoyed a closer relationship with the elite bureaucracy through the statist historical bloc. For the time being, however, the relational dynamic between the two remained one which was based on the elite bureaucracy's dominance.

### **Section 3.3: Regime Legitimation and Social Acquiescence**

Although the capitalist class was the prime beneficiary of Taiwan's statist social order, its acquiescence did not suffice to enable the elite bureaucracy's prolonged political autonomy. For this, the elite bureaucracy also succeeded at securing the necessary acquiescence among all of Taiwan's major classes and for which its impeding of the development of an independent class consciousness was especially crucial.

Because of the KMT's capital advancing development policies, the increased concentration of a working class should have been a most likely point of contradiction within Taiwan's social order. But, such a contradiction did not manifest itself visibly while a self-conscious labouring class consciousness did not develop either during this time. One crucial impediment to the development of a collective labour consciousness was the bifurcated nature of Taiwan's labour process in which the most intensive exploitation occurred within SMEs. This was because of the common practice by which larger firms externalized production nodes with fixed labour costs so that they did not have to manage adverse labour relations directly (Shieh, 1992, p. 82). As such, SMEs (especially smaller SMEs which often employed fewer than 10 employees) were commonly situated within a price-based subcontracting network in which they had to implement a long hours and low wage based labour regime to squeeze out as much of their paper-thin margins as possible (Gates, 1987, p. 76; C.-H. Huang, 2002a, pp. 285–286). As such, SMEs were often legally excused from having to provide labour protections so that firms employing less than 5 workers, for example, were exempt from having to provide labour insurance at all (C.-W. Huang, 2011, p. 146). Naturally, the bridging of a common cause between SME and LE/SOE labourers was exceedingly difficult because their interests within the labour process varied drastically.

A further problem which impeded the formation of a labouring class consciousness was the slim size of Taiwan's permanent labouring class itself. This was due largely to long-term legacies of land reform and more specific production features of Taiwan's predominantly SME-scaled industrial composition which led to the development of very large petty bourgeoisie class segment. An agricultural demographic which tended to work its own land and a small businessmen/artisan demographic which hired fewer than 20 workers is estimated to have accounted for 32% and 15% of Taiwan's total labouring population respectively. As such, although the labouring class accounted for approximately 39% of the total population during the 1970s, scholars such as Hill Gates correctly argue that only 20% of the population could be considered as a permanent proletariat demographic during this time (Gates, 1979, p. 391). It is

obvious that egalitarian land ownership patterns have a pronounced effect on fostering the development of a large petty bourgeoisie, but the ease of setting up SMEs can use some further elaboration. At a most general level, Taiwan's subcontracting production model encouraged and was based on the flexibility and ease by which single-task production lines were sub-contracted. As such, many labourers aspired to set up single-task production firms, a goal which was not overly difficult and which also did not require a sum of capital beyond the reach of pooled family savings (Shieh, 1992, pp. 179–181).

In addition to class consciousness weakening effects of a slim permanent proletariat in demographics terms alone, the ease by which SMEs could be set up also further diluted the formation of a labouring class consciousness. This was due to its class blurring effects between the labouring and petty bourgeoisie classes. Taiwan's SME-based production model was simultaneously exploitative and liberating toward both the labouring and petty bourgeoisie classes. For one, both labourers and SME owners were tied to extremely exploitative relations of production with upstream firms. Many SME-owning capitalists and their family members, for instance, joined the labour process and often worked for even lower wages than their employees or, as in the case of the children of enterprise owning families, for no wages at all (Gates, 1979; Shieh, 1992, p. 131). But because of the capitalist status of SME owners, it was extremely difficult for a common cause to be developed between them and their workers. As for the labouring class, Taiwan's flexible production regime is argued to have fostered a prevalent and class consciousness impeding petty-bourgeoisie type self-perception among many workers due to aspirations of joining the capitalist class. This phenomenon was popularly referred to as 'black hands becoming bosses' during this time. As such, it is argued that a common 'part-time proletariat' mentality developed among most workers who perceived themselves to be passers through in the labour process and due to which limited demands were made toward work conditions (Gates, 1979).

A labour process induced part-time proletariat mentality was far from the only impediment on the formation of a labour class consciousness in Taiwan during this time. For one, a part-time proletariat mentality was exacerbated further by the geographical features of Taiwan's decentralized and SME-based production network in which factories were dotted all across the island. John Minns and Robert Tierny trace this to a conscious KMT strategy which encouraged industrial dispersion in order to limit the over-consolidation of the capitalist class. As an outcome, they correctly argue that because a majority of Taiwan's SMEs were family firms, labour relations within them tended to be much more personal and paternalistic and were layered within a rich tapestry of communal life. As such, Taiwan's highly personalistic labour relations did not easily allow for a labour consciousness or an employer – employee dichotomy

to develop because of the thick family networks and inter-personal relationships which underlined the relations of production (Minns & Tierney, 2003, pp. 109–110). In addition, the scattered features of Taiwan's industry are also argued to have led to a very high proportion of labourers to maintain close connections with family farms on which many relied upon for added financial supports (Moore & White, 1998, p. 134).

Thus far, attention has been placed primarily on the acquiescence of Taiwan's SME labourers toward the statist social order, but this does not yet account for the acquiescence of the labour force within larger SMEs, LEs and SOEs. To curtail the development of a common labour class consciousness among this demographic, the KMT intervened much more directly through its corporatist control over labour unions. As such, the elite bureaucracy freely utilized the party-controlled enterprise SOE and plant-based LE union leadership to communicate downward to the rank and file. In a typical Leninist fashion, all unions were required to join the official China Federation of Labor (CFL), the elected head of which was automatically granted both a seat in the Legislative Yuan and the KMT's Central Standing Committee. Union elections were generally rigged by the KMT to ensure the party's control over the CFL which is best understood as a tool of the KMT. To strengthen its control, the KMT also reserved the right to interfere in union activities and to dissolve any union within the CFL that it deemed to be subversive (H.-H. Chen, 2009, p. 71; Minns & Tierney, 2003, p. 111). Furthermore, outside of SOE unions which were enterprise based, only plant based unions were permitted while, at the same time, an approximately 80-90% of the workforce which worked in enterprises with fewer than 30 employees was prohibited entirely from joining unions. Instead, such SME workers joined craft unions which were unions in name only and were in reality associations which managed labour and health insurance for workers (C.-W. Huang, 2011, pp. 151–152).

Finally, the KMT also relied heavily on the disciplinary and ideational apparatuses of the state to dilute and impede the development of a labouring class consciousness. From the start of its rule onward, the KMT consistently circulated a narrative which promoted the view that social status was an outcome of hard work and educational attainment and toward which all citizens had equal access (Gates, 1979, p. 387). Although acknowledging separate social interests and career categories, the narrative promulgated was that all citizens were harmoniously integrated to contribute toward the collective social good within which class contradictions were not acknowledged or were underplayed. Accompanying this, the KMT vilified the very concept of class due to its associations with its arch nemesis, the CCP, and any individuals that visibly advocated the concept risked being singled out and incarcerated as suspected communist sympathizers (Gates, 1987, p. 58). The successful instilling of this narrative within the wider population underpinned the ideational legitimacy of the developmental-state in which the goal

of warding off communism through economic development justified labour discipline and political repression on all fronts. As such, opponents of Taiwan's developmental model were understood as traitors and Communist sympathizers who put the ROC's security at risk and who were deserving of punishment (Cho & Kim, 1998, p. 133). To return to the labour process specifically, what little labour agitation that existed during this time was faced with the full repressive apparatus of the state and a barrage of laws were in place to prohibit the politicization of the workplace (H.-H. Hsiao, 1992, p. 156). Such laws, for instance, eliminated the right to strike, granted arbitration and mediation power to the government while also stipulating severe punishments for labour agitation (Gray, 2010, pp. 582–583; Koo, 1987, p. 174). Identified labour organizers risked being tried in military courts, tortured and even sentenced to death for crimes such as inciting disturbances, setting up illegal labour unions or spreading seditious rumours which encouraged labour agitation (Minns & Tierney, 2003, p. 111).

In addition to the class consciousness impeding factors examined already, it is also important to acknowledge that one crucial factor behind the acquiescence to the statist social order was the dramatic welfare improvement experienced by all social classes in Taiwan. In the context of full employment and the drying up of Taiwan's rural labour reserve, despite the exploitative features of the labour process, wages, nonetheless, rose faster than prices at 5.4% a year annually between 1964 and 1973 and 20% annually between 1976 and 1980 (Gold, 1986, p. 112; C.-H. Huang, 2002a, p. 108). The egalitarian growth features highlighted earlier also ensured not only that the poverty rate declined drastically, but also that the fruits of economic development seeped through to all classes. This can be observed in Taiwan's Gini coefficient which declined from 0.56 to 0.29 between 1950 and 1970 (Ranis, 2007, p. 44). Mirroring this trend, the income differential between the top and the bottom fifth of the population similarly dropped from 20.5 in 1953 to 4.2 in 1980 (Nordhaug, 1998, p. 130). The scale of the KMT's developmental success can be further observed in its halving of Taiwan's crude death rate, increasing threefold the residential electrification rate (from 33% to 99%) and its successful implementation of a universal education system until grade 9 between 1950 and 1980 (Clark, 1989, p. 205). Indicative of Taiwan's closing in with the developed world, its population growth rate in the late 1980s fell to approximately 1% (Clark, 1989, p. 206). As an outcome of such welfare enhancing growth, in addition to the support among the capitalist and middle class toward the KMT's one-party rule, workers and peasants also acquiesced due to a common desire to benefit further from Taiwan's continued economic growth (Gold, 1986, p. 112). Needless to say, such developmental outcomes also facilitated the citizenry's susceptibility to the KMT's economic legitimization of its rule as based on the delivering of consistent welfare improvements and economic development.

In addition to securing the support of the capitalist class, it is clear that the elite bureaucracy similarly secured the acquiescence also among Taiwan's other major class demographics. Facilitating this were a variety of factors which combined to impeded the development of an independent class consciousness in Taiwan. It is only in this context that Taiwan's hard statist social order held and on which the elite bureaucracy secured a necessary autonomy for its coercive rule so that it could remain unresponsive toward interest articulation from Taiwan's social forces throughout this time.

### 3.4 Conclusion

In this chapter, I examined the social basis of Taiwan's hard statist order between 1945 and 1978 during which time the elite bureaucracy secured an unchallenged political autonomy, ruled coercively while remaining unresponsive to interest articulation from Taiwan's social forces. To secure its autonomy, I argued that the elite bureaucracy advanced to alter Taiwan's class composition to secure a prolonged passive revolution. Because the elite bureaucracy secured its interests from an organic connection with Taiwan's state, I argued that its statist development consensus was guided by the aim of securing a necessary acquiescence among Taiwan's major classes toward its disciplinary rule. But, at the same time, I argued that Taiwan's statist development also led to a class formation trajectory which was typical of capitalist development processes and which the elite bureaucracy managed through a successful *transformismo*. I argued that the elite bureaucracy's success at doing so was an outcome of direct co-optation, but also disciplinary and ideational processes which combined to significantly impede the development of an independent class consciousness among Taiwan's major classes. In addition to a direct elite bureaucratic initiative to weaken Taiwan's class consciousness, I also highlighted a number of important class diluting features which arose from the specificities of Taiwan's SME-based industrial composition and welfare enhancing economic development which were crucial to the elite bureaucracy's successful *transformismo*. Although Taiwan's hard statist social order held, I argued that a prolonged *transformismo*, nevertheless, led to the gradual development of a historical bloc between a dominant elite bureaucracy and an increasingly economically influential, but politically subservient LE capitalist class. This, I argued, however, did not fundamentally alter Taiwan's hard statist policy parameter because Taiwan's LE capitalist class consented during this time to its subservient role.

This chapter's findings suggest that Taiwan's developmental-state can only be theorized in terms of the social basis on which the elite bureaucracy's autonomy was enabled. Although I acknowledge that Taiwan's statist order benefited from a variety of internationally conducive factors, my findings suggest that it is important to integrate such domestic and international

dimensions by examining their effects on the social basis of Taiwan's state. By theorizing the statist social order in this fashion, I have shown that a Gramscian framework can be applied to historicize Taiwan's social change to identify the relative degree of the political autonomy enjoyed by the elite bureaucracy at any given time. By theorizing the elite bureaucracy's political autonomy in terms of passive revolution, I also demonstrated that its statist policy consensus can be understood in the context of its need to secure a necessary social acquiescence toward its prolonged monopolization of political power. By doing so, I demonstrated that in addition to a class equilibrium, that a consensual dimension was equally important toward sustaining Taiwan's passive revolution and statist social order. Although, the elite bureaucracy maintained an unchallenged political autonomy, my analysis demonstrates that this was only possible because of a concerted and prolonged *transformismo* by which it secured a necessary support among Taiwan's major classes. But, despite the elite bureaucracy's successful passive revolution, a hard autonomy was only secured temporarily while an intensification of Taiwan's development induced class formation trajectory and associated social changes also continued to impinge on the elite bureaucracy's political autonomy. In the following chapter, I will examine how this process eventually led to Taiwan's transition to a soft statist social order during which time the elite bureaucracy became increasingly more responsive to Taiwan's social forces only to secure a much weakened political autonomy.

## Chapter 4: The Soft Developmental State

In the previous chapter, I examined the social basis of Taiwan's state which enabled its hard statist order. In this chapter, I examine the qualitatively separable soft statist period between 1978 and 1988 in which a changing social basis of Taiwan's state led to a significantly diluted elite bureaucratic autonomy, the preservation of which necessitated the elite bureaucracy's increased responsiveness to Taiwan's social forces. I argue that Taiwan's transition from a hard to soft statist social order occurred primarily because of two inter-defining processes, an increasingly unmanageable social contestation and a prolonged interest harmonization between the elite bureaucracy and the LE capitalist class. Although the KMT's international de-recognition was a catalyst, I argue that a most direct causal factor for Taiwan's increased social contestation was a weakened passive revolution. This, I argue, was especially evident in an eroding acquiescence toward the elite bureaucracy's continued political dominance among Taiwan's increasingly defined and ever more important middle and labouring class demographics. The difficult to manage nature of Taiwan's social contestation, I argue, was an outcome of the elite bureaucracy's prolonged repression of a class politics from developing in Taiwan due to which regime, ethnic and class contradictions were channelled toward an anti-KMT democratization movement. Because this democratization movement contained a significantly expanded social basis, I argue that the elite bureaucracy only secured a sufficient social acquiescence to its rule because of its managed liberalization drive which elevated a political *transformismo* to the elite bureaucratic level. This suggests that rather than an inevitable democratization or a democracy determining international de-recognition, that Taiwan's social contestation was influenced most directly by a prolonged development induced social change and that class is the central variable to understand this process.

In terms of economic policy, a defining feature of Taiwan's soft statist social order was that the elite bureaucracy became significantly more responsive to the short-term interests of Taiwan's LE capitalist class. This was not surprising as an increased social contestation ensured that the tenability of the statist social order increasingly rested on the stability of the elite bureaucracy's historical bloc with the LE capitalist class. Coupled with the democratization movement's primary focus on political liberalization, this ensured that a more visibly LE capital advancing policy course was an unavoidable economic strategy of rule for the elite bureaucracy to secure its continued political autonomy. As such, I argue that the class basis of the KMT's economic policy can be accounted for in terms of a prolonged *transformismo* and historical bloc induced interest harmonization between the elite bureaucracy and the LE capitalist class. But, despite this interest harmonization, I also argue that Taiwan's historical bloc continued to be of a senior – junior partner type dynamic. This was because the elite bureaucracy still secured an effective

dirigisme which was, however, now applied only to absolute national priority initiatives such as the development of Taiwan's IT sector. This, I argue, was because the elite bureaucracy could no longer risk alienating Taiwan's LE capitalist class as it increasingly depended on its consent toward its continued senior role within Taiwan's historical bloc. This demonstrates that the elite bureaucracy's political autonomy, in addition to being weakened by a strained passive revolution among subaltern classes, was also seriously diluted within the elite bureaucracy's historical bloc itself. By theorizing this process through a Gramscian lens, I demonstrate not only how the elite bureaucracy's diluted autonomy can be accounted for in terms of a changing social basis of Taiwan's state, but also that the specific features of the KMT's economic policy can be similarly understood on such terms.

#### **Section 4.1: Civil Society Expansion and a Weakened Political Autonomy**

Chiang Ching-kuo, Chiang Kai-shek's son and groomed successor, became president in 1978 and throughout his presidency until 1988, Taiwan's statist social order continued to hold, albeit only very tenuously while the elite bureaucracy also faced an increased encroachment on its political autonomy. This occurred both in terms of a significantly more active civil society which challenged the elite bureaucracy's monopolization of political power and an increasingly powerful LE capitalist class which diluted the elite bureaucracy's political autonomy through a prolonged process of historical bloc induced interest harmonization. To secure a continued elite bureaucratic autonomy, Chiang's administration engaged in a much more extensive and targeted *transformismo* drive. In addition to a specific LE capitalist targeting component which will be examined subsequently, the elite bureaucracy began also to engaged in a more reactive and legitimacy gaining managed political liberalization and Taiwanization drive which for the first time promoted islanders to elite-level political posts. The elite bureaucracy's intensified *transformismo* secured it a weakened, but still effective autonomy on the continued basis of passive revolution. But, at the same time, popular support for the elite bureaucracy was beginning to erode among Taiwan's non-LE capitalist class demographics.

Despite the managed liberalization process, the elite bureaucracy continued to secure a strong disciplinary capacity. Throughout Chiang's presidency, the elite bureaucracy continued to dictate its policies by fiat, choose officials without oversight while also relying on various rubber stamping bodies such as the National Assembly to secure an institutional legitimacy for its continued political dominance. In addition to the immediate political apparatus of the party-state, the elite bureaucracy also continued to control nearly all of Taiwan's major social institutions such as its educational apparatus and corporatist organizations within which all major social interests were organized. One factor for this degree of continued elite bureaucratic

control was the elite bureaucracy's still effective propaganda which held due to its control over all major media platforms, including television, radio and print media. At the same time, a network of informants and security agents also continued to operate throughout all of Taiwan's public avenues such as schools, workplaces and neighbourhoods to identify subversives (Roy, 2003, p. 152). As such, the elite bureaucracy's control also continued to hold in the political realm and it secured a strong advantage in the various permitted election categories, especially as opposition politicians were prohibited from utilizing the media for political advertising due to continued martial law restrictions (Fell, 2005, p. 880).

Although it is true that the elite bureaucracy continued to secure an overall acquiescence among a majority of Taiwan's citizens, it also faced increased challenges to its rule, especially from non-capitalist classes. This was so especially because Taiwan's class composition became increasingly defined while a previous class fluidity was also significantly weakened during this time. This is a process which Hsiao Hsin-huang understands as reflective of Taiwan's social transformation toward a modern class composition due to its successful capitalist development. As such, Hsiao argues that more traditional classes such as the petty bourgeoisie and small farmers were in decline while Taiwan's labour middle and capitalist classes also became increasingly solidified (H.-H Hsiao, 2001, p. 165). Of course, this cleavage is a broad demarcation and does not, for instance, account for crucial divergences between the LE capitalist class and the SME capitalist class. But as a broad delineation, Hsiao's analysis captures Taiwan's class parameters which increasingly came into shape as an outcome of an ongoing social transformation throughout this time and toward which the middle and labouring classes were particularly crucial.

Taiwan's middle class was especially central toward an increased contestation process which began during the 1980s. This was largely because of a shift from its formerly more regime favouring petty bourgeoisie and small shop owner composition to one which was defined by an increased professional and managerial composition (H.-H. Hsiao, 2001, p. 165). Although many within the middle class continued to favour political stability, a sizeable percentage also became increasingly concerned with quality of life issues and became politicized. This was evident in the strong level of middle class support for the environmental movement and the consumer rights and affordable housing movements. Although less pronounced, many within the middle class were also sympathetic to the aims of Taiwan's increasingly active labour movement, a marked contrast from a previously less sympathetic composition of shop owners and petty capitalists (H.-H. Hsiao, 2001, p. 169). This increased politicization of the middle class was part of a more general social transformation process which was induced by Taiwan's continued economic development. In addition to universal education, a much higher percentage of the

population now also pursued higher education and university enrolment increased significantly. Despite a continued propagandist education system, regime propaganda became less effective toward a more educated and critical citizenry, many of which increasingly questioned the legitimacy of the KMT's authoritarian rule. This was especially evident in a much increased support among Taiwan's New middle class for political liberalization and in the instrumental role of intellectuals and educated classes in leading many of the protest movements which were active during this time (T.-J. Cheng & Lin, 1999, p. 229; Deyo, 1989, p. 160; H.-H. Hsiao, 2001, p. 169).

Taiwan's labouring class also became increasingly politicized, but it did not succeed in becoming a central force within a counter historical bloc during this time. This is a counter-intuitive development, especially because the labouring class accounted for at least 43.6% of the active working population in 1980 (Cho & Kim, 1998, pp. 141–142). It is true that Taiwan's labour movement became increasingly active as is evident in the increase of labour disputes from 907 incidents in 1984 to 1614 in 1987 and 8967 in 1988 (J.-H. Wang, 2001). But, at the same time, Taiwan's labour movement also only remained one of many strains among a variety of issues-specific movements active during this time and which were collectively referred to as social movements (*Shehui yundong*) in Taiwan. These included a wide array of issue-specific movement types such as a women's movement, aboriginal advocacy movement, consumer rights movement, environmental movement and farmers movement (H.-H. Hsiao, 2001, pp. 162-163). The non-central role of the labour movement within Taiwan's social movements is corroborated in terms of the issue types of mass mobilizations and actions during this time of which 38.3% related to economic issues, 20.1% to environmental issues while only 19.2% related to labour issues specifically (C.-H. Huang, 2002a, p. 122).

Despite its weakness, it is true that labour contestation increased significantly during this time while the elite bureaucracy also became more responsive to it. But, it is important to correctly account for this responsiveness as a reluctant reaction which was necessary toward its gaining of an added regime legitimacy (C.-H. Huang, 2002a, p. 137). At a more fundamental level, the elite bureaucracy did not alter Taiwan's social order parameters toward a more structurally labour friendly pathway. This is evident, for instance, in the landmark Labour Standard Act of 1984 which first instituted a minimum wage and which also specified a number of welfare provision obligations for employers (J.-J. Chu, 2001, p. 457). A major factor for the law's passage, however, was the elite bureaucratic policy aim of stabilizing and institutionalizing Taiwan's labour relations in a context of prolonged wage increases, labour shortages and a rising industrial unrest. As such, the law was primarily aimed at securing a labour peace and to assure investors that Taiwan's labour relations could be managed in an institutionally stable continuum.

As such, even in terms of the newly mandated minimum wage stipulation, the appropriate wage was determined by a Basic Wage Commission in which labour was scarcely represented. Additionally, the labour stipulations mandated in the Labour Standards Act were also not rigidly enforced and it was easy for employers to evade them (Minns & Tierney, 2003, p. 114). In response to a continued increase of labour disputes, the elite bureaucracy eventually established the Council of Labour Affairs (CLA) in 1987 which was tasked with overseeing labour issues, but its focus remained primarily on resolving industrial disputes, not advancing the general interest of labour (C.-L. Huang, 2002, p. 307).

The elite bureaucracy's lack of a genuine responsiveness toward the labour movement was understandable because Taiwan's labour movement failed to secure a prominent enough role within its social contestation process. One reason for this was that the unionized work force continued to be of a privileged SOE and LE labour demographic which was primarily interested in advancing its narrower interests while remaining less responsive toward the forging of a wider labour movement (Kong, 2005, pp. 169–170). This is particularly crucial because 86% of Taiwan's non-government labour force worked in firms hiring less than 100 employees and lacked union protection (Kleingartner & Peng, 1991, p. 431). Additionally, state-controlled unions also continued to fulfil their Leninist corporatist function of co-opting labour toward supporting the KMT and to pacify labour from securing a genuine role to determine wages or labour conditions (J.-H. Wang, 2001, pp. 351–353). As a rule, whether implicating unionized or non-unionized workers, labour disputes tended to remain localised and enterprise specific so that grievances did not easily coalesce toward the development of a powerful longer-term labour movement. As such, even though Taiwan experienced a wave of strikes between 1987 and 1989, labour actions quickly ebbed again afterward because of a limited organizational strength among the labour movement (C.-L. Huang, 2002, p. 309). Due to this lack of a mediating capacity, Taiwan's labour market continued to be a flexible one which, despite an increased wage growth, was also defined by low wages, long working hours and a limited degree of social protection (J.-H. Wang, 2001, p. 353).

Despite the elite bureaucracy's reluctant responsiveness toward social movements, activists and labour organizers continued to face the disciplinary apparatus of the state. Paradoxically, this led to a gradual convergence of social movements toward a much more visibly regime-challenging and democratizing direction. The most direct catalyst for this convergence process was the ROC's increasingly eroded international regime legitimacy which became pronounced in the 1970s during which time a majority of the ROC's diplomatic relations broke off ties with it while recognizing the PRC instead. During this time, the PRC was also invited to regain its seat in the UN and after which the ROC withdrew in protest. The KMT was able to

manage the domestic repercussions of this process so long as its chief ally, the US, continued to maintain diplomatic relations with the ROC. But, in 1978, the US, driven by shifting Cold War imperatives of rapprochement, also recognized the PRC as the legitimate government of China and broke off official diplomatic relations with Taiwan (Roy, 2003, p. 139). After this, Taiwan was only able to secure a continued *de facto* autonomy which was cemented in a prolonged Cross-Strait status quo. The US was instrumental in shaping the status quo parameters by which it stipulated in its 1971 Shanghai Communiqué that although there was only one legitimate China to which Taiwan belonged, the issue had to be settled peacefully (Roy, 2003, pp. 131–132). Most directly cementing the status quo, however, was the US' 1979 Taiwan Relations Act (TRA) which stipulated that the US would provide Taiwan with necessary military defence articles and services to maintain its continued self-defence capacity prior to the peaceful settlement of the China issue. Although ambiguously worded, the TRA also stipulated that the US viewed any military action against Taiwan as a 'grave concern to the US,' a claim which has often been interpreted as entailing a US commitment to defend Taiwan militarily in case of an unprovoked attack from China (Roy, 2003, pp. 140–142).

The ROC's almost entirely evaporated international recognition seriously destabilized the KMT's internal regime legitimacy and had a catalysing role in channelling the focus of social movements toward a unified anti KMT direction. This occurred rapidly because a festering anti-regime sentiment among social movements synchronized comfortably with a liberalizing political current. In the context of the regime's international de-recognition, Taiwan's increasingly coherent democratization movement now had a strong enough social basis to seriously challenge the legitimacy of the KMT's authoritarian rule. The goal of democratization was not only an outcome of strategic necessity, but also reflected a popular sentiment among Taiwan's social movements that its most pressing goal must be the securing of a representative, liberal democracy which would then allow for social movement agendas to be addressed within the political process (H.-H. Chen, 2009, p. 67). As such, the oppositional alliance and its increasingly well-developed mutual support organization led it to increasingly resemble a political party, so much so that it became referred to as the *Tangwai* movement or 'outside of the party movement' (Minns & Tierney, 2003, p. 113).

One outcome of the formation of an increasingly unified *Tangwai* movement was that social movement issues became secondary in importance to a common democratization agenda. It is true that social movements actively mobilized on individual issues while both labour and environmental contestation continued during this time. But, it was also the case that it was a distinct democratization agenda which became most defined among social movements as a whole (Gold, 1996, pp. 1110–1111). As such, although the *Tangwai* campaigned on a number of

themes, a specifically labour focused agenda never did become central. This is observable in the fact that a majority of movement campaigns related to political liberalization issues such as the ending of martial law, an increased self-determination, the right to organize an opposition party and the repeal of the KMT's political privileges. Although, containing a relatively pronounced welfare agenda which, for instance called for increased social welfare spending, this did not nuance the movement's overall narrative which was most concerned with Taiwan's self-determination and liberalization (Wakabayashi, 1997, pp. 431-434). This was evident in the labour movement and many labour organizers framed the labour agenda as a component of Taiwan's democratization process by which labour was framed as advancing to secure its political rights (J.-J. Chu, 2001, p. 454). Although not yet fully foregrounded, the *Tanwai* also developed an increasingly defined Taiwan identity and nationalism agenda which challenged the KMT's Chinese nationalism (Y.-Y. Chen, 2007, p. 164). Because of the lack of a powerful enough class basis, the *Tangwai* did not, however, become a viable counter historical bloc which may have altered the economic parameters of Taiwan's social order.

Faced with a much more hostile democratization movement which had a significantly expanded social basis, Chiang Ching-kuo was not able to rely on the state's disciplinary apparatus alone to discipline members of the *Tangwai* movement. This was especially so because of the KMT's tarnished regime legitimacy. Although a foregrounded ideational component stressed the KMT's successful economic development of Taiwan, this was also not a convincing enough ideational predicate on which the elite bureaucracy could justify a prolonged one-party rule. As such, to enable a continued elite bureaucratic autonomy, Chiang implemented a regime-led political Taiwanization drive which was necessary for the securing of a continued acquiescence among a majority of Taiwan's citizens to the KMT's rule (Kaeding, 2009, p. 23). But, because the elite bureaucracy's ethnic rule faced increased challenges, the KMT's political *transformismo* could also no longer take place only at the political periphery in second-tier positions where no real authority was at stake. As such, islanders were now also promoted to more central level posts within the party-state system. This is, for instance, evident in Chiang's promotion of Lee Teng-Hui as vice president, Shirley Kuo as finance minister, Shi Chi-yang as Minister of Justice and Lien Chan as Vice Premier. In the context of Taiwan's Leninist party state in which the party superseded the authority of the state, many of the same officials were also promoted to the highest KMT party organs such as its Central Standing Committee (Hughes, 1997, pp. 51–52). Despite a widened Taiwanization, a pronounced logic of *transformismo* guided the policy and promoted islanders were carefully vetted for a regime friendly background. At the same time, islanders were also promoted at a controlled pace so that they did not reach a critical mass to dilute the mainlander dominated composition of the elite bureaucracy.

Once a policy path of limited liberalization and Taiwanization was pursued, it had the unintended effect of significantly strengthening the democratization movement and which, in a circular fashion, forced the elite bureaucracy to implement further reforms. One reason for this was that the opposition was emboldened by the explosive combination of a very slowly liberalizing polity and a continued repression. In terms of Chiang's election expansion program which opened additional posts for Taiwan-elected candidates, for instance, the scope of expansions did not allow for a meaningful democratization in the foreseeable future. In 1980 elections, only 50 of a total 500 seats were newly created within Taiwan's three representative organs while no additional seats were added in the 1983 election. This limited scope of liberalization led the *Tangwai* movement to become much more vocal in its demands, to organize more effectively and to widen protests and political actions (T.-J. Cheng & Lin, 1999, p. 236-237). In this context, key *Tangwai* organizers finally opted in 1986 to establish an official opposition Democratic Progressive Party (DPP). Although the formation of political parties was illegal, Chiang tolerated the DPP and constrained hard-line elements within the KMT from disbanding it and punishing its members (Y.-H. Chu & T.-M. Lin, 1996; Roy, 2003, pp. 172–173). Chiang's decision to tolerate the DPP was particularly significant in light of the DPP's putting into question the legality of the 'alien' KMT regime while also advocating the establishment of an independent state on Taiwan, an agenda which was anathema to everything that the KMT stood for (Kau, 1996, p. 298).

At the time of the DPP's formation, the regime-managed liberalization drive had largely run its course and a qualitatively new phase in Taiwan's democratization trajectory was soon to begin. A most defining moment was Chiang's 1987 decision to end Martial Law and to replace it with a National Security Act which continued to place some restrictions on civil liberties. Although restrictions remained, it was clear that the direction now was toward a further easing thereof in all social spheres, ranging from media to civil association. At the same time, Jiang also intensified the KMT's frozen mainland legislator retirement encouragement drive and the replacement of mainlander delegates with legislators elected in Taiwan (T.-J. Cheng & Lin, 1999, p. 237). Finally, in terms of China policies, despite officially claiming a continued sovereignty over China, the KMT regime was also forced to accept the reality of a CCP managed China and it finally allowed mainlanders to visit family members in the PRC for the first time since the establishment of the ROC in Taiwan (F.-S. Hsieh, 2004, p. 485; Hughes, 1997, p. 50). But, regardless of openings, Taiwan's statist social order remained in place while the elite bureaucracy continued to enjoy a seriously weakened autonomy.

In the context of Taiwan's changing social basis of the state, it is clear that its labouring demographic failed to secure a primacy within a potentially regime challenging counter-historical bloc. Rather, a confluence of forces led to the development of a political liberalization movement which unified issues-advancing social movements and nativist democratizers to pose a serious challenge toward a continued elite bureaucracy-led rule. Although a continued elite bureaucratic autonomy continued to hold, this required a much more concerted process of *transformismo*. Rather than a genuine elite bureaucratic responsiveness toward social and class articulation, however, the democratizing direction of Taiwan's *Tangwai* movement led to a responsiveness primarily at the more general level of political liberalization.

## **Section 4.2: A Diluted Elite Bureaucratic Consensus**

Although the elite bureaucracy preserved a continued elite bureaucratic autonomy, the degree of this autonomy was also significantly diluted. This occurred on a number of levels, but most important to which was an increased elite bureaucratic reliance on local factions for electoral advancement and a more diluted elite bureaucratic consensus due to the elite bureaucracy's prolonged historical bloc induced interest harmonization with the LE capitalist class. Before examining this process, it is important to note that the institutional levers on which the elite bureaucracy secured its political autonomy continued to hold. Taiwan's financial system remained state controlled and enabled the elite bureaucracy to continue channelling capital flows and to discipline individual capitalists when necessary. It is true that the KMT pursued some limited financial liberalization from the 1980s onward, but this also did not weaken the KMT's banking control as it continued to own an absolute majority of Taiwan's banks and freely dictated bank lending, interest rates and personnel policies to banks (Sato, 2002, pp. 236–237; Thorbecke & Wan, 2007, p. 57). With such a strong degree of control, even as late as 1988, government-owned financial institutions still accounted for a total of 66.6% of lending and 65.2% of deposits (Chou, 1994, p. 60). The fact that the institutional parameters securing the developmental state held suggest that the elite bureaucracy's weakened autonomy is better accounted for in terms of a diluted bureaucratic consensus.

### **4.2.1: Political Factions**

Because of an increased expansion of elections, one feature of Taiwan's electoral politics during this time was that local political factions became more important. From the onset of its rule already, the elite bureaucracy has consistently relied on primarily islander composed political factions to secure a stable rule. Between 1954 and 1989, for instance, 62.93% of KMT provincial assembly candidates had factional backgrounds while factional candidates at all

levels of government also had a higher chance of electoral success. This was due to advantages arising from KMT affiliation as well as the enmeshment of factions in various vote buying relations with key voting blocks, a practice which was central to factional politics (Fell, 2005; Shiao, 1996, pp. 216–218). But, given the much more pronounced electoral expansion occurring during this time, the elite bureaucracy also increasingly relied on political factions so that they gained an added level of political importance. But, for the time being, the elite bureaucracy continued to secure its control over factions so that increased tensions only became fully visible after the late 1980s when factions first began to encroach toward the central government level (H.-H. Hsiao, 1995, pp. 87–88; J.-H. Wang, 1996, pp. 237–238).

The reason that the elite bureaucracy secured such a strong control over factions was that a number of mechanisms were in place which institutionalized the hierarchical relationship between the two. At a most general level, political factions depended on the KMT for a number of economic privileges such as the right to manage localized economic monopolies, the securing of specialized low interest rate loans, control over public work contracts and authority over city planning (Fell, 2005, p. 879; Sato, 2002, p. 236). Additionally, the elite bureaucracy also limited both the upward and horizontal integration of factions. Limits on upward integration are self-explanatory in the context of the KMT's restriction on an electoral and representative politics at the national level. Horizontal integration limits, on the other hand, refers to the practice by which the KMT ensured that there existed at least two sets of KMT affiliated local factions which competed amongst each other for all permitted election categories. The elite bureaucracy supported competing factions equally with the specific intent of balancing and keeping the political influence of individual factions limited. Within the confines of the elite bureaucratic - factional relationship, factions were effectively tied to a leash as if they stepped out of line or challenged the elite bureaucracy, it simply diverted resources enjoyed by one faction to another (Kuo, 2000, p. 91; Sato, 2002, pp. 235–236). But, despite the hierarchical nature of the relationship, the elite bureaucracy's control over factions also began to weaken in light of its increased dependence on factions which gained progressively more political influence during this time (Shiao, 1996, p. 218).

The growth of a factional politics raises the immediate question as to how political factions can be accounted for in class terms and what their role was in advancing the interests of the LE capitalist class in Taiwan. As noted already, political factions were special interests which secured policy-induced privileges by inserting themselves in the political process. But, although it is true that factions were vested within the political process, it is also clear that they cannot be collapsed with the KMT's elite bureaucracy due to a continued factional dependence on and subservience to it. Economically, factions shared a common interest with Taiwan's LE capitalist

class because of an interest in an intensified capital accumulation process. But, due to securing its interests through policy-induced favours, it also becomes difficult to collapse factions with the capitalist class. As such, factions are better understood as politically placed economic interests which secured an institutionally enabled political autonomy and which necessitated their political subservience to the elite bureaucracy. But at the same time, due to broadly convergent economic interests, political factions also quickly became an important platform on which a factional-LE capitalist alliance was formed and on which common political interests could be advanced. For the time being, however, factions had not yet significantly encroached on the political autonomy enjoyed by the elite bureaucracy.

#### 4.2.2: A Strained Industrial Policy

Because a predominantly mainlander based elite bureaucracy continued to secure an effective political autonomy, a diluted bureaucratic consensus is better accounted for in terms of a prolonged process of interest harmonization between the elite bureaucracy and the LE capitalist class. Because industrial policy is central to statist development, the degree of its effectiveness is an important gauge by which the elite bureaucratic and LE capitalist relationship can be examined. In terms of the elite bureaucracy's overall policy parameter, it was clear that this much more visibly advanced the short term interests of capital. But, although the elite bureaucracy became much more responsive to short-term capital interests, a strategic development logic also continued to guide its overall policy parameter, especially toward national priority initiatives such as the development of Taiwan's IT sector. But even in the case of the national priority IT sector, a much more pronounced private sector interest articulation was evident and which was reflective of a weakened, but still viable dirigisme.

In terms of the IT sector's creation, the integrated circuit (IC) sector was very much the linchpin and foundation on which the sector as a whole was developed. The IC sector's creation is also particularly illuminating toward the elite bureaucratic – capitalist relationship during this time. In order to examine the dynamic between the two, however, it is first necessary to briefly outline the sector's development. The IC sector, along with other targeted IT sectors, was designated for priority development because it satisfied the elite bureaucracy's 'two-large, two-high, two-low' principle which called for the development of industries in Taiwan with large linkage effects, large market potential, high technology intensity, a high degree of value-added, low energy coefficients and low levels of pollution emissions (Lui & Qiu, 2001, p. 88). Tasked with the development of the IT sector was the Industrial Technology Research Institute (ITRI) which was established in 1973 as a national technology development lab to facilitate technology and skill diffusion to the private sector. Within ITRI, it was the Electronics

Research and Service Organization (ERSO) which was tasked with guiding the semiconductor sector's development (M.-P. Huang, 2006).

During early stages of the semiconductor sector's development, the economic bureaucracy enjoyed an unchallenged dirigisme over its policy implementation. The central development initiative during this stage was the transferring of a seven-micron Complementary Metal Oxide Semiconductor (CMOS) fabrication technology from the Radio Corporation of America (RCA) to Taiwan. Due to the difficulty of procuring private sector interest in the project, the technology was commercialized through the joint private-public sector spin-off United Microelectronic Corporation (UMC) which was 51% private sector owned and 49% state owned. The 51% private sector ownership required a considerable persuasion and also some degree of coercion such as tax audit threats or bank loan refusals (Breznitz, 2007, p. 107). In addition to systematic technology transfer to the UMC, the ERSO also transferred its skilled mechanical and managerial staff directly to it. Even the UMC's CEO, Tsao Hsing-cheng, was transferred directly from his previous post as deputy chief of the ERSO (M.-P. Huang, 2006, p. 34). The UMC was such a success that it became Taiwan's most profitable publicly traded company in 1985 by which time government ownership was already reduced to 23% (Meany, 1994, p. 180; Schive, 1990, p. 279). The creation of UMC, however, was only one component of a systematic and comprehensive IC sector development drive in which the development of an effective IC design sector (custom tailored IC chip design) was also central. But, because IC design firms were less capital intensive, the ERSO primarily transferred technology and engineers directly to private sector firms or encouraged its staff to setup IC design firms which then utilized the UMC or ERSO's fabrication facilities (S.-H. Wu, 1992).

After the successful development of the IC sector, the ERSO proceeded quickly to develop and commercialize a more advanced very-large-scale integration (VLSI) capacity and did so by spinning off the Taiwan Semiconductor Manufacturing Corporation (TSMC) in 1987. In terms of the TSMC's initial capital ratio, the elite bureaucracy contributed 48.3%, Philips contributed 27.5% while a consortium of private sector investors contributed the rest (Schive, 1990, p. 279). TSMC was spun-off in a characteristic statist fashion, receiving not only the ERSO's pilot plant and technology, but also a total personnel transfer of 98 technicians and 46 production workers by 1987 (Mathews, 1997, p. 36; S.-H. Wu, 1992, p. 185). The TSMC's CEO, Morris Chang, was transferred directly from his previous post as head of ITRI (C.-F. Chen & Sewell, 1996, p. 773). The establishment of the TSMC was even more of a success than that of the UMC. Chang's business strategy of running TSMC as a pure-play foundry which only produced semiconductors on a third party basis completely redefined the standard business model for the whole IC sector. Soon after, the UMC also adopted a similar business model and both the

TSMC and UMC ranked as the world's largest and second largest pure-play foundry firms while holding about two-thirds of the global market share (Fuller, 2002, p. 7; S.-W. Hung et al, 2004, p. 554).

Despite the TSMC's spinoff occurring along a standard formula, it faced significantly more pronounced resistance from private sector actors which aimed to advance firm level interests that were challenged by the elite bureaucracy's strategic development policies. A central reason for the rapid increase of IT sector advocacy was that the elite bureaucracy permitted an IT sector development course which actively encouraged capital consolidation and which led to the rapid increase of the IT capitalist class' influence (Y.-P. Wu, 2004, pp. 111–112). This was a necessary development course, however, because sectorial features required a number of concentrated and consolidated firms in each sub-sector which had to attain large economies of scale. Because of a much increased economic influence, IT capitalists were also much more prone to contest the elite bureaucracy's economic policies when it clashed with shorter term firm-level interests. As such, the TSMC's spin-off was vehemently opposed by the UMC while its CEO, Tsao, argued that it should have been the UMC which was tasked with the development of the VLSI technology (Breznitz, 2007, p. 109). Furthermore, the UMC also publicly advocated an end to Taiwan's state-led industrial development model by requesting that the ERSO should be confined to primary research only and that it should shut down its wafer fabrication demonstration plant which competed directly with the private sector (Meany, 1994, p. 178). Despite facing more pronounced private sector pressure, the economic bureaucracy resisted and pursued its intended policy course. There are many reasons for this, but central to which was the priority nature of the IT sector's development due to which the elite bureaucracy concentrated its remaining political autonomy to empower the economic bureaucracy to resist private sector pressure. But, regardless, the public nature of the UMC's interest articulation is reflective of both a relative weakening of the elite bureaucracy's dirigisme as this would not have been possible during Taiwan's hard statist social order.

Regardless of high profile cases such as that of UMC, it is important for the elite/economic bureaucracy – IT capitalist relationship not to be interpreted as one of conflict or antagonism. A majority of IT capitalists continued to support the economic bureaucracy's development policy due to its sector advancing features and because they remained dependent on the economic bureaucracy for technology provision (S.-G. Hong, 1997, pp. 141–142). Furthermore, a considerable degree of interest harmonization occurred between IT capitalists and the economic bureaucracy which ensured that the relationship between the two remained amicable. This was particularly pronounced due to a common educational background and the high degree of personnel overlap between the two due to the fact that so many IT capitalists and managers

previously worked in the ITRI/ERSO (Ouyang, 2006, p. 1323). This overlap was an outcome of the ITRI's systematic personnel transfer policy which set annual employee turnover rates at 10-15% and which rose quickly to 30% by the late 1980s. As an outcome, employment at ITRI averaged at 5 years only and 85% of the total 13,995 staff that left ITRI between 1982 and 2000 joined the private IT sector thereafter in light of higher profit and remuneration induced incentives (M.-P. Huang, 2006, p. 32; Ouyang, 2006, p. 1325).

Because of the pronounced interest harmonization between the economic bureaucracy and the IT capitalist class, its policy parameter was one which unambiguously advanced the interests of private sector IT firms. Although that UMC's case suggests that policies, at times, stood to challenge the short-term interests of private sector firms, this should also not be overstated. For one, in addition to crucial technological and manpower support, IT sector firms also received generous fiscal support from the state. This was especially so for firms in designated priority IT industries of IC, computer peripherals, telecommunications, optoelectronics, precision machinery and biotechnology which satisfied the stipulated criteria for being located in the Hsinchu Science Park (C.-W. Huang, 2011, pp. 176–177). Science park firms enjoyed supports such as reduced land and building rent, five year tax holidays, duty exemption on imported equipment and completed exports as well as low interest rate loans and matching R&D funds (Y.-H. Chu, 2007a; Lui & Qiu, 2001). Even in the case of spin-offs, it was more common for private sector firms to lead the process and to receive state support while doing so. One example of this is the Windbond Corporation which was founded in 1987 by Yang Ding-yuan of the ERSO. Despite securing financial backing from the private sector, Windbond was blessed with the full support of the ERSO and received both skilled personnel (100 of ERSO's staff) and vital technology from it (C.-F. Chen & Sewell, 1996, p. 774; S.-G. Hong, 1997, pp. 57–58). Thus, rather than state support applying only to officially spun-off enterprises such as TSMC, UMC, TMC, Holtek and Syntek, it also similarly applied to private sector initiatives such as HMC, ADT and AMPI (S.-G. Hong, 1997, pp. 57–58; Liu, 1993, p. 306).

#### 4.2.3: Elite Bureaucratic – LE Capitalist Interest Harmonization

The developmental state held in Taiwan because national priority policies continued to be viable. But, in light of an ever more visible capitalist interest articulation which defined even such national priority policies, the question naturally arises as to the relational features between the elite bureaucracy and the LE capitalist class more generally. For one, Taiwan's LE capitalist class has been exposed to a much longer history of *transformismo* by the elite bureaucracy. But as explored in the previous chapter, the co-optation of the LE capitalist class also occurred in a

very targeted fashion by which a number of LE capitalists secured a close working relationship with the elite bureaucracy at the highest levels of the party-state structure. As such, a process of elite bureaucracy and LE capitalist interest harmonization intensified while inter-marital ties also tended often to further personalize the relationship at this level. A notable example of this phenomenon was the Koo family which controlled a business empire that ranked as the second largest corporate grouping in Taiwan. The Koo family's representative, Koo Chen-Fu, served as chairman of the NCIC since 1958 and also gained a place in the KMT's central committee after 1981 (Y.-H. Chu, 1994, pp. 119–120).

With this degree of inter-penetration, the elite bureaucracy was much more responsive to LE capitalists in already established economic sectors due to the long-term nature of the ties between the two. Because of the close relationship between the elite bureaucracy and the LE capitalist class, not only was it much more difficult for the elite bureaucracy to challenge the short-term interests of LE capitalists, but it also had limited incentives to do so when it came to non-priority development sectors. Furthermore, in light of an increased social contestation, it was particularly important for the elite bureaucracy to secure the continued support of the LE capitalist class so that the core alliance underpinning Taiwan's historical bloc did not suffer unnecessary strain. As such, although the elite bureaucracy secured a capacity to discipline the LE capitalist class as its IT sector development policies demonstrate, this capacity was rarely wielded because it would have strained the elite bureaucracy – LE capitalist historical bloc. The increased policy responsiveness of the elite bureaucracy toward the interests of the LE capitalist class can be clearly observed in the significant easing of previous policy constraints toward capital consolidation. Indicative of this policy reversal was a new openness toward mid-stream LE capitalist firms to integrate into upstream operations which were previously off bounds. Formosa Plastics, for instance, was finally allowed to engage in crude oil refining and petrochemical production in 1986 (C.-W. Huang, 2011, p. 170). At a more general level, the degree of business consolidation can be observed in the fact that by 1988, Taiwan's 100 largest business groups already accounted for 34% of its total GNP despite only employing 4.63% of its labour force (H.-H. Hsiao, 1995, p. 83).

As an outcome of the KMT's successful capitalist economic development, the translation of the economic power of the LE capitalist class into an equivalent political influence was a difficult trend to reverse. As such, the elite bureaucracy also became much more responsive to the short-term interests of the LE capitalist class. Although the elite bureaucratic – LE capitalist relationship was amicable, there are also a number of cases which visibly demonstrate the increased influence of the LE capitalist class toward shaping and reversing state policy. This is nowhere more evident than in the KMT's 1981 attempt to cancel the petrochemical sector's

status as a key national development sector and to discourage the continued expansion of its highly oil consuming and polluting intermediate stream. This decision was, however, reversed in 1984 by the Yu Kuo-hwa cabinet in response to mounting LE capital/SOE pressure (Y.-P. Wu, 2004, p. 97). Similar policy reversals also occurred in other spheres such as the significant watering down of a proposed stock market transaction tax due to capitalist pressure and a successful investment strike (Y.-H. Chu, 1994, p. 129). At a more general level, the LE capitalist class also became more vocal in articulating its interests by, for instance, attacking perceived bureaucratic inefficiency and delays. But, rather than an inside - outside dynamic, the elite bureaucracy can be better understood as voluntarily rescinding its previous dirigisme because of its prolonged historical bloc induced interest harmonization with the LE capitalist class. In this context, visible signs of favouritism and corruption were also becoming more and more pronounced during the 1980s. Not only did the LE capitalist class provide crucial financial support to KMT candidates in Taiwan's various permitted elections, but government officials also increasingly brokered backroom deals which permitted well-connected business groups to attain licenses and government contracts and to circumvent government regulations (Roy, 2003, pp. 161–162).

Although Taiwan's statist order continued to hold, it did so only in a much weakened sense and was reflective of a changing social basis of Taiwan's state. Despite this changing social basis of Taiwan's state, the elite bureaucracy secured a continued, but seriously weakened autonomy by managing a continued passive revolution through an intensified *transfromismo*. But, due to its increased historical bloc induced interest harmonization with the LE capitalist class, the elite bureaucracy's autonomy was also significantly diluted. Coupled with an intensifying and regime challenging social contestation, Taiwan's soft statist order was ready to rupture at any time.

### 4.3 Conclusion

In this chapter, I examined how Taiwan's prolonged social transformation led to a qualitative reorientation from a hard to soft statist order between 1978 and 1988. I identified two processes as central to this, an increasingly unmanageable social contestation and an intensified interest harmonization between the elite bureaucracy and the LE capitalist class. Although I acknowledged that international factors such as the ROC's de-recognition had a catalysing effect on Taiwan's social contestation process, I examined such contestation primarily in the context of a prolonged development-induced social change. Although this could have manifested itself in a variety of ways, I argued that the elite bureaucracy's prolonged repression of a class politics eventually channelled festering class, ethnic and political discontent into a unified anti-KMT democratization *Tangwai* movement. Due to the movement's significantly

expanded social basis which drew heavily from the middle and labouring classes, I argued that the elite bureaucracy was forced to respond through an intensified and elevated political *transformismo* to secure a continued, but much weakened elite bureaucratic autonomy. Accompanying this was the elite bureaucracy's increased policy responsiveness to the short-term interests of the LE capitalist class. This, I argued, was due to the elite bureaucracy's diluted statist development consensus which was induced by a prolonged process of interest harmonization between it and the LE capitalist class. In the context of Taiwan's rising social contestation, I argued that this interest harmonization was intensified because the elite bureaucracy increasingly relied on its historical bloc with the LE capitalist class to secure a continued political autonomy. For the time being, Taiwan's soft statist social order held, but only tenuously, a fact which I argued to be particularly apparent in the elite bureaucracy's much more sparingly wielded dirigisme toward national priority development initiatives.

At a more general level, this chapter's analysis demonstrates that a Gramscian approach cannot only theorize the social basis of the KMT's political autonomy, but also how a change thereof has led to a qualitatively separable soft statist order. By doing so, I have demonstrated that the Gramscian concept of passive revolution is sufficiently fluid to allow for an open-ended account of Taiwan's historical social order transformation process, even in relative terms within the statist order itself. By doing so, I also demonstrated that a Gramscian account allows for a high degree of analytical precision from which Taiwan's policy features can be theorized. In terms of the elite bureaucracy's increasingly capital advancing policy framework, my analysis also challenges asocial accounts of this as a natural outcome of economic imperatives and shows that such a policy change was reflective of a changing social basis of Taiwan's state. By proceeding in this way, my analysis also challenges 'embedded autonomy' type interpretations of Taiwan's social order. I demonstrate rather that Taiwan's soft statist order was very much a transitional stage within a linear, but elite bureaucracy managed process of a progressively eroding elite bureaucratic autonomy. A Gramscian approach does not struggle to account for this because a passive revolution-enabled political autonomy can only be secured on a very specific class composition which is difficult to sustain in the context of a prolonged capitalist development trajectory. By this stage, Taiwan's soft statist social order only continued to hold in a very tenuous sense and was ready to rupture when Taiwan's LE capitalist class consolidated enough influence to forge a historical bloc. I explore this process in the following chapter and examine how a fractured elite bureaucratic consensus and a newly hegemonic historical bloc dissolved a continued political autonomy altogether and I will then proceed to examine CSEI on this basis.

## **Chapter 5: The Ascent of Taiwan's Cross-Strait Historical Bloc**

In the previous chapter, I examined how a prolonged changing social basis of Taiwan's state led to a qualitatively separable soft statist order during which time the elite bureaucracy secured a weakened autonomy and became increasingly responsive to Taiwan's social forces. In this chapter, I examine the dissolution of Taiwan's statist social order during Lee Teng-hui's presidency. I argue that this was the culmination of a prolonged changing social basis of Taiwan's state by which a newly hegemonic LE capitalist class forged an autonomy-dissolving historical bloc which backed President Lee and his political allies to secure control over the KMT. Reflective of the hegemonic stature of the LE capitalist class, I argue that Taiwan's policy parameter was now geared primarily toward advancing the short-term interests of the LE capitalist class. In the context of Taiwan's now liberalized political system, I also examine how its historical bloc secured the ideational assent necessary for its hegemony and place particular emphasis on Taiwan's hegemonic narrative to do so. Central to this, I argue, was the rise of a Taiwan identity politics which fractured Taiwan's social movements from developing the class basis necessary to form a viable counter historical bloc and which also increasingly diverted the citizenry's attention from class and economic issues to identity issues. By conceiving of Taiwan's identity politics as a component of its hegemonic narrative, I am able to explain how an identity politics was crucial for a pro-capital policy legitimation for politicians such as Lee Teng-hui to secure a captive support on the basis of identity affinities. Additionally, I also demonstrate how an identity politics increasingly allowed for a de-politicization and side-lining of economic issues so that a simplistic economistic legitimation of Taiwan's social order was much more readily accepted than would otherwise have been the case.

In the context of a rapidly intensifying CSEI, I argue that it is not possible to account for Taiwan's historical bloc in domestic terms alone. This is because a now fully intensified CSEI brought into place a Cross-Strait historical bloc between Taiwan's hegemonic LE capitalist class and the CCP. On this basis, I understand CSEI as simultaneously advancing the economic interests of Taiwan's LE capitalist class and the geo-strategic interests of the CCP to secure Taiwan's eventual unification with China. By theorizing the CCP as a passive revolution-enabled elite bureaucratic class, I account for it as a class actor within the Cross-Strait historical bloc. On this basis, I argue that the CCP's geo-strategic policy imperatives were guided by the twin objectives of securing Taiwan's economic dependence on China and the CCP's social order shaping capacity in Taiwan through its alliance with its hegemonic LE capitalist class. Although, President Lee attempted eventually to constrain CSEI due to his Taiwan nationalist proclivities, I argue that the utterly unenforceable nature of his policy was indicative of the Cross-Strait historical bloc's hegemonic stature. This was especially

so because even despite a failed attempt to constrain CSEI, Lee's administration continued to proactively court the LE capitalist class for support while relying on it for a stable rule. Such support, I argue, was forthcoming due both to the unenforceable nature of Lee's CSEI policies and his administration's continued pursuit of an otherwise LE capital advancing policy framework. On this basis, my argument suggests that the Cross-Strait relationship already began during this time to occur within the parameters of a regionally operating Cross-Strait historical bloc which imposed a combined logic on Taiwan's state.

### **Section 5.1: The Hegemony of the LE Capitalist Class**

Chiang Ching-kuo passed away unexpectedly in 1988 and after which his vice president, Lee Teng-hui, became acting president. Lee was a dedicated Taiwanese nationalist and independence advocate who shrouded such views during his ascent towards the highest levels of the KMT party-state power structure. Immediately after his appointment, a majority of the mainlander-dominated elite bureaucracy opposed Lee due to their fear that he would fully Taiwanize the party and dilute the privileges they enjoyed. Anti-Lee forces quickly coalesced into an anti-Lee Teng-hui non-mainstream alliance against which Lee's democratization alliance came to be known as the mainstream alliance which was composed primarily of promoted islander elite bureaucrats and some reformist mainlanders. To resist attacks from the non-mainstream alliance and to dislodge the mainlander dominated elite bureaucracy from its control over the KMT, Lee's mainstream alliance was faced with the necessary task of securing a viable social basis. To do so, Lee identified the LE capitalist class and the KMT's local factions as his most important social basis (Shiau, 1996, p. 223; J.-H. Wang, 1996).

#### **5.1.1: KMT Power Struggles and the Ascent of Taiwan's Historical Bloc**

The intra-KMT power struggle was inter-twined with Taiwan's democratization. From the onset, it was clear that the non-mainstream alliance was reactionary and advocated both a continued mainlander-led one party rule and the repression of free expression. This was problematic for Lee because immediately after his appointment to the presidency, he faced the prospect of having to be reappointed by a mainlander dominated National Assembly in 1990. Due to his still weak position, Lee placated his opponents by nominating the mainland nationalist hardliner, Hau Pei-tsun, as premier of his new cabinet in 1990. This won Lee's successful reappointment and provided a period of relative political calm during which he utilized the power that came with his position as party chairman and president to install allies at all levels of the party-state in order to strengthen the mainstream alliance (A.-C. Tan, 2002, p. 157). By collaborating with pro-reform forces, Lee succeeded already in 1991 to implement the subsequent elections for the

Kaohsiung and Taipei mayorships, the complete dissolution and replacement of the mainland elected legislature with a Taiwan elected composition and the amendment of the Criminal Law 100 by removing the vaguely worded 'sedition' clause which allowed for a marked increase of Taiwan's freedom of speech (Chao & Dickson, 2002, p. 6-9; Lu, 2002, p. 64).

Although Lee's mainstream alliance was in a defensive position after his presidency, 1993 was a watershed by which the non-mainstream alliance lost control over the KMT and by which a prolonged changing social basis of the state culminated with the hegemony of the LE capitalist class. This was because after a prolonged DPP campaign and a rising popular organization against Hau Pei-tsun's continued premiership, the KMT's mainstream alliance also for the first time publicly called for Hau's resignation, not long after which he resigned (Hughes, 1997; Tien & Chu, 1996, p. 82). Hau's resignation signalled the defeat of the non-mainstream alliance while Lee's historical bloc also ensured that a passive revolution was no longer tenable so that a continued elite bureaucratic autonomy quickly eroded. As such, the party was now confined to the policy parameters set by Taiwan's newly forged historical bloc between the LE capitalist class and political factions (J.-H. Wang, 1996). Once Lee established control over the KMT, his administration quickly secured Taiwan's full democratization. By 1994 already, Lee succeeded at initiating a constitutional reform process which implemented Taiwan's first 1996 direct presidential election in which Lee was also successfully re-elected (H. M. Tien & Y.-H. Chu 1996, pp. 1151–1152). Although some intra-KMT conflict continued after 1993, this became much less intense and Lee was able to further his Taiwanization agenda. This culminated in the disbandment of the provincial government of Taiwan by the end of the decade which signalled that the ROC's policy was now subject directly to the mandate of Taiwan's citizenry.

Because both the mainstream and non-mainstream alliances attempted to widen their respective social bases, it is important to account for why the mainstream alliance succeeded at securing the support of both political factions and the LE capitalist class. In terms of political factions, factional politicians coalesced around Lee largely by default of his islander ethnic background and as a natural reaction against prior limitations that factions faced from the mainlander dominated elite bureaucracy. As for the LE capitalist class, it is true that it enjoyed conducive relations with the elite bureaucracy in the past and from which it secured numerous benefits, albeit from a position of subservience. This being so, both the mainstream and non-mainstream alliances organized vehemently to gain the backing of the LE capitalist class during the KMT's power struggle (Y.-H. Chu, 1994, pp. 126–127). Ultimately, however, it was Lee's mainstream alliance which secured its support due to a number of factors which included ethnic affinities, the desire for democratization (read liberalization) and the more apparent willingness of the mainstream alliance to accommodate the needs of capital (Gold, 1996, p. 1104; Lu, 2002, pp. 64–

65).

Unlike a previously non-hegemonic historical bloc which underpinned Taiwan's statist social order, a newly forged historical bloc did not rely on visibly coercive and disciplinary apparatuses of rule to secure its dominance, but instead secured a successful hegemony. Within the historical bloc, it was the LE capitalist class which became hegemonic while non-hegemonic political factions attained an enormous degree of influence. The reasons for this increased factional influence was that Lee reversed the previous policy of constraining factions and instead unleashed and empowered them by abolishing both vertical and horizontal controls which were previously in place to limit factional growth. As such, factions not only came to enjoy unprecedented political and financial resources, but were also granted a central role in national level policy making (Y.-Y. Chen, 2007, p. 251; J.-H. Wang, 1996). But, although gaining a pronounced national influence, it was the nature of political factions which ensured that they did not secure a hegemonic stature. This is because factions had not developed an inter-factional interest, competed viciously amongst each other and lacked an awareness of the importance of hegemony to secure stable rule. Thus, without concern toward popular perception, the *modus operandi* of factions was for them to insert themselves in the political process to capture public resources (J.-H. Wang, 1996, pp. 164–165). This, coupled with the fact that the corruption and transparency distorting effects of factional politics impeded even capitalist development, ensured that factional politics became the scourge of public anger throughout the 1990s. This did not, however, seriously impact Lee's popularity who secured a strong support because of his democratizing and Taiwan identity advancing roles (Lu, 2002, pp. 61–66).

That the LE capitalist class became hegemonic in Taiwan's historical bloc during the 1990s was due to a number of reasons. Firstly, unlike political factions, the LE capitalist class was not only vested in a wider mode of production, but also possessed a clearly defined class consciousness (Gold, 1996, pp. 1103-1104; J.-H. Wang, 1996, p160). Illustrating its influence, the LE capitalist class enjoyed close relations with high-level KMT officials, participated in KMT party affairs and most importantly, financed ever more costly campaigns in Taiwan's legislative politics (Mcbeath, 1998 p. 317; S. Tang & C. Tang, 1999, pp. 357-358). That LE capitalist influence reached the highest echelons of political power was plainly visible in the anecdotal evidence, for instance, of various golf groups which developed around key politicians and their LE capitalist supporters. Among them were the 'Teng-hui' open team which linked President Lee, the Dachong team which linked James Soong (Taiwan provincial governor) and Siew Wan-Chang (Prime Minister) and the 'Yung-Lien Association' which linked Lien Chan (vice president) with their key LE capitalist backers (S. Tang & C. Tang, 1999, p. 357). By this time, the borders between policy makers and the capitalist class crumbled entirely while the political

establishment had to visibly accommodate the dictates of the LE capitalist class to garner its continued support (H.-H. Hsiao, 1995).

The most instrumental reason for the LE capitalist class' capacity to shape Taiwan's national policy was a financial liberalization drive which severed the elite bureaucracy's continued political control over the financial sector. As such, the possibility of a residual political autonomy which could genuinely challenge the interests of dominant classes in Taiwan was no longer possible due to the loss of a previously enjoyed capital steering and capital disciplining capacity. The watershed of Taiwan's banking liberalization drive occurred in 1991 when based on 1989 Banking Law revisions, 15 new private banks which satisfied a 10 billion NTD capital requirement were allowed to open (Y.-H. Yang, 2001, p. 354). The influence of private banking interests grew consistently thereafter and toward the end of the decade, a total of 47 private banks were in operation (Sato, 2002, p. 241). Further financializing Taiwan's economy, Lee's administration also removed continued limitations on financial sector integration and promoted universal banking by permitting banks to engage in activities such as short-term note brokerage and in house stock trading (Y.-H. Yang, 2001, p. 359). Furthermore, numerous funding streams were now also available to the LE capitalist class through various financial liberalizations such as the permission for private enterprises to issue overseas bonds, the establishment of an over the counter market and Taiwan's Futures exchange (Chan & Hu, 2000, pp. 434–438; C.-W. Huang, 2011, pp. 220–221). As an outcome, institutional investors increased their ownership of Taiwan Stock Exchange listed companies from 6% in 1990 to nearly 25% by 1998 (X. Zhang, 2009, p. 398). Lee also liberalized Taiwan's current and capital accounts so that the current account was almost completely liberalized toward the end of the 1990s while the capital account was still subject to some remaining controls, especially toward foreign investment in Taiwan's stock market (Yu, 1999, p. 299).

Because of the political autonomy dissipating effects of Taiwan's financial liberalization drive, it was a crucial aspect of Lee's defeat of the KMT's non-mainstream alliance. This was especially clear in terms of the active non-mainstream resistance toward Lee's banking liberalization drive due to his perceived intention of pursuing it to dismantle the elite bureaucracy's continued social, political and economic control. As such, Lee also advanced incrementally and first appointed likeminded allies to head various government agencies such as the Ministry of Finance which were crucial to the success of banking sector liberalization (Sato, 2002, p. 241). Of course, the fact that the banking liberalization drive was based on legislative revisions meant that the legislature was also important to the liberalization process. This was part of a more general trend in which the legislature became ever more central to Taiwan's rapidly democratizing polity and in which, coincidentally, Lee's factional allies were also most

strongly placed (Sato, 2002, pp. 238–239; Y.-S. Wu, 2007, pp. 982–986). In addition, Lee's financial liberalization drive also secured the support of the DPP due to the party's aim of ending the KMT's one-party rule (C.-W. Huang, 2011, p. 170).

#### 5.1.2: A Short-term Capital Advancing Policy Reorientation

Although Taiwan's developmental state dissolved while the LE capitalist class became hegemonic, Taiwan's social order cannot be understood as an abstract-capital advancing neoliberal night watchmen state. Rather, Taiwan's social order was confined within the regional features of Taiwan's LE capitalist class so that it can be better understood as a state supported capitalist order with a strong domestic bias which furthered the interests of Taiwan's LE capitalist class (Wang, J.-H. 1996, pp. 131–133). This dynamic is clearly indicated in the case of Taiwan's remaining capital account controls which were aimed at limiting the influence of foreign capital in its stock market (Yu, 1999, p. 299). One thing was for sure, however, and that was that a strategic national upgrading imperative was no longer feasible because of the short-term capital interest advancing features of Taiwan's historical bloc. Because this was a transitional stage for Taiwan's social order, genuine strategic upgrading imperatives continued, at times, to guide the policy thinking of the economic bureaucracy. But, it was also the case that such imperatives did not translate toward successful policy implementation due to the fact that they challenged short-term capital interests and thus failed to secure the compliance of the LE capitalist class.

The financial liberalization drive has already been covered at some depth, but the relational dynamic between the rapidly consolidating financial capitalist class and Lee's bureaucratic apparatus has not yet been examined. Firstly, the relationship mirrored wider trends of business/government inter-penetration. This can be observed in the case of the chairman of the 15 newly established private banks in 1991 of which three were former government officials and four were former directors of state-owned banks. Also, of the 15 bank chairmen, 11 had work experience at some point in state-owned banks (Y.-H. Yang, 2001, p. 353). Although the relationship was one of LE capitalist-bureaucratic inter-penetration, the financial capitalist class now defined the policy parameters of the economic bureaucracy. This is clearly illustrated in the 1991 banking sector opening drive in which only 6 licenses were originally to be granted to new entrants due to sectorial stability concerns. But, due to intense corporate advocacy and Lee's stated support, the executive branch was eventually forced to issue 15 licenses instead (Sato, 2002, p. 241). But again, this need not come as a surprise in the context of the increased influence of Taiwan's financial capitalist class. Its influence can, for instance, be observed in the case of the previously mentioned Koo group which held a majority stake in China trust and

16 billion USD in total assets by 1997 (Green, 1998). By this time, it was the group's chairman, Koo Lian-Song, who sat on the KMT's Central Committee (Chung, 2008).

An even more illuminating example of the elite bureaucracy's eroded autonomy and its capital servicing nature can be observed in its policy failures and reversals toward the IT sector. To return to the semiconductor sector, the economic bureaucracy continued to identify technological development imperatives and during this time targeted sub-micron technology for development because it was deemed necessary for a viable DRAM industry in Taiwan (M.-P. Huang, 2006, pp. 37–38). Initially, the ERSO's plan called for the ERSO to diffuse the developed technology in a characteristic spin-off fashion, but this provoked fierce resistance from IC manufacturers who were concerned that such a spin-off would negatively impact their interests. Eventually, the ERSO was forced to redraw its plan on the principle of state-private sector collaboration so that the developed technology was immediately diffused to existing IC producers through various industry organized associations (M.-P. Huang, 2006, p. 36-37). As for the spin-off itself, agreement was reached in 1994 that the DRAM specializing Vanguard International Semiconductor Corporation (VIS) would be run by 13 already existing high tech firms, among which TSMC held the largest ownership share (Tu, 2001, pp. 287–289). Furthermore, in response to industry concerns and criticism, the VIS spinoff plan also included many strict conditions which stipulated that the new products developed could not compete with those of already established firms while the technology also had to be one that current manufacturers were not able to develop independently (M.-P. Huang, 2006, p. 46).

The unprecedented private sector advocacy in the most advanced national priority IT sector was only a sign of things to come and eventually culminated in the disciplining of the IT bureaucracy itself toward accepting its industry-servicing role. This strong policy shaping capacity of the IT capitalist class was to be expected because of its increased consolidation and influence which is evident in the fact that 4 of Taiwan's 10 largest firms were IT firms by 1999 (Fuller, 2002, p. 13). On the more extreme end, some industry leaders such as Acer's Stan Shih argued for the breakup of ITRI with the justification that business conditions no longer warranted its existence (Kraemer, 1996, p. 234). Calling for the ITRI's breakup, however, was only a minority position among the IT capitalist class and a majority were concerned mainly with protecting their interests in market segments which were already developed. Overall, the IT capitalist class stood to gain from the continued existence of ITRI and the continuation of Taiwan's state-supported technology development model which allowed IT firms to substantively externalize costs. But, the changing social basis of Taiwan's state and the LE capitalist class' now hegemonic position necessitated that specialist economic planning agencies such as ITRI had to be reoriented toward a more specifically industry servicing role. It is in this

context that The Ministry of Economic Affairs budget cut of 200 million NTD and a similar Legislative Yuan budget cut toward ITRI in 1993 can be understood (M.-P. Huang, 2006, pp. 46–47).

Following the re-stabilizing of relations between the economic bureaucracy and the IT sector, the ITRI willingly redefined its role in 1994 toward an industry servicing course. As an outcome, ITRI was restructured to focus only on more risky areas for IT development in which there was not yet a private sector interest and to perform preliminary exploration for industry while all commercial activities were to be left to the private sector (M.-P. Huang, 2006, pp. 47–48). As such, it is clear that a hierarchical bureaucratic – IT capitalist relationship was a thing of the past and that IT sector firms were also no longer responsive to state sponsored technology upgrading programs, especially when such programs contradicted their interests. An illuminating example of this dynamic is the failure of the IT bureaucracy's late-1990s ASTRO plan which called for the establishment of an IC sector research consortium to research process technology upgrades. The reason for the plan's failure was that the project was not feasible because of the TSMC and UMC's refusal to join due to the ASTRO plan's primary beneficiaries being less technologically sophisticated IC firms (Fuller, 2002, pp. 12–13). But, the extent to which the relationship between the elite bureaucracy and the IT capitalist class was antagonistic should also not be overstated as ultimately, the bureaucracy continued to service the interests of IT capitalists as a whole. Furthermore, planning personnel and IT capitalists also continued to share a common perspective due to the high personnel overflow between the two in which approximately 40% of Hsinchu Science Park firm managers, for instance, had work experience at the ITRI (M.-P. Huang, 2006, p. 44). As such, although some disciplinary processes defined the ITRI's re-orientation toward an industry servicing path, this reorientation was a primarily voluntary and organic process.

The cessation of a long-term development plan ensured that a strategic industrial upgrading no longer defined Taiwan's economic development. This, coupled, with a much more directly capital defined social order and an increased capital flight, ensured that Taiwan's economic development became less welfare enhancing than it was during the statist era. As an outcome, Taiwan's unemployment rate almost doubled from 1.7% to 3.2% between 1990 and 2000 (Kong, 2005, p. 176). Rather than only affecting the blue collar labour force, Taiwan's declining socio-economic environment affected the interests of the labouring class as a whole by further increasing the bargaining power of the capitalist class to set labour conditions. One direct outcome of this was that real wages began to decline from 1994 onward despite continued annual labour productivity growth rates which measured at double the wage growth rate (Cooloud, 2012). At a more general level, Taiwan's society also became more unequal as

evident in the growth of the income differential between the lowest 20% and highest 20% of families which increased from 4.21 in 1981 to 5.51 in 1998 (Lue, 2009, pp. 29–30). Additionally, Taiwan's increased inequality also contained a spatial pattern in which the northern population surrounding the Taipei metropolitan area participated in a predominantly commercial, service and IT based job market. The southern population, on the other hand, tended to participate in a more agricultural, labour intensive and SME based job market (Y.-Y. Chen, 2007, pp. 227–228).

By now, not only is it clear that Taiwan's democratization and the intra-KMT power struggle was a culmination of a prolonged process of a changing social basis of Taiwan's state, but that a newly forged historical bloc also secured a successful hegemony. As such, the newly hegemonic LE capitalist class successfully shaped the parameters of Taiwan's social order while a previous political autonomy secured on a basis of passive revolution dissolved. Reflective of this, Taiwan's social order now specifically advanced the short-term interests of capital which also, for the first time, correlated with a more visible social welfare decline.

## **Section 5.2: Legitimizing a Capital-advancing Social Order**

The capital advancing features of Taiwan's social order and the marked deterioration of its collective social welfare should have been a fertile ground for an increased social contestation. But, although contestation did occur, Taiwan's historical bloc secured an unchallenged hegemony among the citizenry while also impeding Taiwan's social movements from developing into a viable counter historical bloc. Many factors influenced this and central to which was the rise of a Taiwan identity politics which can be theorized as a central component of the historical bloc's hegemonic narrative. In order to understand how Taiwan's identity politics pacified a class politics, it is necessary to first examine how it was that an identity politics became so central in Taiwan and also to account for the discursive features thereof. It is only after doing so that it is possible to examine how an identity politics led to a strengthening of Taiwan's LE capitalist hegemony and how it became a tool of political legitimization.

### **5.2.1: Social Contestation**

Because of a deteriorating socio-economic environment and its disproportionate effects on Taiwan's labouring class, Taiwan's labour movement should have gained a centrality among social movements during this time. This was especially so because blue-collar workers were Taiwan's largest class during the 1990s, measuring at a total of 40.3% of the working population. Furthermore, a previous class fluidity also now increasingly gave way toward a

more static class composition while a previous phenomenon of multiple class spanning households was now also increasingly replaced by single class households (H.-H Hsiao, 2001, pp. 164–166). Taiwan's labour movement remained active during this time as can be seen in the number of strikes which increased from 1878 in 1993 to 2600 in 1997 (Y.-Y. Chen, 2007, p. 231). Taiwan's labour movement was particularly active in targeting the state due to its central role in legitimizing, enforcing and perpetuating Taiwan's capital defined production environment (C.-H. Huang, 2002b, p. 23). This was especially evident in the centrality of a union autonomy agenda which was aimed at facilitating the breaking away of member unions from the state-controlled CFL. The DPP, with which Taiwan's labour movement remained closely allied, offered crucial support and 7 of the 8 counties and cities in which independent city/county labour unions formed were administered by DPP city/county governments. Even in the only exception of Kaohsiung which was administered by a KMT city government, it was the DPP controlled city parliament which forced its mayor to recognize Kaohsiung's breakaway union through the threat of freezing the city's budget (C.-L. Huang, 2002, pp. 316–317). In addition to successes at forming local city/county labour unions, Taiwan's labour movement also succeeded at forming national-level labour organizations such as the Taiwan Labour Front (TLF) in 1992 and unions such as the Taiwan Confederation of Trade Unions (TCTU) in 1999 and which was officially recognized only in 2000 (C.-L. Huang, 2002, p. 317; Rice, 2006, p. 169).

Despite having attained some increased organizational autonomy, Taiwan's labour movement did not succeed in altering the parameters of the political economy of labour. Not only did the overall environment for labour organization remain restrictive, but overtly political strikes also remained illegal while union leadership tended to be cautious and moderate. Furthermore, union membership itself peaked at 29% of the total labour force in 1993 and dropped to 21.2% in 1998 (Buchanan & Nicholls, 2003, p. 228-229). This number is also misleading, however, as most of Taiwan's union membership was accounted for by occupational unions which continued to function as government sponsored labour associations that provided health and labour insurance for its membership (C.-L. Huang, 2002, pp. 313–314). Even among non-occupational, industrial unions, there tended to be a considerable degree of uncertainty among the union membership toward the function of unions and the progressive potential that unions entailed. Such outcomes were partially a carryover of Taiwan's previous corporatist labour regime so that many unions continued to serve the primary role of providing a social avenue for bonding or entertainment (J.-J. Chu, 2001, pp. 445–446). Therefore, even when labour unions advocated the interests of their membership, they tended to do so in a more self-serving and insular fashion while a majority of labourers continued to be excluded from union membership. As such, a progressive labour movement remained weak and even though

the explicitly labour advancing Labor Party (1987) and Workers Party (1989) were formed during this time, both failed to generate sufficient support to attain a political relevance (Y.-W. Chu, 1996, p. 508). As such, it is not surprising that collective bargaining was virtually non-existent as a factor determining wages (Buchanan & Nicholls, 2003, p. 230).

During Taiwan's democratic transition, the labour movement continued to be one among many active social movements. But, as a whole, Taiwan's social movements failed to constrain President Lee's capital advancing policy parameter. One reason for this was that already at the immediate onset of Lee's presidency, Taiwan's LE capitalist class leveraged its influence over the democratizing state apparatus to repress Taiwan's social movements. This was evident in a 4<sup>th</sup> of July Economic Daily op-ed piece titled 'the anger of the capitalist' signed by a number of influential LE capitalists such as Formosa Plastic's Wang Yung-ching and Acer's Stan Shih. The signatories argued that Taiwan's labour and environmental contestation threatened the survival of enterprises and they urged the government to quell it. To pressure the government to do so, the signatories stated that they would only support Legislative Yuan candidates in 1989 elections who were able to create a healthy investment climate (Y.-W. Chu, 1996, pp. 507–508; K.-L. Hsu, 2002, pp. 272–273). In addition, Wang also threatened an investment strike by which Formosa Plastic would halt all planned investment and personnel expansions in Taiwan to signal its discontent to the government (C.-L. Huang, 2002, p. 308). In response, both President Lee and Premier Hao indicated their agreement and stated famously that 'the government's task was to make money for capitalists.' To signal its pro-capital policy course, Lee's administration announced that it was determined to promote the controversial 5<sup>th</sup> and 6<sup>th</sup> petrochemical plants and to forge ahead with the building of Taiwan's fourth nuclear plant, initiatives which were vehemently opposed by Taiwan's environmental movement, the most influential and well-organized of Taiwan's social movements. In a symbolic move, the government also deported long-time Irish missionary and labour activist, Neil Magill (K.-L. Hsu, 2002, p. 287-288; C.-L. Huang, 2002, p. 308).

### 5.2.2 The Rise of a Taiwan Identity Politics

Although the state's disciplinary and institutional apparatus confined Taiwan's social movements, the inability of movements to shape the policy parameter is due primarily to the failure of developing a coherent progressive agenda which could resonate with the wider citizenry. This is counter-intuitive not only because of social welfare declines during this time, but also because of Taiwan's successful democratization which should have meant that social movements could have organized on the basis of a class politics. But, an increased centrality of a Taiwan identity politics impeded this because of its fracturing effect on the development of a

coherent social movement agenda and its diverting effect on the citizenry from a more class or issues-based political discourse.

The rise of Taiwan's identity politics was in no way pre-determined, but was rather a latent possibility which relied on interested parties to articulate it before it could gain a discursive primacy. The reason for the latency of an identity politics is that a nativist current always remained present in Taiwan, but it was subdued by the KMT's authoritarian rule. For one, it was impossible for the scale of the KMT's 228 killings not to have solidified a them versus us mentality within large swaths of the islander population and which remained particularly cogent due to the incident's unresolved and festering nature (M.-C. Lo, 1994). The KMT's ethnic rule strengthened this cleavage further due to its continued culturally discriminatory rule which can be seen in its banning of the Min Nan dialect in public domains such as primary and secondary schools and television and radio programs (Minns & Tierney, 2003, p. 108). Additionally, the KMT's ethnic policies also led to an exaggerated ethnic cleavage to develop in Taiwan through its practice of registering citizens according to their father's place of birth. As an outcome, an inflated 13% of the population were registered as mainlanders despite only 5.7% having been born in China (Hughes, 1997, p. 96). Combined, such features of the elite bureaucracy's rule ensured that ethnic emotions remained strong in Taiwan and could be easily re-articulated by conscious political actors.

Despite Lee's instrumental role in re-articulating a Taiwan nationalist agenda, he was unable to do so during his early office. As such, it was the DPP that was most crucial to first advancing a Taiwan nationalist agenda while Lee steadily secured the viable institutional foundations on which it could become manifest. From the onset of his presidency, Lee manoeuvred to secure an increased political operating space for a *de jure* independent ROC government. To secure a pretext for the ROC's continued autonomy over Taiwan, Lee already acknowledged in 1989 that China was ruled by the CCP under a separate PRC government. But, to secure the necessary support from unificationists within the KMT, Lee also set up the National Unification Guidelines and the National Unification Council which committed Taiwan toward an eventual unification with China (Hughes, 1997, pp. 66-69). During this time, Lee publicly voiced his support for increased economic integration across the Strait and stated in 1992 that a Chinese people in Hong Kong, Taiwan and China were in the process of establishing an inter-dependent regional trade relationship which would 'improve the lives of the whole body of the Chinese race' (Hughes, 1997, p. 112). Because of the CCP's denial of Taiwan's sovereignty and its refusal to engage with official ROC state organs, Lee also set up important semi-private entities such as the Straits Exchange Foundation (SEF) to negotiate with its Chinese counterpart, the Association for Relations across the Taiwan Strait (ARATS) (Chao & Dickson, 2002, p. 10).

Lee's Cross-Strait strategy was shaped by the overall parameters within which his administration operated and for which he first had to secure the political space necessary to pursue a more pronounced Taiwan nationalist agenda. Despite Lee's apparent commitment toward Taiwan's eventual unification with China, he also advanced its effective autonomy at the same time by ensuring that his stated commitment toward unification was long-term in nature. The National Unification Guidelines which framed Lee's overall China policy, for instance, stipulated that although unification was an eventual goal, that there had to be a number of conditions which China first had to meet before that time. Such preconditions included the call for a gradual implementation of rule of law, democratic governance, the development of free market capitalism and the attainment on China of Taiwan standard socio-economic development (Hughes, 1997, pp. 66–67; Roy, 2003, p. 213). As Lee consolidated his control within the KMT, the prospect of unification was pushed back even further as the official narrative on Taiwan began to increasingly stress the independent sovereignty of the ROC as subject to the popular mandate of Taiwan's citizenry. In other words Lee aimed to facilitate a transformation of the 'old Republic of China into the ROC on Taiwan' (Kaeding, 2009, p. 24). As such, an autonomy strengthening policy was quickly pursued in which the ROC sought membership in a wide plethora of international organizations such as the UN and its affiliated agencies (C.-W. Lin, 2004, pp. 187-188; Kaeding, 2009, p. 6). In addition to advancing Taiwan's official autonomy, Lee's political strategy also allowed for a further Taiwanization which could be framed in relation to Chinese opposition and belligerence (T.-J. Cheng & Lin, 1999, pp. 250–251).

In terms of forging a specific Taiwanese identity, Lee's administration only began to do so after the mainstream alliance won an effective and decisive control over the KMT. Lee's charisma and stature as Taiwan's first islander president allowed him to play a central role in influencing and shaping the identity conceptions of Taiwan's citizenry. As such, Lee's administration was highly successful at propagating a Taiwan identity narrative which presented islanders and their native culture as having been continually exploited by outside forces which included mainland China. In response to such encroachment, Lee emphasized the need for the Taiwanese to develop a living community based territorial identity which was centred on a Taiwanese polity and an identification of the populace with their lived experiences in Taiwan, not an association with an alien Chinese experience. By 1995, Lee propounded this stance much more forcefully and stated that the *country* needed to develop a culture in which the land was loved and identified with by all (Hughes, 1997, pp. 97–100). To attain such a distinctly Taiwanese identity, the cultural policy of the state was reoriented to emphasize Taiwan's history and cultural experience (Chao & Dickson, 2002, p. 5). Eventually, Lee's indigenization policies crystallized around the 'New Taiwanese' concept in which a Taiwan sized polity based on a Taiwanese

identity was said to be coming to the fore and which all citizens could attain provided they embraced this identity. As such, the state now played an incubator type role toward the realization of a Taiwan sized polity (Kaeding, 2009; Y.-H. Chu & J.-W. Lin, 2001, p. 103).

The solidification of a separable and pronounced Taiwan identity would have been much more difficult to attain had it not been for the complicit role of the CCP as the 'hostile other' toward which a distinct Taiwan identity formed much more easily. Prior to 1995, aside from issuing verbal warnings toward a 'creeping Taiwanization' and blocking Taiwan's initiatives at gaining diplomatic recognition, the CCP refrained from directly hostile actions and focused primarily on strengthening CSEI between Taiwan and China. But, this quickly changed after Lee's 1995 visit to Cornell University which the CCP perceived as provocative due to its apparent signalling of Taiwan's independent sovereignty and statehood. Identifying Lee as China's chief opponent, the CCP engaged in a series of missile tests across the Strait in order to send a clear message to Taiwan's citizens not to vote for Lee in the 1996 presidential election (Hughes, 1997, pp. 91–93). This incident was significant both on an external and an internal level. Externally, it illustrated the parameters of the triangular relationship which secured a continued status quo across the Strait. The US, which viewed any non-peaceful resolution to cross-straits affairs with 'grave concern', quickly sent two aircraft carriers to signal that it would intervene if status quo conditions were disrupted unilaterally and in response to which the CCP toned down its belligerent stance (Roy, 2003, p. 200).

In addition to its Taiwan identity solidifying effect, the 1996 missile crisis was also instrumental to Lee's visible intensification of a political Taiwan nationalist agenda during his second term in office. This was largely an outcome of the enabling role of China's missile tests which enabled Lee to wage a highly nationalistic election campaign in which he won 54% of the total vote due to a predictable 'rally around the leader' effect. Coupled with the DPP's Peng Ming-min winning 21% of the vote, this signals that a majority of Taiwan's citizens adopted a much more pronounced Taiwan identity by this time, albeit a measured one in which a majority also continued to favour the Cross-Strait status quo (T. -J. Cheng & Lin, 1999, pp. 250-251). Based on Lee's nationalistic campaign, his administration not only framed China as a hostile other and existential threat, but also attempted to constrain a deepening process of CSEI between Taiwan and China. Lee's intensified anti-China policy parameter finally culminated in his 1999 'special state-to-state' relationship statement in which he declared that Taiwan and China relations should be conducted on a state-to-state basis (Chao & Dickson, 2002, p. 11). This time, Lee was prepared to amend the ROC constitution to inscribe such a change unambiguously, an act that would have amounted to a break from the status-quo. But, learning from its errors during the 1996 missile crisis, the CCP relied on America's role as guarantor of the status quo to subdue

Lee in his plans (Roy, 2003, p. 221). Regardless of the continued Cross-Strait status quo, it was clear that a Taiwan identity politics now became the central and defining issue within Taiwan's political discourse.

### 5.2.3 Taiwan Nationalism and Social Order Legitimation

Although the rise of a Taiwan identity politics did not completely supersede a more tangible, issues-based political discourse, it did ensure that non-identity issues receded in their relative degree of importance while also diluting a distinct class agenda from developing among Taiwan's social movements. As argued already, the coherence of Taiwan's social movements was diluted significantly due to their convergence with a nativist democratization movement toward a unified *Tangwai* movement. Following Taiwan's democratization, a nativist component quickly developed into a fully-fledged nationalist agenda and filled an immediate discursive vacuum due to the attainment of the *Tangwai*'s primary goal of political liberalization.

The centrality of an identity agenda among Taiwan's social movements was particularly pronounced because of the close relationship between social movements and the DPP. Due to the multiplicity of agendas within the DPP, it remained a possibility that it could have defined itself as a progressive and left of centre political party. But, the party leadership opted instead in 1991 to inscribe a Taiwan Independence Clause into the party constitution which stipulated that the DPP's central political goal was to establish an independent state in Taiwan (T.-J. Cheng & Hsu, 1996). For the time being, the DPP continued to maintain elements of a progressive political agenda because a sole Taiwan nationalist position was still insufficient for electoral advancement during the 1990s. This was especially so in the context of Lee's pursuit of a largely identical Taiwan identity agenda which Taiwan independence supporters could tactically align with, but which also attracted more moderate Taiwan identity supporters who favoured a continuation of the status quo. Such a two pronged electoral strategy was unavoidable because even as late as 2000, Taiwan's voters still predominantly supported the status quo (46.1%) while unification (32.4%) and independence (21.5%) supporters remained a political minority (F.-S. Hsieh, 2004, p. 484). Furthermore, because a significant degree of the public's attention was also focused on issues such as social welfare and clean governance, the DPP's two-pronged strategy proved to be a sensible strategic choice (Kau, 1996, p. 301). As such, the party succeeded at winning an average 29 to 33% of the popular vote in Legislative Yuan elections throughout the 1990s (F.-S. Hsieh, 2004, p. 484).

Despite its continued adherence to a progressive political agenda, the tendency of social

movements to ally with and rely on the DPP to advance a progressive political cause, nevertheless, had a pronounced agenda and coherence diluting effect. This was especially so because the DPP became progressively more homogenized as a Taiwan nationalist party in the 1990s so that Taiwan nationalism increasingly became the first instance variable on which the party's rank and file could be organized. Some social movement supporters were uncomfortable with the increased centrality of the DPP's Taiwan nationalist agenda and broke away from the party (T.-J. Cheng & Hsu, 1996). But, a majority tended to maintain their close alliance with the DPP or to enter the party directly because they either shared a similar Taiwan nationalist proclivity or because of more pragmatic political calculations. The increased centrality of a Taiwan nationalist politics among social movements, however, ensured that a distinct progressive political agenda was now diluted significantly. As such, Taiwan identity cleavages also became increasingly pronounced among social movements. This was particularly evident among labour organizations in which distinct cleavages developed between Chinese nationalist and Taiwan nationalist groups which will be explored at more depth in the following chapters.

Coupled with its diluting effect on social movements, the rise of a Taiwan identity politics also led to its establishment politics to become relatively less receptive to non-identity issues. This was because identity perception cleavages became more central toward dividing partisan politics between a Taiwan nationalist and Chinese nationalist binary. As such, even though a majority of Taiwan's voters were stability minded and supported a continued status quo, they still tended to veer in either a more independent or unification supporting direction. It was primarily because of the increased centrality of an identity politics, for instance, that Lee maintained his popularity by becoming a figurehead and symbol for the Taiwan nationalist movement. Many of Lee's supporters perceived him to be an infallible hero who could do no wrong and who selflessly dedicated himself to Taiwan's interests. Lee himself had a role to play in this narrative through his self-identification as being intrinsically Taiwanese and as being in tune with the pain and humiliation of Taiwan's citizens. At times, Lee even identified himself as Taiwan's Moses who was leading his people away from bondage (Moody, 2002, p. 40). Because of the emotive nature of Taiwan identity politics, many of Lee's supporters also tended to perceive his Chinese nationalist opponents as anti-Taiwanese conspirators who attempted to subvert Taiwan's sovereignty (Lu, 2002, p. 61). As for Chinese nationalists, on the other hand, most perceived Lee to be a corrupt and unethical politician whose promotion of a Taiwan identity was a betrayal of Chiang Ching Kuo's legacy (Lu, 2002, pp. 61-63). During this time, Taiwan's identity cleavage also developed an increased spatial pattern in which Northern Taiwan, due to its higher percentage of mainlanders, developed a more China-friendly identity pattern while the South developed a stronger Taiwanese identity pattern (Y.-Y. Chen, 2007, p. 231).

Although the interests between Taiwan's hegemonic historical bloc and non-hegemonic classes clashed, a combination of institutional and ideational processes ensured that the Cross-Strait historical bloc's hegemony was secured. As demonstrated thus far, central to this hegemony was the rise of a Taiwan identity politics which had a fracturing effect on social movements and an increasingly diverting effects on the citizenry from an issues-based political discourse. Thus, at a more general level, Taiwan's hegemonic narrative clearly mirrors Wang Jenn-hwan's understanding of it as a composite of both a populist nationalism and a naturalized and un-reflexive support for capitalism and the interests of the LE capitalist class (J.-H. Wang, 1996).

### **Section 5.3: CSEI and the Cross-Strait Historical Bloc**

Although promoting a capital-friendly agenda on all fronts, there was one exception to this, namely the increased CSEI process which intensified from the late 1980s onward. Due to Lee's ideological anti-China stance, his administration attempted to curtail CSEI, but it failed miserably in doing so because of the mistaken assumption that Taiwan's fully cemented historical bloc would remain responsive to a state-led circumvention policy. It is true that the KMT still controlled many resources, but such resources were meaningless toward an LE capitalist class that was no longer subject to the state's dirigisme. As such, not only did CSEI continue, but Lee's administration faced the additional challenge of a Cross-Strait historical bloc which came into operation during this time and which secured a powerful capacity to shape Taiwan's social order.

CSEI began meaningfully from the late 1980s onward when Taiwan's capitalist class began to experience a tremendous pull toward investing in and setting up production bases in China. This was driven largely by Taiwan's appreciating currency, rising labour costs and the increased social contestation which took hold during this time. In the context of a predominantly sub-contracting based economic composition, Taiwan's China-bound investment drive was aimed primarily at securing lower production costs (in terms of labour, land, utility, regulatory costs and so forth), but also the supplying of China's domestic market (T.-J. Chen, 2003, p. 85; H.-H. Hsiao, 2001, pp. 189–190). The CCP further amplified this pull by courting Taiwan's capitalist class to invest in China. This can be traced to the CCP's 1979 'Temporary Regulations Opening Trade with Taiwan' statement which asserted that Cross-Strait trade was a special form of trade that would 'create conditions for the unification of the motherland' (Roy, 2004, p. 1). To draw in Taiwan's investment, the CCP also enacted stipulations such as its 1988 'Regulation for the Encouragement of Investment by Taiwanese Compatriots' which implemented 22

measures to encourage Taiwanese investment in China. The measures not only extended to Taiwanese investors all special treatments enjoyed by Northern investors, but also added some additional ones (C.-H. Huang, 2002b, pp. 9-10).

In addition to general incentives to win the favour of Taiwanese capitalists investing in China, or *taishang*, the CCP also set up a network of agencies and dedicated government bodies charged with building relations and supporting *taishang* interests in China. Such support occurred both in terms of the specifics of particular investment projects, but also policy level support (Meer, 2006). *Taishang*, due to both their political and economic importance, have been offered VIP treatment in China during this time, securing generous tax breaks as well as dedicated local level government provision of requested services such as the building of roads, provision of land and so forth (Cavey, 2003, p. 19; A. T. Cheng, 2001; Hammond-chambers, 2002, p. 5). As such, two-way trade increased rapidly from 1.5 billion to 22.5 billion USD between 1985 and 1995. Taiwanese FDI in China by 1996, on the other hand, was estimated to have measured anywhere between the 6.1 billion USD measured in more conservative Taiwanese statistics and the 24.3 billion USD measure in Chinese statistics (Hughes, 1997, pp. 109–110; T. Y. Wang, 2002, p. 132).

Because the CCP's Cross-Strait strategy was so successful, it could finally be considered as an external participant in Taiwan's historical bloc by the early to mid-1990s. Although the CCP prized Taiwanese investment on economic terms due to the still more advanced features of Taiwanese capital during this time, this was also coupled with the CCP's policy aim of shaping Taiwan's social order. This can be clearly observed in the CCP's United Front policy framework (used not only toward Taiwan, but also toward Hong Kong) which calls for the active courting and building of rapport between the CCP and China-friendly social forces in Taiwan (van Kemenade, 2001, p. 61). The central aim of the United Front policy was the formation of an alliance with Taiwan's LE capitalist class to foster Taiwan's economic dependence on China and to constrain the autonomy of its state apparatus vis-à-vis China (Bolt, 2001). The reasoning for the CCP's identification of Taiwan's LE capitalist class as central to its alliance formation process was its hegemonic role in Taiwan. This was a sensible strategy because the LE capitalist class' hegemonic stature ensured it a strong degree of influence toward circulating hegemonic narratives and to influence election outcomes (Kuo, 2000, p. 97). Due to its socio-political dominance, the CCP also correctly identified Taiwan's LE capitalist class as possessing the capacity to constrain Taiwan's political parties toward a CSEI-conducive policy path, a strategy which furthered the CCP's long-term policy interest of securing Taiwan's eventual unification without the necessity of military force.

Lee viewed Taiwan's increased economic dependence on China and the ever closer relationship between the CCP and Taiwan's LE capitalist class developments with great alarm and was convinced of the need to re-establish the state's regulatory control over CSEI. Publicly, such a policy course was justified both in terms of the political risks that CSEI posed for Taiwan's political sovereignty, but also because of the need to contain the hollowing out of Taiwan's more advanced economic sectors to China which risked undermining its competitiveness and which could strengthen a hostile enemy (Y.-Y. Chen, 2007, p. 200; Kastner, 2005, p. 11). Thus, already by 1993-1994, Lee's administration began to implement an attempted 'go south' policy which encouraged Taiwanese business to invest and outsource their business operations instead to ASEAN countries such as Vietnam and Indonesia (Dent, 2005, p. 401). Following the 1996 missile crisis, Lee escalated this policy by initiating the 'no haste, be patient' policy framework which further limited China-bound investment. This, for instance, prohibited investments measuring at 50 million USD and above while also implementing blanket investment bans in IC and other key high-tech sectors while offending parties were liable to fines and prison terms (Landler, 2001). At the same time, Lee tried to ease business animosity through his continued pursuit of capital friendly policies in Taiwan and his opening of lucrative investment opportunities. One example of such a compensation type policy was the High Speed Rail system project in which private sector interests were allowed to take the lead while they were also granted immense leeway in land development opportunities around planned stations (J.-Y. Hsu, 2011, p. 613).

Excluding a limited number of highly visible investment reversals, it is widely perceived that Lee's 'no haste, be patient' policy framework was a resounding failure. Most Taiwanese firms could easily circumvent existing constraints by channelling China-bound investment through third party destinations such as Hong Kong or the Cayman Islands. Ironically, the ease by which 'no haste' restrictions could be skirted was a direct outcome of the financial liberalization drive which President Lee supported (Y.-Y. Chen, 2007, p. 205). According to Taiwanese statistics, mainland investment between January and September 1997 alone amounted to a total of 3.23 billion USD as compared to the pre 'no haste' 1995 investment total of 2.93 billion USD (Green, 1998). By 2000, it is estimated that 40000 Taiwanese companies had operations in China while total cumulative investment was estimated at ranging between 45 Billion to 60 billion US dollars, between 40 and 50% of Taiwan's total FDI (Dent, 2005, p. 399-400). In addition, the government's aim of limiting technological outflow also failed to halt the trend toward an increased electronics and IT sector investment in China which was measured as having increased from 20% to 60% of the total China-bound investment between 1997 and 2000 (Sutter, 2002, p. 529-530). Thus, although Lee continued to pursue his 'no haste' policy, the fact that capital could circumvent it so easily helps to explain why, despite pronounced public advocacy

toward CSEI liberalization by firms such as Formosa Plastic and TSMC (T. Y. Wang, 2002, p. 134), there never did occur a head on collision between the LE capitalist class and Lee.

The ease by which capital could operate in such blatant contradiction to the government's policy dictates clearly illustrates the state's dwindling autonomy vis-à-vis the interests of Taiwan's hegemonic LE capitalist class. But because the policy was unenforceable, the LE capitalist class proceeded to intensify CSEI for the time being while continuing to offer its support to Lee Teng-hui's otherwise capital advancing administration.

#### **5.4 Conclusion**

In this chapter, I examined how a prolonged changing social basis of Taiwan's state culminated in the dissolution of its soft statist social order and its transformation into an LE capital advancing social order. I argued that this occurred in the context of a hegemonic LE capitalist class-forged historical bloc which aided President Lee's reformist alliance to secure control over the KMT and Taiwan's state. After this, I argued that President Lee's policy became confined toward advancing the short-term interests of Taiwan's LE capitalist class. I then examined how the historical bloc secured its hegemony among Taiwan's citizenry and argued that a rising Taiwan identity politics was crucial to this process and that it was a core component of Taiwan's hegemonic narrative. This, I argued, was because a Taiwan identity politics fractured a possible class agenda from developing among social movements while also increasingly diverting the citizenry's attention from class issues toward identity issues. As an outcome, it was much easier for President Lee to secure a necessary electoral support on the basis of identity affinities while also not facing serious electoral constraints to moderate his capital-advancing policy course. The only exception to this dynamic, I argued, was a rapidly intensifying CSEI which President Lee attempted to constrain. But, I argued that this ended in utter failure and was indicative of the hegemonic stature of Taiwan's LE capitalist class. Even more importantly, I argued that Taiwan's LE capitalist class now became incorporated into a Cross-Strait historical bloc with the CCP which jointly advanced to intensify CSEI. Although the CCP's long term policy goal was guided by its aim of securing a capacity to shape Taiwan's social order through its LE capitalist class, I argued that its immediate policy goal of securing an intensified CSEI harmonized with the economic interests of Taiwan's LE capitalist class. Because the Cross-Strait historical blocs' short term aim of an intensified CSEI was unimpeded, I argued that it did not withdraw its support from the otherwise capital advancing Lee Teng-hui administration.

Combined, this chapter's analysis demonstrates not only that Taiwan's statist social order dissolved during Lee Teng-hui's presidency, but also that Taiwan's state was now confined

within the policy parameters arising from a Cross-Strait historical bloc. As such, it is clear that the CSEI process cannot be understood in a relational sense as occurring between two separate states, but rather should be understood in terms of the social basis of Taiwan's state which the CCP has secured a clear capacity to shape. Because the Cross-Strait historical bloc was forged between a contender state managing elite bureaucratic class and Taiwan's LE capitalist class, my analysis suggests that CSEI can only be theorized with a specific emphasis on class and social order. In terms of legitimization processes, my argument also suggests that Taiwan's national identity politics was central to the hegemony of the Cross-Strait historical bloc. By incorporating a Taiwan identity politics as a core component of Taiwan's hegemonic narrative, I have demonstrated both its centrality to political legitimation processes and its causal role toward enabling the wide acceptance among Taiwan's citizenry of the economic core of its hegemonic narrative. In Taiwan's case, it is clear that the relationship between an identity politics and class politics was zero-sum in nature. As such, provided an identity politics remained central to Taiwan's politics, the historical bloc's hegemony would also remain stable. Thus far, I have examined how President Lee's administration reluctantly tolerated CSEI because of his powerlessness to stop it. But, because of the Cross-Strait historical bloc's hegemonic stature, it was only a matter of time before it advanced to alter the state's CSEI policies toward a more enabling path, a process which I will examine in the following chapter.

## **Chapter 6: Taiwan Nationalism and the Cross-Strait Historical Bloc**

In the preceding chapter, I argued that Taiwan's statist order dissolved during Lee Teng-hui's presidency because a Cross-Strait historical bloc became hegemonic which was evident in Lee's failure to constrain a deepened CSEI. In this chapter, I examine how the Cross-Strait historical bloc advanced to secure a substantive lifting of existing CSEI constraints and how paradoxically, this occurred under a self-professed Taiwan nationalist DPP administration. In many ways, this is hardly surprising due to the hegemonic stature of the Cross-Strait historical bloc and the DPP's much more tenuous political position. But, rather than being pressured to adopt a capital friendly policy course, I argue that the DPP proactively courted the LE capitalist class from the onset of its rule while it also successfully dissociated itself from and co-opted its previous social movement allies. It is within this context that I argue that the DPP's enabling role toward lifting CSEI restrictions can be understood. My analysis suggests that rather than Taiwan's state internationalizing toward a transnational level as proponents of global capitalist convergence would assume, that its internationalization has occurred more regionally and primarily toward China. Furthermore, my analysis also suggests that the degree to which the internationalization of the state tilts regionally or transnationally can be better accounted for by a narrowing of hegemonic class categories beyond common abstractions such as the transnational capitalist class. In the case of Taiwan's LE capitalist class, I argue that its predominantly sub-contracting nature and the fact that its immediate economic interests were based in China have led it to come under the orbit of China's contender state-managing CCP.

Accounting only for class and alliance formation is also not sufficient to explain the vicissitudes of the CSEI trajectory during the DPP's rule. This is especially so in the context of Taiwan's worsening socio-economic malaise which raises the question why there had not been a more concerted contestation against the DPP's capital advancing domestic and CSEI policies. To account for this, I continue to examine the pacifying and diverting effects of Taiwan's national identity politics. In the context of the DPP's pro-capital reorientation, I argue that the party leadership rebranded the party on solely Taiwan nationalist terms while relying on a highly emotive Taiwan identity discourse to do so. This, coupled with the KMT's increasing embrace of a China-friendly orientation, led to identity perceptions taking the centre stage toward defining voter orientation during this time. As an outcome, I argue that more tangible issues of class and economic organization were almost entirely side-lined while the DPP's Taiwan nationalist supporters also did not significantly constrain the party's CSEI policies which were legitimated on the basis of economic necessity. But, as I argue toward the end of this chapter, despite the DPP's CSEI enabling role, the CCP eventually succeeded to wield its influence over Taiwan's LE capitalist class to secure the DPP's electoral defeat in 2008. Central to this was the

development of a successful economic narrative designed to appeal to Taiwan's centrist vote bloc which blamed Taiwan's socio-economic malaise on continued DPP CSEI restrictions. This suggests that in addition to specifically economic ideational legitimation processes, that cultural and identity processes can have a similarly powerful role within hegemonic narratives. This, as my analysis will show, was so powerful that it side-lined the citizenry's attention from economic issues almost entirely.

### **Section 6.1: The Cross-Strait Historical Bloc and the DPP**

In 2000, the opposition DPP's Chen Shui-bian was elected to the presidency. In terms of the election itself, the pan-blue ticket was split and both Lien Chan of the KMT and James Soong of the newly formed People's First Party (PFP) ran against each other. Chen, Song and Lien won a respective vote total of 4,977,697 (39.30%), 4,664,972 (36.84%) and 2,925,513 (23.10%). A core factor for the KMT's poor faring was that voters became deeply unsatisfied with Taiwan's corrupt politics of the 1990s for which the KMT was blamed. As for the DPP, its electoral support was made up of three major social blocks, Taiwan identity and independence supporters, the reform-minded middle class as well as the more marginalized classes which were ignored within Taiwan's capital friendly social order during the 1990s (J.-Y. Hsu, 2009, p. 296). In addition to relentlessly criticizing KMT corruption, Chen also ran a campaign platform on clean politics, full democratization and social justice. Due to Chen's own limited mandate and his minority government, it was impossible for the DPP to govern successfully without the implicit support of the opposition. Chen was not, however, successful at attaining such support and faced hostile legislative obstruction instead throughout his two-term administration.

Despite the DPP's close historical relationship with social movements, the party quickly adopted a capital-friendly policy after its victory. This reorientation was partially influenced by the minority nature of Chen's administration and the difficulty that challenging Taiwan's hegemonic historical bloc would have posed for the party. This was especially prescient, because the DPP did not have access to the vast economic resources as the KMT and due to which it was particularly susceptible to business pressure (Kastner, 2004, pp. 17-18). This dynamic became particularly evident in 2001 when business leaders took advantage of Taiwan's ongoing recession to pressure the DPP to abandon its perceived anti-China and anti-business policy orientation. Not long after, both Chen and DPP Chairman, Frank Hsieh, signalled a moderation of the party's perceived radicalism (Kastner, 2004, pp. 17-18). But, far from involuntarily pursuing a capital-friendly policy framework, the DPP leadership was itself proactive in courting the LE capitalist class for support and maintained visible ties with many of Taiwan's most influential LE capitalists throughout the 2000 campaign. Many, such as Chi

Mei's Hsu Wen-long, Acer's Stan Shih and Evergreen's Chang Rung-fa openly stated their support for Chen (Y.-H. Chu, 2009, pp. 52-53; Kong, 2005, p. 177). As such, Chen already branded himself as an adherent of Anthony Giddens's third way during the presidential election which signalled an acceptance of capital's determining role in shaping the social democratic policy sphere. Following its electoral victory, in addition to continued attempts at winning long-term business support, the DPP also immediately reversed course on a number of its pre-election commitments as evident in its backtracking on nearly all of its labour manifesto promises (W.-I. Lin & Chou, 2010, p103).<sup>4</sup>

The DPP's pro-capital reorientation required a very careful course of legitimation given the party's previous association with Taiwan's social movements. As such, Chen's administration legitimated its new policy course on a narrative of necessity to 'salvage the economy' from the serious recession which began from the time Chen came into office. To add further credence to the DPP's legitimation of a pro-capital reorientation, Chen's administration also held an Economic Development Advisory Conference (EDAC) in 2001 to build both a national consensus on economic development and to develop the appropriate policy framework to facilitate Taiwan's economic recovery. Of delegates present, 34% were from the business community while an absolute majority were business friendly in orientation. This ensured that business interests had the most direct influence in shaping the overall policy recommendations which Chen relied on to justify a pro-capital policy course (Kastner, 2004, p. 23). After this, the DPP adopted a general KMT-style national economic development position in which economic growth was prioritized above all other variables (M.-S. Ho, 2005, pp. 412-413).

In allying himself with Taiwan's LE capitalist class, Chen also came under immense pressure to moderate president Lee's more confrontational CSEI policy. Thus, Chen announced on his inauguration that the DPP would pursue a more moderate Cross-Strait policy and committed his administration to the Five No's policy framework. This promised that Chen's administration would not declare independence, change the ROC's official title, amend the constitution, hold a plebiscite on Taiwan's future and also that the National Unification Guidelines and the National Unification Council would not be abolished (Chao, 2004, p. 688). It is, however, true that Chen's pursuit of a more temperate Cross-Strait policy cannot yet be reduced solely to his responsiveness toward Taiwan's hegemonic LE capitalist class. This is because one of the central reasons for Chen's commitment to the Five No's policy was the very real international constraints his administration faced which confined Taiwan to the status-quo. At the same time, there is also no denying that electoral calculations influenced Chen's more temperate

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<sup>4</sup> Interview with Chien Hish-chieh in December 17, 2012; Chien, an ex-DPP legislator, helped Chen Hsui-bian's campaign draft its Labor Manifesto.

Cross-Strait policy course so that in the context of Taiwan's status-quo supporting majority, Chen's early approval ratings quickly soared to a high of 77% (Y.-H. Chu, 2009, p. 47). As such, it is not an unfair generalization that the DPP also attempted to project a more temperate image to win the support of Taiwan's centrist vote bloc.

The DPP's pursuit of a more temperate Cross-Strait policy cannot be reduced solely to its complicity with Taiwan's LE capitalist class, but its subsequent CSEI openings can. Although a moderation of the DPP's Cross-Strait policies was welcomed by the LE capitalist class, its core demand during this time was that Chen's administration lift Lee Teng-hui's 'no haste, be patient' policy. Chen faced enormous pressure to do so, especially because all of Taiwan's capital fractions had an interest in lifting the 'no haste' policy. This can be observed in the policy's critics which included Wang Yung-Ching of Taiwan Plastics (traditional ISI enterprises), Kao Ching-yuen of President enterprises (retail and traditional ISI), Chang Yung-fa of Evergreen (shipping, airlines and similar services sector industries) and Morris Chang of TSMC (T.-J. Cheng, 2005, p. 111). In response, Chen publicly voiced his support for increased Cross-Strait economic, trade and cultural integration as a means to build more friendly relations between Taiwan and China (Tung, 2005b, p. 348). Not long after, the DPP replaced Lee's 'no haste' policy with its 'active opening, effective management' policy in 2001. This policy lifted the 50 million USD investment restriction to China, lifted cumulative investment limits of publicly listed companies from 20% to 40% of company net worth while also implemented an automatic approval process for all investment under 20 million USD (Kastner, 2004, p. 22).

In addition to the lifting of general constraints on investment sums to China, Chen's administration also lifted a number of sector-specific restrictions on Taiwan's IT sector which enabled large swaths of the sector to outsource to China. But even before the DPP's lifting of restrictions, many IT firms were secretly moving their operations to China, a practice which the DPP was unable to or unwilling to constrain. This applied particularly to smaller-scale firms in sectors such as IC design in which clandestine migration to China was a common and difficult to trace practice (M.-C. M. Chu, 2008, pp. 61–62). As for larger firms which were much more visible, investment restrictions had a moderate effect by making clandestine investments in China relatively more difficult. But still, this did not stop firms such as UMC from forging ahead anyway which secretly channelled 1 billion USD to China through a Virgin Islands holding company to set up an 8 inch semiconductor manufacturing plant. Rather than being exposed by the government, the UMC's clandestine investment project only came to light after a 2002 Wall Street Journal article broke the story (Klaus, 2003, p. 243). In response, Chen's administration brought forward legal action against the UMC which culminated in a 150,000 USD fine in 2006, a miniscule sum when compared to the UMC's 2.82 billion USD annual

revenue in 2005 (M.-C. M. Chu, 2008, p. 60; Meer, 2006). As such, it is clear that Taiwan's restrictions on IT sector migration to China were not an effective deterrence, but are better conceived of as an inconvenience which many IT capitalists were capable of sidestepping. Furthermore, even when exposed, due to its close alliance with Taiwan's hegemonic LE capitalist class, it is clear that the DPP had no intention of seriously penalizing law breaking corporate entities and their CEOs.

Despite the uneven enforceability of CSEI limitations on the IT sector, Taiwan's IT capitalist class remained hostile toward such restrictions and placed enormous pressure on Chen to lift them. Although all IT sub-sectors facing CSEI restrictions intending to invest in China lobbied the DPP, a particularly illuminating case is that of the semiconductor sector. Due to its advanced nature, the DPP's proposed lifting of sectorial investment restrictions to China garnered significant opposition and alarm in Taiwan. The specifics of semiconductor opening relates to industry lobbying toward the lifting of technological restriction on investments in China to set up lower-end production processes utilizing 8 inch technologies (S.-W. Hung & C. Yang, 2003, p. 400). In addition to lobbying the DPP directly, semiconductor firms such as TSMC and UMC also led a very public sectorial advocacy campaign in which CSEI restrictions on the sector were publicly criticized. Due to the special nature of the semiconductor sector, Chen even faced resistance from within the DPP from some particularly outspoken and dedicated Taiwan independence officials and party members. Despite such opposition, Chen's administration eventually agreed to lift restrictions on 8 inch semiconductor migration to China in March 2002 (T.-J. Cheng, 2005, p. 120).

The DPP's lifting of semiconductor sector restrictions was only the most controversial case of a much wider IT sectorial opening drive. Immediately after coming into office, the DPP already lifted restrictions on 122 IT products in less controversial IT sub-sectors such as notebook computers and mobile phones (T.-J. Cheng, 2005, pp. 119-120). In April 2002, along with the semiconductor sector, more advanced sectors such as light emitting diodes (LED) and liquid crystal displays (LCD) were also added to the deregulation list, but some limitations remained on technological sophistication of permitted Chinese production (Kobayashi, 2005, p. 14). In the semiconductor sector, for instance, restrictions stipulated that only 3 companies were allowed to set up 8 inch plants in China prior to 2005 and that companies transferring 8 inch technology must first demonstrate a production run in Taiwan of more advanced 12 inch wafer manufacturing for at least six months. But, such restrictions did not mean much as the reality of the matter was that Taiwan's major semiconductor firms never intended to move 12 inch manufacturing capacity to China while companies permitted to set-up 8 inch plants in China also already all expanded into 12 inch semiconductor manufacturing in Taiwan (Clough, 2003,

p. 54). This mirrors wider IT sector trends in which remaining restrictions on high-end investment to China did not really challenge the interests of Taiwan's IT capitalist class because IT firms tended to maintain their most advanced operations in Taiwan. This was, however, due primarily to business strategy calculations in which high-end investment in China was perceived as a risky strategy due to IPR, logistical and outsourcing cost concerns.<sup>5</sup>

Because of the largely un-reflexive acceptance among the citizenry of an economic narrative which equated capitalist economic development with Taiwan's collective welfare, it was not difficult for the DPP to legitimate its pro-capital reorientation. But, the legitimization of CSEI openings was much more challenging for it due to its pronounced Taiwan identity stance and the party's continued dependence on a Taiwan nationalist vote block for electoral advancement. As such, the DPP's legitimization of its CSEI liberalization was planned with great care so that an intensified CSEI could be plausibly legitimated as being necessary for Taiwan's economic welfare and that it did not contradict the DPP's Taiwan identity stance. To do so, Chen relied on a TINA type narrative while also relying heavily on EDAC recommendations which presented CSEI openings as economically necessary for Taiwan's continued economic prosperity and for it to address the recession it faced. But to signal the DPP's continued Taiwan nationalist credentials, Chen also very publicly refused to endorse the EDAC proposal that his administration accept the 'one China principle' based on the 92 consensus (Hammond-chambers, 2002, p. 3-4; Kastner, 2004, p. 23). This ensured that Chen's administration enjoyed a continued symbolic association with the Taiwan identity and independence causes while framing its discontinuation of the 'no haste, be patient' policy as a purely economic matter

Thus far, it is clear that already from the onset of its administration, that the DPP proactively advanced the interests of Taiwan's LE capitalist class and that it willingly confined itself within the policy parameters of the Cross-Strait historical bloc. But, veering from the Lee Teng-hui administration, the DPP now also proactively advanced the historical bloc's CSEI agenda by lifting numerous existing CSEI restrictions. Because of its attempts at securing a widened centrist support base, the DPP's success at doing so now depended on whether or not it could deliver on its CSEI legitimization.

## **Section 6.2: Processes of DPP Policy Legitimation**

Had the material outcomes of the DPP's CSEI openings resulted in an improved socio-economic welfare, it would have been possible that the DPP's legitimization of CSEI could have been convincing enough for it to secure longer-term centrist support. But this did not

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<sup>5</sup> Interviews with anonymous interviewees 1, 3 and 4 in November 30, December 1, December 9, 2012.

follow and Taiwan's economic malaise continued to intensify as an outcome of the party's capital advancing policy framework and an intensified China-bound capital flight. As such, the DPP's ideational legitimization of its CSEI openings was no longer tenable and it quickly positioned itself instead as a hard-line Taiwan nationalist party to a secure continued electoral support.

### 6.2.1 A Deepening Socio-economic Malaise

The intensification of Taiwan's economic malaise was influenced heavily by a rapidly intensifying capital flight which no longer only affected more labour-intensive production segments, but now also began to affect higher value-added production segments as well. The main reason for this was that when Taiwan's strategic economic development upgrading came to an end during the 1990s, a majority of firms have not yet ascended to core positions while possessing limited brand value and generally lacking product-oriented frontier technologies. As such, Taiwanese firms remained integrated at the mid-stream of Northern managed commodity and distribution chains in which they specialized in OEM/ODM sub-contracting while only enjoying very slim margins. It is because of this feature of Taiwan's economic composition that its LE capitalist class faced such an enormous pressure to secure cheaper production costs and for which China was particularly appealing.

There were a number of factors which led to China's appeal for Taiwan's LE capitalist class during this time. A most commonly acknowledged factor was that China's wages were significantly lower than wages in Taiwan. In 2003, for instance, it was still possible for assembly labour wage to measure as low as 48 USD in China compared to Taiwan's minimum equivalent of 518 USD (Cavey, 2003, p. 19). In addition, China also had a large number of skilled workers who earned significantly lower wages than their counterparts in Taiwan. Furthermore, China's wages rose slower than would normally have been the case due to its large number of available workers, regional disparities which ensured that production could move inland and CCP imposed limitations on collective bargaining and the right to strike (T.-J. Chen, 2003, p. 85). Labour costs, were only one reason for China's appeal and other important factors included its reduced land, utility, construction and regulatory costs as well as the stable political and production environment provided for by the CCP. In addition to such general factors, China was also especially appealing for *taishang* who had a strong track record of navigating China's local-level political environment to secure special policy favours such as below market rate land (Berger & Lester, 2005, pp. 12–13). This successful navigation of China's local politics was an outcome of both a linguistic and cultural proximity and the CCP's continued courting of *taishang*. This not only enabled *taishang* firms a higher degree of ease to

set up Chinese operations, but also to manage all aspects of Chinese operations in which good relations with Chinese government officials were paramount.

During the time of the DPP's rule, the pull to China was particularly strong for Taiwan's most advanced and highest value-generating IT sector. The reason for this pull was that despite its most advanced nature in Taiwan, the IT sector was defined by similar OEM/ODM features as the rest of Taiwan's industrial composition. Thus, lacking frontier technologies and brand value while occupying narrow OEM/ODM sub-contracting production segments within global production chains, Taiwan's IT firms relied on a large production volume for a continued profitability in light of their razor thin margins. Due to their narrow specialization, Taiwanese IT firms also tended to become locked in at the sub-contracting node for which not only economies of scale were a prerequisite, but also consistent reinvestments in manufacturing and process level upgrades in order to continue delivering on the low prices set by Northern buyers. Due to such industry features, Taiwan's IT firms have continued to pursue a business model which relied heavily on cost-down production while securing a competitive advantage primarily in terms of price, quality, production speed and process level technology upgrades (Berger & Lester, 2005; Breznitz, 2005; Fuller; C.-W. Huang, 2011). This demonstrates that although CSEI impinged negatively on Taiwan's social welfare, that it is important to account for this within Taiwan's OEM/ODM defined production model which was a causal factor driving its capital flight to China.

In the context of Taiwan's OEM/ODM defined production features, more and more production nodes within the IT sector migrated to China. A particularly illuminating example of this dynamic is the LCD sector which, because of its relatively more advanced nature, was singled out along with the semiconductor sector for priority support under the DPP's 'two trillion, twin star' priority support program. Such support, however, was not state co-ordinated and was primarily fiscal in nature. Without a viable upgrading plan or effective dirigisme, supported LCD firms did not develop pioneering technology or global brand recognition and have remained confined instead within an OEM/ODM based business model. Taiwan's two largest LCD firms, AU Optronics and Chi Mei Optronics, for instance, relied primarily on external technology purchases and have invested large sums of capital to attain the economies of scale necessary to secure a sufficient revenue from the slim margins they secured (Fuller, 2005, pp. 163–165). Thus, mirroring sectorial trends, despite capturing 30% of the global LCD market, Taiwanese LCD firms similarly experienced a tremendous pull toward down and mid-stream migration to China. As such, although 97% of Taiwanese LCD firm production was still located in Taiwan by 2000, this only accounted for 8.3% by 2005 during which time 88.7% of production took place in China (Fuller et al., 2003, pp. 189–190; Y.-S. Wu, 2007, pp. 995–997).

Because outsourcing has occurred across Taiwan's value chain, it has led to an increased unemployment, a downward pull on wages and has also impeded Taiwan's industrial upgrading. A major justification for outsourcing to China has always been that some job losses are necessary for the creation of white collar jobs to replace obsolete blue-collar jobs. Clearly, this has not panned out due to a failure of a viable economic upgrading in Taiwan. It is true that existing firms tend to maintain their most capital and technology intensive production segments in Taiwan, but it is also clear that this has not translated into added employment because such firms tend only to hire a slim labour force in Taiwan. As such it is not uncommon for IT firms like Quanta, Taiwan's market leader in the notebook sector, to hire only a total of 5000 Taiwanese high-end staff while locating a majority of its production in China.<sup>6</sup> At the very least, such production and employment features illustrate the urgency by which economic upgrading is necessary so that new sectors or sub-sectors can be created to offset the job losses resulting from outsourcing. Because this has not taken place, the legitimacy of the government's continued priority financial support for the IT sector also becomes very difficult to justify. Science park firms, for instance, continue to operate within a tax free zone and receive a barrage of subsidies such as a near-zero tax rate for imported equipment or exported goods, heavily subsidized utilities and zero percent interest rate loans.<sup>7</sup> Because much of this support prioritizes existing firms, it is more reflective of a general tendency among Taiwan's politicians to service the interests of its most powerful IT capitalists while helping to cushion the sector as a whole within a no longer tenable OEM/ODM production model

Although an OEM/ODM based production model has challenged the interests of Taiwan's labouring class, it is important to account for this within the context of Taiwan's LE capital advancing social order more generally. With a continued OEM/ODM production induced capital flight, Taiwan's unemployment rate grew from 2.99% in 2001 to a yearly average of between 4 and 5% after 2002 (Driffield & Chiang, 2009, p. 20). An intensified CSEI has also further increased the dominance of Taiwan's LE capitalist class by enhancing its labour condition and wage setting capacity due to its high degree of capital mobility between Taiwan and China. As such, Taiwan's labour regime also continued to be based on an intensive labour environment. Average annual work hours, for instance, measured at 2,256 in 2006 and secured Taiwan a place among the world's 5 longest working countries (C.-W. Huang, 2011, p. 255). Similarly, Taiwan's capital advancing social order has also led to a decline in its wage growth rate and a decoupling from its economic growth and wages. As such, despite Taiwan's 18% GDP growth rate between 2000 and 2010, its average real wages shrank by approximately 4%

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<sup>6</sup> Interview with anonymous interviewee 6 in January 1, 2013.

<sup>7</sup> Interview with anonymous interviewee 1 and 4 in November 30, 2012 and January 9, 2013.

during this time (L. Wang, 2011, p. 67). Combined, such trends have intensified Taiwan's rising inequality which can be observed in the increase of the income gap between the richest 1/5 and poorest 1/5 of households from 4.97 in 1991 to 6.16 in 2002 (Ku, 2004, p. 315). Similar trends can also be observed in Taiwan's Gini coefficient which increased from 27.7 in 1980 to 33.8 in 2005 (C. Lee, 2007, p. 201).

#### 6.2.2: The Centre-Stage of Taiwan Nationalism

With Taiwan's marked socio-economic malaise, the DPP clearly had to develop a more sophisticated policy legitimization in order to continue pursuing a capital advancing policy course. Ironically, the DPP succeeded in doing so through the intensification of a Taiwan nationalist discourse which diverted the citizenry's attention from material and economic issues almost entirely. As such, Chen's more temperate cross-strait policy only held for a short window and his administration quickly pursued a much more confrontational state-level Cross-Strait policy in order to secure a viable Taiwan nationalist support base.

The DPP's self-repositioning as a predominantly Taiwan nationalist party was a highly successful strategy and allowed it to shape the wider political discourse in Taiwan toward an almost solely identity politics defined path. This process, of course, has its roots in the 1990s, but the DPP now succeeded in elevating the issue toward the absolute political centre-stage while it also stressed a much more specific ethnic dimension to its identity narrative (Kaeding, 2009, p. 29). In the 2004 presidential campaign, for instance, the DPP appealed directly to a Taiwanese identity while relegating the opposition as not only pro-China, but also as anti-Taiwanese. More generally, the DPP also adopted the campaign slogan of 'love Taiwan' as defining its position for all major electoral campaigns during this time (Hickey, 2006, p. 467). The emotive nature of the DPP's identity strategy becomes particularly apparent in the party's organization of massive mobilizations such as its February 28 'hand-in-hand' surround Taiwan rally in which more than 1 million DPP supporters formed one continuous chain throughout Taiwan's coast and which coincided with Chen's 2004 re-election campaign. By tapping into the intense emotions that a Taiwan identity politics unleashed, the DPP's electoral strategy was so successful that the now more China-friendly KMT and the PFP also came under immense pressure to adopt a defensive position in order to underplay their more China-friendly policy stance.<sup>8</sup> This is most evident in a 2004 pan-blue rally during which the KMT's Lien Chan and his PFP vice presidential candidate, James Soong, symbolically lied down on the ground and kissed Taiwan (Tanner, 2007, pp. 109–110).

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<sup>8</sup> This reorientation took place after the KMT's ouster of President Lee following its 2000 presidential defeat.

After the KMT's presidential defeat in 2004, Taiwan's populist identity politics became particularly defined due to the pan-Blue's adopting of a much more visibly China-friendly position and its open engagement with the CCP. As an outcome, Taiwan's political discourse came to be defined almost entirely by a polarizing and emotionally charged identity politics in which core pan-Blue supporters leaned toward a much more visibly China friendly position while core pan-Green supporters leaned toward a more pronounced Taiwan identity and independence position (Y.-H. Chu, 2009, pp. 58-59; Niou, 2004, pp. 560-561). As such, the DPP successfully secured a captive support base and provided the party continued to embrace a visible Taiwan identity stance, its electoral base continued to support and defend the party regardless of its policy course. Although the DPP's capital advancing policy framework tended to contradict the interests of its predominantly grassroots constituency, instead of pressuring it to pursue a less capital defined policy course, it tended to support the party unconditionally due to the narratives promulgated regarding national identity. From this point onward, the key cleavages that dominated Taiwan's politics were Taiwan vs. China, democratic (DPP) vs authoritarian (KMT's past; CCP now and Taiwan in the future if it engaged too closely with China) and Taiwan identity vs Chinese consciousness (Lay, Yap, & Chen, 2008, p. 785). Such cleavages overshadowed entirely a material and issues-based politics and effectively assured that both the DPP and the KMT were no longer tied to any distinct economic or policy framework by their electorate, allowing the DPP to liberalize, privatize and further a generally capital friendly policy parameter in Taiwan. It is for this reason once again that identity narratives should be understood as a core component of Taiwan's hegemonic narrative which was strengthened significantly during this time.

In pursuing such an identity politics type strategy, one question that must be addressed is how it is that the DPP could rely on a core Taiwan nationalist support base while still continuing to pursue a policy of CSEI liberalization. One reason for this was that the DPP's legitimization of CSEI as an economic matter was so successful that even its electorate tended, by and large, to accept CSEI as economically necessary. Much more importantly, however, was the fact that the focus of Taiwan's electorate was channelled to a primarily political and state-level focus which did not have any direct implications on the economic dimension of CSEI. This can be seen, for instance, in DPP campaign themes which focused on issues such as China's international 'bullying' of Taiwan and Taiwan's failure to gain membership in international organizations. In terms of potentially status quo impeding campaign promises, however, the DPP rarely delivered. A particularly notable example of this was Chen's 2004 campaign pledge to establish an independent Republic of Taiwan constitution which was dropped entirely after his reinstatement (Y.-H. Chu, 2004, p. 511). But even in the case of the DPP's failure to deliver on such campaign

promises, due to the emotive features of Taiwan's politics, the DPP's captive support base remained loyal to the party due to its intense mistrust of the China-friendly pan-Blue parties. It is true that Chen's administration threatened to pursue an increasingly hostile cross-straits policy toward the end of his second term, but this was guided primarily by his need to further animate the DPP's support base to rally behind him in light of the various corruption scandals implicating him which were coming to light during this time. Because the CCP and the US were aware of Chen's intentions, both chose instead to ignore and marginalize his administration while the US signalled instead its support for the KMTs 2008 presidential candidate, Ma Ying-Jeou (Y.-H. Chu, 2007b, pp. 47–48).

Although the DPP's identity politics strategy was highly successful as a tool of legitimation, the party also did not neglect to engage in a concerted co-optation of its already much weakened social movement allies. To do so, the party successfully placed key persons from Taiwan's social movements within various government agencies or advisory committees. A particularly important example of the DPP's successful co-optation was its securing of the support of the Taiwan Confederation of Trade Unions (TCTU) leadership so that the whole union became an affiliate of the DPP. To this day, it remains a common lament among many labour organizers that the DPP's co-optation of the previously most progressive TCTU was the single biggest blow to Taiwan's labour movement from which it has yet to recover fully.<sup>9</sup> Because of the DPP's successful co-optation of Taiwan's social movements, a distinct progressive agenda was fractured even further. This was because identity dispositions and partisan political affiliations now became the central cleavages within Taiwan's social movements. This is especially evident in the case of the labour movement with the DPP-affiliated TCTU and KMT-affiliated CFL mobilizing and organizing protests in competition to each other (Minns & Tierney, 2003, pp. 120–121).

In addition to an increasingly foregrounded identity cleavage, Taiwan's labour movement also continued to face challenges such as a continued tendency toward union insularism. This is a weakness which is commonly acknowledged by labour organizers who note that Taiwan's unions have continued to remain primarily geared toward firm level grievances while practices such as sympathy strikes or cross-sectorial union formation support are virtually unheard of.<sup>10</sup> Due to the self-serving nature of Taiwan's union's, labour organizers are also prone to point out that the public perception toward organized labour has remained overwhelmingly negative and that unions tend to be popularly perceived as self-serving special interests.<sup>11</sup> Because of such

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9 Interviews with Lin Tzu-Wen and Wu Yong-yi in December 25, 2012 and January 7, 2013.

10 Interviews with Ke Yi-Min and Hang Hsr-Hsien in December 27 and December 27, 2012.

11 Interviews with Chieh Hsih-chieh and Pan Han-shen in December 17, 2012 and January 4, 2013.

union fragmentation and insularism, union membership rates have also continued to decline from just under 40% in 2001 to approximately 35% in 2006 while industrial union membership dropped from approximately 21% in 2001 to between 17 and 18% by 2006 (Y. Chiu, 2011, p. 59).

It is clear that Taiwan's socio-economic malaise was heavily influenced by its sub-contracting based industrial composition. But, this is not surprising in the context of Taiwan's social order and CSEI both of which advanced the economic interests of its LE capitalist class which was at root of Taiwan's socio-economic malaise. It is in this context that the DPP develop a strategy of policy legitimization by escalating a divisive populist Taiwan identity politics to the discursive core of Taiwan's political discourse. But, regardless of its successful legitimization, it remained the case that a deepening CSEI tilted Taiwan ever closer into China's political orbit.

### **Section 6.3: The Cross-Strait Historical Bloc and the CCP**

The Cross-Strait historical bloc's primary aim during this time was to intensify CSEI and by securing the DPP's CSEI openings, it advanced the combined interests of both the CCP and the LE capitalist class. But, in addition to securing substantive CSEI openings, the CCP also became much more visibly active in shaping Taiwan's politics during this time by wielding its LE capitalist class to weaken the DPP administration.

During the DPP's time in office, the CCP's cross-strait strategy remained largely consistent within its long term policy parameters, but at the same time, a qualitative strategy reorientation was also evident. This is especially so in terms of the Cross-Strait policy footprint of the Hu Jin-Tao administration which came to power in 2003 and which moderated a previously more confrontational Cross-Strait policy. Hu's overall strategic framework contained both hard and soft elements and has sometimes been interpreted as seeing China's hard hand get harder and its soft hand get softer (Keng & Schubert, 2010, pp. 290–292). This interpretation, however, is misleading, especially in terms of the so-called hard hand components which has not veered from the long-term status quo parameters of China's Cross-Strait strategy. For instance, although Hu now proactively welcomed the US to constrain Chen's administration when it appeared to veer from the status quo, this also did not differ qualitatively from China's previous reliance on the US to constrain Lee Teng-hui (Chu, 2004, p. 494; Tung, 2005b, pp. 358-359). Similarly, China's Anti-secession Law, which for the first time stipulated the legal conditions for China's threat of war, also remained within China's long-term policy parameters and was designed to lock in Taiwan within the status quo. The passage of the Anti-secession Law can

also be understood as an attempt by the CCP to institutionalize its defensive straits policy to de-necessitate a need for visible threats thereafter (C.-P. Lin, 2008, pp. 4–5).

Although the CCP's so-called hard hand policies have remained largely consistent with its long-term strategy, a much more significant alteration of its strategy occurred in the soft hand sphere. Hu's administration widened a previous CCP practice of engagement with Taiwan's LE capitalist class and elite interests in Taiwan to also engage with additional target demographics (Keng, 2010, p. 5). This widened engagement was guided by the logic of the CCP's United Front policy, but was now also widened toward developing a more convincing narrative of CSEI as advancing the interests of all of Taiwan's citizens. This strategic reorientation was emphasized, in particular, to challenge Taiwan's rising nationalism and was aimed at destabilizing any social consensus which may have emerged on the desirability of Taiwan's political independence during this time. Central to the CCP's promulgated narrative was the theme that regardless of identity-based bickering, that the Taiwanese and Chinese were of the same people and culture. Because of this cultural kinship, the CCP developed an economic narrative by which it projected itself as safeguarding Taiwan's interests and welfare throughout the CSEI trajectory. On this basis, the CCP and Taiwan's LE capitalist class continued to share an interest to present CSEI as the only sure-hand path to safeguard and advance Taiwan's collective economic and social wellbeing.

Understanding the importance of winning the support of Taiwan's major classes, the CCP expanded contacts with most of Taiwan's social segments such as the academic, young adult, cultural and labouring demographics (C.-P. Lin, 2008, p. 4; Sheng, 2002, p. 127).<sup>12</sup> In order to strengthen the cogency of its economic narrative, the CCP also offered numerous incentives to its targeted demographics. To court Taiwan's student population, for instance, it implemented an equal tuition fee regime in China for Taiwanese students, announced that Taiwanese degrees would be accepted in China while also offering a barrage of scholarships for Taiwan's China-bound student population (Keng, 2009, p. 12; Xin, 2010, pp. 529–530). To court Taiwan's young professionals, the CCP announced the waiving of visa requirements for Taiwanese while also allowing Taiwanese professionals in previously restricted fields such as medicine and architecture to take professional licence exams in China (C.-P. Lin, 2008, pp. 20–21). Nowhere are the CCP's aims of winning the goodwill of Taiwan's major social demographics more evident than in its agricultural policies aimed at securing a heightened goodwill toward the CCP in Southern Taiwan where a Taiwan identity and nationalism are most strongly defined. Due to the high percentage of farming and agricultural workers in southern

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<sup>12</sup> Interview with Hang Hsr-shian in December 27, 2012.

Taiwan, the CCP has focused extensively on altering the perceptions of this demographic and has rolled out numerous incentives to do so. Among such incentives were the CCP's 2005 inclusion of 15 Taiwanese fruit types for duty free status and its announcement of a sped up customs procedure of 30 minutes as opposed to 2 days for Taiwanese agricultural and aquatic products. At the same time, the CCP engaged in a widely publicized policy by which it facilitated the purchase of Taiwan's agricultural produce (T.-I. Tsai, 2005).

In addition to its comprehensive strategy of winning added popular support for CSEI, the CCP also side-lined the DPP administration during this time while engaging only with Taiwan's pan-Blue parties. After the 2004 election, when the KMT and PFP visibly adopted a China-friendly disposition and engaged directly with China, the CCP eagerly rolled out the red carpet treatment for both Lien and Song during their party visits. While in China, both met with Hu Jintao and other high ranking CCP officials and following which regular pan-Blue and CCP Cross-Strait talks became the new norm (C. Lee, 2007, pp. 205–206). As a part of its DPP marginalizing strategy, the CCP also announced some of its united front incentives such as agricultural tariff lifting immediately after Lien Chan's visit in order to secure an added public support on Taiwan for the pan-Blue alliance (Business Week, 2005). Because the CCP's UF strategy was systematic, it did not only target key persons at the decision making level, but it engaged in an all-encompassing fashion with Taiwan's politicians at all levels. One common practice by which the CCP expanded contacts, for instance, was the blanket offer of all expenses paid for trips to China for legislators and city/county level councillors and their supporters to engage with Chinese officials and enjoy a barrage of lavish wining and dining.<sup>13</sup>

Although engaging on a variety of levels toward facilitating an increased goodwill toward CSEI and China, the most immediate aim of the CCP was the continued solidification of its core alliance with Taiwan's LE capitalist class which underpinned the Cross-Strait historical bloc. Although the CCP secured its capacity to shape Taiwan's social order through its alliance with the LE capitalist class, the relationship between the two became increasingly hierarchical. For one, it was increasingly clear that in China, it was the contender state wielding CCP which enjoyed the capacity to discipline Taiwan's LE capitalist class despite its hegemonic stature in Taiwan. This capacity can be observed, for instance, in the CCP's planting of party cells in nearly all Taiwanese business operations in China and its successful limiting of market access and vertical integration opportunities in China (T.-J. Cheng, 2005, pp. 109–110; Tucker, 2002, pp. 25–26). Because China's rapid economic upgrading led to its development of viable domestic capital fractions, the CCP has also become much less economically dependent on

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<sup>13</sup> Interview with anonymous interviewee 17 in December 30, 2012; The anonymous Tainan councillor confirmed that he been on such a visit before.

Taiwan's LE capitalist class to facilitate its economic development and upgrading as it was during the 1990s (Schubert, 2010, pp. 91–92). As such, in addition to an institutionally secured capacity, the CCP also secured the sufficient economic self-sufficiency necessary to foreground its geo-strategic strategy and to discipline individual Taiwanese LE capitalists without reservation.

Generally, the CCP secured the complicity of an absolute majority of Taiwan's LE capitalists through economic interests alone. But, it also relied on its disciplinary capacity to pressure a handful of DPP-friendly CEO's to publicly dissociate themselves from the party and to embrace a China-friendly stance. The first visible signs of this policy can be traced to 2000 when the CCP warned through the Xinhua news service that it would impede the investments of Taiwan independence advocating *taishang* in China (Tanner, 2007, pp. 114–115). Subsequently, CCP officials also began to intimidate DPP-friendly companies and their CEO's to revert their stance. Not long after, both Chang Rong-fa of Evergreen and Stan Shih of Acer distanced themselves from the DPP, publicly declared their opposition to Taiwan independence while also expressing a unification-favouring stance (Leng, 2002, pp. 226–227; Tanner, 2007, pp. 114–117). A most dramatic example of the CCP's disciplining of DPP-friendly capitalists occurred in the case of Chi Mei's Hsu Wen-Long who was not only one of Chen's most loyal supporters, but also Taiwan's most public and vocal Taiwan nationalist captain of industry (Tanner, 2007, pp. 127–128). In order to pressure Hsu to reverse course, the CCP continually subjected Chi Mei's Chinese petrochemical and LCD plants to serious environmental/industrial inspections and tax auditing while also ordering Chinese companies not to source orders from Chi Mei (Tanner, 2007, p. 115).<sup>14</sup> Following this, a June 2004 Chinese newspaper article which threatened green businessmen as unwelcome in China publicly named Hsu as one such businessman (Tanner, 2007, p. 92). As an outcome of such concerted pressure, Hsu eventually dissociated himself from the DPP in 2004 while announcing that he 'oppose[d] Taiwan independence' and that 'Taiwan and China belong to one China' (Hickey, 2009, pp. 52–53).

In the context of a solid CCP - LE capitalist policy consensus, the DPP's identity strategy turned out to be a resounding failure in the longer-term. This is because the electoral support from a hard-line Taiwan identity demographic was simply not enough for prolonged electoral success. For this, the DPP would have had to rely on Taiwan's relatively more status quo and stability oriented centrist vote block. In order to influence it, however, the DPP would have had to win a favourable public perception crucial to which would be the support from the LE capitalist class. But, throughout its two terms in office, the party faced its increased animosity instead. A central

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<sup>14</sup> Interview with anonymous interviewee 8 in December 22, 2012; While serving as plant manager in Chi Mei Petrochemicals China, the interviewee was directly involved in the incident.

reason for this was that no matter how capital friendly the DPP came to be, Taiwan's LE capitalists generally continued to support the KMT due to the DPP's relatively more constraining CSEI policy, the KMT's anticipated CSEI openings and the CCP's stated support for the KMT. With this, an ever more coherent narrative was spun in Taiwan by which its perpetually worsening economic performance was blamed not on CSEI or Taiwan's sub-contracting economic composition, but rather continued restrictions which remained on CSEI and for which the DPP was blamed (Chase et al., 2004). This narrative, due to its wide circulation (excluding pan-Green media outlets) and seemingly objective nature, swayed a large segment of Taiwan's citizens so that a majority perceived their material welfare as being tied to further economic integration with China (Tanner, 2007, pp. 34-34; Chao, 2004, p. 698). This being so, popular support for the KMT was a foregone conclusion while both the CCP and the LE capitalist class played a central role in facilitating this.

Because of the intensification of CSEI, the CCP secured a decisive role to shape Taiwan's social order. But, despite having expanded its engagement with all of Taiwan's major social demographics, the hegemony of the Cross-Strait historical bloc remained tenable and through which the CCP has secured the capacity to shape Taiwan's social order. Within the Cross-Strait historical bloc, it was also, however becoming apparent that despite the hegemonic stature of Taiwan's LE capitalist class, that the CCP now secured a capacity to discipline it toward advancing its interests.

## 6.4 Conclusion

In this chapter, I examined a marked CSEI deepening which occurred during Chen Shui-bian's presidency and toward which his administration played an enabling role. I argued that the DPP's proactive role toward enabling a CSEI deepening was driven by the party leadership's pro-capital reorientation and an advance by the Cross-Strait historical bloc to secure a significant CSEI opening. But, because a deepened CSEI occurred in the context of an OEM/ODM induced capital flight, Taiwan's socio-economic malaise also became much more pronounced during this time. As such, legitimization processes were particularly central to the DPP's CSEI opening and I argued that the party relied heavily on a divisive Taiwan nationalism to do so. This was because the class-diluting and issues-diverting effects of Taiwan's identity debate led to the wide acceptance of the economic core of the historical bloc's hegemonic narrative which equated Taiwan's capital defined social order and CSEI with the citizenry's collective welfare. As such, I continued to conceive of a Taiwan identity politics as crucial to its hegemonic narrative and argued that it effectively enabled the DPP a *carte blanche* to pursue its capital advancing policy. In terms of the DPP's CSEI liberalization more specifically, I argued

that this was not an issue which registered for serious concern among the DPP's Taiwan nationalist supporters because it was legitimated as a purely economic matter. In the context also of the DPP's successful co-opting of a majority of Taiwan's social movements, I argued that a progressive politics ceased to resonate at all within Taiwan's identity-defined discursive climate. But, despite the DPP's capital advancing and CSEI enabling role, I argued that the CCP remained hostile to it and that it disciplined Taiwan's LE capitalist class to wield its hegemonic influence toward securing the KMT's eventual re-election in 2008.

Combined, this chapter's analysis demonstrates the clear capacity of the Cross-Strait historical bloc to shape Taiwan's social order and government policy parameters. Because of the regional features of the Cross-Strait historical bloc, I demonstrated that an intensified capital-led CSEI did not internationalize Taiwan toward an abstract transnational social order, but rather specifically toward China. Because Taiwan's internationalization toward China occurred on the basis of a hegemonic Cross-Strait historical bloc, I also demonstrate the importance of theorizing Taiwan's CSEI policy in terms of the social basis of its state. Therefore, I stressed the vital role of Taiwan's hegemonic narrative toward enabling CSEI and illustrated how the Taiwan identity debate, paradoxically, advanced CSEI further. This was so much the case that the centrality of Taiwan's identity politics continued to dilute a class consciousness from developing while also leading to a pronounced de-politicization of economic policy altogether. Without this ideational process, an effective hegemony would have thus been much more difficult to attain in Taiwan which was reflected in the minimal degree of interest ceding from the historical bloc toward subaltern classes. As such, even in the context of a prolonged socio-economic malaise and ever more apparent class contradictions, the attention of Taiwan's citizenry continued to be drawn toward identity debates. But, it was also unlikely that a hegemonic historical bloc which secured its hegemony so centrally on the basis of an attention diverting national identity debate could remain stable in the longer term. As such, I will proceed in the following chapter to examine how it was that a relative nuancing of Taiwan identity politics and a continually worsening socio-economic malaise led to a significantly weakened CSEI legitimation and the resurfacing of an increased social contestation in Taiwan.

## **Chapter 7: Cross-Straits Détente and Taiwan's Material Politics**

In the previous chapter, I argued that the DPP was instrumental toward enabling a deepened and intensified CSEI and that this was because of the party's wilful complicity to operate within the confines of Taiwan's Cross-Strait historical bloc. In this chapter, I argue that the Ma Ying-jeou administration's following Cross-Strait rapprochement and institutionalization of CSEI was a logical culmination of the Cross-Strait historical bloc's long-term policy parameter. This being so, I argue that the CCP placed significantly more emphasis on ideational processes of CSEI legitimization by intensifying its self-projection as ceding China's economic interests to benefit Taiwan. Despite such an interest ceding, I argue that Taiwan's socio-economic malaise worsened because of its continually OEM/ODM LE capitalist defined social order and CSEI process. I argue that what has changed rather was the gradual receding of an emotive identity politics in Taiwan which, coupled with the undeliverable nature of Ma's optimistic and materially framed CSEI legitimization, has led to a relative reorientation of popular debates toward economic issues. In addition to the heightened receptivity of the citizenry toward economic issues, a receding centrality of the identity debate has also been crucial to a resurfacing of Taiwan's social movements. This suggests that although identity type pacifiers can be instrumental in allowing for regional hegemonies, that such hegemonies are likely also to be more fragile in nature due to the necessary interest ceding processes not occurring. In the context of Taiwan's prolonged socio-economic malaise, my analysis shows that once the over-determining effect of its identity pacifiers were weakened, that the more fundamental variable of class became relatively more pronounced again.

Rather than a conscious class politics, I argue that Taiwan's rising social discontent has spilled out primarily in a CSEI and CCP challenging direction. I argue that such contestation has not, however, altered Taiwan's longer-term policy parameter because Taiwan's social movements have not yet developed into a viable counter-historical bloc. This is because of their failure to develop a core class basis on which further class alliances can be forged. But, in the context of an atypical and geo-strategically influenced Cross-Strait historical bloc, I argue that the increased contestation against CSEI has, nevertheless, had a moderating effect by making the elite-led nature of CSEI more difficult to justify. On this basis, I explore how the CCP's détente-induced policy imperative of winning support for a CSEI deepening also eroded significantly. This, I argue, was due particularly to the socio-economic malaise exacerbating effects of CSEI which was especially cogent in the context of Ma's undeliverable economic legitimization of CSEI as unambiguously leading to Taiwan's economic prosperity. Although the Cross-Strait historical bloc remains intact, its regionally defined nature has ensure that the CCP and Taiwan's LE capitalist class continue to be guided by varying long-term interests which

cannot be captured so easily within a capitalist vs anti-capitalist schema. Because of this feature, my analysis again suggests the importance of accounting for CSEI in terms of the fractional features of Taiwan's LE capitalist class and the CCP's contender state stature which allow for a precise analysis on both Taiwan's internationalization toward China and China's pull on Taiwan. The necessity of theorizing CSEI through a more regionally sensitive analysis is mirrored in the fact that rather than a transnational anti-capitalist struggle, that contestation processes in Taiwan have been primarily focused on challenging the CCP and CSEI

### **Section 7.1: A Geo-Strategically Motivated CSEI Deepening**

Against the backdrop of a serious corruption scandal in which Chen Shui-bian was implicated, the DPP's defeat in 2008 was a foregone conclusion and the KMT's Ma Ying-jeou returned to power with 54.45% of the vote. Ma's campaign was run on the central theme of clean politics, rejuvenating Taiwan's economy, rapprochement with China and a general commitment toward maintaining the sovereignty of the ROC (Chai, 2008, p. 84; Muyard, 2010, pp. 5–6). More specifically, Ma pledged that his policy would lead to the so-called 6-3-3 projection which promised a 6% annual GDP growth rate, below 3% unemployment and a per capita GDP of 30,000 USD by 2016. Ma's campaign emphasis on economic and material issues was influenced heavily by his China-friendly identity stance and mainlander background which meant that he had to underplay a specific identity dimension during the campaign. To reassure the approximately 80% unification opposing public (a composite of a Taiwan independence bloc and a majority status quo bloc), Ma also pledged a Cross-Strait policy of 'no unification, no independence and no use of force' (Kaeding, 2009, p. 19-20, 26; Keng & Schubert, 2010, p. 288; Romberg, 2010a, p. 13). Ma's strategy was well suited for Taiwan's predominantly status quo favouring citizens who did not wish to see their government make any radical moves likely to potentiate a military attack, but who also sought to preserve Taiwan's autonomy and liberal democratic institutions. Although Ma secured a relatively high level of public support during his first term which is reflected in the comfortable margins by which he was re-elected in 2012, his popularity dropped rapidly during his second term in office. This was due largely to the perceived inefficiency of his government, his administration's evermore apparent elitist and business friendly leanings as well as his continued failure to deliver on promised economic outcomes.

After his swearing in, Ma cemented the institutional foundations necessary for a Cross-Strait détente process and Cross-Strait talks were quickly elevated from a party-to-party basis to a resumed ARATs and SEF basis. In order to resume ARATS and SEF dialogue, Ma's administration embraced the so-called 92 consensus in which both China and Taiwan agreed

that there was only one China to which both belonged, but the meaning of which could be interpreted differently by both. As such, the 92 consensus allowed Ma's administration to secure a continued administrative autonomy for a state-like apparatus in Taiwan which was based on the Republic of China constitution (Romberg, 2010a, pp. 9-13). Proceeding on this framework allowed Ma to avoid issues of unification and independence entirely while building a pragmatic institutional relationship across the Strait in a manner acceptable to the CCP (Romberg, 2009, pp. 3-4). With the foundations in place for a Cross-Strait détente, a barrage of agreements were quickly signed which significantly reversed CSEI restrictions on all levels. By 2011, 12 agreements were already reached and the most significant of which was the Economic Cooperation Framework Agreement (ECFA) (Teng & Lu, 2011, pp. 17-18).

On China's side, the CCP leadership pursued an accommodating policy and demonstrated a keen awareness toward Taiwan's domestic constraints against a rapid unification process. Pursuing a continued long-term unification strategy, the CCP's primary aim was to tackle less controversial Cross-Strait issues first while at the same time building the necessary long-term institutional and cultural rapport necessary for an eventual unification (Muyard, 2010, p. 6). This dynamic is evident in Hu Jintao's 'six-point proposal' speech which acknowledged that the unification process would take a long time and toward which China and Taiwan needed to first facilitate a web of relationships to serve as a foundation for unification (Romberg, 2010a, p. 10). Xi Jinping, who assumed office in 2012, continued Hu's CSEI policy and in addition to his stated support for a continued development of Cross-Strait relations on the basis of the 92 consensus, Xi's policy also continued to place a strong emphasis on soft targets such as the deepening of mutual understanding across the Strait (A. Chang, 2014). As such, a Cross-Strait status quo based on the 92 consensus continues to be favoured by both the CCP and the KMT for the time being as it allowed Beijing to proclaim 'one China, two systems' and Taipei to proclaim 'two sides, one China' (Bulard, 2012). Due to radically shifting Cross-Strait détente parameters, the CCP placed much greater emphasis on the ideational dimension of CSEI toward the aim of altering Taiwan's long-term cultural orientation and disposition toward China. But, for the time being, this continues to rest on the pragmatic economic orientation of Taiwan's citizens of which 69.2 % continued to favour a CSEI deepening in 2009 because CSEI was perceived as being economically beneficial (Ma, 2009, p. 18).

Although numerous agreements were signed, the cornerstone to a deepened CSEI was the ECFA agreement which came into effect in September 12, 2010. The ECFA was a framework agreement which committed Taiwan and China to a long-term negotiation process toward signing more specific economic agreements which would liberalize and institutionalize economic openings between Taiwan and China. Despite ongoing negotiations, an Early Harvest

List immediately came into effect and a large number of product categories were subject to tariff phasing in Taiwan and China. Veering from standard FTA norms, ongoing negotiations were not confined to a specific timeframe as the ECFA agreement only called for negotiations to be completed ‘as soon as possible’ toward the long term goal of ‘diminish[ing] or eliminate[ing] tariff and non-tariff barriers’ on ‘the majority of goods exchanged’ between Taiwan and China (T.-L. Hong, 2011, pp. 9–10). As such, although the ECFA required both sides to commence negotiations on trade in goods and services within six months of its signing, only the loosely defined timeframe was stipulated that the two parties should ‘expeditiously conclude these negotiations.’ Never, in the agreement, is mentioned a 10 year transitional period common to FTAs, a fact which has been understood by some as arranging for more open-ended negotiations than is normally the case with FTAs (P. L. Hsieh, 2011, p. 148).

The looser time constraint for follow-up negotiations is only one aspect of the ECFA’s atypical nature and its veering from common FTA norms. Another important aspect of the ECFA’s atypical nature is the less extensive scale of openings it calls for. This can already be observed in the ECFA’s preamble section which although stating that the agreement’s aim is to gradually reduce or eliminate trade and investment barriers ‘in line with the basic principles of the WTO,’ also stipulates that openings take into ‘consideration [...] the economic conditions of the two parties’ (P. L. Hsieh, 2011, p. 146). The General Principles chapter further illustrates the ECFA’s gradualist tempo in which Articles 2.1 and 2.2 call only for ‘gradually reducing or eliminating tariff and non-tariff barriers to trade in a substantial majority of goods’ and ‘restrictions on a large number of sectors in trade and services between the two parties.’ The trade and investment chapter goes further by stipulating that traded goods included in the agreement are divided into three categories, ‘goods subject to immediate tariff elimination, [...] phased tariff reduction, and exceptions or others’ (Article 3). In principle, the ECFA agreement also allows for post-hoc changes in which Articles 13 and 14 of chapter 5 specify the consultative process by which annexes can be written into the agreement and by which amendments on the agreement can be reached.

Regardless of its atypical features, the ECFA was criticized relentlessly by the DPP which warned that it would lead to Taiwan’s over-reliance on China, was economically harmful and that it stood to threaten Taiwan’s sovereignty. This re-focusing on economic issues was an outcome of the DPP’s necessary strategic repositioning following Cheng Shui-bian’s corruption scandal. Projecting itself as advocating the interests of Taiwan’s middle class, working class and smaller-scale SME capitalist demographics, the DPP warned that the ECFA would intensify Taiwan’s industrial hollowing out, threaten the survival of domestically oriented SMEs and that it would impede Taiwan’s collective social welfare (M.-T. Chen, 2012). This line of criticism

against the ECFA is based on the assumption that it was a standard FTA interim-agreement which must be translated into fully-fledged economic liberalization within a 10 year time period. This mirrors arguments made in the economic nationalist literature which posits that ECFA will lead to a flooding of cheaper Chinese produced goods to Taiwan which are likely to spell an existential threat to its SMEs in more traditional and labour intensive sectors (L. Wang, 2011, p. 67).

Because the ECFA agreement was Ma's signature policy, much emphasis was placed on its legitimization. At a broader level, the ECFA was legitimated as being conducive to the economic welfare of the majority of the citizenry and was presented as a catch-all solution to Taiwan's ongoing economic malaise (J. Wang, 2010, pp. 152–153). Ma's administration, for instance, predicted a 1.4% rise of Taiwan's GDP as an outcome of the ECFA (Cooke, 2009, p. 8). Similarly, The Council of Labour Affairs also estimated that the ECFA would create 100,000 jobs in Taiwan and that without it, Taiwan would lose 470,000 jobs (J. Wang, 2010, p. 154). At a more specific level, Ma also targeted low and medium income households and SME owners to convince them that they stood to benefit from the ECFA agreement (Romberg, 2010b, p. 4). Although many of Ma's promises were vague, some specific assurances were also made which promised farmers and labourers that the ECFA would not result in a full opening of Taiwan's agricultural and labour markets to China (J. Wang, 2010, p. 153). In addition to a positive component, the ECFA's legitimization also contained a pronounced TINA type element which presented the ECFA as the only sure-hand path to Taiwan's economic prosperity by lifting it from its increased international irrelevance due to its continued exclusion from global and regional economic integration processes (Muyard, 2010, pp. 11–12).

In terms of the economic outcomes of ECFA, it is difficult to make the case that it harmed Taiwan's interests or that it has resulted in economically scarring outcomes. This is due to the agreement's atypical features which promise Taiwan an unusual degree of flexibility toward economic liberalization. Pasha Hsieh, for instance, highlights that the ECFA agreement only calls for sectorial openings of a 'substantial majority of goods' rather than 'substantially all of the trade' and 'substantial sectorial coverage' as stipulated by the WTO. Due to his liberal free-market perspective, however, Hsieh struggles to account for the atypical features of ECFA and he anticipates that the ECFA's contra-free trade practices will be corrected subsequently by superseding WTO rules (P. L. Hsieh, 2011, pp. 149–150). This, however, is a problematic interpretation because of a failure to account for the CCP's political and strategic imperatives for signing the ECFA agreement of which its atypical features are an explicit manifestation.

The CCP's primary strategic imperative for signing the ECFA was to secure the goodwill in Taiwan toward both an intensified CSEI and an immediately increased electoral support for the KMT. As such, it is important that the ECFA must be perceived positively by Taiwan's citizenry. Wang Yi, the director of China's Taiwan Affairs Office (TAO), for instance, specifically stated that the ECFA agreement would see more items for tariff reduction on the Chinese side, the protection of Taiwan's weaker industries and also no increase in Chinese agricultural exports or labour flows to Taiwan (Leng, 2011, p. 369). Two months later, the economic director of China's Ministry of Agriculture also stated not only that China would not press Taiwan to open its still protected agricultural market, but that it would also significantly ease Chinese limitations on Taiwanese agricultural exports to China (Romberg, A.D., 2010b, p. 2). Nowhere is the CCP's interest ceding more evident than in the ECFA's early harvest list which has included 539 items for tariff phasing which are worth an estimated export value of 138.4 billion USD on China's side while Taiwan has only included 267 items worth an estimated export value of 28.6 billion USD (P.-L. Hsieh, 2011, p. 127). Such pronounced interest ceding on China's part mirrors assurances made by Wen Jiabao that China would yield asymmetrically preferential tariff reduction rates in the early harvest list and that the CCP would 'sacrifice some of Beijing's interests to benefit Taiwan' (D. P. Chen, 2011, p. 25).

The atypical and contra liberal features of ECFA were only the most visible manifestation of a more general CCP permitted contra liberal trade relationship between Taiwan and China which was long in place before Ma came into office. This is particularly evident in the example of China's zero-tariff treatment of a selected list of Taiwanese agricultural products despite Taiwan's systematic exclusion of 865 agricultural and 1377 industrial product types from China as late as 2010. Although this was in breach of the WTO's most favoured nation treatment, China refrained from filling complaints (P. L. Hsieh, 2011, p. 128-130). The ECFA agreement institutionalized such contra-free trade practices further which enabled the CCP to enhance its self-projection of China as economically benefitting Taiwan. China's economic interest ceding was easily within the CCP's capacity due to Taiwan's deep economic reliance on China and the asymmetric relationship between the two. This dynamic is particularly clear in Taiwan's consistent annual trade surplus with China which measured at 116 billion USD in 2013 (Bodeen & Evav, 2014). This remained viable, however, because of Cross-Strait asymmetries which can be observed in Taiwan's exports to China accounting for approximately 40% of its total exports while only accounting for 8% of China's total imports (D. P. Chen, 2011, p. 29). Furthermore, although China was Taiwan's largest trading partner in 2008, Taiwan was only China's seventh largest trading partner (J. Wang, 2010, p. 148).

The atypical CSEI relationship was not only confined to trade in goods, but also applied to

Cross-Strait financial and labour flows. Although the CCP has lifted many existing restrictions on Taiwanese investments in China, the same was not the case in Taiwan and Chinese capital continued to face serious restrictions. This is evident, for instance, in Taiwan's 'negative list' exclusion system which was aimed at restricting Chinese investments deemed to pose potential security or environmental concerns. As an outcome, Chinese investment in Taiwan still only measured at the pithy some of 150 million USD by 2011. Although Ma's administration lifted many existing restrictions, many also remained on Chinese capital, whether in terms of sectorial restrictions as in the case of semiconductors, LCD, LED and machine tools or in terms of general ownership restrictions which, for instance, stipulated a 50% Chinese ownership limit for joint ventures (China Post, 2012a). Thus, even though the KMT liberalized many restrictions on Chinese capital, as late as 2012, 58% of business categories in Taiwan's manufacturing were still closed to Chinese investment (China Post, 2012a). But, because the Cross-Strait historical bloc was valued by the CCP primarily to promote its unification aims and because Taiwan's market was not crucial to Chinese capital, Taiwan's continued restrictions on Chinese capital and labour flows were tolerated.

Guided by a policy which was heavily influenced by the logic of perception management, the CCP's CSEI strategy also proceeded on a number of other important pathways. One of these has been the practice of high-level CCP provincial and city official-led procurement group visits which have placed orders for a large quantity of Taiwanese produced goods. One such group headed by Guangdong Provincial Governor, Huang Huahua, was estimated to have placed orders worth a total of 5.2 billion USD (Novak, 2010). Among noteworthy beneficiaries of the CCP's procurement policy were Taiwan's now-struggling LCD firms such as Chi Mei which became the largest supplier of monitors to six of China's major television brands in 2012, a market which accounted for 38% of Chi Mei's total sales volume (China Post, 2012b). Such procurement purchases were driven to a large degree by the CCP's capacity to discipline and steer the investment and purchasing decisions of Chinese capitalists. This can, for instance, be observed in a Chinese delegation of 46 home appliance firms which in June, 2009 purchased billions of dollars worth of electronics as a part of the Chinese 'Home appliances shipped to countryside policy' (Chen, H.-H. N., 2011, p. 186) Although correlation does not always imply causation, Wang Yi's 2008 announcement that China would adopt measures to aid Taiwan to face difficulties arising from the global financial crisis are particularly telling (Novak, 2010).

To facilitate the KMT's electoral prospects, the CCP faced pronounced pressures to manufacture a public goodwill toward the party through immediately perceived unilateral economic benefits (The Economist, 2010a). Because the CSEI trajectory was now on path, the CCP intensified its perception management strategy by projecting itself as delivering

specifically toward the interests of Taiwan's citizens. As such, specific promises were also made toward high-priority CCP targets such as Taiwan's agricultural, labour and SME capitalist demographics (Leng, 2011, p. 369). This dynamic, however, places the CCP in a double-bind situation in the longer term by which it needs to genuinely benefit the material interests of Taiwan's non-capitalist classes in order to secure a necessary support for a continued CSEI. As a subsequent section will demonstrate, support for CSEI has decreased of late due specifically to a failure of CSEI to benefit the interests of Taiwan's non-capitalist classes, but for the time being, a broad consensus does remain toward the continued desirability of CSEI.

In addition to a process of an unprecedented institutionalization of CSEI and a marked Cross-Strait détente, it is clear that the overall parameters of CSEI remain largely unchanged and that the Cross-Strait historical bloc continued to hold unambiguously. But, what has changed is that the CCP has increasingly streamlined ideational narratives aimed at securing Taiwan's continued popular support for CSEI and for which it has publicly projected itself as ceding China's interests to benefit Taiwan's citizenry. This being so, the success or failure of delivering on promises of CSEI-induced welfare enhancements naturally plays an ever more important role toward influencing the public's support for Ma's Cross-Strait policies.

## **Section 7.2: Taiwan's Ongoing Socio-Economic Malaise**

Regardless of the atypical and interest ceding features of CSEI, Taiwan's economic malaise continued due to its fundamentally unaltered social order features. This is so especially because China's interest ceding was primarily aimed at public perception management and consequently did not lead to a structural transformation of Taiwan's economic base. Even in terms of the CCP's interest ceding, most resources have accrued to Taiwan's capitalist class. This, however, is an unavoidable outcome of Taiwan's historical bloc defined and capital advancing social order and CSEI features.

Since Ma came to office, Taiwan's socio-economic malaise intensified due to its continued OEM/ODM based economic composition and its LE capital defined social order features. Because of Taiwan's sub-contracting industrial composition, the scale of capital flight to China continued to intensify significantly and China-bound investment sums rose from 64.9 billion USD to 97.3 billion USD between 2007 and 2010 (Tung, 2011). Like Chen Shui-bian's administration, Ma's administration was supportive of such trends and eased existing investment restrictions toward China by, for instance, raising the upper limit of China-bound investments for publicly listed companies from 40% to 60% of total firm assets (H.-H. N. Chen, 2011, p. 172). More specifically, a continued capital flight within Taiwan's highest value-added

IT sector also continued and many Taiwanese IT firms now had as much as 80% of their production capacity in China (K. Cheng et al 2011, p. 526). Because CSEI was propelled by Taiwan's continued OEM/ODM based industrial composition, rather than leading to sectorial upgrading, it instead further cushioned Taiwan's IT firms within their sub-contracting role in global production chains. As such, Taiwan's economy continued, as a whole, to be defined by a cost-down production based business model in which branding and innovation remained as elusive a goal as ever (Leng, 2011, p. 370).

It is true that some Taiwanese firms have attempted to pursue a non-OEM/ODM based upgrading strategy, but such firms are the exception while a majority continue to secure margins typical of OEM/ODM production. Among firms that have attempted to develop an original brand manufacturing (OBM) strategy, most have continued to focus on development and design as opposed to more basic R&D or branding which are essential towards ascending to the global frontier. Also, most firms which have attempted an OBM type development strategy such as Acer and Asus continue to pursue a two-leg approach by which they also continue to produce under an OEM/ODM business model. Although it appears that predominantly OBM type firms such as HTC have emerged, even it is better understood as a sub-major firm which has only enjoyed success due to specializing in niche segments while its faring of late has also not been promising (W.-W. Chu, 2009, p. 1065). But, even if firms such as HTC, Asus and Acer were granted a position as successful OBM-type firms, it remains the case that alongside the bicycle firm, Giant Manufacturing, these remain the only globally known Taiwanese brands (China Post, 2012c). As such, although the revenue of Taiwan's top 1000 enterprises have tripled between 2003 and 2012, their average profit margins shrank from 6.3% to 2.2%. The same dynamic is apparent in Taiwan's service sector in which margins have dropped from 4.8% to 2.6% during the same time (Hsiung, 2014).

Due to the scale and prolonged timeframe of Taiwan's socio-economic malaise, the causal role of Taiwan's sub-contracting economy in exacerbating this malaise has been much more difficult to ignore of late, especially in the context of China's meteoric economic development. Because of Taiwan's primarily commodity-type market specialization, it has been particularly vulnerable to global competition such as that posed by China which is already more competitive than Taiwan in many sectors due to the success of the CCP's long term national development plan.<sup>15</sup> As such, it has come as a shock in Taiwan that many of its most advanced IT sub-sectors have fared so poorly of late that the very future of Taiwan's DRAM sector is in doubt while the LCD sector also faced declining and, at times, negative margins. Some firms such as Chi Mei

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<sup>15</sup> Interviews with anonymous interviewees 3 and 4 and 5 in December 1, December 9 and December 19, 2012.

Optronics have even faced solvency issues which have prompted a government-led credit rollover agreement (K. Chen, 2012; Yamashita, 2014). As such, Taiwan's failure to upgrade its economy from an OEM/ODM business model has become increasingly acknowledged as an issue warranting national concern (The Economist, 2010b). But, at the same time, Ma's policy thinking also continues to be based on the notion of free-market and CSEI induced economic upgrading while his administration has been responsive primarily to OEM/ODM managing business executives in its CSEI policy formation (L. Wang, 2011, p. 67).

Coinciding with Taiwan's industrial malaise and wanting labour environment, China's rapid industrial upgrading has now also had the effect of drawing in many skilled and professional workers from Taiwan for long-term employment in China. This is so much the case that Taiwan is now faced with a severe brain drain crisis by which professionals in a wide variety of managerial and professional fields have been lured to China due to cultural-linguistic similarities between the two (M.-C. Tsai & Chang, 2010, pp. 639–640; C.-Y. Yang, 2012). The pull to China has been compounded particularly by changes in China's labour market in which skilled and managerial staff have started to command significantly higher wages than in Taiwan. Because of relevant know how and a linguistic compatibility, many Chinese firms have also increasingly engaged in the practice of aggressive headhunting by which targeted individuals are offered salaries many times higher than their salary in Taiwan. China's LCD sector, for instance, owes a significant portion of its success to Taiwan's China-bound personnel.<sup>16</sup> Such a brain drain crisis is not, however, surprising given Taiwan's wanting labour conditions which spans the entirety of its private sector labour environment (Bulard, 2012).

Paradoxically, China's rapid economic upgrading has now led to an increased process of capital return from China which has posed further challenges toward Taiwan's labour environment. The cause of the capital return is that China's successful economic upgrading has led to pronounced down-stream labour wage increases and a much more rigidly enforced environmental protection regime, particularly toward non-Chinese firms. As such, a majority of firms that are likely to return to Taiwan do so because they are not competitive enough to remain in China.<sup>17</sup> Rather than empowering Taiwan's labour movement by increasing the leverage and bargaining power of labour, Ma's administration has proposed instead an intensified OEM/ODM capital advancing policy of island-wide special economic zones in which migrant labour quotas are to be widened and in which wages can be de-leveraged from Taiwan's minimum wage requirements. Although Ma's wage deleveraging proposals have faced serious opposition and have not been implemented yet, his administration's state-induced low-wage policy thinking has

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<sup>16</sup> Interviews with anonymous interviewees 3 and 4 in December 1 and December 9, 2012.

<sup>17</sup> Interview with anonymous interviewees 4 and 8 in December 9 and December 22, 2012

been rightfully criticized by labour groups as fostering a national cost-down framework.<sup>18</sup> The risk of capital return to impede economic upgrading has even been acknowledged by some business leaders such as Acer's Stan Shih who agrees that this could damage Taiwan's economy if returnees fail to create sufficient value (E. Huang, 2012).

Because of the de-leveraged relationship between economic growth and the citizenry's socio-economic welfare, Taiwan's socio-economic malaise naturally worsened. For one, Taiwan's real wage growth continued on its negative growth trajectory from an average decline of 3.4% between 2000 and 2012 and 3.5% between 2008 and 2012 (Taipei Times, 2014). Average wages for junior-college graduates, for instance, continued to average at 26,400, a marked contrast with the equivalent wage of 35,200 NTD in Hong Kong and 74000 NTD in South Korea (H. Shih, 2014). In the context of a continually growing GDP, the wealth gap between the rich and the poor has also continued to increase significantly. This is evident in 2009 statistics on disposable income differences between the top and bottom 10 and 5% of income earners which measured at 28 times and almost 75 respectively, the latter of which only measured at 65 in 2008 (S. Huang, 2011). Ma's capital advancing taxation policies have exacerbated such trends further. This is particularly so in terms of Ma's reduction of the enterprise income tax and the inheritance tax from 25% to 17% and from 50 to 10% respectively (H.-Y. Chang, 2012).

In addition to welfare declines, Taiwan's deteriorating socio-economic malaise was also particularly prescient at the level of Taiwan's labour environment. Taiwan's average annual work hours, for instance, measure at 22,00, approximately 20% higher than Japanese and American equivalents (Sui, 2012). Long working hours are the norm in almost all of Taiwan's economic sectors in which 63.9% of office workers, for instance, work an average of 10.4 hours daily while 21.4% are estimated to work an average of 11 hours or longer (China Post, 2011). The severity of Taiwan's overwork culture is nowhere more apparent than in the number of overwork related deaths which measured at almost 50 in 2011 (Sui, 2012). Taiwan does have a legal work time limit which calls for a maximum of either 40 hours worked weekly or 84 hours every two weeks, but most employers do not follow such limits because of lax enforcement (China Post, 2011; Sui, 2012). Although excessive, Taiwan's intensive labour regime has been perpetuated within a working culture in which individuals are averse to stand out within a strongly paternalistic, hierarchical and pyramidal work structure in large companies and SMEs alike (Bulard, 2012).

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<sup>18</sup> Interview with Hung Ching-hsu and Sun Yu-lian in December 24 and December 24, 2012

Because of Taiwan's capital advancing social order and CSEI features, there is little question that CSEI failed to deliver on promised welfare improvements in Taiwan. As such, it was also increasingly clear that the Cross-Strait historical bloc's legitimization of CSEI continued to fall short of its promised outcomes. This being so, the only remaining question is how Taiwan's continually capital advancing social order could be legitimated.

### **Section 7.3: A Strained Social Order Legitimation**

Since the onset of CSEI, it has coincided with a rising national identity debate which has diverted attention away from the class defined features within which CSEI occurs and in which Taiwan's social order is defined. Although a Taiwan identity debate continued to underlie Taiwan's politics, its intensity receded so that Ma's administration came to face an increasingly more concerted opposition against his business friendly policies. This was largely an outcome of Ma's economically based legitimization of ECFA which ensured that his administration stood to face enormous pressure if its promises failed to materialize and if Taiwan's socio-economic malaise continued. Coupled with the DPP's tactical reorientation toward a stronger issue emphasis, Taiwan's citizenry became increasingly receptive again to an issues-based political articulation.

#### **7.3.1 Social Movement Widening**

Due to the combination of factors outlined above, Taiwan's citizens also became more responsive again to more tangible economic and policy issues. For one, an increased sentiment prevailed that Taiwan's labour conditions and quality of life left much to be desired. This was particularly evident in a large scale survey conducted in 2011 which revealed that 77.4% of office workers held themselves to be leading 'poor' lives which were characterized by low income, long hours of work and a lack of sleep (China Post, 2011). Because of an increased public receptiveness to welfare issues, Ma was no longer able to side-line the labour and welfare issue entirely, especially toward the end of his first term in office when he faced increased re-election pressures. Ma's administration, for instance, was instrumental in the passage of the Three Labour Laws (The Labor Union Act, The Settlement of Labor Disputes Act and the Collective Agreement Act) which for the first time allowed the formation of inter-firm unions, guaranteed freedom of association, collective bargaining and the right to strike (H.-H. Chen, 2012, p. 23). On a purely institutional level, the passage of the Three Labor Laws is somewhat paradoxical, especially as to why institutional actors would support legal revisions which, on the surface, appeared to curtail the interests of Taiwan's hegemonic LE capitalist class. A common assumption among labour organizers, however, is that this is likely because of the relatively

inconsequential nature of the laws in light of the weakness and co-opted nature of labour unions. Furthermore, the Three Labor Laws revision is also said to contain a capital advancing dimension because it was guided by the long-term aim of removing the state from a continued labour dispute mediating role.<sup>19</sup>

The self-perception among labour organizers that Taiwan's labour movement remains weak is not without substance and applies especially to labour unions. For one, labour unions continue to suffer from the intense factionalism and insularism highlighted in the previous chapter while a previously DPP co-opted TCTU also continued to chart an increasingly conservative path. This being so, the overall sentiment among labour organizers is that in organizational terms, the prospect for Taiwan's labour unions remains bleak.<sup>20</sup> As such, it is hardly surprising that in 2011, 19 out of 20 workers on average continued to lack protection from effective labour unions (Y. Chiu, 2011, p. 73). But, although unions remained weak, Taiwan did see the development of increasingly effective national labour advocacy organizations which individual unions often aligned with and which succeeded at capturing media attention. This was so much the case that, at times, a distinct labour agenda significantly constrained the interests of Taiwan's LE capitalist class.

The most pronounced example of labour's success at constraining the interests of the LE capitalist class relates to the IT sector furlough controversy. This refers to a spate of mandatory temporary unwaged work days announced across a number of IT firms in 2011 which was justified on the grounds of decreased global orders and a general economic slowdown. Although government issued statistics are more conservative, they, nevertheless, measured the total number of employees on furloughs at 12,487 in January, 2012 (C. Wang, 2012). The opportune timing and attention drawing nature of the IT sector was highly conducive toward advancing a labour agenda because it occurred while Ma faced a looming re-election and was under significant pressure to appear responsive. As such, progressive Labour groups organized forcefully to the furlough incident and forced Ma to respond, especially when the issue became increasingly controversial after it was known that many furlough implementing firms such as Everlight continued to be profitable. Faced with a growing public backlash, Ma eventually voiced his disagreement with the practice. After this, The CLA also announced its intention to investigate the matter by looking into individual cases in which unlawful furloughs may have occurred while also warning that the burden of proof would rest on employers (L. Lin, 2011). The reasoning for such a course of action has been speculated on, but the electorally driven nature of Ma's response is difficult to deny. Regardless of the specificities of the furlough issue,

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19 Interviews with Ke Yi-min and anonymous interviewee 16 in December 27 and December 25, 2012..

20 Interviews with Ke Yi-min, Lin Tzu-wen and Wu Yong-yi in December 27, December 25, 2012 and January 7, 2013.

it also denotes a much larger social shift by which Taiwan's policy makers now faced a public which was increasingly receptive to material and economic issues on which a social movement agenda could more easily resonate.

In addition to a less emotive Taiwan identity debate, the increased receptivity of the public toward labour issues was also the outcome of advances made by movement organizers toward widening a social movement agenda. In terms of Taiwan's labour movement, for example, a much more multi-faceted narrative crystallized which highlights numerous inter-related issues such as Taiwan's overwork-based labour environment, furloughs and corporate friendly taxation regime. Furthermore, there have also been attempts to forge a viable core social movement alliance, most crucial to which is a so-called red-green alliance between the labour and environmental movements. Thus far, bridging the gap between the two has been a challenging process and remains a work in progress. The Green Party and the Raging Citizens Act Now, for instance, have attempted to forge such an alliance, but they eventually parted paths due to irreconcilable differences between their organizational apparatuses and strategy.<sup>21</sup> For now, organized labour remains the weaker of the two and red-green organizers such as Lai Wei-jie of the Green Citizens Alliance note that the weakness and internal contradictions of Taiwan's labour movement necessitate that its aim must first be on self-strengthening.<sup>22</sup> Regardless, the goal of forging a red-green alliance is commonly acknowledged by movement organizers as pressing and crucial to a widening of the social basis of social movements.

In order to shape Taiwan's social order parameters, an issues-widening remains crucial because it allows for the development of a more pronounced class agenda on which a prospective counter-historical bloc can be developed. Although this has not yet crystallized and although Taiwan's social movements lack a strong social basis for mobilization, organizers have succeeded at least at reaching a much wider audience toward its concerns. A crucial factor for this has been discursive advances such as the development of the strategically apt catch-all anti-poverty narrative which has framed Taiwan's widening wealth gap as an outcome of institutional injustices. Narratives such as this have not been framed on explicit class terms, but rather in terms of the social good and resonate much more strongly with Taiwan's still left-weary citizenry due to long-term legacies of the KMT's anti-Communist propaganda. In addition to actions such as hunger strikes to raise awareness on Taiwan's wealth distribution, a number of progressive organizations such as the Anti-Poverty alliance have also been formed which have been successful at capturing media attention and shaping Taiwan's political discourse (I.-C. Lee, 2011). Chien Hsih-chieh, a central force in Taiwan's issue-widening and

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21 Interviews with Ke Yi-min and Pan Han-shen in December 27, 2012 and January 4, 2013.

22 Interview with Lai Wei-chieh in January 8, 2013.

head of the Anti-Poverty Alliance, notes that an issue-widening is important because it allows for the articulation of a positive vision of social transformation in Taiwan which is necessary to widen the more narrow focus of Taiwan's labour movement.<sup>23</sup>

On the question of issue widening, many labour organizers and union cadre express reservations, especially in terms of organization and mobilization capacity. Many organizers point to the proliferation of 2-3 man strong NGO type organizations which operate without a strong social base as a problem.<sup>24</sup> This is also acknowledged by Chien who notes that a movement widening is necessary because of the mobilization weaknesses of unions in which labour actions no longer draw in the larger numbers they used to and with participants even of successful actions only tending to measure in the 100 or 1000s.<sup>25</sup> This is a valid point and in the context of the continued weakness of organized labour, an issue widening is a strategic response which does not impede labour unions from expanding their membership while an issue-widening can also potentially draw in a wider array of participants. But, because this is also still very much a process in motion, Taiwan's social movements have had a checkered legacy in which they have only enjoyed a slim number of high profile successes, the most noteworthy of which are the furlough controversy and the reversal of the Kuokoang petrochemical plant, both of which immediately preceded Ma's 2012 re-election. This is not surprising, however, as Taiwan's social movements are not yet organized on the basis of a viable counter historical bloc which can alter the class basis of Taiwan's state.

After Ma's 2012 victory, his administration became much less responsive to social contestation while his administration continued to advance an unambiguous capital advancing policy framework. This was particularly evident in the case of a proposed stock market transaction tax to address Taiwan's chronic budget deficits and rising national debt which was supported by many of Taiwan's social movements. In response to pronounced business advocacy, the transaction tax was so severely watered down as to become largely void of substance and in response to which Ma's finance minister, Christina Lu, resigned from her post in protest (Shih, Su, & Wang, 2012). A similar dynamic was demonstrated in the case of a CLA proposed monthly 200 NTD minimum wage increase which faced such firm opposition from capitalists that Huang Rushuan, the head of the CLA, was forced to cancel the policy and after which she also stepped down in protest. Despite organizing in full force, Taiwan's labour movement and social movement allies did not succeed at winning this very slim wage increase. It was only in 2013 that Taiwan's monthly minimum wage was finally increased by 267 NTD to 19,047NTD

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<sup>23</sup> Interview with Chien Hsih-chieh in December 17, 2012.

<sup>24</sup> Interviews with Wu Yong-yi and anonymous interviewee 18 in January 7, 2013 and December 25, 2012.

<sup>25</sup> Interview with Chien Hsih-chieh in December 17, 2013.

in order to keep wages in line with inflation. But, the stipulation was also added that future monthly minimum wage increases required a 3% increase of gross domestic product for 2 consecutive quarters or a decline of Taiwan's unemployment below 4% for two months in a row (K. Lin, 2013).

### 7.3.2 Social Movements and China

A failure of Taiwan's social movements to take the lead in the development of a counter historical bloc was also influenced by continued reverberations of a Taiwan identity component among its organizers. This is an especially important issue because it is also true that Taiwan's social movements have made significant progress to overcome identity cleavages. Because of such developments, some scholars have argued that a 'transcendence' attitude has increasingly taken hold among campaigners who are successfully working to transcend divisive identity cleavages by streamlining a first instance material agenda (H.-H. Chen, 2012, p. 21). But, some degree of caution is warranted as a relative de-emphasizing of identity cleavages is still very much an ongoing process. In the case of Taiwan's three main national labour advocacy organizations, for instance, the TLF and Labor Party continue to perceive identity cleavages as genuine issues while positioning themselves as Taiwan nationalist and Chinese nationalist respectively. It is only the Raged Citizens Act Now which posits that identity, although important, should be perceived of as a second degree issue which comes after the forging of a common cause on class.<sup>26</sup>

The fact that an identity politics continues to guide the thinking of Taiwan's social movements is especially observable in the case of the recent sunflower movement which protested against the Cross-Strait Service Pact signed between the SEF and ARATS in June 21, 2013. The service pact was a major extension of the ECFA agreement which will significantly liberalize trade in services between Taiwan and China and which opens 64 Taiwanese services sectors to Chinese investment and 80 Chinese service sectors to Taiwanese investment. In Taiwan, opened sectors include transportation, publishing, tourism, cosmetics, online gaming, Chinese medicine and funeral services. On the Chinese side, opened sectors include finance, retail electronics, e-commerce, construction, transportation and publishing. But, specific restrictions do remain on the degree of liberalization in both Taiwan and China. In Taiwan, for instance, Chinese capital faces continued ownership restrictions such as a 50% ratio in the publishing sector and employment restrictions in the beauty parlour and hair salon sector in which Chinese invested firms are only permitted to employ Taiwanese staff (Moh, 2013).

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<sup>26</sup> Interviews with Sun Yu-lian, Tang Shu and Ke yi-min in December 24, December 28 and December 27, 2012

From the onset, the Cross-Strait Service Pact was mired by controversy, even in terms of intra capitalist contradictions. This was so because of fears that an opening of Taiwan's service sector would pose serious threats toward domestically oriented firms and numerous industry associations representing sectors such as beauty treatment and publishing, have raised concerns over this (China Post, 2014a). But at the same time, affected sectors are not ones in which capital consolidation is pronounced and which consequently have secured a more limited political influence. This is in stark contrast to the agreement's beneficiary sectors such as the consolidated services, finance and industrial sectors which are dominated by LEs and which overwhelmingly support the Services Pact. Consolidated services and finance capitalists support the trade pact because they benefit in terms of market expansion opportunities in China while industrial capitalists supported the pact because a failure of its passage may undermine negotiations for a trade in goods agreement which is still to follow (C. Hsu, 2013; Taipei Times, 2013). The intra-capital contradiction dynamic is best illustrated in the words of vice chairman of the Chinese National association of Industry and Commerce, Nelson Chang, who states that 'we should not abandon 90% of our local industries for fear of hurting the other 10%' (China Post, 2014b).

Complications quickly arose because the Service Pact had to be ratified in the Legislative Yuan in which it faced concerted opposition by the DPP. Although eventually cleared in committee, the passage of the Service Pact was plagued by controversy and eventually led to the development of Taiwan's anti-Service Pact, Sunflower movement to occupy Taiwan's legislature. Protestors took issue particularly with procedural shortfalls by which the KMT's chair of the Service Pact reviewing committee cleared it for review on a technicality so that the agreement was to be voted in full by the legislature thereafter rather than on a clause-by-clause basis (China Post, 2014a). The Sunflower movement, although student led, drew support both from social movements and Taiwan nationalists. The student occupiers remained in the Legislative Yuan for a total of 20 days. In addition to a constant sit-in around the Legislative Yuan, numerous rallies were also planned which drew in impressive numbers, the largest of which was estimated at 500,000 strong. Due to the scale of the action, a well-managed media campaign and a wide reaching support network, the Sunflower movement secured a pronounced political leverage and could not be ignored easily. This was especially so because unlike the minimum wage or stock market transaction tax campaigns, the Sunflower movement was a bridgehead which connected socio-economic concerns with a nuanced Taiwan identity agenda (C. Tang & Pan, 2014).

The occupiers had three central demands. Firstly, they demanded that Ma meet with them and apologize about the hasty passage of the Services Pact. Secondly, they demanded that Wang

Jin-pyng, the KMT's legislative speaker and Ma's chief political opponent within the KMT, meet with them. Finally, they also demanded that legislation should be passed which would institutionalize an item-by-item legislative oversight for the Services Pact and similar Cross-Strait agreements signed in the future. Wang eventually agreed to meet with the occupiers on the 6<sup>th</sup> of April during which he promised that he would not mediate Cross-Party negotiations on the Service Pact before a supervisory law monitoring such agreements was passed (Wei, 2014). Although Ma and the KMT party caucus refused to support Wang, they have had little choice but to concede for the time being, especially in the context of a looming 2014 year-end legislative election for which many KMT legislators acknowledge that it is difficult to ratify the agreement after the Sunflower movement (H.-C. Shih, 2014). For one, it does not help the KMT that an estimated 73.7% of public opinion supports a clause-by-clause review of the Service Pact. This, coupled with Ma's 14.5% approval rating, has ensured that KMT legislators are seriously concerned about the electoral impacts of an abrupt passage of the services pact (C. Wang, 2014).

As noted already, the Sunflower movement was composed a variety of interests and due to which a clear class agenda did not emerge explicitly. For one, economic nationalist concerns underlined the student movement which placed a strong emphasis on the likely damage that the Service Pact would pose to Taiwan's predominantly micro-scaled service sector firms. One recurring example that opponents of the Service Pact highlighted was the damage that Chinese competition in hair and beauty salon sector will damage the prospects of Taiwanese firms in which an estimated 20,000 of the total 60,000 sectorial workforce are self-employed or unpaid family labour (Lai, 2014). Clearly, there was a class element in such concerns, but the movement never developed a coherent narrative around class issues and its agenda thus remained vague. This is even more evident when attention is turned to labour unions and organizations, many of which supported the student movement while many others instead condemned it (China Post, 2014c; C.-H. Lo, 2014). This is not surprising, however, as many of the movement's concerns contained a Taiwan nationalist dimension which naturally did not bode well with China-friendly labour organizations such as the labour party or more pragmatic labour unions which were not against CSEI *per se*.

Rather than focusing on the class-led nature of CSEI as an issue in itself, the Sunflower movement has instead developed a narrative on democratic accountability and self-determination which contains an implicit Taiwan nationalist agenda. But, rather than being framed around an explicit Taiwan nationalism, the Taiwan nationalist component of the student movement was expressed primarily in terms of institutional accountability. As such, protestors took issue especially with the KMT and the CCP's unaccountable roles in the signing of the

Service Pact which is said to advance only the interests of a political and corporate elite while ‘sacrific[ing] the rights and benefits of most of the public. The student movement’s Taiwan nationalist current can be seen in the words of the movement’s figurehead, Chen Weiting, who notes that ‘from this moment on no behind closed doors negotiation is allowed [and] no regime can be permitted to make brazen moves to sell out Taiwan.’ He concluded that ‘We Taiwanese, not anybody else, are the masters of the island.’ (A. Hsiao, 2014) But, despite its lack of a clearly defined class basis, the Sunflower movement is reflective of an increasingly difficult to legitimate CSEI deepening in Taiwan while a previously overwhelming support for CSEI, has weakened and which, in turn, also poses increased challenges to the CCP’s long-term geo-strategic interests. This is especially so in the long-term trend by which a Taiwanese political self-perception has intensified. The only difference is that this self-perception is no longer articulated as visibly as before because it has become a given in Taiwan. This is because an astounding 69.7% of Taiwanese view China and Taiwan as two separate countries while only 9.6% think that both sides belong to a ‘divided Republic of China’ (C. Wang, 2013). Due to a pragmatic inclination, however, the social consensus remains in Taiwan toward a continued Cross-Strait status quo (Bodeen & Evay, 2014).

Regardless of its overlapping identity and economic concerns, the immediate political outcome of the Sunflower movement was the KMT’s unprecedented defeat in November 28 Mayoral elections. The KMT leadership made matters worse by under-estimating the influence of the Sunflower movement and Taiwan’s increasingly politicized youth. Instead, the KMT continued to champion its LE capital advancing domestic and CSEI policies while also nominating numerous candidates from powerful political families who secured enormous financial gains through CSEI and who quickly became focal points for the public’s anger. Furthermore, KMT candidates also relied heavily on captains of industry such as Foxconn’s Terry Guo to campaign for them which, for the first time, backfired instead (C.-H. Hsieh, 2014). Not only did KMT mayoral candidates lose by large margins in traditional DPP strongholds, but also in KMT strongholds such as Taichung and Taipei (Fang, Yang and Yang, 2014). Although this defeat was due to a number of factors, an important reason was the public’s discontent toward Ma’s perceived elitist, unresponsive and inefficient rule which was blamed for Taiwan’s worsening socio-economic climate. The defeat was considered as such a decisive blow to the KMT that Ma Ying-jiou was forced to step down as party chairman afterward (C.-H. Hsieh, 2014).

On the flipside, the DPP secured an impressive victory for which it campaigned on both a more implicit Taiwan identity stance, but also focused more heavily on economic issues which resonated with an increased public discontent toward Taiwan’s socio-economic malaise. The current DPP chairman, Tsai Ying-wen, underscores this, for instance, by acknowledged that, by

and large, young people are discontent, less partisan and are now more concerned with tangible economic and policy issues (C.-Y. Huang, 2014). But, this does not mean the Sunflower movement has led to the formation of a viable counter historical bloc. This is because if the only outcome of the Sunflower movement is the political resurgence of the DDP, this will not likely impede the DPP from pursuing a similarly LE capital advancing policy course as it had in the past. For a different policy course, it would be necessary for the crystallization of an explicitly economically concerned and issues-based movement that can resist identity motivated co-optation and which can pressure both the DPP and KMT to moderate their policies toward a less LE capital advancing direction when in office.

Because of varying long-term interests, underlying contradictions are also increasingly visible between the CCP and Taiwan's LE capitalist class. This is because the CCP is now less likely to secure the necessary support for its political aims if Taiwan's socio-economic malaise intensifies further. But, given Taiwan's still OEM/ODM capital defined social order and CSEI features, it is unlikely that Taiwan's socio-economic malaise will be reversed which, in turn, will likely lead to an increased social contestation in Taiwan, much of which will be channeled toward CSEI as in the case of the Sunflower movement. For now, the CCP's response toward opponents of the service pact has been to place more emphasis on engagement with Taiwan's key social demographics such as SME owners, middle and low income earners and the younger generation (J.-H. Wang, 2014). Zhang Zhijun, the new head of the TAO has even referred to the Sunflower Movement directly by stating that he would like to talk with its leaders during a planned visit to Taiwan about the Service Pact (J. Hung, 2014). For now, such statements are primarily symbolic, but are reflective of the CCP's attempt to secure an increased CSEI legitimacy in Taiwan. At the same time, however, it is difficult to conceive that the CCP would willingly engage with a movement which does not yet possess a clearly defined social basis and tangible class agenda.

It is only by securing a coherent class basis for a more defined counter-historical bloc that both the parameters of Taiwan's social order and the CSEI trajectory can be altered. To date, an identity dimension continues to complicate this aim, particularly when it comes to the question of engaging with the CCP which, for better or worse, has secured a social order shaping capacity in Taiwan. Many of Taiwan's labour and social movement organizers are reserved toward engaging with the CCP due to Taiwan nationalist inclinations or a fear of being labelled as pro-China.<sup>27</sup> In terms of engagement, some labour organizers acknowledge that they had been invited by the CCP to visit China's labour unions for all expenses paid for visits, but that

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<sup>27</sup> Interview with anonymous interviewee 16 in December 25, 2012

engagement has remained centred on wining and dining.<sup>28</sup> Given that the CCP is a pragmatic actor which engages with and responds to social forces in terms of their strength, it is possible for social movements to communicate a distinct non-capitalist perspective to the CCP. Of Taiwan's progressive labour groups, the China-friendly Labour Party has the most extensive history of engagement with CCP party organs and has, at times, attempted to communicate a labour perspective to the CCP.<sup>29</sup> But, party organizers also acknowledge that Taiwan's organized labour is not yet a powerful enough social force to warrant a response from the CCP.<sup>30</sup> The need to communicate with the CCP is also acknowledged by more pragmatic organizers such as Lai Weijie and Wu Yong-yi who understand that it is a pressing task for Taiwan's social movements to insert their voice into the CSEI process and who understand the CCP as a responsive actor to class-led social contestation in Taiwan.<sup>31</sup> But for now, they are reflective of a minority position among social movement organizers most of whom are still sceptical to engage with the CCP.

Although Taiwan's social movements have not yet been able to articulate a distinct class-based agenda to the CCP, CSEI now faces an increased contestation in Taiwan due to a more nuanced identity politics and Taiwan's difficult to ignore socio-economic malaise. Although the Cross-Strait historical bloc continues to hold for the time being, contradictions are increasingly evident within it too which are likely to challenge the CCP's geo-strategic strategy in the foreseeable future.

## 7.4 Conclusion

In this chapter, I examined how the Cross-Strait historical bloc's long-term policy parameter culminated in a full scale Cross-Strait détente and a deepened and institutionalized CSEI trajectory. Due to the CCP's détente induced perception management imperatives, I placed particular attention on examining its practice of economic interest ceding to Taiwan which was institutionalized in the ECFA agreement. At the same time, I argued that this did not offset Taiwan's worsening socio-economic malaise because its social order and CSEI trajectory both continued to advance the interest of the OEM/ODM LE capitalist class. But, Taiwan's worsening socio-economic malaise, I argue, for the first time led to serious difficulties in the CSEI legitimation process. This was because of Taiwan's more receptive discursive climate to socio-economic issues due largely to the receding intensity of the Taiwan identity debate and the failure of Ma's rosy legitimation of a CSEI induced economic prosperity to materialize. On

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28 Interview with Hang Shr-shian in December 27, 2012.

29 Interview with Tang Shu in December 28, 2012.

30 Interview with Tang Shu and GaoWei-kai in December 28, 2012 and January 3, 2013.

31 Interviews with WuYong-yi and Gao Wei-kai in January7, 2013 and January3, 2013.

this basis, I examined Taiwan's resurfacing social movement contestation and argued that movement organizers have made significant progress toward an agenda widening. But at the same time, I argued that social movements have not developed into a viable counter historical bloc because a conscious class basis has not yet developed therein. As such, I argued that Taiwan's social movements have primarily succeeded to force Ma's administration to respond when mobilizing against CSEI because this drew support both from social movements and Taiwan nationalists. Although failing to alter Taiwan's social order parameters, I argued that the rise of an increased anti-CSEI contestation has placed the CCP under an increased pressure to respond or to risk losing popular support in Taiwan for a deepened CSEI. For the time being, however, I argued that the hegemony of the Cross-Strait historical bloc remains weakened, but secure.

Although my analysis in this chapter has focused particularly on the discursive processes which enabled CSEI, I have also examined underlying strains within the Cross-Strait historical bloc. At a most general level, such strains can be observed in the CCP's long-term policy imperative to secure a deepened support for CSEI, but which is challenged by Taiwan's ongoing socio-economic malaise for which the LE capital advancing nature of CSEI is a causal factor. Previously, Taiwan's national identity debate has been crucial to the legitimation of capital advancing policies and has allowed Taiwan's LE capitalist class to engage in a very limited degree of interest ceding to secure its hegemony. But, as I have argued, important changes occurred during this time which have led to a weakening of the Cross-Strait historical bloc's hegemony due to a receding intensity of the Taiwan identity debate. As such, it is not surprising that there was a dramatic increase in Taiwan's social contestation during this time. But, my analysis also shows that a relatively more nuanced identity current does still continue to influence Taiwan's social movement contestation. Because, Taiwan's internationalization has been toward China, the regional nature of its class contradictions have led to an unavoidably regional dynamic of resistance processes and due to which it has been difficult for such resistance to be dis-entangled from identity contradictions. Regardless of the unsettled nature the CSEI trajectory, one thing is for sure and that is that a previous economic narrative of a CSEI induced national prosperity is now much less convincing than it was before. This being so, a continually LE capital defined CSEI trajectory will likely be ever more difficult to legitimate in the time ahead without a more concerted interest ceding in Taiwan.

## **Conclusion**

My main aim in this thesis has been to account for the complicit and facilitating role of Taiwan's state toward CSEI despite the challenges that it poses to Taiwan's sovereignty and socio-economic welfare. My analysis has been guided by two central aims, the first of which was to problematize mainstream accounts of CSEI which are based on either realist or liberal predicates, or as is most often the case, a combination of both. As such, I challenged both the liberal predicate that a market-led CSEI is necessarily economically beneficial for a majority of Taiwan's citizens and the realist predicate that Taiwan's state is an autonomous and agency-bound actor which seeks to advance Taiwan's collective interest through its CSEI policies. To overcome such static assumptions toward CSEI, my second aim was to apply a neo-Gramscian framework to demonstrate that CSEI can be better theorized in terms of social order and the class basis of Taiwan's state. To do so, I theorized CSEI relations through a hegemonic Cross-Strait historical bloc forged between Taiwan's LE capitalist class and the CCP. By positing Taiwan's policy parameter as being defined by a Cross-Strait historical bloc, I also theorized the social basis of Taiwan's state. More specifically, I historicized Taiwan's social order from the KMT's arrival in 1945 onward to explain how a previous political autonomy enjoyed by the KMT's elite bureaucracy dissolved due to a prolonged changing social basis of Taiwan's state. By theorizing CSEI in terms of Taiwan's social order and the Cross-Strait historical bloc, I have demonstrated that CSEI cannot be understood without an explicit focus on the class basis of Taiwan's state. Additionally, I have also demonstrated that the neo-Gramscian framework is highly effective at theorizing both CSEI and non-Northern regional social orders more generally.

## **Research Questions and Thesis Findings**

The main research question that I addressed was why has Taiwan's state facilitated a prolonged Cross-Strait economic integration process? In order to address this research question, I also address two related sub-questions. The first sub-question was how can CSEI be understood in terms of Taiwan's social order and what was the CCP's role in shaping it? The second sub-question was how can the limited resistance against CSEI be understood as an outcome of its successful legitimation? Finally, I have also addressed a number of much more specific sub-questions in each chapter which combined allow me to answer my research question and sub-questions definitively. Therefore, I will first go over my chapter questions and how I have addressed each before I return to answer my research question and sub-questions.

In chapter 1, I examine how CSEI can be understood conceptually without relying on realist or liberal predicates? To do so, I first identify the limitations of the liberal and realist predicates on

which the CSEI literature is based and then develop an alternative set of conceptual parameters from which to proceed. Based on insights from the policy studies, economic nationalist and sociological literature, I argued that rather than leading to Taiwan's collective welfare enhancement, that the class-led nature of CSEI has exacerbated Taiwan's socio-economic malaise. I argued also, however, that it is necessary to account for Taiwan's socio-economic malaise not only as an outcome of CSEI, but also the class basis of Taiwan's capital defined social order more generally. To discern the class basis of Taiwan's state, I engaged with the statist literature and argued that although Taiwan was a developmental-state between 1949 and 1988, that the political autonomy which enabled it has to be explained with reference to the social basis of Taiwan's state. Finally, I explain the progressive erosion and eventual dissolution of the elite bureaucracy's autonomy as an outcome of a changing social basis of Taiwan's state which culminated in the ascendance of a new alliance of class interests in which the LE capitalist class and the CCP were central.

In chapter 2, I explore how a neo-Gramscian framework can be applied to theorize CSEI through the concept of regionally operating historical blocs? To do so, I first critiqued the global capitalism perspective held by many neo-Gramscians and argued that although a broad capitalist policy convergence is occurring, that this is so only in a general and abstract sense and that a regional order variation remains the norm. I base this on the Gramscian theory's national point of departure by which transnational social orders emanate from and are legitimated at the national level. On this basis, I argued that national social orders are impinged on by both a transnational and regional historical blocs while the susceptibility to either is determined largely by the fractional nature of nationally hegemonic capitalist classes. As such, I argued that the sub-contracting features of Taiwan's hegemonic LE capitalist class have led it to join a historical bloc with the 'contender state' managing CCP which has led to Taiwan's pronounced internationalization to China. Additionally, I also developed a conceptual schema to theorize Taiwan's social order transition from a previous passive revolution enabled statist to a Cross-Strait historical bloc defined liberal capitalist social order and I focus especially on the hegemonic narrative which enabled this transition.

In chapter 3, I examined what was the social basis of Taiwan's hard developmental-state between 1949 and 1978 for the elite bureaucracy's pronounced political autonomy during this time? Securing its class interest from a control over the state, I argued that the elite bureaucracy's political autonomy rested on a successful passive revolution which allowed it to secure a disciplinary rule while remaining unresponsive to interest articulation among Taiwan's social forces. Pursuing a statist development path, I argued that the elite bureaucracy's autonomy remained stable because it secured the necessary acquiescence from Taiwan's major

classes, especially its growing labour, middle and capitalist classes. Although a majority of Taiwan's classes had not yet developed a class consciousness, I also argued that the key exception was an increasingly influential LE capitalist class which was targeted for the most intensive *transformismo*. Although the LE capitalist class acquiesced to the elite bureaucracy's leadership, the two did become relatively more closely aligned over this time. Until 1978, this did not yet significantly alter Taiwan's statist social order features, but I argued that from the late 1960s onward, Taiwan's social order can already be theorized in terms of a historical bloc forged between a dominant elite bureaucracy and a subservient LE capitalist class.

In chapter 4, I examined how a prolonged changing social basis of Taiwan's state led to a continued, but much weakened elite bureaucratic autonomy during Taiwan's soft developmental-state era between 1978 and 1988? I identified two inter-related processes as having led to a weakened elite bureaucratic autonomy, namely an increasing contestation induced encroachment on previously off-limit political spaces and a weakened elite bureaucratic consensus due to its prolonged interest harmonization with Taiwan's LE capitalist class. In policy terms, I argued that the elite bureaucracy became much more responsive to the short-term interest of Taiwan's LE capitalist class while its industrial policy was also confined only to national priority targets. This was because the elite bureaucratic – LE capitalist historical bloc increasingly underpinned the stability of the statist order, especially in the context of an increased contestation among Taiwan's labouring and middle classes. Although such contestation was previously manageable, I argued that the elite bureaucracy's successful repression of a class politics led to a channelling of social contradictions toward a specifically regime challenging democratization movement. As such, a severely weakened elite bureaucratic autonomy still held only because of a continued LE capitalist acquiescence to the elite bureaucracy's leadership and its elevation of a political *transformismo* to the elite bureaucratic level.

In chapter 5, I explored how a prolonged changing social basis of Taiwan's state led to the eventual dissolution of the elite bureaucracy's political autonomy during Lee Teng-hui's presidency and what the state's social basis was afterward? Because CSEI now fully intensified, I also explored why the state allowed CSEI to proceed during this time? At a domestic level, I argued that a historical bloc came into shape in which the LE capitalist class was hegemonic and which dissolved the elite bureaucracy's remaining political autonomy. The historical bloc's hegemony, I argued, was enabled especially by the rise of an issues-diverting national identity politics which was a crucial component of Taiwan's hegemonic narrative. This was especially so because it impeded the forming of a viable counter historical bloc while also enabling a wide acceptance of the economic core of Taiwan's hegemonic narrative. Although Lee's policy was

unambiguously capital-advancing, I also examine the single exception to the rule, his failed attempt to curtail an intensifying CSEI. This, I argued, was due to the CCP's successful forging of a Cross-Strait historical bloc with Taiwan's LE capitalist class during this time which flaunted Lee's unenforceable CSEI restrictions by progressively intensifying CSEI.

In chapter 6, I examine why and how a Taiwan nationalist DPP pursued a CSEI liberalizing policy path, especially in the context of an intensified socio-economic malaise which became fully evident during this time? I argued that the DPP's CSEI liberalization occurred in response to a conscious advance by the Cross-Strait historical bloc and was driven largely by the party's aim of securing the support of Taiwan's hegemonic LE capitalist class. As such, I argued that Taiwan's socio-economic malaise was an outcome of resource allocation contradictions more generally and the specific sub-contracting nature of its industrial composition which led CSEI to occur in the context of a pronounced capital flight. Rather than a rise of social contestation, I argued that the DPP's elevation of a divisive Taiwan nationalism to the center of Taiwan's political discourse and its successful co-opting of Taiwan's social movements sidelined an issues-based political discourse entirely. As such, the DPP was able to legitimate CSEI as a purely economic matter and as being necessary for Taiwan. I argued, however, that the long-term outcome of the DPP's policy was that it strengthened the CCP's capacity to discipline Taiwan's LE capitalist class to wield its influence toward securing the KMT's return to power in 2008.

In chapter 7, I examine how it was that a prolonged CSEI finally culminated in political détente and the most marked CSEI openings to date during Ma's Ying-jeou's presidency despite Taiwan's continually worsening socio-economic malaise? Because of a much more intensified issues-based contestation process during this time, I also explore to what extent such contestation is reflective of a weakened CSEI legitimation and the possibility that a counter-historical bloc may be coming into existence? The increased social contestation, I argued, was an outcome of Ma's CSEI legitimation in solely economic prosperity terms, the DPP's post-defeat reorientation toward a more foregrounded issues-based agenda and, of course, a continued socio-economic malaise which was no longer overshadowed so strongly by an emotive national identity debate. But, although Taiwan's social movements have been increasingly active, I argued that they have not yet coalesced into a counter historical bloc because a conscious class basis has not yet developed therein. This, I argued, is due largely to a continued identity dimension which has underpinned many of Taiwan's most successful mobilizations to date. But, although the hegemony of Taiwan's historical bloc continues to remain tenable, I argued that for the foreseeable future, Taiwan's social dislocations are likely to continue spilling over into a specifically CSEI challenging direction.

Based on the answer to my chapter questions, I can now also straightforwardly answer my research question and its two sub-questions. Firstly, Taiwan's state facilitated a prolonged CSEI because its policy was confined within the parameters which emanated from Taiwan's Cross-Strait historical bloc. As for the question of Taiwan's social order, an intensified CSEI occurred on the basis of the hegemonic stature of Taiwan's LE capitalist class and through which the CCP also secured a strong social order shaping capacity in Taiwan toward advancing its interests. As for the question of legitimation and contestation, a limited social contestation can be explained in terms of the effectiveness of Taiwan's hegemonic narrative. This was composed of a divisive Taiwan identity politics which enabled the wide acceptance of the hegemonic narrative's economistic core which equated a capital-led CSEI with Taiwan's collective prosperity. Although this hegemonic narrative has weakened during Ma's presidency, I argue that it continues to hold.

### **Theoretical implications:**

CSEI tends most often to factor as a matter of interest because of its perceived geopolitical importance for the Cross-Strait relationship which continues to be identified as a potential military flashpoint. Although this may have been the case before, as I have argued throughout this thesis, the CCP's United Front strategy has been so successful at securing Taiwan's internationalization toward China that the possibility of military action across the strait is virtually zero. Despite this being so, the existing literature has failed to accurately theorize the CSEI relationship due to the prevalence of an asocial and ahistorical analysis which is based on un-theorized liberal and realist predicates. Although it is true that some CSEI scholars have focused more specifically on class and have parted paths with liberal assumptions, a much more deeply entrenched realist predicate of an agency-bound state continues to influence their analysis (C.-W. Lin, 2004; T.-H. Lin, 2009). To overcome this, a more critical political economy type approach toward CSEI is absolutely necessary, but which to date, also remains lacking and under-developed. This is unfortunate not only because of the failure of existing approaches to elucidate the CSEI process, but also because CSEI is a particularly illuminating example of regional social order formation processes.

As I have demonstrated, the major problem with a realist and liberal predicate based analysis is that such predicates are un-reflexively theorized as objective features of the international order. But, both predicates have failed to account for Taiwan's state as subject to a fluid and perpetually transforming social order basis which has defined the policy parameters and class interests advanced by the state at any given time. As such, because I have identified the LE

capitalist class as hegemonic in Taiwan's post-statist social order, I was able to account for Taiwan's socio-economic malaise as a direct outcome of the LE capital advancing features of CSEI and its social order. With Taiwan's deep economic dependence on China, I have not taken issue with CSEI itself, but rather the welfare impeding outcomes which result from its LE capital-defined nature. This is especially so because of the OEM/ODM features of Taiwan's LE capitalist class which has ensured that CSEI was driven by a massive capital flight which has had a scarring effect on Taiwan's social welfare and economic upgrading prospects. Although I have also theorized the CCP as a central class in the Cross-Strait historical bloc, this has not diluted the LE capital advancing features of CSEI. This was because of the CCP's responsiveness to the economic interests of Taiwan's LE capitalist class due to its reliance on it to intensify CSEI and to confine Taiwan's state policy parameters.

A Gramscian approach is not only illuminating because it can explain policy and social order features in terms of class basis, but also because it can account for the class agencies which shape and define social order parameters. As such, although my analysis was based on material processes such as class and social order, I have also examined the central role of ideational processes toward shaping legitimation and resistance processes. This is a particularly important question because a capital-defined social order and CSEI both continue to secure a high degree of popular support in Taiwan. But, as I have shown, this is not difficult to grasp when the effects of the class-diluting and issues-diverting Taiwan identity debate are accounted for. Due to the centrality of identity cleavages, rather than realizing and articulating on a set of separate class interests, Taiwan's citizens instead tended to accept the economic core of the hegemonic narrative which de-politicizes economic policy and CSEI. Thus, it is clear that although class is central toward understanding Taiwan's social order, ideational processes have been equally important by mediating the collective agency of major classes toward defining the social basis of Taiwan's state.

In order to account for CSEI, a longer-term historicization of Taiwan's social order was also necessary. By relying on the Gramscian triangle which examines the class basis of social orders as affected by inter-determining production, institutional and ideational nodes, I have also been able to theorize Taiwan's social order transformation process. More specifically, my analysis has shown that since 1949, Taiwan's social order has underwent two major transformations from a passive revolution enabled developmental-state to a Cross-Strait historical bloc defined liberal capitalist order. On the basis of passive revolution, *transformismo* and the historical bloc, I was not only able to situate the social basis of the KMT elite bureaucracy's political autonomy, but also the relative diluting thereof and its eventual dissolution altogether. My argument thus also suggests that the class basis of the developmental-state is a central factor for the transitory

nature of the statist social order. This is because a statist industrialization development path always propels class formation processes which eventually challenge a necessary elite bureaucratic autonomy. In Taiwan's case, this occurred both in terms of an increasingly powerful capitalist class which eventually advanced to secure political power and an increased middle and labouring class contestation spurred forth by development induced social change.

The Gramscian theory's strong capacity to theorize social order variation and its concept of passive revolution has also been instrumental to my theorization of the CCP's role within the Cross-Strait historical bloc. To do so, I have built on Kees van der Pijl's (2012) conception of China as a passive revolution-enabled contender state to theorize a necessary outward effect on regional social order that such a contender state naturally poses. My analysis suggests that the CCP's politically autonomous elite bureaucracy has shaped Taiwan's social order according to a logic which can be conceptualized through the Gramscian concept of the historical bloc. Through the Cross-Strait historical bloc, for instance, I was able to demonstrate how the CCP has pursued its geo-strategic policy interests through a conscious interest harmonization with Taiwan's LE capitalist class to secure its social order shaping capacity in Taiwan. But, because I theorize the CCP's elite bureaucracy as a similarly distinct class to the KMT's previously regime managing elite bureaucracy, I have also been able to account for the CCP's geo-strategic policy in class terms without reverting to realist concepts of state agency.

As I have demonstrated in my analysis, historicizing and accounting for the class basis of CSEI is something that the neo-Gramscian framework does not struggle with. But, my application of the framework also veers from popular global capitalist applications which tend to theorize a process of global capitalist social order convergence and anti-capitalist resistance against this. (Gill, 1995, 2002; Rupert, 2000, 2003) This is largely an outcome of a more static and monolithic understanding of capitalism which has led to a consciously and binary like theorizing. As such, social order formation processes in which an anti-capitalist element is not so clearly present and in which encroachment processes cannot be so easily linked to a diffuse global capitalist class tend to escape its focus. What my findings suggest, however, is that sacrificing the Gramscian theory's strong explanatory capacity because of a consciously global anti-capitalist theorizing is a very unfortunate development. For one, it remains the case that the Gramscian framework can be applied both to account for a more general global capitalist convergence process, but also more regional social order formation processes. But even so, my analysis shows that theorizing global convergence process cannot be complete without also accounting for concomitant social order formation processes at the regional level. This is especially so because although all capitalist social orders have a stake at deepening and expanding capital accumulation, there also remain important intra-capital interest contradictions

too.

When applying a Gramscian approach to examine capitalist social order formation and internationalization processes, my analysis suggests that the first question to ask is what the fractional nature of dominant or hegemonic capitalist classes is. It is only by doing so that the policy basis of individual states can be more correctly theorized in terms of the degree to which they are susceptible to regional historical blocs or a northern-emanating transnational historical bloc. Of course, it is unlikely that there will be many cases in which the degree of internationalization is so strongly pronounced as that of Taiwan, especially because of the CCP's prolonged policy priority to secure Taiwan's unification with China. In a majority of cases, it is likely that individual state-society complexes will be subject to a confluence of regionally and transnationally operating historical blocs and toward one of which they are likely to tilt more pronouncedly. But, regardless of the degree of correspondence, Taiwan's internationalization toward China is reflective of a pronounced and continued regional feature of global order which cannot be ignored easily. This is especially so because despite proceeding on the basis of a capitalist economic integration process, Taiwan has internationalized toward China's counter-hegemonic contender state, a fact which directly challenges the global capitalist convergence thesis.

My analysis demonstrates also that it is problematic to conceive class contradictions in global terms. The reality of the matter is that class cleavages are much less clearly defined than is often assumed while they will also tend to manifest themselves in a much more distinctively regional fashion. Because of this, it is not always so easy to reduce an analysis of social forces solely to a capitalist vs. non capitalist schema when focusing on regional social orders. As Taiwan's case demonstrates, the CCP clearly cannot fall under the capitalist class heading because of China's counter-hegemonic contender state stature. But at a strategic level, the CCP has also operated through a pronounced capitalist logic by aligning itself with Taiwan's LE capitalist class. One thing that is certain, however, is that because of the visibility of Taiwan's LE capitalist class and the CCP, resistance processes have also been much more regionally focused and have not developed into a global anti-capitalist direction. This is to be expected, however, because it is the LE capitalist class and the CCP which have most visibly shaped Taiwan's social order and which are also naturally most responsive to social contestation processes thereon. As such, the economistic core of the hegemonic narrative has also been aimed at linking Taiwan's economic welfare directly with a deepened CSEI. Although this economistic narrative includes a normative assumption of the desirability of capitalist market relations, it is also designed to overcome specific reservations in Taiwan toward economic integration with China.

As my analysis also shows, in order to utilize the concept of class, it is crucial to explore its often entangled relationship with identity politics. As I noted in my analysis, a Taiwan identity politics has been central to its strong degree of popular support toward a capitalist defined CSEI process and social order. In Taiwan's case, its historical experience and various extant identity contradictions have ensured that the China centred nature of the Cross-Strait historical bloc has exacerbated an identity politics toward which class contradictions have been channelled to. It is, however, true that a previously CSEI advancing Taiwan identity politics has nuanced somewhat of late while a relatively more foregrounded class dimension has also channelled contestation against an intensified CSEI. But, this has also been problematic because contestation has tended to focus on the destination of Taiwan's capital flight, but not so much on Taiwan's social order and class basis which are at the root of the capital flight in the first place. Because of an under-developed class agenda and a continued identity current within Taiwan's anti-CSEI contestation, I have remained sceptical that a viable counter historical bloc may be coming into shape yet which can qualitatively alter Taiwan's social order parameters. As such, my analysis again points to the importance of identity discourses and their role in social order legitimation at the regional level in order for a class analysis to gain a necessary degree of precision. Although a specifically global Gramscian theorizing is well developed, it is clear that what is needed now is for this to be accompanied by a much better developed regional analysis.

### **Future Research**

Based on my analysis, there are at least three interesting directions which future research can take toward CSEI, the CCP's international strategy and increasing regionalizing tendencies in the global order more generally.

In terms of CSEI, now that the tenability of the Gramscian framework toward theorizing CSEI has been demonstrated, especially from the perspective of Taiwan, it will be illuminating to also examine CSEI from a more explicit CCP perspective. Although much more is known about the CCP's United Front policies toward Taiwan's LE capitalist class, it will be important also to explore the CCP's United Front policy at a deeper level toward Taiwan's non-capitalist classes. Throughout my analysis, I have taken especial note of the CCP's pragmatic CSEI policy features of responding to Taiwan's social forces on the basis of class influence. This policy logic, combined with Taiwan's more pronounced anti-CSEI contestation and an increased CCP emphasis on perception management, suggests that it will be especially important to examine the CCP's strategic thinking toward engagement with Taiwan's social movements and labor groups. As I noted, such engagement has already occurred, but it also still remains limited and primarily at the level of symbolic interactionism. But provided Taiwan's social movements gained further influence, it is not impossible that the CCP may opt to engage with them more

tangibly, especially toward the pragmatic aim of diluting the Taiwan nationalism among Taiwan's social movements. To examine this would be interesting on its own terms, but could also allow for the CCP's United Front long-term alliance with Taiwan's LE capitalist class to be researched more critically. This is especially so because with the CCP's dominant status, the question naturally remains whether or not an eroding support for CSEI may yet force the CCP's hand toward shaping the CSEI process along a more socially conducive pathway. If this were a possibility, this may yet weaken the influence of Taiwan's LE capitalist class toward shaping the CSEI process.

The CCP's CSEI policies are important also because they are likely to be reflective of the CCP's international strategy more generally. As such, there are also many important questions which can be explored through a further application of a neo-Gramscian framework on this question. It is true that there is a level of specificity to the Cross-Strait historical bloc because it operates solely on Taiwan and toward the central aim of securing Taiwan's eventual unification with China. But at the same time, China has also secured a strong presence and pronounced political influence along a qualitatively similar path in less powerful surrounding countries such as ASEAN states toward which alliance formation with dominant classes has also been central. This and similar CCP priority engagements are likely to be a very fruitful area for further research. Although I have focused on historical blocs according to a regional dimension, it is also possible that regionally centered historical blocs can secure a transnational reach. This is especially likely in the case of the CCP's Africa policies which have come under particular attention of late because it has pursued a conscious logic of targeted alliance formation with regional elite classes while also attempting to secure a welcome presence through a central ideational dimension. To do so, the CCP has propagated a narrative which stresses a South-South solidarity and mutual aid type conception of global order which also directly challenges neoliberal development thinking. In addition to securing the CCP's welcome presence, such policies are also reflective of a contender state policy logic by which the CCP has sought to challenge the global North's dominance toward defining the norms of international economic relations. This has been so much the case that China's policy has been referred to by some commentators as a characteristic 'Beijing consensus' policy framework (Halper, 2010; Ramo, 2004). As such, a neo-Gramscian analysis is likely to be especially prescient toward theorizing such a dynamic through the theoretical lens of CCP-led historical blocs within given national or regional social orders.

At a more general level, there is also significant scope to apply a regional historical bloc type framework to theorize non-Northern transnational relations, especially in the context of rising power states and their regionalizing effects. Because the Cross-Strait historical bloc has

emanated from a contender state, the question of how to account for regional historical blocs which are centered in liberal capitalist states such as India and Brazil has been beyond the scope of my analysis. Based on a regional Gramscian schema, however, it is not an unreasonable assumption that hegemonic capital factions based in rising power states will likely also forge regionally operating historical blocs to shape regional social orders. Because of fractional contradictions, it is likely that such historical blocs will also pursue interests which, at times, will clash with a Northern emanating historical bloc. As such, whether applied to examine the hegemonic core within regional historical blocs or the effects thereof on weaker states, further Gramscian research on such questions is much needed and will likely be extremely illuminating. In addition to theoretical and conceptual insights toward understanding the global order more generally, such research is especially crucial because of the highly topical nature in relation to the current multi-polar global moment.

Because of the multi-polar features of the current global order, it is likely that a general interest in regional social order will grow stronger in the foreseeable future. To what extent such research will be guided by a Gramscian framework remains to be seen, but the level of correspondence in the case of CSEI to Gramscian insights adds credence to a multiple-historical blocs conception of global order. A multi-historical bloc defined feature of global order has been less observable previously largely because of a unipolar post-Cold War moment of Northern supremacy which culminated in the neoliberal Washington consensus and its corrosive effects on the global South. Of course, this is not to say that regional capitalists did not also ally with a transnational historical bloc during this time, but rather that such integration was not friction-free and without contradiction, especially because the neoliberal policy consensus advanced the interests of Northern capital. But, as China's rise and an increased multi-polar global order demonstrate, this was a historically specific juncture which has now become significantly weakened. Naturally, social order and class contradictions remain, but the multitude of historical blocs which are in operation is likely to entail a much more diffuse and labyrinth like power distribution which a regionally-focused Gramscian framework remains well suited to theorize.

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