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Lee, Zong-Rong

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A brief review of the economic sociology of Taiwan's development

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A brief review of the economic sociology of Taiwan's development

Zong-Rong Lee

A rapid developmental economy

Taiwan started its industrialization in the 1960s, when the government pushed development through regulating measures such as tax incentives and subsidies via foreign aid. The market then went through decades of rapid growth, with local businesses booming and becoming pivotal within the nexus of global production networks, marking Taiwan as one of the most successful late-developing economies. Between 1963 and 1996, the nation's GDP grew on average by more than 9 percent, establishing it as one of the four Asian tigers alongside Singapore, Hong Kong, and South Korea (Fei et al. 1979; World Bank 1993). The success of Taiwan's economy caught up with the revival of American interest in economic sociology that began in the 1980s. It was amidst this academic revival that Taiwan entered the stage of global economies and caught the attention of researchers, who shared one main concern: Why were Taiwan and its fellow East Asian neighboring societies able to shed their peripheral status? More so, how could they maintain economic growth for so long (Haggard 1990)?

Many scholars noticed that the specific set of politico-economic conditions in Cold War geopolitics created a unique opportunity for the development of Taiwan (as well as Japan and South Korea). The then authoritarian Kuomintang (the Chinese Nationalist Party) government, which inherited the industrial infrastructure from the previous Japanese colonial regime, enforced a land reform that eradicated the potential political threat of landlords (Winckler and Greenhalgh 1988) and funneled capital extracted from the agricultural sectors to industrial projects and helping to build the foundation of industrial enterprises (Ka and Selden 1986). The state not only provided the required social stability for private actors to accumulate capital but also managed to link local production to demand from the US and Japanese markets, as well as to suppress quelling unrest among the working class and farmers, eventually fostering an export-oriented economy (Deyo 1987).

How did scholars with macro perspectives explain the speed with which Taiwan's industry grew? Some researchers were inspired by Max Weber's cultural determinism, which led them to focus on Confucian ethics and their impact on economic development (Berger and Hsiao 1988; Whyte 1996). Under this framework of cultural interpretation, the family business – and its associated Confucian morality – that was once portrayed by Weber as an unlikely organizational form on the path toward a modern capitalist economy has now been hailed as the pivotal impetus for Taiwan's rapid economic development (Hamilton and Kao 1987; Redding 1990).

Other scholars emphasize the importance of competent state capacities in integrating and governing market forces for successful economic development, and Taiwan has long been recognized by scholars as an archetype of such a model (Amsden 1985; Fields 1995; Wade 1990). By controlling currency rates, monetary policies, and the flow of investments, as well as by suppressing social unrest, adjusting export quota, and investing in high tech developments, the state maintains its leading role vis-a-vis enterprises and the public. Under strong regulating power, private enterprises are subject to a "picking-up-winners" strategy by eagle-eyed economic bureaucrats who are tied up with coherent views of economic development and sometimes also a collective vision of nationalist pride. For some scholars, the right balance between state power and its network linking with private sectors is critical. Maintaining and invigorating the deli-

Zong-Rong Lee is associate research professor at the Academia Sinica, Institute of Sociology. He received his PhD in sociology at the University of Chicago in 2005. His main research interest focuses on sociological understanding of individual and corporate market behaviors from the social network perspective, especially in the context of East Asian economies. His current research projects include the kinship network analysis among Taiwanese big businesses and the dynamic analysis of intercorporate networks in post-war Taiwan from the institutionalist approach. *zlee@gate.sinica.edu.tw*

cate nexus of public-private cooperation is important for development projects and industrial innovations, lest they should slide into predatory or captured forms of economic degeneration (Evans 1995; Hsieh 2014; Lee 2009).

Within the powerful control of this "party-state capitalism," the massive export-oriented network of small- and medium-sized enterprises (SMEs) was also heavily studied. Drawing on the theory of "flexible specialization" (Piore and Sabel 1984), researchers see not the state but SMEs themselves as driving forces, with their labor-intensive export manufacturing ability (Greenhalgh 1988; Ka 1993). These small enterprises were usually led by entrepreneurial families who attracted capital and acquired new skills through social networks. They exhibit the organizational capacity inherent in most developing economies that are able to meet the swift demands of global economy, and also serve as the ladder for the kind of high social mobility associated with rapid economic growth (Shieh 1992).

Market transitions and economic challenges since the 1990s

As regards the present, however, the whole economic structure has been changed enormously, to the extent that old stereotypes may not be easy to recapture. After the 1990s, Taiwan experienced a series of important changes among its economic institutions, and beginning in 1997, the economy was also impacted by the East Asian financial crisis. Since then, the annual growth rate has dropped to as low as 3 percent, diminishing the country's prospects and hardly comparable to the rapid growth in the past. It was during these trying years that economic sociologists studying Taiwan started to investigate new empirical developments alongside this big transformation, as well as to address the challenges and contradictions that have gradually emerged from this process (Lee and Hsiao 2014; Lee and Lin 2017; Lin 2021).

Important themes from research findings about this economic transition can be roughly summarized as follows: the decline of state capacity in directing the economy; the aging and shrinking population and its negative impact on economic prospects; the ever-increasing importance of family businesses; the globalization of production and the move by manufacturing sectors to China; and finally, widening social inequality and the rise of social unrest due to economic globalization. All of these engender contradictions and pose critical challenges that were unseen in the past.

Decline of state capacity

The most salient feature since the transition period has been the decline of state power over the market. In 1986, a long-effectuated martial law was abolished in Taiwan, and in 1989 the economy was liberalized, with monopolized sectors of state-owned enterprises being privatized and transferred to rising private business groups – mostly in the hands of family tycoons. The process came alongside large-scale reductions in import controls and tariffs, as well as liberalization for foreign investment and bank interest rates, which opened the door for an influx of international funds (Amsden and Chu 2003). The state withdrew its control from the economic sphere and reduced its means of regulation, and the once strong state was no longer able to wield its powers to achieve economic goals easily. This change in power was also reflected in corporate network compositions, where state and party-owned enterprises no longer occupied the central and brokerage positions they used to have, and network centralization overall also started to loosen, from a tight corporatist fashion to one more resembling a liberal economy (Lee 2009).

Since then, local Taiwanese companies have started to follow the path of globalization and export their mobile, but close-knit, production networks abroad, mostly to China and Southeast Asia. In the meantime, the efficacy of the government's domestic policy in directing the economy suffered when it came to keeping up with the speed with which the economic sphere had changed. The whole course of the Taiwanese economy since then can be described roughly as progress away from the ideal model of the developmental state. Salient features of its internal transformation include the following: interest politics replaced regime autonomy as commonplace; electoral competition has been leading politicians away from developmentalism (Wu 2007); and state interference in the economy was accompanied by uncertain success. As its capacity declined, the state became more and more regulatory in nature, less capable of direct intervention, and less predictable in the quality of implementation (Wong 2011). As a result, decision-making processes have been changing gradually from top-down to increasingly more likely to be captured by emerging, powerful business interests. Amid the liberalization of the 1990s, the government deregulated several industries and pushed for mergers and acquisitions, especially in financial sectors, where the interests of dynasty families are prominent. And yet, ironically, the consequences of such a policy were not as positive as policy makers had expected; empirical analyses from financial scholars show no cost efficiencies or improved operating or long-term invest-

ment performance from these measures (Lee and Hsiao 2014).

An aging population and the world's lowest fertility rate

One factor contributing to the rapid development of Taiwan in the past was the postwar population surge, which provided abundant laborers to propel economic growth. And yet, starting from the mid-1990s, low fertility rates and aging population problems have become pressing issues both for the government and for the public (Cheng 2020). In the CIA's latest report on total fertility rates (TFR), Taiwan was ranked last out of 227 countries, at 1.07 children per woman. As typical of a post-industrialization marker as it may be, the ultra-low fertility rate in Taiwan is nevertheless a combination of cultural change, harsh labor markets, and ever-exacerbated social inequality. The younger generation reluctant to have babies are discouraged by poor career prospects at low, entry-level salaries and unaffordable housing prices, compounded by the meager nursery subsidies and other forms of welfare support both at home and in the workplace. According to Cheng's (2017) projection models, current ultra-low fertility rates in Taiwan may produce a shrinkage of as much as 29 percent of the total labor force by 2050 if nothing changes, or a 7 percent shrinkage if Taiwan adopts a full-fledged Nordic welfare state model such as that of Sweden (Cheng 2017) – an unlikely path given its current neoliberal political-economic structures.

Chanderlian thesis re-examined

Another distinct feature of the Taiwanese economy is the continuous prominence of family businesses, which has become a clear antithesis to Alfred Chandler's prophecy of managerialist capitalism, despite rapid development for almost half a century. The prevalence of family businesses in Taiwan has been consistently documented by scholars of different academic disciplines, and the prominence of family firms in the market has marked Taiwan as a typical case of "family capitalism" (Hamilton 1997), which stands in strong contrast to its Japanese counterpart or other Western industrialized nations (Hamilton and Biggart 1988). Although a recent study has found that second-generation key leaders of Taiwanese business are, in general, less likely to keep family members in the inner circle after market transition (Chung and Luo 2008), family-controlled firms are still found to represent approximately 80 percent of all listed companies (Lee 2017).

This emphasis on family ownership reflects the primacy placed on the growth of family wealth rather than the firm being seen as a public interest, and business owners tend to keep power in the hands of close relatives whom they trust and to transfer their assets to family members. This raises a fundamental question of whether this kind of essentially nepotistic economic organization will be able to continue to propel the local economy further, when family businesses are generally associated with issues of underperformance, waste of talents, creation of class rigidity due to patriarchal inheritance, and political corruption that more than often cripples the functioning of a democratic society (Fogel 2006; Olson 1984; Chung, Lee, and Zhu, forthcoming).

Moreover, a distinctive feature of Taiwan's postwar economic development emerged in relation to decentralized industrialization, consisting of a system of small and medium enterprises, but scholars have pointed out that under the pressure of economic globalization, the size of Taiwanese firms has expanded greatly, to the extent that the old stereotype of SMEs no longer captures the country's growth dynamics. For example, the Foxconn (or Hon Hai), once the world's third-largest enterprise and the main supplier of Apple computers, had almost 1.3 million employees (although mostly through the mega-size factories based in China), and the ten biggest Taiwanese companies average 200,000 employees, almost matching the numbers of their Korean and Japanese counterparts (Lin and Hu 2017). Big Taiwanese companies usually move their factories to China and Southeast Asia, i.e., regions with cheap labor that enable these businesses to increase their labor-intensive modes of production. This "world factory" approach allowed many Taiwanese enterprises to increase their revenue and rosters rapidly, but not necessarily to the point of seeing an increase in profit margins. For the case of Foxconn, its profit margins have been clocking in below 3 percent for years. Based on these findings, Lin and Hu (2017) argue that classic economist theories of profit maximization cannot adequately explain the modus operandi of Taiwanese businesses with respect to their expansion.

Observing the rapid expansion and big businesses moving out of Taiwan to China, scholars on the Taiwanese economy have also begun to investigate the viability of local production networks in which SMEs are the bedrock. In her detailed sectoral analysis on the industrial census data, Hsieh (2014) shows that SMEs are avid adapters and creators of new opportunities, despite their modest revenues. Contrary to the "hollowing out" thesis, SMEs have moved up the value-added ladder and become key global players or indispensable upstream and midstream global suppliers for several industries, such as bike components, car parts, or machinery (Hsieh 2014).

From the bigger picture of these industries' local contexts, certain socially embedded, historic factors emerge as being central to the vigor of SMEs (Hsieh 2011). The equality of power structures and open network relationships among relatively smaller-sized firms contributed to a horizontal exchange of skills, ideas, and resources. Semiofficial research organizations further supported these exchanges and promoted specific skills, thus equipping entrepreneurs with a means to pursue their creative endeavors. This characteristic marks a stark contrast to South Korea, where vertically integrated, large conglomerates are the engines of industrial innovation and production (Hsieh 2011; Wang 2007).

Globalization of production and the influence of China

The development of a global value chain is one central development of modern capitalism (Gereffi 1994), and Taiwan's economic success benefited partially, at least, from it (Hamilton and Kao 2017). Since the early 1990s, globalization has pushed the ODM-based (original design manufacturer) Taiwanese manufacturing companies to become more mobile across Asian regions, amidst pressure from overseas customers and a constant need to drive down costs (Hsing 1998; Saxenian 2006). Taiwanese business people setting foot in China has become the common standard, and it has had short- and long-term ramifications for Taiwan's economy and society. For one thing, scholars have pointed out the correlation between the increasing investments of Taiwanese firms in China and the exacerbated working environment for local employees, who saw their wages stagnate for almost two decades and personal benefits de-linked from economic growth in GDP (Lin 2015).

The exodus of manufacturing sectors and resulting emergence of an intertwined economy on both sides of the Taiwan Strait put further strains on local politics and economic policies (Yu et al. 2016). One aspect of this tension is that Taiwanese firms became an easy target for repercussions amid the contested relationship between Taiwan and China, especially when economic policy on trade with China oscillates between contested national identities and material interests in economic integration (Lin 2016). Recent research has started to explore how Beijing may have influenced political affairs offshore, by exercising its economic muscles via its political agent of overseas Taiwanese business *(Tai-shang)* in China (Schubert et al. 2017). As Wu's (2017) study shows, the political stance of local businesses toward China is associated with their economic interests in China. This suggests that Beijing has effectively cultivated cross-strait, government-business networks and local collaborative mechanisms in Taiwan by manipulating its relationship with *Tai-shang,* a strategy that helps it implement its political goals in an indirect manner (Wu 2017).

Moreover, as more and more Taiwanese manufacturers of electronic products and chips are moving over to China, the talents and the technology are inevitably also transferred and flow at regional and global level (Saxenian 2006). Recent anxiety over the shortage of semiconductors around the globe – where the leading-edge firms such as Taiwan Semiconductor Manufacturing Company (TSMC) are at the center of the storm – reflects the dire and new reality of intertwined global technological supply chains that often breach the boundaries of national security and intentional political alliances.

Inequality and discontent

Increasing inequality and social unrest have been trademarks of economies that have gone through the difficult processes of economic liberalization and globalization around the world, and Taiwan has been no exception. Stagnant wages, along with rising and unaffordable housing prices, all speak to the pressing issues of economic inequality and the social discontent associated with post-transition economic development, especially among younger generations, who suffered most from the newly globalized economic environment. One important backlash against this economic liberalization was the Sunflower Movement in 2014, when almost half a million young protesters gathered to protest the government's free trade agreements with China, demonstrating their discontent toward the harsh economic realities looming over their life prospects.

Echoing such developments, research on the labor market has also started to reveal harsh realities in the workplace. Using Industrial and Commercial Census data, Liu and colleagues estimate the rate to which factory owners benefit from underpaying their workers (or "exploitation"), finding that the majority (62.5 percent) of Taiwanese manufacturing firms actually engage in "extractive exploitation," and most of the profits (75.5 percent) are derived from the underpayment of their workers (Liu, Sakamoto, and Su 2010). As most of the sampled firms from the census data are SMEs, these studies suggest a difficult reality that is more than often accompanied by the self-exploited nature of the mode of flexible production systems.

Gender inequality inside the workplace has also been an important issue for both industrialized societies and East Asian contexts (Tam 1997; Chang and England 2011). Although the gender wage gap in Taiwan continues to decrease, and women are catching

up when it comes to education levels and job opportunities, women nonetheless still earn on average twenty percent less than their male counterparts (Chang 2017). In Taiwan, women are generally concentrated in lower-paid, service sector, white-collar jobs. Compounding matters, a statistical analysis from Chang's (2017) study suggests unequal pay for equal work: women are still underrepresented in high-ranking, white-collar jobs, and for the same professions, the wage gap is still pronounced. Even when accounting for education and experience, women earn less for the same work, as compared to men.

Conclusion

Taiwan represents one of the most successful developmental economies in the East Asian region in the second half of the twentieth century. At the turn of the twenty-first century, however, following the impact of successive economic crises and the subsequent trying years of Taiwan's economy, a reversal in scholarly interests emerged, and what was once seen as an economic miracle was now seen as a subject marked by economic challenges and intertwined political and social contradictions that past institutional arrangements were not able to easily resolve. These concurrent developments of economy and society as reviewed above will undoubtedly pose new challenges for Taiwan's future development. As its economy is heavily enmeshed in global production networks, what were once seen as local social and political issues – such as the roles of the state, business, and the public – and also their complex interactions with China, will inevitably produce repercussions echoed in the global economy.

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