

INTRODUCTION

Taishang, China, and the World

Talking about China's development model must begin with Guangdong, and talking about the processing trade growth model that rose to fame in Guangdong means starting with Taiwanese entrepreneurs, or Taishang.¹ Yet the contribution of Taishang to China's economy touches not only on the course of history and identity politics on either side of the Taiwan Strait but also on value judgments regarding development and distribution. For this reason, this contribution has long been treated as unclear or even unmentionable.

From the Chinese government's perspective, excessively commending the contribution that Taishang have made to China's economy would cause a loss of face. From Taiwan's perspective, those who criticize authoritarian developmentalism ignore this contribution in favor of emphasizing distribution and exploitation. For Taiwan, the political effect of Taishang is even more difficult to analyze. After all, the collective noun "Taishang" is overly weighted with significance, and companies such as Chi Mei, Want Want, Ting Hsin, Taiwan Semiconductor Manufacturing Company (TSMC), United Microelectronics, and Hon Hai (Foxconn) are each freighted with a different political imagination.² The

1. What this book refers to as "Taishang" includes Taiwanese businesses operating in China as well as Taiwanese-owned businesses that operate on both sides of the Taiwan Strait; Taishang also refers to the proprietors of these businesses. For a detailed definition of the term, see chapter 1, section 5.

2. Foxconn, a major manufacturer for Apple products, is the trade name of the Taiwanese-owned Hon Hai Precision Industry Co, which has its headquarters in Taiwan.

westward-moving Taishang are given different labels of industrial value such as “traditional industry” or “high-tech industry,” but so-called traditional industry has experienced obvious upgrading and transformation over the past thirty years.

I. The Taishang Enigma

At the high-profile annual Boao Forum for Asia held on April 10, 2018, Xi Jinping, China’s leader, complacently declared: “Today, China has become the world’s second-largest economy, its top industrial nation, its top trading country, and its top holder of foreign exchange reserves. . . . Today, the Chinese people can proudly say that China’s second revolution of opening reform has not only profoundly changed China but has also profoundly influenced the entire world!”³ Despite his full schedule, Xi managed to find ten minutes to receive Taishang representatives. According to a report in *China Times*, he flattered them by saying that the development of China’s forty years of opening reform “has to be chalked up to our Taiwan compatriots and Taiwan companies.” But he also required Taiwan’s industrial and commercial sector to take a clear stand by upholding the “1992 Consensus” and opposing “Taiwan independence,” as well as by staunchly promoting the peaceful development of cross-strait relations.⁴ By affirming the contribution of Taishang to China’s economic development and at the same time warning Taiwan’s capitalists to take Beijing’s side by upholding the consensus and opposing Taiwan independence, Xi was sending the message that Taishang still have considerable utilitarian value as China pursues global hegemony. But this subtext could not be openly expressed.

3. Xi Jinping’s speech at the 2018 Boao Forum. “Kaifang gongchuang fanrong, chuangxin yinling weilai (Openness creates prosperity, innovation leads the future),” Xinhuanet, April 10, 2018, http://www.xinhuanet.com/politics/2018-04/10/c_1122660064.htm.

4. Quoted in Chen Po-ting, “Xi Jinping zan Taishang, gonglaobu ji yibi” (Xi Jinping praises Taishang and records their merits), *China Times*, April 11, 2018, <http://www.chinatimes.com/news/papers/20180411000558-260108>.

The Sunflower Movement that erupted in Taiwan in March 2014 targeted the Cross-Strait Service Trade Agreement that resulted from the cooperation of the Chinese Communist Party (CCP) and the Kuomintang and disrupted Beijing's road map for Taiwan. In the previous month, an American scholar of international relations, John Mearsheimer, published "Say Goodbye to Taiwan," in which he took a realist's viewpoint in projecting that a rising China would ultimately achieve hegemony in East Asia and eliminate American influence in the region and would then proceed to annex Taiwan. Mearsheimer wrote that although this wouldn't be accomplished today, next year, or in the coming few years, it would occur within the next few decades. Why was China able to achieve its economic rise in such a short time? Mearsheimer identified a key factor: "By trading with China and helping it grow into an economic powerhouse, Taiwan has helped create a burgeoning Goliath with revisionist goals that include ending Taiwan's independence and making it an integral part of China. In sum, a powerful China isn't just a problem for Taiwan. It is a nightmare" (Mearsheimer 2014).

Xi Jinping and Mearsheimer's views on Taiwan may be diametrically opposite, but the two men reach startlingly similar conclusions about Taiwan's economic role: Both feel that Taiwan played an important role in China's economic rise. In the process of China's opening reform, Taishang helped China develop capitalism and greatly strengthened China's ability to annex Taiwan. For Beijing, this is a giant step toward what Xi refers to as the "great rejuvenation of the Chinese nation," (Xinhuanet 2012), but for many Taiwanese, China's rise and its plans to annex Taiwan are a source of increasing anxiety.

How did Taishang facilitate China's rapid economic growth?

Forty years ago, when China was groping its way along the path of opening up to the outside world, it targeted Taiwan for emulation and imitation, putting particular emphasis on the ability of Taiwanese business to earn foreign exchange through exports. The foreign exchange targets that China's policy makers initially set for Guangdong now look like a modest beginning, and they were achieved well ahead of schedule. Before the early 1990s, however, China barely achieved a trade balance and remained short of foreign exchange. Then, in just ten years, China achieved an overwhelming trade surplus and its foreign exchange reserves

increased dramatically, so Taiwan was relegated to the back burner. Yet, the true story is far more complicated than this narrative would suggest.

In this book I analyze how in the course of China's development, Taishang served as a bridge between China and global capitalism and helped China link up with the world. I also show that the Chinese government firmly grasped this opportunity to enter into global value chains (GVCs) and make China into the factory of the world, from which it derived an abundant economic surplus, accumulated foreign exchange reserves, and pushed forward its economic and military modernization. This book focuses its analysis on the historical phase of China's economic transformation from state socialism to capitalism, the development phase lasting from the late 1970s until the mid-2000s. After establishing this foundation, I extend the discussion to China's industrial transformation policy that began in the late 2000s and the effect this had on foreign investment and Taishang.

At the early stage, traditional industrial Taishang followed Hong Kong businesses into China. Hong Kong and Taiwanese businesses introduced capital, technology, and markets, while China provided plentiful low-cost labor. Relatively high-quality labor was an important legacy of the Mao era. Labor-intensive traditional industries such as apparel, footwear, toys, luggage, and other products for everyday use seem insignificant compared with China's development achievements today, but they played a crucial role in allowing China to obtain its first pot of gold after opening reform, and an immense pot of gold that was. This is the first story this book tells, and it is also the starting point of China's economic rise.

Investment by Taishang and Hong Kong businesses in Guangdong's Pearl River Delta, especially in Shenzhen and Dongguan, triggered the takeoff of China's export-oriented economy. In the manufacturing sphere, the importance of Taishang rapidly eclipsed that of Hong Kong investment. Until China joined the World Trade Organization (WTO) in 2001, Taiwanese capital served as a go-between, linking China with the world market. It helped create the Guangdong model that soon set an example for other regions: the urgent catch-up efforts in the mid-1990s of the Yangtze Delta region (Shanghai, southern Jiangsu, and norther Zhejiang), whether through the Suzhou model or the Kunshan model, were all variations of the Guangdong model. Had Guangdong not taken the first

step, there would have been no export-oriented development in other regions of China.

After the 1989 Tiananmen Incident, the economic sanctions that Western democracies imposed on China created serious difficulties and stalled opening reform. To break through the Western blockades, China ardently courted overseas Chinese capital, using special incentives and preferential treatment. In this difficult time for China, many Taishang shifted into reverse and upped the stakes in their westward march, creating a so-called mainland fever in Taiwan. This upsurge in investment reflected not only the opportunistic thinking of those Taishang, but also the thrust of Taiwan's own industrial restructuring at that time. Another mainland fever occurred in the late 1990s when the information and communication technology (ICT) industry moved its assembly lines to China's coastal region, mostly concentrated in the Yangtze Delta. Taiwanese capital helped China lay the foundation for its processing trade and prepared it to become the factory of the world.

After China joined the WTO, global foreign capital poured into the country, and booming exports greatly increased China's foreign exchange reserves. The role of Taiwanese capital in China faded during this stage. As China felt pressure to upgrade its industries, labor costs rose, demands for environmental protection increased, Taishang faced the choice of staying or leaving, and the 2008 global financial crisis catalyzed a major Taishang exodus.⁵ Over the next ten years, the features of Taishang in China rapidly changed.

2. Exploitation with Chinese Characteristics

Both the Guangdong model and the China model look bright and beautiful in official propaganda, but the underlying exploitation is usually covered up. The GVC is actually an exploitation chain that straddles national borders, penetrates classes and genders, and destroys the natural

5. Lu Kuo-chen and You Tzu-yan, "Zhongguo bianle, Taishang da taowang" (China has changed, and Taiwanese businessmen flee), *Shangye Zhoukan* (Business Weekly), May 29, 2008, <https://www.businessweekly.com.tw/Archive/Article?StrId=33244>.

environment. The price paid by humans and the environment is shifted downward layer by layer in the chain. In a documentary film describing the industry chain for high-heeled shoes,⁶ a designer says: “People always think that fashion design is a charmed profession, but in fact it is only 5 percent glamour, while 95 percent is sheer hard work.” A Taishang outsourcing factory owner grumbles, “If the international buyer wants you to crawl, you crawl.” Meanwhile, the Chinese migrant workers draw such scanty wages that it’s not clear how they could ever wear the beautiful products they make with their own hands. The extravagant, dazzling glow obscures a cold, cruel chain of exploitation.

Exploitation is a key element of all capitalist economies, but the specific form of exploitation differs across times and places. The special characteristic of the China model is that by creating the migrant worker class, the state competes with capital in the exploitation of migrant workers. Taiwanese capital, like all foreign capital and Chinese capital, has also become part of this capitalism with Chinese characteristics. However, neither the state nor investors are willing to face the truth about the exploitation of migrant workers. As the Chinese scholar Qin Hui (2007) has said, China’s competitiveness depends on “low wages, low welfare, and low human rights,” using an institutional logic of political repression to create a “freak efficiency.” Because Chinese workers receive such low pay and so few benefits, they have to work overtime to make a living, and after-hours work is typically justified with statements such as “workers like working overtime.” A series of suicides among Foxconn workers in Guangdong in 2010 exposed this myth.

In the classic scenario of capitalistic exploitation, the state takes a hands-off attitude toward the squeeze that capital puts on labor. In China, however, the state does not adopt a *laissez-faire* policy toward labor-capital relations. Rather, the state has actively intervened in the use of migrant labor from the outset, and its intervention has actually ensured a high degree of exploitation of labor by capital. To explore the logic of Chinese-style capitalistic exploitation, I propose a theory of differential citizenship: China’s state system creates differentiations between different groups of citizens, and around this differential citizenship, the state has con-

6. He Zhaoti, director, *Wo Ai Gaogengxie* (I love high heels), created and distributed by Taiwan Public Television, 2010.

structed a dual labor market, with varying minimal wages and a graded social insurance program and other institutional plans. As a result, migrant workers face a situation of dual exploitation. On one side is the classic exploitation of the working class by capital, which is class exploitation according to traditional political economy. On the other side is the state's designation and definition of migrant worker status, which allows enterprises hiring migrant workers to lawfully apply labor conditions for second-class citizens, which is exploitation based on status guided by the state system.

In China, globalization forces and the country's differential citizenship have engendered a symbiotic relationship that allows capital to carry out twofold exploitation on migrant workers. As a result, globalization has not mitigated existing economic and social inequality but rather has fortified yet another unequal system by creating the new social class of migrant worker. Under this logical sequence, pondering the effects of capital (both foreign and domestic) on China's development requires including the angles of surplus extraction and economic distribution, and at the same time considering the pervasiveness of capitalist exploitation and the uniqueness of an exploitation mechanism with Chinese characteristics. Only this analytical perspective will allow us to clearly perceive the interrelation between Taishang (as a form of foreign capital), the Guangdong model, and China's development.

3. The Neomercantilist Policy

As the vanguard of global capital, Taishang linked China with the world market and helped China carry out capital accumulation in the first stage after opening reform. With foreign capital helping it develop its export economy, China rapidly became a major manufacturing nation. In the previous East Asian development model, foreign capital (foreign direct investment) was not crucial in South Korea and Taiwan. In retrospect, foreign capital played an important role in China. Yet unlike what the past dependency theory would have predicted—that is, foreign investment leading to underdevelopment—China did not fall into underdevelopment but rapidly consolidated a semiperipheral status and even

demonstrated an intense ambition to challenge core countries. Why was China able to resist dependency? First, when China began opening itself to the outside world in the late 1970s, the CCP was already a regime with highly centralized power, strong controls on the economy and society, and the capacity to guide policies. Furthermore, China enjoyed an obvious influence in regional politics. The state apparatus already had a high degree of autonomy and dynamism, so when China reestablished its links with capitalism, its local polity could cut into the GVCs with rather strong state capacity and give free rein to its dynamism. In addition, local governments were able to seize economic surplus where they intersected with the chains and pursue industrial upgrading that allowed them to climb up the chain. Second, China's strategy of opening itself up to foreign investment differentiated between internal and external: China was very open to the export processing form of foreign investment, but it was very cautious about foreign investment aimed at the domestic market—especially strategic industries. It protected the domestic market, strictly limited the proportion of foreign ownership, and demanded joint ventures, technical transfers, and so on.

Once labor-intensive traditional industries began accumulating national wealth, the Chinese government invested part of it in infrastructure and in fostering strategic target industries. In just a few decades, China's industrial structure and the appearance of its cities were completely transformed. China's own ICT brands and industry chains have grown rapidly since the 2000s. The enormous domestic market, the state's targeted policy support, and jump-starting strategies have all been important contributing factors. Why was the ICT industry able to spring up in such a short time? Most noteworthy is the emergence of a new ICT ecosystem in Guangdong's Pearl River Delta region. This system depends on the vast domestic market and has gained the key support of state policy makers. In the research area, it has adopted a human wave strategy and employee poaching (including from Taiwan), first breaking through a certain number of key industrial sectors and rapidly enhancing its manufacturing capacity through jump-starting, then taking over international mid- and low-range markets with low pricing, and later cutting into the markets of developed countries. Telecommunications companies targeted by the state for focused cultivation, such as Huawei (China's top telecommunications equipment company) and ZTE, have all followed

this trajectory. In their start-up phase, the Chinese government used the allocation of domestic consumption markets and various preferential subsidies to drive the so-called latecomer's advantage. We can see that Huawei, Xiaomi, and OPPO all adopted the same tactics to seize the global cell-phone market share.

Observing the expansion of China's global telecom and internet empires and state behavior, we discover that it qualifies as a neomercantilist state policy. For example, the American economist Dani Rodrik (2013) adopts this approach in analyzing China's economic strategy. Neomercantilism uses state power to consolidate capital, with economic nationalism as the driving force behind it (don't forget, Xi Jinping frequently emphasizes "the great rejuvenation of the Chinese nation"). One viewpoint holds that China is following the course of neoliberalism, but this judgment remains moot. In fact, China hitchhiked through the globalized free trade environment using a neomercantilist strategy. China's so-called state-leftists once warned against China taking the road of neoliberalism, but that was a smoke screen: their real concern was that China's embarking on Western-style market democracy would be a harbinger of what they referred to as a color revolution.

Based on a similar logic of supporting national industry, the Chinese government has used the domestic market to foster the emerging online video, internet, and social media industries, with companies such as Tudou, Youku, Baidu, Alibaba, and Tencent (WeChat)—the latter three referred to as BAT—as counterparts to YouTube, Google, Amazon, and Facebook. The rapid development of China's e-commerce and sharing economy in recent years is also closely related to national industrial policy. The strategic matrix of this industrial policy includes the interlinked state-surveillance society, domestic market protectionism, and escape from the Western technological monopoly. The Chinese government brings about a commercialization of social control by combining the motivations of the state-surveillance-society" and businesses seeking profit. An example is the symbiotic relationship between business and the state in e-commerce, in which businesses provide data on commercial trading activity to help the state carry out social surveillance and investigations, and the state grants the businesses privileges as monopolies or oligopolies. The inevitable tendency of this internal social control model is to construct a closed political and economic system. Western countries

have recently woken up to China's control methods, but in fact this grand strategy has been used for years, and it already operates at a high level of proficiency.

4. The United States Challenges China's Industrial Strategy

The story of China's economic rise has to be observed against the historical trajectory of East Asia's development, but it exceeds the framework of the East Asian model. The East Asian model component of China's development process is following the GVCs to create the factory of the world. The Chinese characteristics of China's development process are as follows: China created a path of rent-seeking developmentalism in which rent seeking coexists with development. Furthermore, after accumulating a vast amount of capital, China has demonstrated its ambition to challenge the technological hegemony of Western countries and attempt to use an illiberal approach to break the rules of the game set by core nations, set its own standards, and create its own sphere of influence.

China's industrial upgrading involves capital, markets, and technology. The upgrading of the first two has already been preliminarily resolved, but technological development has encountered a bottleneck. China is heavily dependent on importing semiconductor (integrated circuit) products from core countries and is anxious for breakthroughs in this domain. Consequently, the State Council in 2014 established the China National Integrated Circuit Industry Investment Fund (known as the Big Fund) to heavily subsidize the semiconductor industry. In 2015, China formulated a "Made in China 2025" strategy and listed ten key sectors, the first of which was the semiconductor industry.⁷ As the Made in China 2025 has been executed over the past few years, China has been buying

7. The ten sectors included: semiconductors, artificial intelligence manufacturing and robotics, aviation and aerospace, high-tech maritime vessels, advanced rail equipment, new energy vehicles, electrical equipment, agricultural equipment, new materials, and biopharmaceuticals (The Strategy Advisory Committee for National Manufacturing and Strong Nation 2015).

out high-tech companies overseas and gaining technology. This has caused alarm in Western countries, whose businesses have found their intellectual property rights infringed on through the theft of trade secrets—which in turn has created constant disputes.⁸

China's behavior has caused Western countries to worry that China wants to destroy the existing order and is even plotting to dominate the world. The current world order is composed of the two core elements of market capitalism and free and democratic government, but China has taken its own direction in development. Consequently, the world-dominating United States has begun to be concerned about a power transition and has become increasingly on guard against this rising revisionist country. In fact, even before the 2016 presidential election, the American pro-establishment political camp and academic community had already been moving toward abandoning the engagement policy toward China. "The National Security Strategy of the United States of America," issued by President Donald Trump (White House 2017), listed China as a strategic competitor. America's March 2018 trade report stated that the Made in China 2025 strategy constituted a challenge to America's technological lead (Office of the United States Trade Representative, Executive Office of the President 2018). According to this viewpoint, if China implements its current program of action, it may become a world-dominating superpower. This rising power, with the party-state apparatus comprehensively controlling economic resources (in other words, practicing state capitalism), has formulated a general strategy (Made in China 2025) for industrial upgrading to overtake Western countries. The state apparatus uses the latest technology to control society (practicing digital totalitarianism),

8. For example, TSMC sued SMIC for infringing on its intellectual property rights, as a result of which SMIC paid compensation to TSMC to settle the case (see chapter 7, section 4). A recent famous case was the suing by Micron Technology (an American company) of China's state-owned Fujian Jinhua Integrated Circuit Company and Taiwan's United Microelectronics Corporation (UMC) for stealing its intellectual property. See Paul Mozur, "Inside a Heist of American Chip Designs, as China Bids for Tech Power," *New York Times*, June 22, 2018, <https://www.nytimes.com/2018/06/22/technology/china-micron-chips-theft.html>. UMC filed a successful lawsuit against Micron Technology for patent infringement in the Chinese courts. See Su Chia-wei, "Meiguang yi zhan bihe weihe ti dao tieban?" (Why did Micron achieve nothing in the stalemate?), *Gongshang Shibao* (Commercial Times), July 4, 2018, <http://www.chinatimes.com/newspapers/20180704000257-260202>.

export surplus capital (via the Belt and Road Initiative and the Asian Infrastructure Investment Bank), and manipulate the political and social order of other countries (practicing sharp power). This new species of regime is quite unfamiliar to Western countries.

Some people believe that the empire posture that China is currently presenting to the world is just a paper tiger, a form of psychological warfare aimed at cowing the enemy into submission. As Sun Tzu put it, the most effective military tactic for a general is “to conquer without fighting.” In fact, Beijing has been carrying out a Great External Propaganda (*da wai xuan*) campaign. The sharp power it has been applying to many countries is little more than psychological warfare, and the scale and influence of its foreign investment is often inflated and unsubstantial. A detailed look at China’s industrial prowess shows that although the country is referred to as the factory of the world, the foundation of its manufacturing industry still appears fragile: it is still striving to climb the ladder of industrial upgrading and remains heavily dependent on Western technology. Even so, China is creating an image of itself as a new empire, whether in regional politics or in the diplomatic sphere. The Chinese People’s Liberation Army (PLA) is building long-range projectile capabilities, and the navy and air force engage in concentrated operations in the East China Sea, the Taiwan Strait, and especially in the South China Sea, causing a continual escalation of tensions in the region. On the ideological front, the widespread use of the expression “doing business with a sword in hand” has inflamed China’s economic nationalism. As one blogger noted, “In the face of China’s increasingly immense capital and exports, the PLA must protect China’s overseas interests and shatter the global hegemonic system with the United States at its core, ‘strike down the champion fighter, smash the boxing world,’ and build a new world system and order with China at its center.”⁹ The desire to restore the Chinese empire resounds in populist discourse. Here we discover the same emphasis on having a strong and prosperous country that has been

9. Ling Dao, “Duihua Wang Hui: ‘Yidai yilu’ heyi chengwei dui ‘shijie lishi lujing de chongxin xiuzheng’” (Conversation with Wang Hui: How One Belt One Road can become “a new correction on the path of world history”), *Potu (Groundbreaking)*, April 3, 2015, <https://www.inmediahk.net/node/1033026>.

deeply branded into China's ruling elite and intelligentsia over the past two centuries. And when Chinese believe themselves to be encountering resistance from Western empires, a collective mood of grief and indignation fills the land. The Chinese people's image of China as an empire seems to be a self-fulfilling prophecy, and it is setting off warning bells against China throughout the world.

In April 2018, the US Department of Commerce announced that it was placing a seven-year trade embargo on ZTE, citing its illegal shipment of American-made semiconductor chips to Iran. This sanction, which prevented China's second-largest communications equipment company from obtaining key chips and technology, dealt a harsh blow to the development of its 5G communication network. In June, ZTE promised to pay a heavy fine and dismiss its top executives in exchange for a partial lifting of the US sanctions. It is hardly coincidental that the ZTE Incident occurred just as a Sino-US trade war was brewing. Over the years, Huawei has been unable to crack the US market. Even after spending large amounts of money on political lobbying, it has failed to quell the US government's suspicions about the relationship between Huawei and the Chinese military (and government). US government reports years ago posited the threat that Huawei's products might pose to America's national security. When the Sino-US trade war was officially launched on July 6, the technology war led the first round of economic sanctions, which targeted the Made in China 2025 strategy. By exposing China's vulnerability if it could not have access to advanced chip technology and revealing the fault line in China's technological prowess, the ZTE Incident gives us the opportunity to observe the true situation of China's economic development.

In any case, the Sino-US trade war must be analyzed in terms of the geopolitical and geoeconomic structure. An empire's adjustment of strategy is usually considered in tandem with economic trade, and sometimes trade even takes precedence over strategy. In light of the history of American global strategy, the US government was fully prepared to address this major issue and had shrewdly calculated its options. For example, when Sino-US relations began to thaw in the early 1970s, Secretary of State Henry Kissinger and other policy makers had already included a preliminary lifting of trade sanction among the items to be negotiated

with China.¹⁰ At that time, the formation of an alliance between the United States and China against the Soviet Union in the Cold War already foreshadowed China's eventual return to the capitalist world.

America's current grand strategy of challenging China's industrial upgrading is not aimed at preventing China's businesses from upgrading or causing China to suffer crushing economic failure because that would compromise America's own economic interests. Rather, the American objective is to protect the leading position of its own technology, continue to seize massive profits from the GVCs, and deter China's expansion overseas.

This book proposes a new theory of the state: the rent-seeking developmental state (*xunzu fazhanxing guojia*). This kind of state is adept at cutting into the governance structure of foreign capital's value chains and extracting economic surplus from them. That is, the state has an especially prominent function in value capture. But does a rent-seeking developmental state have the capacity to engage in a catch-up form of industrial upgrading? Under the rule of Mao Zedong, China at one point attempted a self-regenerative policy, the Great Leap Forward (1958–60), which was intended to rapidly “overtake England and catch up with the US.” The result was a crushing failure that brought about the Great Famine. Now that the domestic and external situations have undergone great changes, is the Chinese Communist regime likely to take this same disastrous route? Does it hope to break history's curse in one stroke?

5. The Taishang Perspective

In the late 1970s, as China gradually emerged from the autarkic policies of the Mao era and in an attempt to forge an escape route for its moribund economy, the government decided to create special economic zones (SEZs) in the Pearl River Delta and learn from the experience of Hong Kong and Taiwan in acquiring foreign exchange through export pro-

10. Henry A. Kissinger, “National Security Decision Memorandum 105,” April 13, 1971, US Department of State, Office of the Historian, <https://history.state.gov/historicaldocuments/frus1969-76v17/d116#fn:1.5.4.2.16.40.8.2>.

cessing. In the 1980s, capital from Hong Kong and Taiwan flowed into Guangdong and was channeled into labor-intensive processing GVCs, spurring the growth of export-oriented processing of shipped materials (*lailiao jiagong*). Local governments gradually accumulated foreign exchange by recruiting migrant labor and charging foreign businesses processing fees. This development base point doesn't look too impressive today and is seldom mentioned by the government. Yet this apparently negligible base point had a butterfly effect that triggered China's cyclone of capitalist development decades later. In expounding on this process, this book aims to show how the turbulence of the butterfly wings set off a chain reaction that combined with other factors to create this cyclone.

Without the Guangdong model, China's rise would not have occurred, nor would today's so-called China model exist. Taishang were a key factor at the earliest stage of this development. By tracking the arrival of Taishang in Guangdong and their spreading throughout China, we can see the development process of the Guangdong model, its diffusion and transformation, and the difficulties it faced. By hiring millions of migrant laborers, Taishang became part of the ingenious, complex, and crude apparatus that exploited the differential citizenship system. By embedding themselves in the local polity and engaging in all kinds of transactions with local governments, Taishang became well versed in China's informal institutional arrangements (otherwise known as unspoken rules), fictive ownership arrangements (defined in chapter 2), and sham contractual relationships. The intensive interaction between Taishang and Taigan (Taiwanese management) and Chinese officials and cadres help us understand their state of mind and statecraft. The Taishang perspective provides us with a way to record the development and evolution of the Guangdong model. Furthermore, it helps us unearth the intentions, apprehensions, and setbacks in China's catch-up development at that time.

Made in China 2025 aims to pull China rapidly up the GVCs and even allow it to bypass chains dominated by core countries and attempt to establish its own value chains—that is, the so-called red supply chains promoted in the Chinese and Taiwanese media. The Chinese government has set a self-sufficiency rate for semiconductors, with the ultimate aim of building an autonomous high-end industrial chain that no longer relies on Western technology for key components. The opinions of Western experts are still split, however: many don't see good prospects for China's

grand objective and consider it excessively ambitious because China's technological prowess will remain unequal to the West's in the short term. While still lacking key technology, what China can do today is: (1) use its abundant foreign reserves to buy out high-tech companies and technology all over the world; (2) offer good pay to poach talent from enterprises in South Korea, Taiwan, and the West;¹¹ and (3) engage in industrial espionage wars over intellectual property—or, to put it bluntly, engage in borderline behavior that includes theft, infringement, imitation, and pirating.

By way of contrast, Taiwan's development route since the 1960s has involved step-by-step industrial upgrading following the GVCs of Western countries. Although Taiwanese manufacturing technology has continuously become more advanced, it stalls the moment it touches the leading Western high-end brands (the dominant lead firms in the GVCs), and it has encountered unsurpassable obstacles.¹² Half a century into Taiwan's economic rise, only a tiny number of manufacturers (e.g., TSMC) have been able to achieve the status of lead firm in the GVC and develop a comprehensive semiconductor manufacturing ecosystem. In addition, this route has basically followed the development model of Western core technology and market supremacy. Taiwan's geostrategy has relied on American support, and the country's economy is medium-size—as a result of which the strategy has evolved into a follow-up one that takes the conventional path of climbing the global supply chains (GSCs), with sensitive responses to the market demands of core countries, and of keeping the entire industry highly integrated with those chains. As a result, the outward movement of Taiwanese capital is closely linked with international brands (buyers) in the GVCs.

Since Taiwanese businesses began their western march into China in the late 1980s, the economic landscapes of the world, Taiwan, and China have all undergone dramatic change. Over the past thirty years,

11. This intention is expressed in one item of China's "31 Preferential Measures for Taiwan" unveiled in February 2018. See "Guowuyuan Taiban 31 tiao huitai cuoshi quanwen" (The full text of the 31 Preferential Measures for Taiwan by the Taiwan Affairs Office of the State Council), March 1, 2018, *Commercial Times*, <https://www.chinatimes.com/newspapers/20180301000200-260210?chdtv>.

12. The shoe industry is one example. See the case of the Taishin Shoe Manufacturing Group in chapter 6.

Taiwan's foreign investment has been highly concentrated in China, and so-called globalization has led to an effective Sinicization. Yet the fundamental structural dynamic of this form of globalization is the restructuring and redivision of labor in the capitalist world system, which also reflects the shifting vectors of the GVCs. The westward march of Taishang has had multiple consequences, including driving Taiwan's industrial upgrading, and it has raised apprehensions of hollowing out Taiwan. With the further shift of the GVC since the late 2000s, Taishang have developed new arrangements, and the concentration of investment in China has decreased in recent years.¹³ One reason is sinking profit margins in China. Others reflect an increasing consciousness among some Taishang of the risk of doing business in China.

Over the past ten years, Taishang in Guangdong encountering dual pressure from the GVCs and the Chinese government's industrial upgrading have adopted various exit strategies: closing factories, moving further inland, pulling out of China, and transformation on the ground (some manufacturers have used multiple options at once). This has greatly changed the situation of Taishang in the Pearl River Delta region, especially Shenzhen and Dongguan. The escalating trade and technology wars between China and the United States have provided even more impetus for Taishang to expedite their exit from China.

At the same time, China's export-oriented economy also began to show signs of change: During the first thirty years of opening reform, China's development route was mainly forging the factory of the world. Over the past ten years, the Chinese government has attempted to use China's lure as an international market to forge its own value chains, but it has encountered a forceful challenge from the United States. A US-dominated geopolitical situation prone to containing China is also forming. Positioned in the midst of two storms, can the Taishang referred to by Xi Jinping as deserving a record of merit still provide Beijing with utilitarian value? I believe that Taishang still have two types of value in China's desire to pursue global hegemony: the value of their political identity and their value in industrial upgrading.

13. China still receives the largest share of Taiwan's export capital. But Taiwanese investment in China made up 39.8 percent of its total overseas investment in 2018, in contrast to 85.2 percent in 2010.

In terms of political identity, Taiwanese investment has been an important medium for China's Taiwan strategy all along, first and foremost for its propaganda value in Taiwan. As busy as Xi Jinping was at the Boao Forum for Asia, he found ten minutes to receive Taiwanese business representatives. For decades, the Chinese government has granted Taiwanese investors preferential treatment for the sake of the united front strategy toward Taiwan, and this preferential treatment is rent value derived from political status. Consequently, apart from standard commercial operations, some Taishang have also devoted themselves to rent-seeking activities based on their identities (especially in terms of real estate interests). For Beijing, establishing cross-strait political and commercial relations through the Taishang network, and thereby cultivating local collaborators in Taiwan, is not a high-cost transaction. However, the collective identity capital of Taishang depreciated at the height of cooperation between the CCP and the Kuomintang. In 2011, a long-time China-based Taigan observed: "Now that the governments [on either side] are holding their own talks, you're cut loose, so we've come to think that [the political-commercial environment] has deteriorated. . . . The two associations [Taiwan's Straits Exchange Foundation and China's Association for Relations across the Taiwan Straits] are talking to each other so they don't need you."¹⁴ Conversely, when cross-strait relations are strained, this identity capital appreciates in value. During the Taiwan Strait Crisis in 1995–96, one Taishang said: "When there are tensions on both sides and the risk of war, the CCP treats us even better and even fawns on us!"¹⁵ In the current situation, when both Sino-US relations and cross-strait relations are strained, and the Democratic Progressive Party is Taiwan's ruling party, China desperately needs to strengthen its united front. That's why it issued its "31 Preferential Measures for Taiwan," which was tantamount to increasing the value of Taiwanese identity capital. Although the redeemability of that capital in China has been called into question, it is played up in Taiwanese media as a symbolic code, creating publicity beneficial to Beijing. Based on observations of past experience, the political-commercial relationship Beijing most needs is the cross-strait capital that can navigate high-level party and government networks on both sides of

14. Interview: ZJC201211.

15. Interview: Leegm199508.

the strait, and this type of political-commercial relationship remains influential even as Taiwanese political parties regularly alternate in controlling the government. When regional geopolitical relations become strained, there is an opportunity for observing changes in cross-strait political-business relations. As long as China maintains its objective of annexing Taiwan, Beijing's "business model as united front" toward Taiwan will not change (Wu Jieh-min 2017b).

In terms of industrial upgrading, when China's strategy for such upgrading met with resistance from the West, the value of Taiwanese investment increased correspondingly. Soon after the United States imposed sanctions on ZTE, MediaTek filed an application with Taiwan's Ministry of Economic Affairs to sell chips to ZTE. The ministry granted permission after a brief investigation. In this way, under the dark clouds of the Sino-US trade and technology wars, some Taishang profited from this window of opportunity by quickly meeting China's overwhelmingly urgent need to obtain chips. However, the technological level of Taiwan's chip design houses is still lower than that of America's firms such as Qualcomm, so their long-term role remains in doubt. The "31 Preferential Measures for Taiwan" also has implications of poaching Taiwanese talent. China is making a great push to develop its semiconductor industry, and Taiwan has accumulated plentiful experience in chip manufacturing. Since it began building advanced wafer foundries in 2000, China has adopted the method of luring employees from Taiwan. Some of the large number of wafer foundries that have been established are joint ventures with Taiwanese firms that have no lack of Taiwanese high-level managers and engineers. China has used massive amounts of cash to attract talent from Taiwan as well as other advanced countries. However, the results are still hard to predict because technical learning requires time and accumulated experience, and technology transfer involves the issue of intellectual property rights—and it is not easy for the Chinese side to bypass these obstructions. TSMC's solely owned high-grade wafer fab in Nanjing has been fully operational since 2018. The significance of this company, a global pure-play foundry giant, as an indicator of Taiwan's industrial technology, is self-evident and also highly symbolic in terms of Taiwan's industrial development. TSMC's recently retired founder, Morris Chang, gave the following assessment: "Although China's semiconductor industry is breathing down our necks and continues to make

progress, TSMC will also continue to advance during this time. Whether in terms of technology or efficiency, it has at least a five-year lead over its competitors. But this lead time will last for about ten years. In ten years' time, China will gradually catch up, so we shouldn't take anything for granted."¹⁶ Chang's optimistic but cautious predictions for Taiwan's semiconductor industry reflect China's eagerness to catch up with and overtake its competitors.

Semiconductors are a key section in Taiwan's industry, but not the entirety. Taiwan's overall industrial capabilities have been accumulating over the long term, including the craftsmanship and managerial resilience forged in traditional industry. Today, quite a few companies in traditional industries have managed through upgrading and advancing their manufacturing technology to qualify as hidden champions and have even neared the pinnacle of the GVC. But Taiwan's discourse arena is so often overwhelmed by China's hegemonic (propaganda) terms such as "strong nation," "empire," "strive for supremacy," "One Belt One Road," "Big Fund," and "red supply chain" that the importance of so-called traditional industries and small and medium-size companies has been woefully underestimated, and the facts that they have already entered the high-tech ranks and are engaged in diversified development that hedges risk are often overlooked.¹⁷

I have tracked and interviewed Taishang over an extended period, exploring the interactive relationship between Taishang, the Guangdong model, and China's development. One of my main objectives has been to demonstrate the long-term collective and cumulative role of countless large- and small-scale Taishang and their enormous effect on contemporary China and Taiwan-China relations. Taishang introduced the

16. Atkinson, "Zhang Zhongmou: Taiwan bandaoti lingxian Zhongguo haiyou shi nian shejian, zhihou que buneng dayi" (Morris Chang: Taiwan semiconductors have a ten-year lead on China, but after that it can't be taken for granted), *Keji xinbao* (Tech-News), June 11, 2018, <https://technews.tw/2018/06/11/taiwan-semiconductor-3/>.

17. For example, the head of Taiwan's leading bicycle manufacturer, Giant, says: "Giant is a high-tech company, not an everyday traditional industry." Quoted in Tseng Li-fang, "Du Xiuzhen chenggong dazao dier pinpai cuisheng Liv quanqiu zixingche weiyi jiaodian" (Bonnie Tu successfully creates a second brand, Liv, the only bicycle in the world designed by and for women), *China Times*, October 2, 2017, www.chinatimes.com/newspapers/20171002000044-260202.

modern manufacturing industry into China, and China drew Taishang into its development model. We continue to live in the eye of this cyclone to this day.

6. How This Book Is Organized

Chapter 1 states the main questions of this book: How did the factory of the world come into being? How did the global level link up with the local level in the process of China's transition to capitalism? What role did Taiwanese capital play in this? The chapter then recounts the path Guangdong took in becoming the factory of the world and lists the theoretical topics for discussion. The existing literature discussing China's developmental dynamics is mainly approached from three angles: market transition theory, state-centered theory, and export-oriented development theory. Drawing on the literature, the chapter examines the global commodity chain (GCC) theory derived from world-systems theory, and the GVC theory developed from that. I propose a local growth alliance as the analytical framework. In this alliance, the local polity has autonomy and dynamism and involves itself in GVC governance to carry out value capture, while foreign capital gains the low labor costs, other essential factors of production, and bureaucratic protection provided by the state. Finally, this chapter describes my case selection, research methods, and the sources and structure of the data.

Chapter 2 provides an overview of the origins and development of the Guangdong model. By taking the first step, Guangdong soon became the core region of the factory of the world, but the period from the late 1970s to the early 1980s was filled with uncertainty, opportunity, and risk. This chapter first deals with the main controversies in the process of Guangdong's opening to the world—including those having to do with relations between the central government and Guangdong and with the origins of the processing trade model. Based on memoirs and policy and historical documents, we learn from remarks by Deng Xiaoping, Xi Zhongxun, Ren Zhongyi, Gu Mu, and other central and provincial leaders, as well as from the reminiscences of cadres actually carrying out the SEZ policies, what the policy implications were of terms such as “take

one step ahead,” “special policies and flexible measures,” “processing of shipped materials,” “learning from the experience of Hong Kong and Taiwan,” “earning foreign exchange,” and “three-plus-one trading.” The chapter then analyzes Guangdong’s economic performance, looking at various economic indicators and development trends and comparing Guangdong with China at large and other key regions within the country. At the same time, it analyzes Guangdong’s labor cost competitiveness, comparing migrant labor wages and growth trends over time and Guangdong’s social insurance with that in other places, as well as analyzing high accumulation rates. Finally, it analyzes two phases of institutional and policy changes in Guangdong over the past thirty years and the evolving Guangdong model. The processing trade continued to play an important role in Guangdong’s industrial structure until recent years.

Chapter 3 and chapter 4 describe in depth a Taiwanese leather goods manufacturer, Taiyang,¹⁸ as the microscopic foundation for this book’s macroscopic framework of local growth coalitions. Taiyang’s business activities in Taiwan and its history in China provide the book’s main illustrative data. Taiyang has experienced three stages of development: first as a Taiwanese trading company (1979–88); second in renting a building and establishing a factory in Dongguan, Guangdong (1989–94); and third in building its own factory, enhancing product quality and production capacity, and being taken over by the second generation of management until it stopped doing business in China (1995–2010). These two chapters use the GVC/GCC analytical framework to illustrate Taiyang’s strategic decisions and migration through Hong Kong to China, as well as the related changes in its production organization and technical links. Starting out in Taiwan as a trading firm, Taiyang used an outsourcing and network production model, but in Dongguan it became a vertically integrated factory, and it achieved enormous growth in terms of scale and production capacity.

Taiyang serves as a small but complete and self-contained example of presenting a macroscopic phenomenon in miniature: how Taishang moved their production bases, capital, technology, and access to Western markets into China; how Taishang, as foreign investors, interacted with local structures, institutions, and behaviors; how through a process of locally embedded governance they formed special political-business re-

18. Taiyang is a pseudonym.

lationshps with local governments and officials (for example, interest allocation mechanisms such as the head tax, sharing of foreign exchange earnings, and management fees); how Taishang adapted to the corrupt and chaotic environment in China during its economic transformation, surmounted the problem of rent seeking, and achieved relatively stable property rights arrangements; with institutions and policies as a manufacturing cost, how changes in institutions and policies obliged factory owners to change partners or adjust their relationships with present partners and influenced the decisions of factory owners about whether to continue investing or to withdraw their investment. The year 1994 is the watershed between these two chapters. In that year, China's central government reformed its foreign exchange system, substantially devalued the renminbi, and reformed its tax system. These new policies altered the relative price of essential factors of production and institutional conditions for factory owners and therefore altered the ability of local governments to negotiate with factory owners. Changes in central government policies and their implementation at the local level influenced the behavioral model of factory owners and were consequently reflected in Taiyang's business activities. Taiyang's decision to terminate its business operations in 2010 reflected rising labor costs in China and the decline of the labor-intensive export processing model, which at the same time spurred the disappearance of the head tax and the emergence of social insurance fees. This stage was the tipping point for Guangdong's industrial transformation, as well as the moment when Taishang and foreign investment began pulling out of China.

Chapter 5 proposes an institutional logic of Chinese-style exploitation. It first analyzes how the state created the migrant worker class and then describes the form of that class. Providing relatively high-quality and low-cost labor, the class allowed the GVCs, ever in search of cheap labor, to extend into China, rapidly embed themselves in the local institutional structure of China's coastal regions, and link China into global production system. The dual labor market's economic and social exploitation of migrant workers remains a key engine of China's capital accumulation. Situated in a system of differential citizenship, the migrant worker class suffers the double exploitation of the state and capital. Finally, in discussing the nature of China's migrant labor system and analyzing the debate in the existing literature on whether China is a despotic or a hegemonic system, I return to the role of the state. The theory of Michael Burawoy

presupposes the conditions of a presumed market capitalist state. But in China, the base point is the party-state capitalist state. The state has always coercively intervened in labor-capital relations, but the main objective of its intervention is to derive financial income. Although the state power is ubiquitous, it is frequently absent on the issue of protecting labor. It is because the state sustains the differential citizenship system that capital could have been able to exploit labor so ruthlessly in China. The overtime and rush work phenomenon in the export processing industry in China's coastal regions is dominated by sham contractual arrangements: ostensibly progressive working hour policies, suppressed minimum wages, and flexible enforcement at the local level join together to create a three-sided tacit agreement between labor, capital, and the government. Under this tacit agreement, overtime pay becomes the main incentive to workers that enables the capital to squeeze labor output, and its use has become a routinized discursive practice.

Chapter 6 discusses the transformation of the Guangdong model. During the global financial crisis in 2007–8, Dongguan experienced a Taishang exodus. This crisis also affected other foreign investment, with many Hong Kong investors also making emergency exits from the mainland market. The global financial crisis was an external shock, but the more deep-seated cause of the exodus was long-term transformation pressures on the Chinese economy. These factors included rising costs in the factors of production, increasing mass protests by workers, changes in the policy and institutional environment and in relations between government and business, increasing pressure from industrial upgrading policies, and so on. These internal and external factors converged in an enormous force that impelled a further shift in the GVCs and GSCs, putting the Guangdong growth model under pressure to reorganize. This chapter starts by analyzing state policies, Guangdong's industrial upgrading, and changes in the relationship between government and businesses. As Guangdong's labor-intensive growth momentum slowed, Taishang had to respond by altering their profit model. Responding to transformation pressure, Pearl River Delta Taishang who did not shut down their factories had the options of moving further inland, relocating their factories outside of China, or upgrading on site. Individual factory owners might combine all three options. Using the Smiles Shoe Company as a case study of a small to medium-size Taishang, I focus on its core factory strategy

and note the increasing competitiveness of Chinese-invested factories. The Taishin Shoe Manufacturing Group, as a representative case of a large original equipment manufacturing company undergoing a transformation, employed strategies that included a diversified response of redeployment of overseas production bases (relocation overseas), redeployment of inland Chinese production bases (moving inland), and developing a domestic sales department.¹⁹ At the same time, the succession of Taishin's second generation also brought the multiple processes of corporate organizational reform, risk management, and group restructuring. As a transnational company focusing on manufacturing, Taishin had been climbing the GVC and attempting to reach its pinnacle, but it was unable to shake off the hegemonic domination logic of the GVC and encountered the limits of catching up. Finally, this chapter analyzes the emergent ecosystem of the Chinese-invested enterprises. In the transformation of the Guangdong model up to now, certain indications of upgrading have emerged. One of these is the rise of Chinese-invested factories in traditional manufacturing, such as a local supply chain in the shoe industry, that carries the genetic code of Taiwanese factories. A second indication is the emergence of a Chinese-investment-led ICT industrial chain, which has brought about a competitive relationship with Taiwanese capital.

The transformation of the Guangdong model has caused a development result: Although the processing trade's momentum has suffered from saturation in the global market and catching up by developing countries, it still is fairly sustainable because the Pearl River Delta's export economy has been deeply infiltrated by the GVC. Buyers for international brands still need the Pearl River Delta as a high-end manufacturing base, and they also need Taishang to integrate the components of the supply chain. As Taiwanese investment has pulled out, Chinese-invested factories have promptly entered the supply chains, allowing the Pearl River Delta export processing system to maintain its integrity to a certain degree. Furthermore, local governments have long drawn fiscal revenue from the export processing sector and have become heavily reliant on the sector's revenue due to path dependence.

Chapter 7 discusses the theoretical implications of this book by treating the Guangdong model as a prototype for the Chinese model.

19. Taishin Shoe Manufacturing Group is a pseudonym.

The book uses the theoretical perspective of the GVC or GCC, along with the concept of locally embedded governance, to analyze how China utilized the historic opportunity of GVC expansion to adopt a policy of export-oriented industrialization; in only thirty years, accumulated vast amounts of foreign exchange reserves and gained production technology and corporate organizational capacity; and (after accumulating a certain degree of manufacturing prowess) used its powerful state capacity to try to break through the hegemonic domination in the value chain governance structure. In the process of China's development, Taishang played the roles of "semiperipheral elbows" and executing arrangements on behalf of the GVC hegemons. At the same time, they brought diffusion of technology and industrial upgrading and collaborated with China in resisting the hegemony of the GVC.

This book adopts the viewpoint of locally embedded governance to position the intervention of China's local governments—the nodule of profit distribution in the value chains—and explain the phenomenon of economic growth coexisting with institutional rent seeking (*jigouhua xunzu*). I sum up Guangdong's development experience and institutional rent seeking, along with the value-capturing behavior of local officials in the value chains, to propose the concept of a rent-seeking developmental state. China is unique among East Asian and world economies, but its scale and influence give it a distinctiveness and theoretical importance surpassing that of the typical country. Analyzing China's rent-seeking developmental state helps us review the theoretical proposition of the East Asian developmental state and carry out historical comparisons. Finally, China is anxious to break through the constraints of the current rent-seeking developmental model and has proposed Made in China 2025. This chapter places a preliminary assessment of China's semiconductor industrial upgrading under this development blueprint.

The conclusion summarizes three questions: Will China fall into the development trap? Why are the United States and other Western countries becoming wary of the China threat and resisting the industrial upgrading of Made in China 2025? Finally, what theoretical challenges will China's return to the capitalist world bring? The conclusion synthesizes the book's arguments to answer these questions and propose a possible theoretical contribution.