

Foreign Capital, Business Networks, and Industrial Development: Flow of Japanese Capital in Export-oriented Taiwan

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ABSTRACT

This study examines the effect of Japanese capital on Taiwan's economy from 1960, when Taiwan opened up to foreign capital, until 1972, when Taiwan and Japan severed their ties. Moreover, it explores the relationship between foreign and Taiwanese capital in the light of Japanese capital flow in Taiwan.

Between 1960 and 1972, Taiwan's economy was characterized by industrial development and capital accumulation. As early as the 1950s, numerous Taiwanese capitalists attempted to develop new industries. However, owing to insufficient technical capabilities, they imported technology and capital through Japanese companies. Specifically, they renounced their original company name and became part of Japanese overseas investment, producing goods of Japanese brands. Take the case of home appliance industry for example, both increase in domestic production and the local content requirement imposed by the government contributed to specialized operation of satellite plants. In other words, the integration of Japanese capital into Taiwan's economy promoted the upgrading of domestic industries, and drove local capitalists to change their business operations.

Prior research often emphasized the pivotal role played by small and medium businesses in Taiwan's export-oriented economic growth since 1945, with little attention paid to the contribution of foreign capital. In fact, Japanese companies had been prominently involved in joint ventures and collaborations with local companies, and Japanese technology had been widely adopted in domestic productions. Japanese companies had provided assistance in the form of capital and materials for building factories and marketing networks that put Taiwanese goods in the international arena.

In 1970, Zhou Enlai, the then premier of the People's Republic of China, proposed four principles of Sino-Japanese relations, which caused some Japanese companies to leave Taiwan. However, instead of fighting back with fierce economic sanctions, the Taiwanese government launched a boycott only for a short time, followed by a mellow and pragmatic approach to developing sustainable economic relations with Japan. Such response was due to Taiwan's heavy reliance on Japanese materials and technology for development of its industries and equipment update of its public sector, making it difficult to sever economic exchanges with Japan. Obviously, economics had taken priority over politics in the relationship between Taiwan and Japan.

Keywords: Foreign Capital, Japanese Capital, Mitsubishi Corporation, Capital Accumulation, Export Processing Zone, Four Principles of Zhou Enlai