

ESSAYS

MARKETIZATION AND YUANIZATION: ECONOMIC CHANGES IN THE DPRK

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THE ONCE MIGHTY PARADIGM: A CRITICAL REVIEW OF MODERNIZATION THEORY

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SAVING FACE: CHINA AND TAIWAN'S BID FOR THE UNITED NATIONS SEAT IN THE GENERAL ASSEMBLY AND SECURITY COUNCIL, 1950-1971

Mycal L. Ford

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Introduction

Implemented without prior warning on November 30, 2009, the DPRK currency redenomination confirmed something that had been increasingly apparent since 2002: that one of the most pressing issues facing the mass of DPRK citizens in the modern era is ensuring access to sources of value in which to securely store their assets. This is a crucial issue not only because inflationary pressures are putting the North Korean won under constant strain; it is also the case because the government of the DPRK has demonstrated an apparent readiness when necessary to expropriate the assets of the majority for the benefit of a minority, making economic policy an issue of class struggle rather than fiscal rebalancing.¹

Policies of the type exemplified by the currency redenomination are not without global precedent; history is littered with economic policies that had serious ramifications for specific groups in the target society. One example, the December 1979 “demonetization” of Zaire, is described at length in this essay. In countries like the DPRK (and Zaire), which are typified by undemocratic systems of governance, non-existent property rights, banking systems wholly subordinate to official fiat, and state ambivalence or hostility to free markets, such policies are a particularly acute threat to human security, as they leave citizens at risk of livelihood shocks and with a circumscribed choice of value storage mediums.

Some of the DPRK government’s tools of expropriation are impossible to restrict: the extraction of non-tax payments from the civilian by a state representative of one sort or another, for example. But in other areas civilians are able to insulate themselves. One way in which they can do so is to store their liquid

1 The *Daily NK* provides North Korean Won-US Dollar exchange rate data: <http://www.dailynk.com/korean/market.php> [in Korean].

assets in foreign currency, and this is an increasingly popular choice. Although other currencies are also used for the same purpose, the prevalence of the phenomenon in towns and cities along the border with China has led me to label the process *Yuanization*.

State Forfeits Control of Livelihoods

In order to understand the critical importance of *Yuanization*, it is necessary to look back into the history of DPRK marketization itself. For the purpose of this article, that history is taken to begin in 1994 and continue through the present day. It should be noted, however, that small farmers' markets and a handful of other low-impact private commercial activities have actually existed in some form or another throughout much of the DPRK's 60-year history.²

Nevertheless, widespread market activities only firmly took hold in the mid-1990s. This was due to the creation of a space, both political and physical, into which private commerce could be inserted. The most commonly cited catalysts for this process of governmental regression and simultaneous space creation were the collapse of the Soviet Union in 1990-91 and the death of national founder Kim Il-sung on July 8, 1994. These are also generally seen as the primary causes of a famine that killed anywhere from 600,000 to three million people over the course of three to five years, mostly, but far from exclusively, in the rural north of the country (Jagang, Ryanggang and Hamgyeong provinces).³⁴

This history must be put into broader context, however. High-level sources demonstrate that the DPRK leadership was aware that their command economic model was failing much earlier than this. Most notably, former Korean Workers' Party International Secretary Hwang Jang-yop notes in his 1998 memoirs, "I didn't have all that much interest in statistics, but it was impossible not to notice that the North Korean economy was constantly recording minus figures."⁵

"It was no coincidence," Hwang goes on to say, "that the time when Kim Jong-il came to power and the time when the North Korean economy went into decline occurred simultaneously." Kim assumed a critical mass of political power in September 1973 when he took over the party departments in control of personnel and propaganda via the seventh plenary session of the Fifth Central Committee of the Workers' Party, and was certainly in unassailable control by

2 Hak-sun Baek, *Bukhan gwonnyeokui yeoksa* (The history of power in North Korea), (Seoul: Hanul Books, 2011).

3 Baek, *Bukhan gwonnyeokui yeoksa*.

4 Ministry of Unification, *Bukhan thae 2011* (North Korea 2011), (Seoul: Ministry of Unification, 2011).

5 Jang-yop Hwang, *Naneun yeoksai jinnireul boatda* (I saw the truth of history) (Seoul: Zeitgeist, 1998), 276.

the time of the Sixth Workers' Party Congress in 1980.⁶ Therefore, Hwang's claim is that Kim Jong-il knew in the 1970s that the DPRK economy was faltering badly. Hwang also records that "after 1986" the situation began to take an even more desperate turn, another data point that falls years prior to either the death of Kim Il-sung or the collapse of the USSR.⁷

However, no economic policy of significance was implemented by the government of Kim Il-sung or Kim Jong-il in response to this state of affairs, or to clear reform signals emanating from Beijing and Moscow. This implies, at best, that political stability was seen as more important than economic development. As a result, by the time events on the ground had begun to reach a head in 1994-1995, millions of people had already stopped receiving the rations that had hitherto met their minimum daily needs under the state-run Public Distribution System. According to refugee interviews cited by Marcus Noland and Stephan Haggard in *Witness to Transformation*, state distribution had by and large ceased to provide for most people by 1993.⁸

In response, citizens adopted a range of coping strategies. These included compressed household consumption; direct, unofficial barter between individuals and entities; foraging on hills and mountainsides; defection; and soliciting remittances from relatively more affluent family members.⁹ Moreover, many people also entered the rapidly developing unofficial economy. Mr. Lee is one such person; a study in what coping with famine conditions through the unofficial economy meant in practice. A resident of Hyesan, the largest city in northern Ryanggang Province, his career remained on an unremarkable trajectory through the 1980s and into the 1990s. This meant graduating from high school and entering the military. There he rose through the ranks, and upon being discharged, went to and subsequently graduated from the Korean Workers' Party college. At that time, a party card was a guarantee of the desirable benefits that only accrued to officials. A newly minted party cadre, Mr. Lee soon found himself dispatched to oversee the work of a public utility in Hyesan.

However, the Public Distribution System had already begun to show signs of faltering badly, and events soon started to spiral out of control. Over a relatively brief period of months, Mr. Lee found himself isolated: the manager of 28 workers but without the support of a rationing system through which to meet

6 Ministry of Unification, *Bukhan ihae 2011*, 51.

7 Sung-chull Kim, *DPRK under Kim Jong Il: From Consolidation to Systemic Dissonance* (Albany, NY: State University of New York Press, 1996).

8 Stephan Haggard and Marcus Noland, *Witness to Transformation: Refugee Insights into North Korea* (Washington, DC: Peterson Institute for International Economics, 2011).

9 Ibid.

their daily needs. Therefore, knowing that many of the medicinal herbs growing wild in hilly northern areas of the DPRK were popular in China, he organized his men to abandon their work and gather them. In the dead of night he would then float bags of the herbs across the Tumen River on an inner tube, and a Chinese partner on the other side would float back bags of wheat flour. By distributing this bartered income among his subordinates and their families, Mr. Lee and his team survived the so-called “Arduous March.”¹⁰

For the sake of brevity, I will not add further description of the way the unofficial marketization phenomenon moved forward in the post-famine era. Suffice to say that markets took firm root thanks to the hard work of individuals, trading entities and loose coalitions, who created a system of not only markets but also transport and logistics. The resultant system came to supply an overwhelming majority of the food and other necessities that helped 95 percent of civilians survive the complete loss of state support.¹¹

Pyongyang Bounces Back

While the state forfeited much of its control over the livelihoods of the population during the famine, it never ceded its ruling legitimacy as defined by the right to promulgate legislation. Thus, the administrative apparatus survived, and by around 2000 had recovered sufficiently to try and wrestle back control of the marketization phenomenon.

While constitutional amendments made in 1998 can be said to mark the opening gambit in this plan to return to preeminence, it is the *Economic Management Improvement Measure* of July 1, 2002 that was the greatest and best known. Under the measure, existing markets were legalized, and prices and wages elevated dramatically in what is widely described as an attempt to better reflect costs of production; modest autonomy was also subsequently granted to enterprises, and a debate is said have begun as to how far the liberalization movement should be allowed to go.¹²

However, there was another element to the changes when seen from the ground. This was a confiscatory element, one that directly targeted those indi-

10 Mr. Lee gave testimony to this effect at a conference organized by the US Institute of Peace (USIP) in Washington, DC, in October 2010.

11 Haggard and Noland, *Witness to Transformation*. Evidence from South Korean intelligence sources suggest that there are still approximately 2.5 million DPRK citizens in “strategic sectors” that receive reliable rations from the state. However, this is done through a completely different ration system to the PDS, one that uses alternative funding sources (source withheld).

12 Robert Carlin and Joel Wit, “The debate in bloom” in *The Adelphi Papers* 46, no. 382 (2006): 35-52; and Bernhard Seliger, “The July 2002 Reforms in DPRK: Leiberman-Style Reforms or Road to Transformation?” *North Korean Review* (2005): 22-37.

viduals who had accumulated capital during the famine. This was because by raising prices and wages dramatically, without warning and without countermeasures to support losses incurred, the policy automatically and unavoidably eroded the value of liquid assets. This, then, was seen by holders of such assets as a confiscatory attack on their livelihoods. It also marked the birth of Yuanization: the time when those few persons who held domestic currency in significant quantities were first shown evidence that their nascent middle class status was at risk of expropriation or devaluation by the forces of state.

Any debate about the true intent of the DPRK government in making these economic changes remains fierce, but is ultimately irrelevant. *It was what it was*, and those few people with money lost much of it. Ms. Jang, a female refugee from Wonsan in Gangwon Province, and someone who, like Mr. Lee, had parlayed a military career into fiscal stability during and after the famine era, put it this way, “People around me learned right then in 2002 that you had to have foreign currency to be safe.”

Five Days of Pain: Mobutu’s Zaire in 1979

Debate over the intent behind the 2009 currency redenomination continues to this day. Either it was an honest but foolhardy and extremely unsophisticated attempt to rein in inflation, or a full frontal assault on the market economy. A few, drawing the link between 2002 and 2009 extremely tight, believe that the currency redenomination had actually been planned since 2002, and cite the dates of production on some of the new currency as evidence of this.¹³

The details of the policy are not subject to debate, however. It began without prior warning on the morning of November 30, 2009. Under it, the North Korean won was exchanged at a rate of 100:1, but with a limit on per person exchanges. Initially this limit was set at 100,000 won, but was later raised to 150,000 won following public protest. Families could exchange a certain sum per family member, while a further 300,000 won could also be exchanged, but only if it was put into a state-run bank. The state was to announce new prices for goods, and the entire exchange process had to be completed within seven days.

In line with the “inflation control” hypothesis, one official from the DPRK central bank told the pro-DPRK newspaper *Choson Sinbo* some days after the redenomination took place that it had been done because inflation was undermining the state’s policy to cope with natural disasters and the collapse of the

13 Gwang-min Jung, “Currency Reforms: Rationales and Reasons,” *Daily NK*, December 17, 2009, <http://www.dailynk.com/english/read.php?catId=nk01100&num=5789>.

Soviet Union. Under such an interpretation, the currency reform was a key plank in efforts to right the listing North Korean economic ship.¹⁴

However, as in the case of 2002, the appearance of the policy to people on the ground was one of outright expropriation of assets by the state, supporting the second view: namely, that Pyongyang intended to undermine, rather than improve, the market economic system. This perspective was shared by some international observers, among them economist Marcus Noland and political scientist Stephan Haggard, who wrote in a policy brief in January 2010:

Confiscatory currency reforms are a form of asset redistribution, or more accurately, asset levelling. Such conversions either tax those with excess cash balances (if they can be deposited in bank accounts on unfavourable terms and subsequently withdrawn) or destroy ‘excess’ cash wealth altogether. In the North Korean case, this last motive appears central: Currency reform was designed to target groups engaged in market activities that not only generate cash earnings but also require cash balances given the underdevelopment of the North Korean financial system, while at the same time providing compensatory allocations to favoured groups closely connected to the state.¹⁵

If, as Haggard and Noland claim, the redenomination was a tool used to wipe out private wealth held by certain groups, it has strong parallels with the “demonetization” policy of the government of Zaire. Implemented in December 1979 and led by another authoritarian dictator in the shape of President Mobutu Sese Seko, demonetization also had a time limit and strict limits on amounts that could be exchanged.

In the Zairian case the time limit was five days, though a number of these were weekend days on which banks, the location for all exchanges, were to be closed. Due to the geography, poverty, poor infrastructure and largely rural population of Zaire, this was tantamount to a guarantee that many citizens could not reach a bank in time to exchange their assets.¹⁶ Again, just as in North Korea, there were also strict limits on amounts of old currency that could be exchanged

14 I-ruk Kang, “‘Currency Exchange Measure: Purpose Is to Protect Working People’s Interests, to Stabilize, Improve Their Living’—We Hear From Cho Seong-hyeon, Senior Staff Member of the Central Bank—‘Material Ground Laid for Fighting Off Inflation,’” *Choson Sinbo*, December 4, 2009 [in Korean].

15 Stephen Haggard and Marcus Noland, “The Winter of Their Discontent; Pyongyang Attacks the Market,” PIE Policy Brief PB10-1 (2010).

16 Crawford Young and Thomas Turner, *The Rise and Decline of the Zairian State* (Madison, WI: University of Wisconsin Press, 1985).

for new. Individual citizens were allowed to exchange just 3,000 units of the old currency. Small businesses were allowed to exchange 5,000 units, while larger companies were limited to 20,000 units. In a statement that echoes that carried by *Choson Sinbo*, President Mobutu subsequently indicated that his government had intended the policy to encourage people to use banks, and that through it the Zairian authorities had hoped to rein in inflation and create a stronger currency by recovering sums stored by speculators in the unofficial economy.¹⁷

However, a number of anecdotes from the era support the belief of Janet MacGaffey and others that the policy was not driven by these motivations. Most notably, there was the case of a number of cooperatives organized to overcome credit difficulties: despite a membership said to be around 32,000 and funds totalling more than 5 million units of old currency, the Zairian central bank branded these entities illegal and refused to allow them to change any money at all. At the other end of the spectrum, it is estimated that state employees in banks and other privileged positions appropriated between 20 percent and 40 percent of the total new money supply. In the words of Dr. Emizet Kisangani:

The big winners were bank managers and high-ranking officials who had no limit in exchanging their banknotes to new ones. The losers were the majority of farmers who lost their life savings, usually kept in pillows, mattresses or jars.¹⁸

Of course, it remains possible that President Mobutu was speaking honestly when he said he had desired to strengthen the banking system through the demonetization. However, even if this were in fact true, intent would still be far less pertinent than on-the-ground reality. Thus, in Zaire as in the DPRK, in demonetization as in redenomination, all resulted in the de facto expropriation of a nascent trading middle class. For those thus attacked, one inevitable response was to move toward storing value in a foreign currency that could not easily fall prey to the vagaries of state economic policy.

Yuanization: An Inevitable Response to a Man-made Problem

For the broad mass of DPRK citizens who were living hand to mouth in 2002 the message may have been indistinct, but by 2009, when economic conditions had improved somewhat and more people had small amounts of savings, it

17 Janet MacGaffey, *Entrepreneurs and Parasites*, (Cambridge: Cambridge University Press, 1987).

18 Emizet Kisangani, "Confronting Leaders at the Apex of the State: The Growth of the Unofficial Economy in Congo," *African Studies Review* (1998): 99-137.

was impossible to ignore. Through the redenomination, the DPRK government, whether wittingly or not, incited movement toward the holding of foreign currency.

My research reveals that a majority of market transactions in most parts of the DPRK now involve foreign currency on some level. I spoke personally with one civilian who recently made a video of market transactions taking place in Chinese currency in Hyesan, and learned that 90 percent of today's market transactions in that city employ foreign currency. Meanwhile, the figure has been put at 80 percent in Hoeryeong, a border city further along the border in North Hamgyeong Province, and as much as 60 percent in port cities further from the Sino-North Korean border such as Nampo and Wonsan.¹⁹

The key to this is a network of nodes: individuals, many of Chinese-Korean ancestry, whose sole business is exchanging currency. Indicative of the interrelation of the nominally official and unofficial economies, these people are politically well connected, and avoid periodic crackdowns on their activities through their links, frequently familial, to the Ministry of Public Security, State Security Department, and/or Korean Workers' Party. Their reach even extends to rural areas.

This does not mean that people are bypassing the North Korean won and using foreign currency directly with traders at all times, since there are limitations that act to preclude this. Notably, there is an absence of low-denomination Chinese yuan and US dollar banknotes and coins, and the use of foreign currency is illegal and periodically enforced. As a result, in a lot of cases local currency is still used for market trading, whereas value is stored for periods longer than 24 hours in one foreign currency or another.

Conclusion

There is rising demand for foreign currency in the DPRK today, and as the Zairian case shows, this is a phenomenon directly linked to DPRK economic policy. There is a network of currency traders operating nationwide to meet this growing demand, exchanging currency in urban and, to a lesser extent, rural areas. This phenomenon makes a positive contribution to human security in the country. As such, it is worthy of careful consideration by all those who strive to build a better future for the people of the DPRK. Y

19 "Border Cities Love Chinese Yuan," *Daily NK*, April 17, 2013, <http://www.dailynk.com/english/read.php?num=10496&catId=nk03200>.

THE ONCE MIGHTY PARADIGM: A CRITICAL REVIEW OF MODERNIZATION THEORY

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Introduction: Modernization and Diffusion

Every era spawns new ideologies, or variations on old ones. Attention during the early postwar era focused on three new realities: 1) the creation of numerous new nations out of European colonies in Asia and Africa; 2) the bipolar division of world politics between the US and Soviet Union; and 3) the hegemonic leadership of much of the world by the US. Reflecting the ascendant liberalism, the most popular theory of economic development up to the mid-1960s, both in academia and government, was the modernization or “diffusionist” theory. It fit well with American foreign policy objectives during the period: US planners needed a vision of the future, by which America could identify with the aspirations of developing nations, as well as a blueprint for economic and political development to blunt the appeal of Marxism.

Modernization theory posited that poor countries are undeveloped or underdeveloped because of their archaic traditional social, political and economic structures. In order to develop, these countries have to industrialize, and so must also urbanize. Before they can industrialize, though, they must overcome their traditional structures by shifting from traditional values to ones more congenial to industrialization. Second, importantly, the Western advanced industrial countries (AICs) serve as the essential models of development. The notion of a dual society is one of the most powerful concepts. It suggests that there are two sectors within any society, a modernizing industrial sector orienting itself to Western values (“islands of development”), and a backward traditional agricultural sector that takes time to catch up. Third, the condition of un-development is the product of forces within the country and has little to do with the international

political economy. Fourth, political and economic developments are closely linked. There are common political requirements for developing countries, and political progress implies democratization.¹

This article outlines the most important features of the influential stage theory, a subset of modernization theory. It discusses strengths and weaknesses, and shows how the weaknesses in the modernization approach led to the rise of the rival dependency theory, which became the most popular theory of economic and political development during the late 1960s and 1970s.

The Demigods of Modernization

Early modernizationists approach development as a sociopolitical problem, but do not suggest any immutable laws governing the process. Stage theorists W.W. Rostow and A.F.K. Organski see development as a discrete step-by-step process by which nations proceed from agricultural underdevelopment to mature industrialization. Rostow, in *The Stages of Economic Growth* (1960), is the more influential of the two.² He asserts that any developing society reaches a point of dramatic socio-economic change, and this transforms the nature of the economy. Put forth as an alternative to Marxist economics, Rostow's work posits five general economic stages through which all Western economies passed in the nineteenth and twentieth centuries. 1) They begin with a "traditional society," which is primarily agricultural and static. 2) A critical phase follows, the "Preconditions for Take-Off," containing the beginnings of scientific inquiry, increased agricultural productivity, and infant industrialization. Rostow stresses the importance of "islands" of modernity, i.e., vanguard economic sectors leading the developmental process. 3) In the "Take-Off," a "surge of technological development" and accumulation of internal investment brings both economic growth and the development of "social overhead capital," e.g., transportation infrastructure. 4) There follows the "Drive to Maturity," when the economy surges automatically because investment and growth have become permanent components of the economic structure, and industry turns from primary production such as textiles, coal and iron to secondary industries such as chemicals, electrical equipment and machine tools. 5) Finally, in the "Age of High Mass

1 See: David E. Apter, *The Politics of Modernization* (Chicago: University of Chicago Press), 1965; Lucian W. Pye, "The Non-Western Political Process," *Journal of Politics* 20 (August, 1958): 468-486; and Fred W. Riggs, "The Dialectics of Developmental Conflict," *Comparative Political Studies* 1 (July, 1968): 197-226.

2 W.W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: Cambridge University Press, 1960).

Consumption,” the economy turns increasingly toward mass production of consumer goods and services.

Rostow presents his scheme almost as if writing a cookbook. Working backward, he uses the experience of the AICs to generalize about development anywhere. The West succeeded this way, and now so can the developing world. To get going, developing countries need outside help in the form of investment and political support for regimes oriented toward capitalist modernization—key to his subsequent policy prescriptions. But, once they enter the take-off stage, they are on their own. The process becomes self-generating through the idea of “compound interest:” advancing economies fuel their own growth. Rostow’s stage four sounds like John Kenneth Galbraith’s “affluent society;” the AICs have arrived and, aside from minor adjustments, nothing more needs to be done. Instead, they should concentrate on helping nations currently in stage two.

Numerous criticisms have been leveled at Rostow’s scheme. First, it is deterministic; Rostow believes that every society must pass through these stages on the road to economic development. What he really describes is the peculiar case of economic development during the nineteenth and early twentieth centuries, centered on the Western nations of Europe and North America. There have been various departures from this scheme in the postwar era, such as the swift re-development of Japan and Germany following devastation in World War II, state-led development in the Soviet Union, China and other communist nations, retrograde development in Argentina, the resource-based development of Persian Gulf countries. The special case of the East Asian Newly Industrialized Countries (NICs), which depended on heavy US foreign aid and access to Western markets, as well as unique socio-economic factors, to quickly leap from agricultural to takeoff stages. Even the early developers (Britain, France and the US) developed at different rates.

Also, the process of development in postwar Asia, Africa and Latin America has proven to be anything but simple. Many nations that seemed to be doing fairly well in the 1950s-1960s slid backward during the 1970s-1990s due to falling commodity prices, increasing external debt and macroeconomic mismanagement. Conditions became so bad for many countries that such interdependence theorists as Stephen Krasner spoke of a permanent “gap” between rich and poor nations.

Second, the book is a victim of its own ambitions. Hoping to present an ideological alternative to Communism, it pursues a non-empirical dogma. Aspiring to provide a theoretical explanation of the developmental process, it is more like a blend of nineteenth century materialistic history and Ricardian economics. Despite its pretensions to grand new theory, Rostow’s work is a rather

pale conventional tract. The real problem is that rummaging through history for evidence to support an ideological position is a game that anyone can play. For example, Emmanuel Wallerstein's "Modern World System" concept uses the history of Western development to set forth a contrary point, i.e., that the structure of the world economy, dominated as it is by the early developers of Europe and North America, precludes current developers from going through the same stages experienced by the "core" capitalist countries.³

Stage theory might make sense if the terminology employed were not so imprecise. The notion of a "traditional" society is not easy to pin down. The term "takeoff" may have different connotations for economists, sociologists and political scientists. Rostow does not define these terms, except in the most general way.

Third, there was an easy and not always fortuitous spillover from Rostow's theory to policymaking.⁴ One could easily conclude that government should do little beyond encouraging investment and research, since investment is the key to economic development-cum-growth. This sounds very much like the neo-classical Washington consensus of the 1980s-1990s. The most unfortunate case of translation of theory to policy came during the Kennedy and Johnson administrations in the heyday of diffusionism. Rostow and others suggested that the South Vietnam was a test case of modernization. Rostow argued at one point that South Vietnam was entering the takeoff phase, even though Saigon's economy was increasingly being propped up by massive US aid and was able to maintain a semblance of stability only through massive official corruption. Failing to perceive that North and South Vietnam were not two separate nations, but two sides in a civil war emanating from the anti-French colonial war, American policymakers persisted well into the Nixon administration with the hope that something could grow out of the shambles of the southern economy.

To his credit, Rostow appends enough caveats that he can possibly wiggle out of the charge of determinism. He may also be seen as visionary in suggesting that the US and Soviet Union could work toward common ends in the developing world. Rostow is brave in conceptualization and broad in scope, and the work is a useful heuristic guide to the historical process of development, though perhaps not to postwar development.

Organski, in *The Stages of Political Development*, posits a similar conceptualization of development stages, though he concentrates more on political

3 Immanuel Wallerstein, *The Modern World System: Capitalist Agriculture and the Origins of the European World Economy in the Sixteenth Century* (New York: Academic Press, 1974).

4 See: W.W. Rostow, *The United States in the World Arena: An Essay in Recent History* (New York: Harper and Row, 1960).

factors:⁵ 1) “primitive unification,” in which a government establishes authority over a territory, such as through monarchy, military government or bureaucratic government; 2) industrialization, brought about by bourgeois, Stalinist or fascist means; 3) “national welfare,” wherein the government responds to demands for protection against the conditions created in the second stage and 4) “national abundance,” when large economic organizations tend to organize the economy, and unemployment becomes a problem. He sees a kind of convergence between Western capitalism and bureaucratic communism. The West has averted revolution by boosting living standards for the working class, while the communists made things generally better for workers as a group. In the future, managers, planners and skilled workers would control both kinds of states.

While these latter points are interesting, his focus on large corporations may be off the mark of recent political economic development in both the West and communist world. He misses many of the economic trends of the last forty years, e.g., economic stagnation, the decline of various mature industries and “deindustrialization” of large areas of America and the purchase of American firms by foreign companies. Alvin Toffler’s nearly contemporary notion of a “Third Wave” of information technology as the organizer of society may be more correct. Moreover, Organski’s work has even less relevance to the developing world than it does to the developed world, unless one expects newly developed countries to resemble the AICs of the mid-1960s. More likely, they will move to industrial and social patterns closer to those current in the AICs. Thus, Organski’s book is not as useful as Rostow’s as a guide to development.

A key failure of the stage approach is its focus on economic factors to the exclusion of politics. Modernizationists who stress the importance of political development are on firmer ground. Huntington asserts three criteria for modernization: 1) structural differentiation within the society; 2) subsystem autonomy and; 3) secularization of the culture. This suggests an Apterian change of values must precede development. Samuel Huntington’s *Political Order in Changing Societies* (1968) is one of the clearest statements of the political vein of the modernizationist thought.⁶

For Huntington, the key goal of any government is political stability. Determining a nation’s stability is the relationship between the rate of institutionalization and organization in the political system and the rate of social mobilization. Development with political stability is possible only when institutional

5 A.F.K. Organski, *The Stages of Political Development* (New York: Alfred A. Knopf, Publishers, 1966).

6 Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968).

and organizational growth are compatible with social mobilization, and with the newer social forces and higher levels of political participation unleashed by the development process. On the one hand, if social mobilization greatly exceeds institutionalization, political “decay” occurs, i.e., socio-political demands such as distribution of wealth preoccupy the system. Where social mobilization proceeds too fast, nations can either tip over into revolution or end up with politics in which various interests fight it out without the mediation of effective institutions. Political parties are the most important institutions for both mobilization and organization of the society, thereby institutionalizing politics.

On the other hand, should social mobilization fall far behind institutionalization, the process of modernization will be slow. Huntington also notes the trap into which traditional power structures often fall: lack of modernization goes hand-in-hand with concentration of power, but this makes it difficult for modernization to proceed. The problem for reformers is to go against traditional resistance to change while moderating demands for change from newer social forces. Since Huntington’s chief goal is stability, any government that achieves it seems acceptable to him. He rejects traditional notions of public interest, either as abstract ideas such as natural law, as societal interests such as Marxian class interests or as liberal notions of the competitive forces of society. Instead, he suggests that public interest is served by whatever strengthens governmental institutions. Even communist governments “provide authority.”

Huntington uses the balance of institutionalization and mobilization to compare American and European politics. Throughout its history, the US has been less politically developed than most of Western Europe, and as a result its politics have a marked pre-colonial English quality.

Huntington’s work is provocative, but contains major theoretical handicaps. He tosses out a number of interesting ideas that are never developed, and the book is little more than a string of hypotheses. As useful as his insights may be for subsequent scholars, they do not constitute a theory. First, why is stability the sine qua non of all political systems? Various other goals have been advanced by political movements and governments; stability is usually listed as a top goal by only the most conservative governments and is but one of their major goals. If a party ran on a slogan of “We promise you stability,” it might not get many votes, unless the country was in turmoil. For a developing country, surely economic development and growth are the top goals. To be sure, stability is a basic condition for any society, yet, while undergoing development, nations are usually willing to trade a bit of instability for a lot of development. That has been China’s case over the past three decades: how much liberalization does one allow before cracking down on political dissent? Chinese leader

Deng Xiaoping suggested that when one opens a window, a few flies come in, yet he agreed to the bloody crackdown in Beijing, because he felt the protests threatened the political stability of the nation.

Second, Huntington's explication of key concepts, such as mobilization and decay, is unconvincing. Mobilization is something that may be easy to measure where it is massive and where there is strong participation. Major twentieth century revolutions fit this category, such as those in China, Cuba and Vietnam. It is less easy to observe in calmer waters. In the US, for example, survey research has been struggling with measurement of participation for decades. Political decay may not be a problem outside of failing states. If a political system is being overwhelmed by popular political demands, and it is unable to address them, this indicates a need for reform. The nation may need better institutions and parties that can more effectively deal with such demands. To staunch the flow of demands at that point would either cause an immediate reaction or postpone the ultimate explosion. Perhaps one person's political decay is another's dawn of a new political era. Huntington is probably thinking of politically troubled cases in the developing world, such as Argentina, which have been overwhelmed by populist demands. Other developing countries, such as Taiwan, South Korea and India, have managed popular pressures much better. When examining developing countries, it is also important to be mindful of the reality of constant flux. After all, nineteenth century developing countries in Europe and North America were also in a state of flux. Britain, for example, barely avoided revolution in the 1830s, and France experienced three revolutions. To his credit, Huntington acknowledges in his article, "The Change to Change," that the question of modernization is bound to Western culture, and that it is difficult to define development.⁷

Later, Huntington and Nelson expand his thesis in *No Easy Choice* (1976).⁸ The book suggests that a key to development is the behavior of elites. Mobilization is not a response to socioeconomic change, but the "group context" that motivates people to follow elites. They reduce the process of development to two essential stages; in each stage, elites face critical choices about development. In the first stage, the question is whether to grant the benefits of economic development only to the middle class, the "bourgeois" approach, or to include the lower class, the "autocratic" approach. In the second stage, the choices are between high investment with greater inequality and low participation, the

7 Samuel P. Huntington, "The Change to Change: Modernization, Development, and Politics," *Comparative Politics* 3 (April, 1971).

8 Samuel P. Huntington and Joan M. Nelson, *No Easy Choice: Political Participation in Developing Countries* (Cambridge, MA: Harvard University Press, 1976).

“technocratic” way, or equality with economic stagnation, the “populist” political system.

Here, one gets back to the kind of determinism seen in Rostow and Organski. Huntington and Nelson have particular examples in mind for these four approaches. The early nineteenth century developers applied the “bourgeois” approach, the Soviet Union and China the “autocratic,” Japan and the East Asian NICs the “technocratic” and the Latin American NICs (Mexico, Brazil, and Argentina) the “populist.” There may in fact be a rough fit for these cases, but what about the rest of the developing world that may not fit?

Conclusion: Return to Yesterday

Huntington’s study of political stability in the developing world may have been the last great work of the modernizationist project. The year 1968 saw both the onset of decline of modernization theory and demonstration of the limits of American power. Observers noted the high price of American-style development, as it meant the wholesale destruction of countries deemed backward, the uprooting and killing of millions. Actually, modernization never had a unified theoretical approach. Scholars questioned whether developing countries should modernize and if the AICs, especially the US, are appropriate models to emulate. Important issues in developing countries, especially poverty, are beyond modernization diagnosis, and modernization lacks any clearly specified model for the political economy of developing country. Modernization theory misses a number of key aspects of developing economies. Most notable is the “dual economy,” which is quite different than the modernization notion of islands of development as the vanguard of development. Modernization theory condemns traditional institutions without seeing their worth, fails to acknowledge indigenous patterns of development and does not understand that the problems of development in Asia, Africa or Latin America today differ greatly from those of Europe and North America a century ago. Modernization theory becomes merely an “ideological smokescreen” for Western neo-imperialism. Scholars soon moved beyond attacking modernization to formulating competing theories. **Y**

SAVING FACE: CHINA AND TAIWAN'S BID FOR THE UNITED NATIONS SEAT IN THE GENERAL ASSEMBLY AND SECURITY COUNCIL, 1950-1971

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Introduction

In the cascade of the Chinese Civil War, Mao Zedong, the leader of the Chinese Communist Party (CCP), was poised to quell the remnants of the lingering Capitalists led by Chiang Kai-shek, whose tongue was ripe with bitterness and failure in maintaining his unified China.¹ Moreover, Chiang rebuffed any notion that hinted at Taiwan as a permanent space for his Nationalists' government (KMT).² As tensions flared, Mao and Chiang became sidetracked when the Korean War, initiated by Kim Il-sung, brought Americans knocking on China's front door. Mao was called to aid his comrade, which exacerbated the international status of the CCP controlled Mainland, as it was pitched in direct warfare against the United States between 1950 and 1953. US President Harry Truman, in an effort to draw the People's Republic of China (PRC) forces from the northeast to hinder more troops from moving to reinforce the ones in the north, and to maintain the Republic of China (ROC), ordered the US Seventh Fleet to the Taiwan Strait.³ The CCP intervention on the Korean Peninsula coupled with US efforts to secure the perilous Strait spared Chiang Kai-shek and his regime on Taiwan.

It would not, however, nix the disagreement between the KMT and CCP respective interpretations of a singular China. In fact, the disputed interpreta-

1 To maintain consistency with United Nation and United States' documents, this discussion will utilize Taiwanese Romanization, while all other forms shall maintain the Pinyin System.

2 Nancy Tucker, *Strait Talk: United States-Taiwan Relations and the Crisis with China* (Cambridge, MA: Harvard University Press, 2009), 9.

3 *Ibid.*, 13.

tion of which government would legitimately represent China would pose as an obstruction to cross-Strait relations for the next two decades—that is, until the PRC ousted the ROC in the United Nations in 1971.

Due to new membership in the UN, a shift in policy preferences on the part of the United States, the ROC could not maintain its UN seat in the Security Council and General Assembly. In what follows, this discussion will trace the points leading up to the expulsion of the Republic of China while also focusing on Washington's efforts and its shift in policy preference from Taipei to Beijing.

Zhou Enlai's Diplomatic Campaign Begins

Before the CCP was halted dead in their tracks in their attempt to muffle the little noise of resistance trumpeting from the island in 1950, Mao pursued a soft-line approach that would seriously bludgeon the KMT government on Taiwan. His strategy: international diplomacy. China's new Premier and Foreign Minister—Zhou Enlai—wrote to the Secretary-General of the UN to consider the PRC as the one and only legitimate governing party of China.⁴ He repudiated the legal status of China by the Nationalists. Because, in the view of Foreign Minister Zhou, an acknowledged CCP-administered Mainland would restore the true inheritors to the throne of China, which was robbed after the forthwith fall of the Qing dynasty.

Since Zhou was limited in his freedom to advocate for PRC inclusion, Yakov Malik, Representative to the UN of the Union of Soviet Socialist Republics (USSR), came to his aid. USSR Representative Malik, a proponent of PRC admission, advocated for communist China with the support of Ukraine Soviet Socialist Republic (Ukraine SSR) and Yugoslavia:

At the fourth session of the General Assembly, the delegation of the Soviet Union informed the United Nations that it supported the communication of the Government of the People's Republic of China.⁵

Representative T.S. Tsiang of the ROC, deplored the USSR motion, “the statements just made by the representatives of the USSR and of the Ukrainian SSR strike a blow at the very legal and moral foundations of the Security Council

4 United Nations Security Council, 4th year, “Statements Regarding Representation in the Security Council,” No. 54, Official Record 29 December, 1949, <http://daccess-dds-ny.un.org/doc/UNDOC/GEN/NL4/906/43/PDF/NL490643.pdf?OpenElement>.

5 Ibid.

and of the United Nations.”⁶ However, chiding from the ROC did not curtail their opponents from insisting a vote after the General Assembly president ruling over the matter for further consideration. Malik insists:

I must therefore insist upon a vote being taken on my proposal.... I wish to state, furthermore, that the delegation of the USSR does not consider it possible that further meetings should be called under the presidency of a representative who does not represent China and the Chinese people and whose presence in the Security Council is illegal.⁷

The conclusion of the first episode of the beginning of a long series ended with ROC represented-China, Cuba, Ecuador, Egypt, France, Norway, United Kingdom of Great Britain and Northern Ireland and the US in favor of the ruling; USSR, Yugoslavia against; and India abstaining.⁸ The UN, at this juncture of the international relations of power, was four years in the making and the US had just emerged from the ashes of World War II nearly unscathed. Influence within the inchoate multilateral institution was by-and-large wielded by the US, as most other countries were occupied with nation building. In short, Moscow, Beijing and other Washington opponents would still have to begrudgingly allow China to be represented in the UN by Taipei.

Foreign Minister Zhou Enlai remained steadfast; he continued his diplomatic efforts by rebranding the PRC image—most notably, at the Asian-African Conference in 1955.⁹ There, he advocated for regional cooperation. He also emphasized US aggression in the Third World. This was especially important as many early members in the UN viewed the PRC as an illegitimate government. Yet, Zhou’s diplomatic campaign invariably failed to penetrate the US bulwark preventing PRC membership. As soon as representatives of the USSR pushed to include Chinese representation into the agenda, US efforts to undermine their attempts championed again. However, that would soon change.

6 Ibid.

7 United Nations Security Council, 5th Year, “Statements Regarding Representation in the Security Council (continued),” No. 1, Official Record, January 10, 1950, <http://daccess-dds-ny.un.org/doc/UN-DOC/GEN/N50/033/54/PDF/N5003354.pdf?OpenElement>.

8 Ibid. For more information see: United Nations Affairs Document, June 3, 1952, Foreign Relations of the United States, 1952-1954, Volume III, Document 403.

9 “Bandung Conference (Asian-African Conference), 1955,” United States Department of State, Office of the Historian, <http://history.state.gov/milestones/1953-1960/BandungConf>.

Tectonic Plates of the United Nations Shift

As memories of the Korean War began to fade, and as membership into the UN began to increase, tectonic forces within the multilateral institution began to shift. More countries, who were historically victims of western colonialism, matriculated into the UN. They began strategically aligning themselves with the CCP-administered Mainland. As such, securing the KMT-seat as the legitimate governing authority of China became increasingly difficult. By 1960, UN membership nearly doubled, from the original 51 members to 99.¹⁰ US influence in the maturing institution waned. The extent to which the US could urge other countries to vote favorably towards Taipei abated. Since the US represented a symbol of Western colonialism, among other factors, it was met with opposition from many of the Third World countries. When the US propounded a vote to block PRC representation, it passed by merely eight votes (which would have passed much easier in the past).¹¹ Emerging from under the brutal legacies of Western domination and into the UN (a palpable sense of power and influence), Third World countries could stand united. In 1961, the UN officially included representation of China as a part of its agenda, “[in] accordance with Article 18 of the Charter of the United Nations, that any proposal to change the representation of China is an important question”—a major breakthrough since Zhou Enlai embarked on this journey of restoring the PRC (in what he deemed to be true) as the rightful heir to the throne since the outbreak of the Korean War and conclusion to the Chinese Civil War on the Mainland.¹² Zhou Enlai still had one obstacle to overcome. An “important question” still required two-thirds vote from all General Assembly members. In other words, an increasingly timorous US earned some borrowed time.¹³

Every year, in what evolved into a stale tradition, the UN considered the issue of Chinese representation between 1961 and 1969; and every year the PRC could not obtain the aforementioned two-thirds vote—thus failing to expel the ROC government.¹⁴ However, this all changed when Henry Kissinger, National

10 “Growth in United Nations membership, 1945-present,” United Nations, <http://www.un.org/en/members/growth.shtml>.

11 United Nations General Assembly, Fifteenth Session, General Committee, Resolution 1493 Representation of China in the United Nations, October 8, 1960 (A/4474).

12 United Nations General Assembly, Sixteenth Session, General Committee, Representation of China in the United Nations, December 15, 1961 (A/5033).

13 United Nations, Charter of the United Nations, October 24, 1945, 1 UNTS XVI, <http://www.un.org/en/documents/charter/chapter4.shtml>.

14 “Struggle to restore China’s lawful seat in the United Nations,” Ministry of Foreign Affairs of the People’s Republic of China, <http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18013.htm>. In 1962, USSR drafted a resolution to replace the Republic of China in the General Assembly and the Security Council

Security Advisor to President Richard Nixon, conducted a National Security Study regarding US policy towards “China,” including costs and risks.¹⁵ China was the key to unlocking a redefined approach to foreign policy, considering the debacle in Vietnam. Nixon and Kissinger wanted to demonstrate that, even while in war-time, US potency could simultaneously influence the long-term peace processes on the international stage. Nixon is noted as telling Kissinger, “Well, Henry, the thing is the story change is going to take place, it has to take place, it better take place...”¹⁶ Indeed, no better position to be at than to be the authors of this “story” when the “story change” takes place. Therefore, the yielded conclusion was to develop a bifurcated policy directed towards both Taiwan and Mainland China, respectively, as ROC expulsion in the UN appeared imminent.

Bifurcated Foreign Policy in the Making

In December 1969, the US Ambassador to Poland—Walter Stroessel—made one of the first trips to the PRC. Through the furtive and critical passage of Pakistan, Ambassador Stroessel would pave an expedient path towards rapprochement with the CCP-administered Mainland for the US.¹⁷ Henry Kissinger in his memoirs writes, “the People’s Republic seemed to be saying two things [vis-a-vis Stroessel]: it was ready for contact... [and that] both our general interest [is] in improving relations.”¹⁸ All the while, US Secretary of State William P. Rogers was occupied discussing the burgeoning Latin-American bloc in the UN and its implications on the future of Chinese (ROC) representation with Taipei.¹⁹ His conclusion (eight months later) was that the prospects of China as represented by the ROC were bleak; and, the PRC was slated to very soon supplant their communist counterpart.

Roger... strongly implies that we continue our present policy even though eventually it will fail, and China will be represented

by the People’s Republic of China, yet failed to pass on October 30, 1962. Albania, in a similar resolution, was also rejected in October 1963. See: Foreign Relations, 1961–1963, volume XXV, Documents 230 and 274.

15 National Security Memorandum 14 to Secretary of State, Secretary of Defense, Director of Central Intelligence Agency, February 5, 1969, Foreign Relations of the United States, 1969-1972, Volume V, Document 273.

16 Henry Kissinger, *The White House Years: the First Steps Towards China* (Boston: Little, Brown and Company), 255.

17 *Ibid.*, 188.

18 *Ibid.*, 191.

19 Telegram from Secretary of State Rogers to the Department of State, October 11, 1969, FRUS, 1969-1972, Vol. V, Doc. 279.

by the People's Republic of China (PRC), or by nobody... [and] we could move to one of the "two-China" variants....²⁰

In the above memorandum from Kissinger to Nixon, Rogers proposed the US maintain their UN policy regarding Chinese representation, in spite of the reality that their abysmal efforts to maintain a ROC-seated China would fail. The US should go down fighting.²¹ The US plan: to propound a two-China and dual representation formula as a means by which Taipei can maintain its presence in the UN.

But, Nixon and Kissinger were not particularly keen to Roger's recommendation. The notion of "two-Chinas" explicitly contradicts how "China" on both sides of the Taiwan Strait perceive their historical narrative. The two-China representation formula conflicts with how the PRC and ROC, respectively, perceive China as a singular entity with one governing authority. Additionally, Nixon and Kissinger had just opened the Pakistani channel to the CCP-administered Mainland; pursuing a two-China representation plan would obviate the normalization process between the US and PRC. However, a two-China representation formula would indicate, at least to Taiwan sympathizers in the US, that Washington was still fervidly committed to Taipei. The US would not be a "sellout."²²

Perhaps the recommendation propounded by Roger was intended to be a political gesture to placate ROC-sympathizers. For, one might opine that it is quite inconvenient for a country, which espoused the democratic virtues of human rights and labeled the communist bloc as aggressors, to engage with a communist personality cult that was pitched in forthright warfare with its own citizens. Indeed, a bifurcated policy preference would be most appropriate, considering the above.

From late 1970 onward, the US concluded to not only surreptitiously normalize relations with Beijing, but also garner support from Taipei for dual-representation.²³ In a message delivered to Zhou Enlai (through the Pakistani backchannel), Richard Nixon organized a clandestine trip for Henry Kissinger to China to discuss the prospects of rapprochement in the summer of 1971.²⁴

20 Memorandum from the President's Assistant for National Security Affairs (Kissinger) to President Nixon, July 11, 1970, FRUS, 1969-1972, Vol. V, Doc. 290.

21 Letter From the Representative to the United Nations (Bush) to the President's Assistant for National Security Affairs (Kissinger), April 17, 1971, FRUS, 1969-1972, Vol. V, Doc. 346.

22 Ibid.

23 Report Prepared in the Department of State, September 1973, FRUS, 1969-1972, Vol. V, Doc. 455.

24 Letter from Henry Kissinger to Pakistan Ambassador Hilaly, May 10, 1971, National Security Archive Electronic Briefing Book No. 70, Box 1031, <http://www.gwu.edu/~nsarchiv/NSAEBB/NSAEBB66/ch-23.pdf>.

Simultaneously, Robert D. Murphy, an interlocutor on behalf of the Nixon administration, in a conversation with Chiang Kai-shek, discussed the possible defeat of the "Important Question" initiative, which required three-fourth votes and meant the expulsion of the ROC in the UN. Specifically in the aforementioned conversation, Ambassador Murphy advocated for dual-representation.²⁵

A Botched Attempt to Save Face

In July 1971, Kissinger embarked on his trip to the PRC via Pakistan.²⁶ Following his sojourn in East Asia, Nixon announced his ambition to travel to Beijing. From that point forward, the issue of Chinese representation in the UN degenerated to a countdown. As mentioned heretofore, the Nixon administration had long concluded that the ROC would eventually lose its seat. As such, US Secretary of State Rogers advocated on behalf of the ROC up until the final moment, only to fail. On October 25, 1971, the Important Question was defeated and the Albanian Resolution was adopted which replaced the PRC in the seat of the ROC as China.²⁷ The United Nations General Assembly decided:

... to restore all its rights to the People's Republic of China and to recognize the representatives of its Government as the only legitimate representatives of China to the United Nations, and to expel forthwith the representatives of Chiang Kai-shek from the place which they unlawfully occupy at the United Nations and in all the organizations related to it.²⁸

The conclusion to the 20-year competition to unseat Taipei ended with the ROC delegation walking out. Chow Shu-kai, en route to Taipei from the botched attempt to secure the ROC seat in New York, contacted Washington. He shared his gratitude to the US for their "support" on the issue of ROC-representation and hoped for ROC participation in other specialized international organizations in the future.²⁹ While Washington expressed their "contriteness" for the

25 Record of Conversation between President Chiang Kai-shek and Ambassador Robert D. Murphy, April 23, 1971, FRUS, 1969-1972, Vol. V, Doc. 349.

26 Memorandum from the President's Assistant for National Security Affairs (Kissinger) to President Nixon, July 14, 1971, FRUS, 1969-1972, Vol. E-13, Documents on China, Doc. 9.

27 Tucker, *Strait Talk*, 50. Tucker makes the observation that one potential reason why Taiwan lost its seat is because the UN, as a collective whole, wanted to kick Uncle Sam. This is to say that Taiwan symbolized US influence and, as the UN membership began to diversify, the interests of those new members were to weaken that influence by eliminating Taiwan.

28 United Nations General Assembly, Twenty Sixth Session, Restoration of the Lawful Rights of the People's Republic of China in the United Nations, October 25, 1971 (A/L.630).

29 Memorandum of Conversation, October 29, 1971, FRUS, 1969-1971, Vol. V, Doc. 433.

UN debacle, it was evident well before 1971 that Taipei representation in the Security Council and General Assembly was bleak. In other words, the foregoing exchanges of condolences were mere formalities as to gear up for the next conflict between Beijing and Taipei—the debate over eventual reunification.

Beijing and Taipei's competition for the UN seat in the Security Council and General Assembly included an array of back-alley talks, strategic planning and a shift in policy on the part of the US. Initially, the prospects of a PRC-administered China seemed unlikely; however, as the rest of the world began to trickle into the United Nations, the tectonic forces within the multilateral institution began to shift as well. US influence within the UN waned, and the PRC bid for the UN generated more patronage from third-world actors whom could relate with the struggles of the PRC. While the Important Question borrowed some time for the declining trajectory on which the ROC found themselves, it failed to curtail the aforementioned Albanian Resolution—the adopted framework that ousted the ROC from the UN. Washington, for undisclosed reasons, reassessed their China policy and essentially jettisoned its liabilities. Now, in a seemingly final bout, Taipei must face the issue of reunification with the now legitimate governing authority of China—Beijing, their arch enemy of the past. **Y**