

State Transformation and Regional Development in Taiwan: From Developmentalist Strategy to Populist Subsidy

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Abstract

This article deals with the transformation of the state and the change in industrial and regional development policy that took place in Taiwan in the context of a globalizing economy. Taiwan's authoritarian Kuomintang regime was able to concentrate resources on developing strategic industries in key regions, notably Hsinchu, and rendered rural industrialization possible by extending the global production network to central Taiwan. Dramatic change occurred when external economic pressure and domestic political struggle challenged the arbitrary power of the state after the mid-1980s. To keep business rooted at home, the state led the industries to upgrade by offering preferential subsidies, at the same time forbidding the outflow of key industries to China. This policy was not entirely successful. When the populist Democratic Progressive Party came to power, it reinforced the policy by launching new science parks to both compensate business groups for losses due to the detention policy, and balance regional disparity for electoral gain. The major industrial and regional competitiveness measures that resulted reduced resource allocation to a pork barrel, while Hsinchu's competitive advantage in cross-border regional integration was gradually lost as a collective order came to govern the process. The article ends with some reflections on the post-developmental state and the interplay of populist politics, the liberalized economy, and the new regionalism.

Introduction

Taiwan's post-war economic miracle was characterized not only by a rapid growth rate, but also by the exceptional achievement of growth with equity, in terms of wealth and regional distribution (Fei *et al.*, 1979). Two factors, it has been argued, contributed to the miracle: the predominance of small and medium-sized enterprises (SMEs) and successful rural industrialization. It has been further argued that the Kuomintang (KMT), the governing party through the early years of Taiwanese independence, played a crucial role by providing infrastructures and subsidies to encourage the formation of new firms and increase manufacturing employment opportunities and household income in the rural regions. By doing so, the KMT cultivated popularity in the rural areas. The rural regions were incorporated into global production networks with the producer service

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sectors in the urban areas playing a coordinating and surplus-squeezing role. An integrative model of regional development was set up to bring about a rural–urban division of labor for the export-processing industrializing country.

However, dramatic change occurred when the outflow of rurally based industries was permitted because of an acute shortage of cheap labor and land, coupled with the rise of the late developing states such as the Southeast Asian industrializing countries and mainland China in the mid-1980s. Two major counteracting forces contributed to change regional development policies in Taiwan. On the one hand, the state adopted a liberalization policy that allowed the rise of big business groups whose investments were concentrated in the key city regions without patronizing the rural areas. On the other, a process of democratization occurred to challenge the authoritarian rule of the KMT and led to the unexpected rise of a populist regime. The Democratic Progress Party (DPP) overturned more than 50 years of KMT rule and gained power in the presidential election in 2000.

The DPP carried on the exclusionist communal politics of the previous authoritarian systems, narrowed the public sphere through its populism and made cross-straits hostility the norm (Editors of *Taiwan*, 2004).¹ As the KMT had monopolized political resource allocation for half a century, the new ruling party had to reinforce its political strongholds, mostly concentrated in the South, on an uninstitutionalized and personalistic basis in order to dodge the obstructionist tactics of the former ruling party.² This kind of populist strategy, with its attendant electoral calculus, has dominated resource allocation under the DPP regime, and industrial and technology policies are no exception.

This article will investigate the process of state transformation and the resultant change in industrial and regional competitiveness policies. This case study is particularly interesting as the regional (or spatial) perspective of ‘third-wave democratization’ has been only lightly touched on in the literature on East Asian development, since the issues of collective order, social capital, civic organization and governance became prevalent in academic works on regional development. Given that the developmental state is characterized by bureaucratic rationality in policy mandates, the process of liberalization and democratization is likely to alter the geographical configuration of the industrial development, of which developmental states are quite proud.

In a nutshell, this article tries to decode the process of geographical industrialization in the transformation of the developmental state in Taiwan. The Silicon Island Plan, heavily backed by the DPP government to strengthen Taiwan’s industrial-cum-technological competitiveness will be used as a case study to illustrate the policy dilemma of the transformative state. In the next section, a conceptualization of state transformation, regional development and governance will be reviewed. This will be followed by a brief depiction of industrial and regional development in postwar Taiwan. A new stage in the liberalization of state policies after the 1990s will be tackled in the fourth section, which will end with an in-depth case study of the Silicon Island Plan. In the concluding section, a detailed discussion of the dynamics of the industrial-cum-regional competitiveness policies will be offered by investigating the transformation of the developmental state.³

- 1 I follow Weyland (2001: 16) in defining populism ‘as a political strategy through which a personalistic leader seeks or exercises government power based on direct, unmediated, uninstitutionalized support from large numbers of mostly unorganized followers’.
- 2 Such populist characteristics arose because the new DPP politicians did not trust the old KMT civil officials who had run the government machinery since the KMT took power — i.e. for more than 50 years. Moreover, the Legislative Yuan (the Congress) was still controlled by the KMT majority who very often obstructed the policy decisions of the new government, which was eager to achieve some goals to show its executive capabilities and establish its new electoral turf. Consequently, the DPP intentionally dodged the institutional rules to enforce policies and resorted to personal favors to allocate resources.
- 3 In fact, researchers tried to set up a few interviews with the key policy decision makers in the park administration. But, in most cases they failed as the political issue is too sensitive for the interviewees to discuss.

Theoretical review: state transformation, regional development and governance

A number of researchers, for instance Wade (1990), Amsden (1989) and Evans (1995), claim that the 'miraculous' development of East Asia's newly industrializing countries (NICs) should be understood as a process in which the state played a strategic role in taming domestic and international market forces and harnessing them to national ends. In other words, the state in the Asian NICs is not a passive administration that takes price signals for granted and takes responsibility solely for providing a sound regulatory environment. On the contrary, the developmental state is an interventionist one which plays an active role in targeting industrial development (Pempel, 1999). Wade (1990) provides a vivid example of how state intervention, under certain historical conditions, can help start up industrialization and create economic space in which the market mechanism can function. The developmental state, so the argument goes, actively guides the trajectory of national economic development with a planned rationality which even has to bend the price mechanism. The nationalist character is particularly pre-eminent when Amsden (1989) invokes the figure of the national champion to paint the rise of the Korean *Chaebols* in the industrialization process. The thesis of the developmental state not only positions the state within the context of late development, it also stresses the influence of economic nationalism.

Moreover, in addition to being interventionist, the developmental state has also to be embedded. Evans (1995), based on the study of the Korean and Brazilian IT sectors, argues that developmental states assist in the birth and growth of domestic, national firms through their role as 'midwife' to new firms and sectors and by tending to the 'husbandry' of these growing industries.⁴ Evans makes it clear that a synergy between the state and business will be created where the state is autonomously embedded. In other words, the rule-making power of state bureaucrats is in itself irrelevant to growth, unless bureaucrats construct economic rules that enhance the long-term capital and technological character of the nation as a whole, rather than simply advancing the power of government agencies.

But, as trans-border investments and trade become the norm in the globally integrated economy, state power is being severely constrained, as a number of hyper-globalists such as Ohmae (1995) and Castells (1996) argue. The policies used by the developmental states to promote industrial growth and upgrading are no longer valid or are strictly confined, and the real thrusts for local development are nowadays seen to be increasingly beyond the capacity of territorially centered states to deliver. Despite the fact that it is evident that national governments are at times constrained by various pressures beyond their borders and that some of these pressures can be ascribed to international interdependence and economic openness, the wisdom of institutionalism can shed light on the globalization issue since existing institutions and social struggles will undoubtedly also influence the ways in which the state becomes incorporated into the globalization project (Weiss, 2003; Park, 2005; Jessop, 2008). Consequently, social contexts and embedded institutions at different geographical scales are critical to understanding the transformation of the developmental state in the process of global-local interplay (Ó Riain, 2000; Wong, 2004). The 1997 Asian Crisis demonstrates this point well. It is obvious that domestic institutions affect the path of national development in the global economy. Key business groups (*Chaebols*) forced the Korean government to loosen the strict financial regulations during the financial crisis, whereas the Taiwanese government still sought heavy-handedly to exercise financial control and tame

4 Peter Evans (1995: 77–81) defines four patterns of state involvement in terms of 'roles'. The midwife state is a state that, instead of substituting itself for private producers, tries to assist new entrepreneurial groups to take on more challenging endeavors.

business groups in order to weather the storm. The crucial difference between them resulted from the contrasting embedded state institutions in these two countries (Wade and Veneroso, 1998).

Weiss (2003) illustrates this point well. She argues that the role of 'feedback mechanisms' offers a major insight into why institutions adjust or persist in the face of pressures for change. One broad type of feedback mechanism is the 'power-distribution effect', which underlines the idea that institutions are not so much neutral coordinating mechanisms as structures that are biased towards particular patterns of power distribution in society. In other words, the state, among other institutions, is the incarnation of the political struggle of confronting power blocs, and will affect the result of new rounds of power struggle. Accordingly, in the transformative process, the state, facing pressure to internationalize, is not simply a puppet of an alliance of capitals, domestic and foreign, but an enabling actor, based on the political constellation of instituted forces, that can construct ways of articulating with different scales of interests, from local, regional and national to global (Dicken, 2000; Yeung, 2002).

By and large, engaging in global production and competition aligns local capitals with the interests of their international partners, and undermines their embeddedness in domestic state policies. Consequently, it puts a ceiling on the state's leadership in intervening in firms' activities, and forces the state to restructure itself to be better positioned to handle global connections. As Lundvall and Maskell (2000) point out, the main reason for differences in performance between national systems may be that the degree of match between economic structures and institutions differs among countries. So, despite the fact that work on globalization has increasingly questioned the survival of the nation state, Jessop (2008) proposes that the state is both strategic and selective, and Jones (1997) concurs in believing the state to be spatially selective, in terms of deciding which levels of subnational governance it will focus its resources on. The divergent scales — local, regional, national and global — of political engagement in the globalization process will twist the regional configuration of economic structure and lead to sometimes conflicting patterns of spatial development. In fact, globalization and resultant state spatial strategies have reconstructed certain geographical configurations of scalar and territorial relations in specific periods (Brenner, 2004; Jessop *et al.*, 2008). As a result, the politics of coupling between divergent interests will transform state roles and strategies in the process of scalar jumping.

Such a decoupling and recoupling process is particularly relevant for the geographical industrialization of late-developing states that embed an accumulation strategy in domestic business. But cross-border investments and trade that lead to the rise of trans-border city regions make things more complicated than a national model of economic development and urban hierarchy system. As a matter of fact, those city-regions have become the engines that connect their national economic activities with the broader world economy in the current mosaic global economy (Scott, 1998; Turok, 2004). Maintaining the global connection gives national and local policymakers a mandate to constitute regional competitiveness in the spaces of flow.

As Scott (1998) suggests, each region and city has to arouse internal solidarities among its member firms, institutions and agents, and extend its webs of interaction with trans-local forces to avoid over-competition and lock-in. Accordingly, building up a corresponding governance regime, simultaneously at local, national and trans-border scales, to render a collective order possible will become critical for enabling each place to compete in the global markets. The key issue for globalizing regional development will be how the state manages the tension aroused by the realignment of local political powers and economic interests with global production networks in the process of organizational de-coupling and re-coupling. The global production networks should be taken as integrated economic, political and discursive systems in which market and political power are intertwined (Levy, 2008). Given the politics of global-local articulation, the process of coupling does not guarantee successful transformation, as the inherited state machinery and embedded interests may engage in a power struggle

to resist the global–local reshuffling. In fact, the trans-local configuration of global production networks could imply a limitation of the state's strategic actions in which dominant actors might be confined within the immersed political and territorial interests, as Zukin and DiMaggio (1990) and Hess (2004) suggest.⁵

Pempel (1999) warns that downplaying domestic political struggle usually leads developmental state theory to overestimate the potential for international catch-up. Bureaucratic authoritarianism, which constitutes the central pillar of the developmental state, usually hands down straitened circumstances to a democratic populist regime. Failure to handle political conflict often becomes a thorny issue for the developmental state in the democratization process. A well-known case aptly illustrating the dilemma of the developmental state is that of the Japanese government, which was trapped in a political struggle and unable to lead economic recovery in the 1990s. In other words, the political and institutional arrangements for governance of the interplay between the global economy and local politics is not guaranteed, but depends on the shifting institutional embeddedness of the state in the transformation process. A case of changing industrial-spatial policies in the democratized developmental state in Taiwan will be used to illustrate this point in the following sections.

Regional development under Taiwan's developmental state in the 1980s

The regional configuration of industrialization was characterized by three patterns before the dramatic change in the 1980s: the rise of rural industrialization in central Taiwan, the establishment of strategic heavy industries in the South, and the fostering of high-technology industries in the North (see Hsu and Cheng, 2002 for details).

The rise of rural industrialization in the central region

As is well known, Taiwan emerged as a newly industrializing country to attain the position of an export–processing nation in the new international division of labor in the early 1960s (Frobel *et al.*, 1980; Wade 1990), and this led to an 'economic miracle' (World Bank, 1993). Export activities have been the major propelling force behind Taiwan's economic development since the 1960s. That development not only increased in economic scale, but also expanded in geographical scope in the 1970s. Kuo (1983) found that the contribution of exports to growth was 35% during the period 1961–66, 45.9% during 1966–71, and 68.7% during 1971–76. Clearly, Taiwan's economy was as export-oriented as that of most newly industrializing countries such as Korea. However, what impressed industrial observers more than the rapid growth was that industrialization was spreading to the rural areas and constituted an urban–rural network of production. That distinguished Taiwan from other developing countries (Gilbert and Gugler, 1992).

The phenomenon of rural industrialization consisted basically in the industrial subcontracting system in rural areas, mainly in the central Region. Most of Taiwan's labor-intensive industries had a unique feature not found in any other country in the world: they were not generated by a few big corporations but created by a variety of small firms producing all kinds of industrial parts, which made up the backbone of the export-oriented industry. Industrial goods were not developed and produced within a single factory or by a single company, but only through a network of production services or a subcontracting production network. To support the production of these products,

5 Zukin and DiMaggio (1990) refer to political embeddedness as the institutional (political, legal, etc.) framework of economic action and stress the struggle for power that involves economic actors and non-market institutions alike. What Hess (2004) refers to as 'territorial embeddedness' is a situation where actors become embedded in places in the sense that they absorb, and become constrained by, the economic activities and social dynamics that already exist in those places.

hundreds of satellite factories were in place making various components or parts. Most of the firms were located in the same township, village, community or even avenue. Sometimes the jobs were subcontracted to the household, and mobilized the labor reserve army — that is housewives, the elderly, children, and particularly men who were still engaged in farming (Shieh, 1992). In most cases, each township produced just one product, and transformed the locality into a specialized area — metal processing in Lukang, for example, shoes in Dali, stockings in Shetou, bicycles in Daya and umbrellas in Homei — all of which are located in central Taiwan's rural areas.

The establishment of strategic heavy-industries in the southern region

The two oil crises of the early 1970s shocked Taiwan into suddenly realizing that its economic growth was based on a fragile dependence on oil imports. In 1976, the Ten Great Constructions, which were generally regarded as a deepening of import-substitution industrialization, were launched in order to strengthen Taiwan's infrastructure and to promote the country's upstream supply of basic raw materials, such as petrochemicals and steel. The scale was massive, with estimated capital investment at close to NT \$8 billion, mainly from state capital and a small number of private and semi-private (i.e. KMT party) sources. The area around Kaohsiung port in southern Taiwan was chosen as the location for this development, as Kaohsiung had already been turned into a manufacturing base for heavy industries by the Japanese colonial government after the military invasion of Southeast Asia during the second world war.

As Chu (1997) argues, the state played a critical role in fostering heavy industries, and governed the market mechanism to reduce the tremendous amount of uncertainty involved in transactions. The sheer fact of creating an industry through cross-sector coordination of investments triggered an imitative effect in the industry's later development. Private capital became less hesitant about joining projects of a much larger scale. The heavy industries in the South functioned as an ideal type of late industrialization, according to Amsden (1989). The process was characterized by state leadership, learning advantage and conglomerate domination, and was governed by a labor–capital–state alliance, an industrial complex and mass consumption. Industrial policies made by the state incubated the new industry, and state protection allowed it to grow and prosper.

The fostering of high-technology industries in the northern region

Establishing a semiconductor industry is a representative case of how a developing country closes the gap between it and developed countries in a high-tech industry. The founding strategy for Taiwanese semiconductor plants was an innovation that helped shape the competition in the global information industry. More than 85% of Taiwan's semiconductor firms are concentrated in the Hsinchu Science-based Industrial Park (HSIP) in northern Taiwan. The government provided tax incentives and public infrastructure for the tenant firms. High-technology firms located in the HSIP would be exempted from tariffs and commodity and business taxes during their first 5 years of business. The HSIP also provided exclusive plants, utilities, residential housing, schools and the like for the firms and their employees. HSIP and the corridor running from Taipei to Hsinchu have become a successful regional model of learning in the developing world (Mathews, 1997; Hsu, 2004).

Retrospectively, HSIP and the high-technology industries it hosted could not have been conceived without top-down state intervention in strategic promotion. It represented a dramatic industrial leapfrogging in Hsinchu as a result of planning. Taking advice from a group of Chinese American engineers, the government established the Electronic Research Service Organization (ERSO) to transfer IC design and fabrication technologies from foreign companies. The initiative was taken to be exceedingly risky at that time; few experts believed that Taiwan could enter the semiconductor industry where

only the US, Japan and a few industrialized countries had a foothold. Under fire from critics in other conservative ministries, the economic technocrats under the leadership of the then premier Y.S. Sun, acted as a key nodal agency in taking the brave decision to enter this risky area and in allocating financial and human resources to foster the new industry (Hsu, 2004). After mastering the borrowed technologies, the ERSO subsequently spun off two new local IC firms, the United Microelectronics Corporation (UMC) and the Taiwan Semiconductor Manufacturing Corporation (TSMC). Besides these major achievements, the ERSO also set up an IC design center and allowed its engineers to start up their own companies. The government also constructed HSIP to host these new firms, and provided financial and tax incentives to lure in risky investments. In a sense, this echoed the argument put forward by Park and Markusen (1995) that the state should help to create an industrial district.

It was basically clear that the developmental state played the key role in mapping the regional configurations of industrialization before the 1980s. Fostering waves of strategic industries and encouraging the entry of small to medium-sized firms constituted the two pillars of the action to incorporate the industrial system into global production networks and took advantage of the new international division of labor in the postwar Taiwanese economic miracle. But things changed dramatically with a political crisis and economic restructuring after the mid-1980s.

Political crisis and economic restructuring after the 1980s

In 1985, the KMT state called for a special committee for economic recovery. The committee reached a consensus on establishing 'liberalization, internationalization and institutionalization' as the pillars of economic development to recover from the economic recession in the late 1980s. It seemed the KMT state was making a dramatic change to the legacy of the developmental state. Why did it have to do so?

The key dynamics behind the policy change come from domestic political struggle and global economic competition. Politically, an omen of the end of strongman politics emerged and caused a power struggle among different factions within the ruling body in the early 1980s. A series of protests attacking the one-party system of government and demanding democratization were organized by opposition groups composed mainly of the urban bourgeoisie, who, ironically, had benefited from the state-led economic development, and the local Taiwanese elites who were seeking national independence from mainland China. The opposition party, the Democratic Progress Party (DPP), was allowed to be founded in 1987 after numerous democratization fights. KMT's strongman, Chiang, died in 1988. In the political turmoil that followed, the vice-president Lee Deng-hui succeeded him as the new president. Lee was the first President of Taiwan to have been born on the island rather than in mainland China. To meet the external challenge from the DPP and win the power struggle with the 'mainlanders' within his party, Lee launched an 'indigenization' strategy, which aimed to collaborate with the politicians of local factions to form a political majority.⁶ Further policymaking had to rely on the votes and financial support of key local politicians and businesspeople. Consequently, the authoritarian developmental regime gradually lost its arbitrary power and had to win the support of the local factions and business groups that arose during the liberalization process (see Table 1). As a result, the state could not play a strong leading role in industrial policymaking.

In addition to the political transition, the issue of economic restructuring presented a challenge to Taiwan in the 1980s. In the beginning, there was an acute shortage of cheap labor and land, and at the same time, the latecomers, such as the newly industrializing

6 According to Wu (1987), local factions came into existence, under a patron-client relationship, as local politicians, mostly native Taiwanese, informally organized to build alliances with the former mainlanders who controlled central government in the KMT regime. The KMT rulers allocated resources to the local factions in exchange for their political loyalty.

Table 1 Top 100 business groups' sales and employment as a percentage of GNP, 1973-98

	1973	1975	1977	1979	1981	1983	1986	1988	1990	1992	1994	1996	1998
Top 100 sales (A)	3.5	4.3	6.2	10.6	13.4	15.8	23.7	43.4	62.3	73.4	101.5	121.3	150.6
Growth rate, %	-	-4	14	19	1	9	9	21	15	2	18	9	20
GNP (B)	11	15	22	33	47	52	83	128	163	215	250	297	328
Percentage (A/B)	32.3	28.0	28.7	31.9	28.8	30.1	28.7	33.8	38.3	34.2	40.6	42.9	54.0
Top 100 employment (C)	277	283	300	313	308	330	335	375	397	436	489	577	770
Growth rate, %	-	1	3	2	-1	4	1	6	3	5	6	9	17
Total employment (D)	5,125	5,521	5,980	6,426	6,672	7,070	7,733	8,108	8,283	8,632	8,939	9,608	9,289
Percentage (C/D)	5.4	5.1	5.0	4.9	4.6	4.7	4.3	4.6	4.8	5.0	5.4	6.3	8.3
Group number	100	100	100	100	100	96	97	100	100	100	100	100	100
Collected CCIS	111	106	100	100	100	96	97	100	101	101	115	113	179

Units: US\$ billion, thousand people, %
 Source: Adapted from Amsden and Chu (2003: 121, Table-4.1)

Southeast Asian countries and mainland China, became Taiwan's rivals in the international markets and attracted capital to locate with them (Chung, 1997). An investment strike occurred after 1980, as the domestic investment rate declined from 32% in 1981 to 16.3% in 1986, and interest rates rose gradually during the same period (Liu, 1992). This indicated that capital's confidence in the investment climate was shaken. Worst of all, the harsh pressure from the US to open the domestic market and liberalize the exchange rate, together with the declaration of intent to join the World Trade Organization (WTO) in the early 1990s, further deteriorated the established competitiveness of the export-oriented economy.

Under these circumstances, a starkly different story unfolded in the rural industrial areas, as the state was forced to allow the outflow of rurally located industries. Taiwan grew from a foreign capital recipient to an outward investor for the first time during the period of postwar economic development. In the first instance, the investment went to Southeast Asian countries. However, Taiwanese FDI in mainland China took off after 1987, and soon overshadowed FDI in Southeast Asia. According to Kao (2000), during the early phase (1987–91), most of Taiwanese FDI in mainland China was carried out by SMEs in labor-intensive sectors such as the plastics, footwear, toy and garment industries. Most of the trans-border firms remained connected with their suppliers and customers in Taiwan, and copied their whole production networks in the host countries (Chen, 1998).

A systematic reshuffling of the political economy occurred in the mid-1990s. By cozying up to the key business groups and agreeing their demands, the government tried to counter the magnetic power of investing in China, which was still regarded as an enemy politically. An ambitious project, the Asia-Pacific Regional Operation Center (APROC), was finalized by the government in 1996. The project demonstrated its ambivalent attitude toward China: on the one hand, the opening-up of China meant a huge reservoir of cheap labor and land was available to Taiwanese SMEs who could not survive without it; on the other, the rise of China presented a fatal attraction to Taiwanese investors, particularly high-technology and big business groups, who wanted to relocate to the territory of the political enemy at the expense of Taiwanese interests. The APROC project was intended to act as a hub for regional manufacturing, sea and air transportation, and financial, telecommunications and media activities. It was seen as requiring an open and competitive economy: privatization of state enterprises, liberalization of the domestic market, and the institutionalization of BOT (Build, Operate and Transfer) or encouraging the participation of private capital in the construction of public infrastructure. As a result, the pattern of regional development was no longer shaped solely by the state, but by an alliance between the government, business groups and local political factions.

However, the APROC project was put aside abruptly after the surprise victory of the opposition party, the DPP (Democratic Progressive Party) in the 2000 presidential election, which ended the more than 50 years of one-party rule by the KMT. Most of the major winning constituencies were located in the southern regions and rural areas, and thanks again to electoral support from the South, the DPP won re-election in 2004 (see Figure 1).

The DPP government responded to the demands of its supporters, who were mostly based in the southern region. In contrast to the clientism of the KMT regime, the DPP resorted to populism, which emphasized the injustice of regional disparity and strengthened the identity of local communities,⁷ although, in contrast to bottom-up populism, the movement created by the DPP aimed to involve direct participation by the people as a way of circumventing the institutions and representative associations that

7 The resort to populism was used to counter the existing allocation mechanism by DPP politicians. 'We pay taxes and we are not second-class citizens' was the most common slogan in the fight for resources such as science parks, international airports, etc. Distrust of the institutions, even if they gained power in the election, was the main cause of the rise of populism among the DPP followers (Wu, 2007).

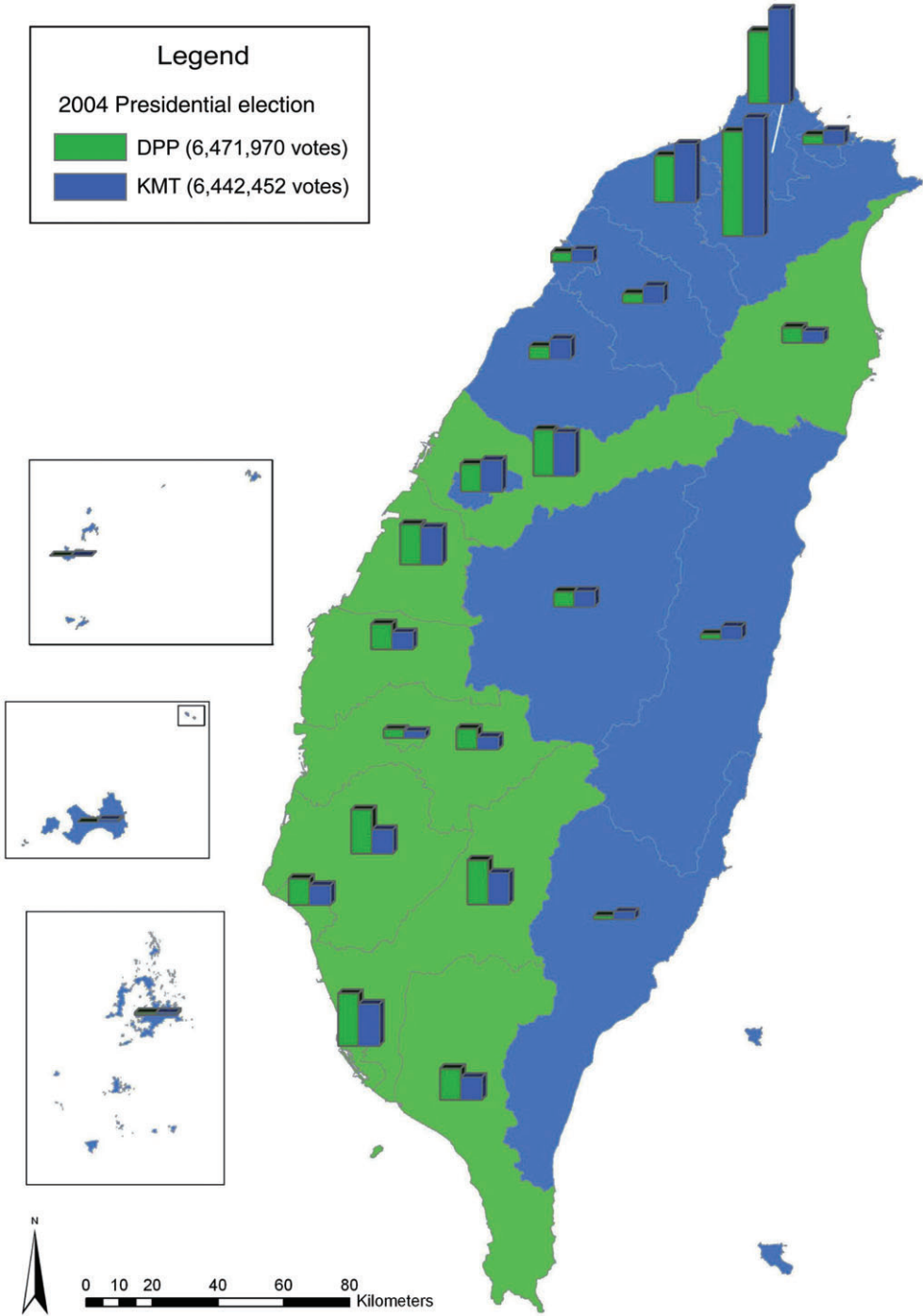


Figure 1 The winning constituencies in the 2004 presidential election

had, so they believed, been contaminated by the KMT's long time in power (*cf.* Taggart 2000). It was a power struggle launched from the top down.⁸ The DPP's aim was to break down the dominance of local KMT factions, which would be replaced by pro-DPP community organizations (see Hsu, 2009 for details).

The DPP government transferred resources to constituencies that supported it, in accordance with the law stipulating how tax revenue should be allocated. As government reports (CEPD, 2004) showed, the southern region, which was mainly DPP turf, received aid and subsidies from the central government to the tune of NT \$76,185 million or 40.8% of revenue in 2003. In contrast, the Northern region, where the KMT won the majority vote but lost the largest constituency (Taipei County), received NT \$70,056 million or 24.2 % of revenue. Of the revenue received by the Northern region, Taipei County, ruled by the DPP, got NT \$33,159 million, while Taipei City, controlled by a KMT mayor, who was believed to be the most threatening challenger in the next election, received only NT \$4,545 million.

Nevertheless, the DPP regime was worried by its lack of experience in economic affairs, in which the KMT developmental state enjoyed a good record. Accordingly, the DPP regime, while discarding the APROC project in appearance, continued to implement a similar project in order to win political loyalty and donations from emerging business groups, as well as to show its dedication to economic development. The new policy package, Challenge 2008 (Executive Yuan, 2003), was essentially designed to deal with two issues. On the one hand, to meet the globalization imperative, the DPP administration met the demands for financial and industrial investments (e.g. in a financial holding company, for semiconductor and TFT-LCD [thin film transistor-liquid crystal display] technology and biotechnology) from Taiwanese business groups by promising more international talent and technology exchange to avoid the hollowing-out of the investments to China. On the other, the DPP regime strengthened its support from southern and central Taiwan by circumventing the KMT's northern heartland through resource reallocation, and rejected a proposal for direct flights to China. In other words, it was a project full of contradictions as it vacillated between two poles of the pendulum: to compete globally, the government should have allowed the business groups — particularly those in high-technology sectors — to extend their manufacturing operations to China (the largest host for Taiwanese outward investments) and set up cross-strait regional integration, or a cross-border city-region; but it had to look after its supporters, who were suffering badly from unemployment in the southern and central regions that had hosted rural industrialization before economic restructuring and the pro-Taiwanese independence movement, and who were quite antagonistic towards a 'going China' policy. As a result, to avoid being obstructed, the DPP government offered a package of tax and land concessions to compensate for the losses incurred by key business groups through investment in China. Among other things, the idea of a 'Silicon Island', the plan to construct science parks around the island and thus promote industrial and regional competitiveness, illustrates the catch-22 dilemma perfectly (see Figure 2).

The Silicon Island Plan: an illustration

As indicated above, Hsinchu science park has been home to the most competitive sector — semiconductors — since the KMT developmental state created it when private capital hesitated to join in during the early 1980s.

From the late 1990s on, Taiwanese outward investments to China have shifted from labor-intensive and small-scale to technology-intensive and large-scale (mainly located in the Hsinchu–Taipei Corridor) as the opening-up of China's market was expected to

8 The other effect of mobilizing local populism was to increase animosity against Chinese identity, which was the major ideology of mainlanders in the KMT government.

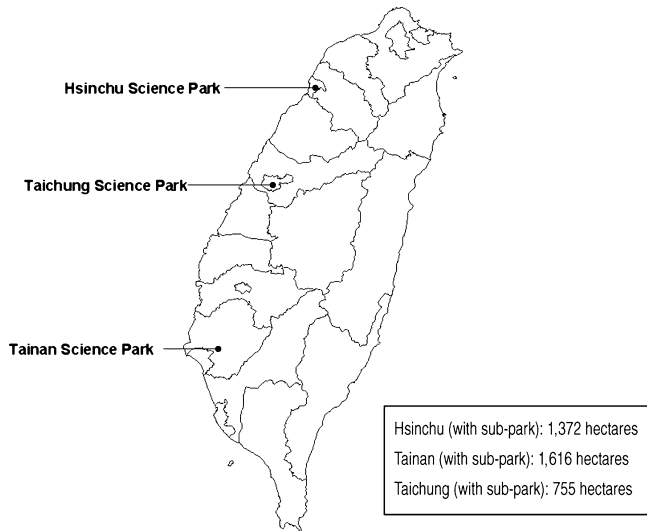


Figure 2 Map of the Silicon Island Plan (source: National Science Council, ROC)

take place after China's entry into the WTO.⁹ By the end of 1999, over US \$14.5 billion (or above 45% of total Taiwanese outward investment) was being invested in China by Taiwanese investors, according to a Taiwanese government report, which was inclined to underestimate the amount (MOEA, 1999). This raised concerns about the possible hollowing-out of high-value-added activities in Taiwan. Despite the fact that during the 1980s China took the bulk of its materials for processing from Taiwan, gradually more materials were locally sourced, and the ratio of imports from Taiwan declined to about 30% in 1998 (*ibid.*). In terms of cross-border investments, Shanghai City and its neighboring region hosted most of the Taiwanese high-technology investors (see Figure 3). The particularity of the Hsinchu–Taipei corridor in the global space of flows was that it acted as a node connecting with the technology hub in Silicon Valley while at the same time extending high-technology investment across the Taiwan Strait (Hsu, 2005). It exploited the advantage of dense technical communities and complementary industrial structures with Silicon Valley and accumulated a knowledge base over more than two decades of technological learning (Saxenian and Hsu, 2001). In addition, the ethnic ties and cultural affinity between Taiwan and China enabled cross-border investment and made exploring the market in China relatively easy (Hsing, 1998; Hsu, 2004). To some extent, the triangular connection constituted the competitive advantage of the Taipei–Hsinchu corridor in the global economy.¹⁰

9 The average value of investment into China rose sharply from US \$735,000 in 1991 to US \$2.78 million in 1995 (Chung, 1997).

10 This triangular division of R&D across the US, Taiwan and China is summed up by an executive from a venture capital firm in Taiwan who specializes in the information and communication technology (ICT) industry: 'the best business model in the ICT industries today is to combine the locational advantages of the three regions: while Silicon Valley is good at innovation in business and management models, product design and cutting-edge technology, the newly industrializing countries such as Taiwan and Korea can collect funding from the booming capital market, commercialize the product and improve production very quickly using well-trained engineering teams. Finally, you can go to China to find a huge amount of cheap engineers and workers and a rapidly rising market to get the final products made' (interview with the author, June 2004).

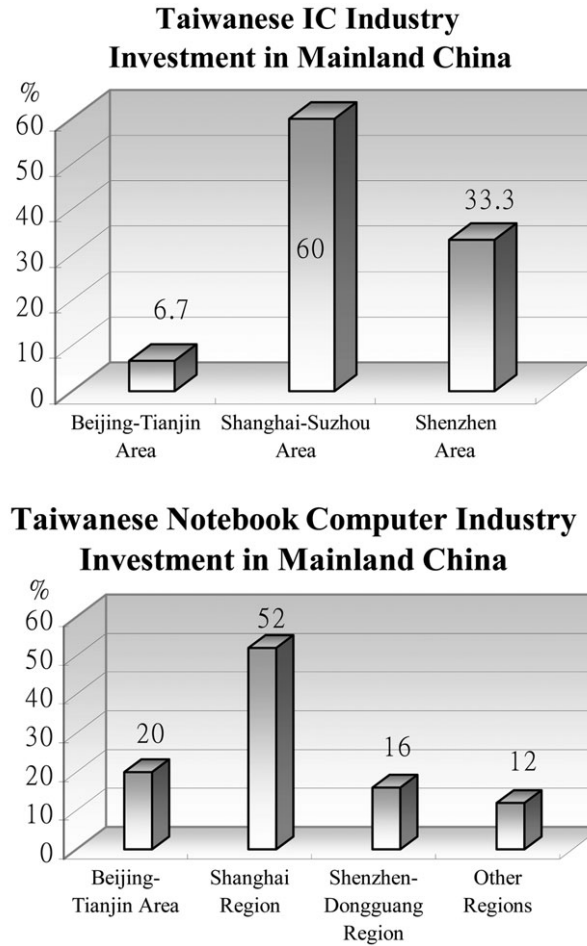


Figure 3 The geographical distribution of Taiwanese IC and notebook computer investments in mainland China (source: Capital Business Group, 2001: 23-4, 56-8)

But, in the eyes of an inward-looking government, the movement of investments to China would endanger economic growth and national security. To retain the investments locally, the state adopted two policies, one the stick, and the other the carrot. An explicit policy of ‘don’t rush, be patient’ was stipulated by the then president Lee Teng-hui in 1991 to discourage the expansion of cross-strait investments. People who made investments that were not reported to the government were liable to fines, and some were even sentenced to prison. This forced many Taiwanese investors, particularly the high-technology firms, to choose to register in a third country, such as the Cayman Islands, so that they could undertake their Chinese investments as foreign companies, rather than report to the Taiwanese government. Government policies also did not allow direct links (trade, postal and air transportation) between Taiwan and mainland China. Consequently, serving these ‘sneaking’ investments added to service providers’ costs, and did not enhance the Hsichu–Taipei regional advantage (Ching, 2001).

Worst of all, the inconvenience caused by the Taiwanese government’s hesitation in allowing the three direct links caused the interface city to gradually lose its advantages. It usually took almost a day to travel from Taipei, via Hong Kong or Macau, to Shanghai, when it would have taken less than 4 hours to fly directly. Even goods had to be detoured

to a third port to arrive at their destinations in China.¹¹ Particularly when time compression had become firms' major competitive advantage, the delay in delivery was unacceptable for the management of transnational production chains. No wonder the chairs of the American and European commercial chambers in Taiwan complained about the issue and warned that they would withdraw from Taipei, as most major business operations moved to mainland China.¹² As a result, the membership of the American Commercial Chamber declined from 875 in early 2001 to 750 in mid-2002, whilst its European counterpart lost 30 members over the same period. Even the key IPOs (International Procurement Offices) such as Dell Computer moved their Asia Pacific centers from Taipei to China's key coastal cities such as Shanghai (Kuang, 2002).

To make up for losses incurred by not investing in the cheap land of China, the government eagerly offered land subsidies and fiscal benefits to keep businesses based in Taiwan. A new science park in southern Taiwan, Tainan Park, was planned and launched in 1995. In addition, the KMT government decided to collaborate with big business groups in constructing a High-Speed Rail (HSR) system to connect the major cities and science parks in 1997. Both of these two constructions were enthusiastically embraced by the new DPP government, as they would serve the party's strategies to cater for the needs of the south and please the key business groups involved in the HSR consortium.¹³ In return for their bearing the construction costs of the HSR, the government allowed the construction consortium to develop the land around the stations. Land development became the key source of profit for the HSR business groups (Chu, 2003).

Instead of assisting in the genesis of the semiconductor industry, as had been the case in Hsinchu, the government played only a minor role in the industrial development of Tainan Park; indeed, in the early stages, more than half of the tenant firms were branch plants of those earlier established semiconductor industries. Indeed, Tainan was initially designated as an extension of Hsinchu Park, as a way of offering subsidies to the semiconductor firms to expand their mature operations without moving to China.¹⁴ Even the new optoelectronics (especially TFT-LCD) firms, which became the largest sector after 2002, were mainly cultivated from the business networks of a key business group — Chimei — rather than by a government laboratory or funding agency. In fact, the creation of the LCD industry was through the mechanism of a firm-centered technical transfer that took place between large Taiwanese enterprise groups and Japanese *keiretsus* that had been fiercely hit by the Asian financial crisis of 1997 and were short of capital to conduct a new round of investments (Yang *et al.*, 2008). In the process, the state could do nothing but provide cheap land to host the rising industries. Instead of playing the leading role in market creation, as in the Hsinchu case, in Tainan the state followed and supported the development of new industries. The major function of the park for the

11 The Taiwanese government, particularly under the pro-Taiwan independence Chen Shui-bian administration, was reluctant to unite with mainland China, and promoted the policy of 'one side [of the Taiwan Strait], one country', hence prohibiting direct links across the Strait for national security reasons. However, when business connections and cultural exchanges increased, people suspected that the government would reject direct talks as usual.

12 Mr. Guy Wittich, the executive of the European Commercial Chamber complained that the inconvenience of not being able to connect directly led to most of the representatives of the Great China Circle, who usually located in Taipei, having to move to Hong Kong or Shanghai, as it was troublesome to frequently travel between Taipei and the other Chinese cities (Kuang, 2002).

13 As President Chen claimed: 'In the past, most of the heavy industries were concentrated in the South, while most of high value-added industries, such as financial services and high technology, agglomerated in the North. The establishment of the Tainan Park represented the government's intention to upgrade the industries and balance regional development' (*Commercial Times*, 27 January 2003: A3).

14 The mission of the Tainan Park to distract Taiwanese high-tech investors from China was vividly depicted by the director in his inauguration speech in which he tried to persuade the Hsinchu semiconductor firms not to go China, but stay in Taiwan. He said, 'Would going West [to China] be a better choice than going South [to Tainan]?' (*Liberty Times*, 26 January 2003).

DPP populist government shifted from the economically developmental to the politically expedient. In the case of the Taichung Park, the government simply increased the size of the politically manipulated infrastructure.

The idea of the third Park came from the DPP government soon after the 2000 presidential election. Taking advantage of a split in the KMT leadership, the DPP won most of its votes in the South, though the KMT held the North tightly. Thus, central Taiwan became the target the DPP needed to win if it wanted to hold onto power in the 2004 election, when it might not be so lucky with divisions in the KMT. On the basis of such considerations, the slogan of 'three thirds — the third international airport, the third central-government-controlled municipality, and the third science park', reinforcing those in the North and the South, was raised to the status of a major policy issue after the 2000 election campaign. Taichung Park was finally launched in 2002. In contrast with Hsinchu Park, which was planned and demarcated by technocrats, the development of Taichung Park was competed for and fought over by the counties in the central region. Local politicians and congress people of the Legislative Yuan were deeply involved from the beginning, and lobbied aggressively for the president's endorsement in exchange for their political support. As a result, the park adopted the developmental model of 'one park, several sites' and eventually covered most of the neighboring counties, even Yun-lin County which is located more than 100 miles away from Taichung City. The disputes around site selection were not settled after the park's launch (Feng, 2002). But it was generally believed the development of the third park, as well as other subsidy policies, contributed to the DPP's seizure of central Taiwan, which was KMT territory, in the 2004 presidential election.¹⁵

The major tenant firms in Taichung Park are from IC and optoelectronics industries and are, in fact, branches of mother companies in Hsinchu and Taipei. There is little sign that they have developed their connections or cooperated with the local industrial base so far. Although 27 precision machinery firms have set up in this Park, the links between these inwardly invested high-tech firms and other local firms in the machine tool, equipment manufacturing and precision machinery industries are still weak (Yang *et al.*, 2008). It remains unclear to date whether Taichung Park can achieve its goal of upgrading the traditional industries.

A critical comparison

The policy goal of the construction of Taichung Park was to reduce regional economic disparities in addition to bringing about economic development. It is difficult to evaluate this issue comprehensively here due to space limitations, but a broad overview may be possible. A comparison between Hsinchu and its Taichung park counterpart will flesh out the changing roles of the developmental state in Taiwan. In the former, the economic technocrats took charge of initiating and fostering the development of the new semiconductor industry and the construction of the new science park by allocating resources, land and capital, and gatekeeping technology from foreign companies. By contrast, in the Taichung case, it was the political strategists who led the launching of the new park and left the firms themselves to engage in technology transfer from foreign companies. A clear developmental state model played an active role in the Hsinchu case, but not in the Taichung case, in which a populist political calculation became the key driver instead. Nevertheless, one of the policy goals of the construction of Taichung Park was to reduce regional economic disparities: how would populist subsidies work in this sense? Again space limitation makes it impossible to deal with this question other than in broad outline. Most of the firms who established themselves in Taichung Park came from the neighboring areas, principally from Taichung Industrial Park, an old industrial estate that had been in existence for more than 20 years, and from Hsinchu Park. Few of

¹⁵ The DPP increased its share of the vote from about 33% in 2000 to over 52% in 2004 in the central region.

them were new organizations. In other words, the park was basically a special zone where established firms could relocate or expand their operations. It is hard to argue that Taichung Park has created significant benefits for local economic development, given the huge cost of developing the new science park itself.

Moreover, of the park’s three sites, only the Taichung core site has been in use, and the remote one in Yun-lin County is so far home only to two public agricultural laboratories! In fact, the huge expense of the park’s construction could be used in an efficient way, for example to create and promote research teams among the machinery firms in the central Region, that is, if reducing regional disparity was a real aim. But, in terms of populist rhetoric and political calculation, a science park is more attractive to the DPP government as a means of land development, and speculation induced by ‘park fever’ has become the key interest and discourse to mobilize support from local politicians and business groups (Liu, 2007). Just as the traditional industrial parks, which were aggressively competed for by different counties in the 1970s, led to an oversupply of land and huge debt over the past three decades,¹⁶ the issue of an idle science park might soon become a reality to the populist-dominated island.

In summary, the Hsinchu–Taipei Corridor took advantage of its triangular connection to bring about cross-border regional integration and situated itself in the global production networks so that it could upgrade functionally from the role of manufacturer to that of innovator and coordinator. But the transnational connection was obstructed by a China-phobic government. At the same time, Tainan Park was initially designated as an extension of Hsinchu Park to reduce regional disparity, but an unexpected development led by a major corporation pushed it onto a divergent trajectory. Similarly, Taichung Park was born of political calculation, and its place in future economic development remains unclear. Under such circumstance, the cluster strategy implied in the Silicon Island Plan did not work because of the consideration given to bestowing political favors. A similar pattern occurred in the development of the biotechnology industry. At the height of biotech fever, more than 10 bio-parks were amazingly planned to be in existence by the year 2007 (see Figure 4). This raised concerns that the promotion of bio-parks would

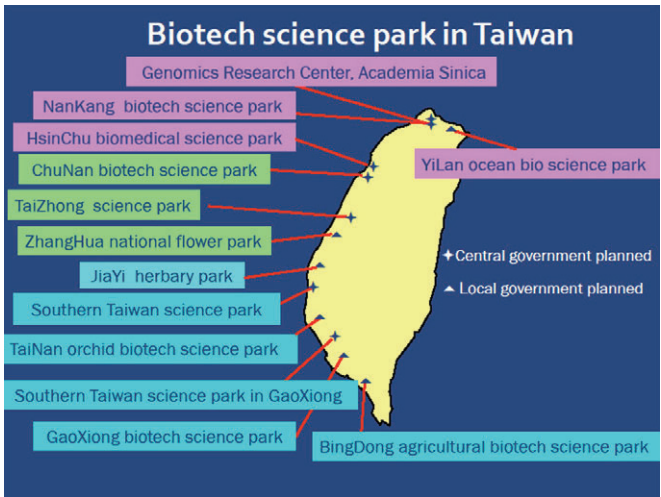


Figure 4 Map of planned bio-parks (source: data compiled from NSC, 2007)

16 More than 3,000 hectares of land in the traditional industrial parks were left aside, accruing more than NT \$14 billion debt for the Industrial Bureau, according to the official agency in charge of industrial land development (BOI, 2008).

unleash a new wave of land speculation, rather than having any notable impact on industrial and regional development.

Conclusions

Three concluding remarks, empirical and theoretical, can be distilled from the transformation process described in this article.

First, this case reveals the tension between the logic of politically driven industrial nationalism, on the one hand, and the imperatives of economic transnationalism on the other. By and large, engaging in global production and competition aligns local capitalists with the interests of their internationalized operations, and undermines their embeddedness in domestic state policies. Consequently, it places a ceiling on the state's ability to intervene in company activities and forces the state to restructure itself so as to be better positioned to handle global connections or to face the loss of the competitive advantage of firms and their hosting regions. In other words, the key to the politics of developing economies in an era of globalization resides in the tension in and solution to the articulation process, as the top-down national state mandate meets bottom-up transnational socio-economic networks. The tension is a challenge faced by all post-developmental states in the globally integrated economic system (Ostry and Nelson, 1995). While not fulfilling the prediction of the powerlessness of the state in a global economy, this case also remains conservative about the enabling state thesis proposed by Weiss (2003). The state still matters, but not necessarily in a developmental way. The legacy of techno-nationalism, which embedded the inward-looking developmental state, still wriggles in the cross-border economic system. Old habits die hard.

Second, this case also addresses the issue of domestic politics in the transformation of the developmental state. As the democratization process takes place in an authoritarian regime, the developmental state, which possesses efficient arbitrary power in decision making, encounters difficulty in organizing and coordinating resurgent business and political groups. Developmental state theorists too often treat the national bureaucracy as totally depoliticized, socially disembodied, and in rational pursuit of a self-evident national interest (Amsden, 1989). But the 'plan rational' idea, which presumes a national interest, is challenged by emerging interests. Just as divergent capitalisms benefit specific socio-economic sectors and regions, the rationally planned developmental state confronts the encroachment of divergent interests in so-called 'third-wave democratization'. Consequently, whatever autonomy the developmental state has under an authoritarian regime usually dissipates as political populism spreads with democratization. Democratization usually leaves the developmental state constrained space in which to maneuver. Instead of being driven by the plan rationality of technocrats — like Hsinchu Park in the 1980s — the development trajectory of Taichung Park was shaped by the political calculations of politicians. In contrast to the developmental state model, populist government subdues technocrats to the political imperative of winning elections.

Finally, the coincidence of the demise of the developmental state and the rise of populist policies results in a 'schizoid' element in the regionalization of industrial development. Those regions driven by economic imperatives extend their production networks to create trans-border regions in the global economy, resisting the confinement of the nation state. By contrast, other regions, in spite of remaining unclear about their competitive strategies, take advantage of domestic politics and power-distribution effects to gain more infrastructural support in the redistribution process. The national development system in Taiwan became 'one nation, two systems' as a result of the pulling and dragging of populist politics and a liberalized economy. Accordingly, the comparison between Hsinchu and Taichung Parks illustrates the fact that the role of domestic politics cannot be overemphasized in globalizing regional development. While the KMT developmental state model focused on economic growth with the help of

centralized political control, the DPP state stressed political gains to mobilize populist support and even sacrificed, if necessary, economic benefits. The process of regionalization is not only delivered by the imperative of economic collaboration, it is also usually a fruit of a deliberate power-distribution effect. In this sense, the new regionalist discourse overemphasizes the external connection at the expense of the diverse, dynamic social and political forces within the regions themselves (*cf.* Robinson, 2003).

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Resumé

Cet article s'intéresse à la transformation de l'État et à l'évolution des politiques de développement industriel et régional qui ont eu lieu à Taïwan sur fond de mondialisation économique. Le régime autoritaire du Kuomintang a pu consacrer de vastes ressources au développement d'industries stratégiques dans les régions cruciales, notamment le Hsinchu, tout en permettant une industrialisation rurale grâce à l'extension du réseau de production mondial jusqu'au centre de l'île. Une mutation radicale s'est produite lorsque la pression économique externe et les luttes politiques internes ont remis en cause le pouvoir arbitraire de l'État à partir du milieu des années 1980. Pour éviter le déracinement des entreprises, l'État a incité à une modernisation industrielle en proposant des subventions préférentielles, tout en interdisant l'exode des secteurs clés vers la Chine. Cette politique n'a pas entièrement porté ses fruits. Lorsque le parti populiste des démocrates progressistes est arrivé au pouvoir, il a accentué cette stratégie en lançant de nouveaux parcs scientifiques, à la fois pour dédommager les grandes entreprises des pertes causées par la politique de rétention et contrebalancer les disparités régionales de son électorat. Les principales mesures en faveur de la compétitivité industrielle et régionale qui en ont découlé ont réduit les dotations de ressources à des financements électoralistes, tandis que l'avantage compétitif du Hsinchu en matière d'intégration régionale transfrontalière se perdait au fur et à mesure qu'un ordre collectif venait régir le processus. L'article termine par quelques réflexions sur l'État post-développementaliste et sur l'interaction entre une politique populiste, l'économie libéralisée et le nouveau régionalisme.