Space of Flows, Politics of Place:
The Embattled Developmental State in Taiwan, 1980s and 1990s

By Chung-Hsien Huang
Assistant Professor
Department of Sociology, Tunghai University
E-mail: momo@mail.thu.edu.tw

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Introduction

There is nothing more central to political and social theory than the nature of the state, and nothing more contested. Any attempt to understand the state must consider its spatial and temporal dimensions—the horizontal “stretch” of the state across territory, the depth of state intervention in social and economic life, and the changing form of all these over time. To account for the cause of Taiwan’s “economic miracle”, one of the most influential argument has been to “the developmental state” thesis, whose intellectual roots can be traced back to the early works of Karl Polanyi (1944), Albert Hirschman (1958), Alexander Gerschenkron (1962), and Barrington Moore (1967), but later was extended and eloquently articulated in the works of Chalmers Johnson (“the developmental state”), Alice Amsden (“getting the price wrong”), Robert Wade (“governing the market”), Peter Evans (“embedded autonomy”), and Linda Weiss & John Hobson (“governed interdependence”).

A developmental state is most commonly defined by two characteristics: (1) its autonomy from social forces—its economic bureaucracy can devise long-term economic policies without the interference from private interests, and (2) its capacity to implement economic policies effectively—the state can exercise a large measure of control over the behaviors of domestic and foreign capital. The state in Taiwan is ubiquitous in economy and society: penetrating, comprehensive, highly articulated, and relatively autonomous of particular groups and classes. It is widely recognized that the central role of the state in steering Taiwan’s economy as well as the effectiveness of state action is rooted in its overall relationship to society (Amsden 1985; Gold 1986; Wade 1990). It is important that the state acquire the political ability to resist penetration by social interests, to circumscribe the autonomy of economic actors, to subordinate labor through direct control over unions and outright repression, and to assert an independent national development interest. However, the challenges confronting the developmental state in the late 1980s and 1990s were quite different. This paper attempts to elaborate these new emerging challenges and its consequences.

I. Leviathan under Siege: Democratization and Globalization

The famous intellectual history scholar Isaiah Berlin once use the term “a remarkable decade” adopted from the 19th century Russian critic and literary historian, Pavel Annenkov, to describe the emergence of the Russian intelligentsia between 1838-1848. These early Russian intellectuals such as Turgenev, Tolstoy, Goncharov, Dostoevsky, and Herzen, just to name a few, created something which was destined ultimately to have world-wide social and political consequence. And the largest single
effect was the Russian revolution itself. For Berlin, these early intellectuals set the moral tone for the kind of talk and action which continued throughout the 19th and early 20th centuries, until the final climax in 1917 (Berlin 1978). In the context of contemporary Taiwan, one might argue that the 1980s can be termed as a “turbulent decade” which is a decade between the decay of the old and the formation and establishment of the new. Politically, this is a decade witnessed Taiwan’s democratic transition in which the ascendance of civil society came forward to challenge the KMT authoritarian regime. For a time, at the peak of mounting social movements targeted at the state in the late 1980s, the state appeared “disoriented” and the political arena can be well characterized as “things fall apart; the center cannot hold; Mere anarchy is loosed upon the world” (W. B. Yeats). Economically, there is also a sea change of Taiwan’s economic regime. The previous social structure of accumulation seemed run out of steam and tended to become less and less reproductive. It is a historical conjuncture that can be described as a structural crisis of accumulation. In such a situation, the entire social structure of accumulation needed to be restructured in basic ways in order to re-establish a compatible relation with the forces/relations of production. This is a transition period of Taiwanese accumulation regime with uncertainty, confusion, and trial and error experiments. However a coherent package of structural solution is yet to come up. “Society waits unformed and is for a while between things ended and things begun” (Walt Whitman). In political economy terms, this turbulent decade defined a watershed in contemporary Taiwanese history marked by a transition from an authoritarian regime to democratization and a transition from embedded exportism to nested exportism.

Democratization

As well documented, the state in Taiwan has played a leading role in shaping and reshaping the class structure through the state development strategies, initially by land reform and followed by state-led capitalist industrialization. In this process, economic strategies were also accompanied by alterations in the nature of state-society relations. Such change involves a complex dynamic between state and society. Each sphere acted upon each other. The state and society mutually transformed each other, though with asymmetrical intensity and effects. As a result, with the benefit of hindsight, it is quite discernible that since the mid-1980s there is an immense restructuring of state-society relations taking place without precedent in Taiwan’s political landscape. A fruitful way to shed light on this transformation of state-society relationship is to focus on the particular configuration of embedded state-class relations and to explore historically contingent asymmetries of state power and class power in the transition
State-Class Relations. Within state-class relations, two sets are fundamental: state-capital relations and state-labor relations. To press further, I would argue that it is the state-capital relations instead of state-labor relations that should enjoy a “privileged” status in analyzing Taiwan’s economic development at least up to the mid-1980s. Especially, from a regulationist perspective, in order to analyze the process of capital accumulation it is imperative to pay more attention to the interaction between state and capital because the class character of the developmental coalition between the state and the segments of capital shapes the dominant form of capital accumulation and the behavior pattern of a developmental state must be understood within the context of class structure. This also echoes Evans’ point, “For developmental states, connections with society are connections to industrial capital.” (Evans 1995: 234)

Before the lift of Martial law in 1987, state-capital relations in Taiwan can be described as asymmetrically interdependent: the state is a pace-setter and guide, while capital follows. This state-capital nexus is structured in a vertical, asymmetrically interdependent manner. To use the term “asymmetrically interdependent” is to suggest that government and business are highly interdependent, but the rules for establishing and maintaining that interdependence make it a highly managed affair, in which the state takes the role of dominant partner. Capital was incorporated into KMT regime’s “accumulation strategy” and “hegemonic project” (Jessop 1990) of using economic development to achieve its legitimacy and to justify its authoritarian rule. In this sense, capital was an ally and was incorporated into the state’s development framework by the state’s ISI and EOI policies as well as other measures implemented to develop the economy. The developmental state’s interest in actively promoting the development of the private sector implies an explicit or implicit alliance with capital. But the alliance was unequal: the KMT’s authoritarian state corporatist channels are state-controlled; the private sector is organized, subsidized and controlled by the state.

However, from 1986 the KMT authoritarian regime in Taiwan faced an organized

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1 In a more general sense, I am arguing here that capital enjoys structural power over other sets of state-class relations. This point has been forcefully argued by Adam Przeworski: “Capitalism is a form of social organization in which the entire society is dependent upon actions of capitalists….First, capitalism is a system in which production is oriented toward the satisfaction of the needs of others, toward exchange, which implies that in this system the immediate producers cannot survive on their own. Second, capitalism is a system in which part of the profit is withheld from immediate producers in the form of profit which accrues to owners of the means of production…If capitalists do not appropriate a profit, if they do not exploit, production falls, consumption decreases and no other group can satisfy its material interests. Current realization of material interests of capitalists is a necessary condition for the future realization of material interests of any other group under capitalism…Capitalists are thus in a unique position in capitalist system: they represent future universal interests while interests of all other groups appear as particularistic and hence inimical to future developments” (Przeworski 1985: 138-9).
political opposition and was forced to respond reluctantly to the demand for democratization\(^2\). And once committed to some of democratic transition, the government was forced to devise a political strategy to build and maintain support for the ruling party. The executive came under increasing pressure from its own party to make concessions on a range of economic issues, particularly following the setback in the election of 1986 in which the newly formed Democratic Progressive Party (DPP) showed surprising electoral strength—received an unexpected high 24.56% of the popular vote, particularly in the cities. And the KMT and non-KMT legislators ratio is also changing with the non-KMT members were on the rise after 1986 (refer to Table 1). Campus activism and opposition activities increased markedly after 1986, focused on the overhaul of the Legislature Yuan and the constitutional amendment that would allow direct election of the president. By the end of the 1980s, the political context had changed. With political liberalization, interest groups and opposition parties mobilized around economic policy. And government became more responsive to social demands, including those from such previously excluded groups such as labor.

Table 1. Composition of the member of Legislation Yuan (1969-92): (%)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>KMT***</td>
<td>72.73</td>
<td>83.33</td>
<td>81.08</td>
<td>81.43</td>
<td>84.93</td>
<td>79.45</td>
<td>70.59</td>
<td>56.80</td>
</tr>
<tr>
<td>Non-KMT</td>
<td>27.27</td>
<td>16.64</td>
<td>18.92</td>
<td>18.57</td>
<td>15.07</td>
<td>20.55</td>
<td>29.41</td>
<td>43.20</td>
</tr>
</tbody>
</table>

Note: *Non-KMT = DDP + non KMT since 1986
**Not including lifelong legislators.

By the end of the decade the long-quiescent labor movement begin to stir, placing new pressures on the labor-intensive sectors, and in December 1989 elections for a variety of local and provincial offices, the DPP again increased its share at the popular vote. The liberalization policies and the structural adjustment since the late 1980s and the resultant squeeze on export-oriented business produced confrontation between labor and capital, including threats to move investment offshore. At the same time, the new middle class politics was also quite visible in the political landscape. Labor, though still weak, becomes more organized than ever and also becomes increasingly as a political player.

All in all, the state became the focal point of mounting criticisms and protests.

\(^2\) In June 1986, Chiang ching-kuo signaled his willingness to initiate political reform, and initiated indirect negotiations with the opposition. When these negotiations broke down, a group of opposition party leaders announced the formation of the Democratic Progressive Party (DPP). The government chose not to suppress the new illegal entity, lifted the ban on political associations, and the DPP was retrospectively legalized.
The authoritarian developmental state is under siege by the rise of a contentious civil society. We can argue that direct and deep involvement of the state in the reproduction of the developmental regime resulted in struggles on various levels converged on the state. The civil society fights back against the once autonomous authoritarian regime with vehemence. This is a Tocquevillian revenge and the developmental state created its own Trojan horse. Moreover, if democratization constitutes the domestic side of challenge to the developmental state, the increasingly deepening globalization of financial capital and heightened competition dealt an even heavier blow to it.

**Globalization**

The Bretton Woods system, in which all participating national currencies were pegged to the dollar, was developed to ensure that both American and foreign capitalists could freely pursue profits beyond national borders. But the growing strength of European and East Asian capitalist economies and the corresponding increased weakness of the United States led to the breakdown of the Bretton Woods agreement in the early 1970s. The collapse of the Bretton Woods system and the deregulation of the global money markets during the 1970s and 1980s changed the operation of the financial sector, as the increased volatility produced a rapidly expanding market for derivative instruments. It is exactly speculative trading in these new instruments that unsta
stabilize the international monetary regime.

As national barriers to financial movements fall, international capital flows generate pressure on the Taiwanese “developmental state” through the foreign exchange and financial markets. Capital flights of local capitalists (to China especially) raise a frontal challenge to the once heavy-handed authoritarian regime. Before 1978, capital movement was strictly controlled by the government. Once the trade surplus started to increase and foreign exchange reserves to accumulate, the government started to relax its control on capital movement, particularly after 1985, when the government announced its official policies of liberalization and internationalization. Restrictions on trade-related capital transactions and control on the inward remittance of foreign exchange were dropped. The process of globalization of financial market

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3 The social cleavages include: the disruptive effects of the liberalization of trade on small business and agriculture; a slowing of the growth of rural incomes and a widening of the urban-rural income differential; intense pressure on wages from an appreciating exchange rate and the “hollowing out” of the economy; and perhaps most visibly, the deterioration in income distribution associated with the bubble economy of 1986-1990, which, as in Japan, dramatically inflated asset prices and generated a Taiwanese new rich (Cheng and Haggard 2000).
certainly contributes to the perceived evaporation of state authority. The result is what Fred Block has called “the dictatorship of international financial market”.

In the 1980s, the Taiwanese economy was confronted by several problems: a) rising costs of labor and land; b) mounting trade surplus, c) the opening-up of China to the world market and the export-led policies adopted by the second-tier NICs in Southeast Asia—Indonesia, Thailand, Malaysia, and the Philippines-- which together put Taiwan’s products in an unfavorable competitive positions; d) shortage of labor which created problems for the labor-intensive industries; e) the appreciation of the New Taiwan Dollar against the U.S. dollar which further eroded Taiwan’s international competitiveness for export; f) escalating excess savings along with an underdeveloped financial market that engendered a bubble economy. In response, the Taiwanese state lifted most of foreign exchange controls, lower import tariffs, allowed the entrance of foreign workers, relaxed import restrictions and open domestic services market for foreign competition. The resulted pressure on SMEs, who were mainly engaged in export business, was overwhelming. The gradual loss of world competitiveness for industrial products has created an urgent need for changes in Taiwan’s accumulation regime. To remain competitive in the international markets, Taiwan was forced to restructure its economy by moving into higher value-added, more skill-intensive and capital-intensive manufacturing and into business and services.

Therefore, the mid-1980s could be seen as a watershed that divided Taiwanese capitalism into two discernible stages: embedded exportism and nested exportism.

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4 Low labor costs formed one of the competitive edges of the Taiwanese manufactures in Taiwan’s initial phase of export-led industrialization (embedded exportism). In the mid-1970s, wage levels in Taiwan began increasing rapidly. The average monthly wage in the manufacturing sector increased from US$95 in 1975 to US$353 in 1985, US$821 in 1990, and US$1086 in 1992 (DGBAB 1994).

5 As more high school graduates were attracted to the higher waged industries and the expanding service sector, the manufacturing sector faced a severe shortage of mid- and low-skilled labor. The unemployment rate dropped from 2.4% in 1975 to 1.7% in 1988, and 1.4% in 1993.

6 Historically, Taiwan’s price competitiveness in export in 1970s was facilitated by the government’s protection of the New Taiwan dollar from any surge against major foreign currencies, especially the U.S. dollar (Taiwan’s manufacturers depended heavily on the U.S. market). In 1987, the U.S. market absorbed nearly 50% of Taiwan’s exports while providing only about 11% of Taiwan’s imports. Commodity exports to U.S. accounted for 34% of Taiwan’s total in 1975 and grew to 48% in 1985. As the Taiwan-U.S. trade surplus grew the United States pressured the Taiwanese government to liberalize foreign trade and to allow the New Taiwan dollar to appreciate. From 1978 to 1988, the New Taiwan dollar appreciated 22.4% (from NT$36.00 to NT$28.59) against the U.S. dollar (Hsing 1998).

7 The Taiwan stock market began to soar in late 1988. Stock speculation return rates of several hundred percent attracted the general public to participate in what is called the “Republic of Casino (ROC)”. In mid-1990, Taiwan’s stock market collapsed and all the bubbles in the economic boom since late 1988 disappeared overnight. The stock market index dropped from 12000 points to about 3000 points in three months.
The main differences between embedded exportism and nested exportism include two main characteristics. First, while the main export items in embedded exportism consists exclusively of manufactured commodities, in nested exportism Taiwan started to export capital and technology in addition to manufactured products. Second, in embedded exportism all the production processes were located (embedded) within the national border while under nested exportism some productions are deterritorialized. And one important factor triggered this transition is the rise of “Greater China Economic Circle” (GCEC) with magnet-like power to induce huge amounts of outflow investments to China from Taiwan, which created a popular sense of the “hollowing out” of the Taiwanese economy and worried the Taiwanese government. Even worse, the increasing Taiwan-China economic interactions were further complicated by the insidious accelerating ethnicity-driven Taiwanese nationalism which becomes more and more demanding to create a new national state separated from China. This mode of “economic integration and political divergence” with China constitutes as the main tension in Taiwan even today in 2002 with no sign of abating so far. Arguably, this is the most important dimension to comprehend the changes of Taiwan from mid-1980s to the present. In what follows we will look at these two counter-movements respectively.

II. The Return of the Repressed and the Revenge of the Past: Subordinated Nation Strikes Back

In Taiwan, the trend toward democratization in the 1980s after decades of martial law spawned, among other things, an unexpected resurgence of Taiwanese ethnic consciousness. However, this resurgence might be deemed as all but inevitable, given the brutal suppression of Taiwanese language and ethnic expression in Taiwan’s daily life ranging from school curriculum to television program, which was part of KMT’s lofty intention to “Chinanize” Taiwan since its retreat from China in 1949. And perhaps doubly so, given the fact that the indigenous Taiwanese (Ben-Sheng-Jen) made up a majority of the population (like the Black in South Africa), the remainder being composed of mainlanders (Wai-Sheng-Jen) who came to Taiwan with Nationalist government in 1949 and their descendents along with a minority of aboriginal people (Yuan-Chu-Min) (Chun 1996a; 1996b).

Moreover, historically, right after the KMT regime settled in Taiwan, a settler society arose: a powerful immigrant minority took control of Taiwan and created a new social (ethnic) division of labor in which the native Taiwanese were systematically excluded from the state apparatus, which underscore the importance of the state as an arena of ethnic expression (Johnson 1992; Wang 1989). Thus, the
ethnic tension and conflict in Taiwan has historically originated in politics, taken on a life of its own, and found its way into the politics in the wake of the tumultuous 1989 election (Chu and Lin 1996; Lin 1989; 1996; Wang 1994a, 1994b; Wu 1993).

The return of Taiwanese ethnic consciousness became to unprecedentedly high in the 1994 Taipei City Mayor and Province-wide Governor elections, and it returned with a vengeance. During that election, an invisible undercurrent of ethnic consciousness appears to be sweeping across the whole island. As a result, all of a sudden, a previous seemingly harmonious society appeared to be on the verge of being torn apart as well as being widely perceived as ethnically-divided, especially in Taipei City, a middle class urban city, which is the capital of the KMT regime. This is a new political landscape against which ethnic tensions played themselves out and gained a renewed vitality.

Triggered by this new emergent Taiwanese ethnic consciousness, accompanied the quest of national identity as a robust, though not dominant, Taiwanese nationalism also surfaced. Questions of national identity and Taiwan independence spilled over into nearly every political debate and became part of everyday life’s vocabulary. Both the “question of ethnicity” (Sheng-chi-Wen-ti) and national identity and the entanglement of them was politicized and mobilized in varying degrees of intensity in almost every election campaign, and became the defining parameter of political conflict since then (Wachman 1994). In addition to elections, new symbols and issues had surfaced to serve the purpose of ethnic mobilization in social movements (Chang 1994; Wu 1994).

Thus, in this transition from some sense of cultural or ethnic identity to full-blown nationalism precipitated two concurrent developments—the politicization of ethnic cleavage and the emergence of the crisis in national identity—which drove the political landscape of Taiwan into an uncertain and uncharted territory. The anxiety of national identity and the ensuing quest for establishing a political community not in but also of Taiwan was thick in the air. It is the cry of “vive la Nation!”, so to speak, which was long suppressed and subordinated under KMT’s authoritarian rule.

This explosive vitality of ethnic consciousness in the process of democratic transition in Taiwan can be explained well by Wallerstein:

Ethnic consciousness is externally latent everywhere. But it is only realized when groups feel either threatened with a loss of previously acquired privilege or conversely feel that it is an opportune moment politically to overcome long-standing denial of privilege (Wallerstein 1979: 184).
In this view, ethnic consciousness is a universal potentiality which is only realized—objectified, that is, into an assertive identity—under specific historical conjuncture in a macro political process. In the context of Taiwan, the ethnic tension has its origins deeply rooted in a hierarchical ethnic division of labor and was embedded in equations of power at once, material, political, and symbolic. In a word, the ethnic tension originated in the political and cultural frustration of native Taiwanese. Through the process of excessive electoral and ethnic mobilization and the opening of political opportunity structure, the previously un-conscious native Taiwanese collective sentiment was crystallized into a more conscious and spirited sentiment. Ethnic identity is a weapon of revenge against decades of discrimination and it then serves as an instrument for igniting political mobilization by political parties.

The subordinated nation strikes back. The repressed has returned, and its name is Taiwanese nationalism. Meanwhile, at the other side of the Taiwan straits is an emergent new China.

III. The Rise of China

Before 1979, there was a high level of political hostility between Taipei and Beijing. The two had virtually no commercial ties. But in 1979, a significant change took place when Beijing altered its Taiwan policy from calling for unification to seeking peaceful unification. Development of bilateral economic relationship gained further momentum in October 1987, when Taipei made the dramatic move of lifting the ban on its citizens visiting their relatives on the mainland. A variety of factors encouraged the trickle of Taiwanese trade and investment flowing to China to become a torrent.

The principal “push” factor stems from the unprecedented 35% appreciation of the New Taiwan (NT) dollar in 1987-1988, a result of the Post-Plaza Accord (1985) currency alignment. The increase in the NT dollar’s value undermined the competitiveness of manufacturing in Taiwan and the profitability of Taiwan’s exporters. To maintain international competitiveness, export-oriented SMEs in traditional sectors spearheaded Taiwan’s investment heavily in China as attractive outlet for much of Taiwan’s manufacturing and exporting activity. The “pull” factor is the opening of China to Taiwan. The year 1988 may be regarded as a terminal point of the US hegemonic embrace of Taiwan since in July of that year the PRC enacted its Regulation for the Encouragement of Investment by Taiwanese Compatriots. The State Council promulgated a set of twenty-two measures to encourage investment from Taiwan. These included all the special inducements offered to foreign investors
in general and some more preferential treatments. From this point onwards, the China Factor begins to loom large. Cross-strait trade increased dramatically through the 1990s and Taiwan constantly enjoyed huge surplus, without export to China Taiwan would even run a deficit.

The opening of China coincided with a new trend toward regionalized production networks—networks substantially driven by demands in markets in Europe, the United States, and Japan. Taiwan, Hong Kong, and the coastal provinces of China have become closely connected and economically interdependent and in such a way created a “Greater China Economic Circle” (GCEC) whose economic rational lies in the complementarity of factor endowments throughout the region. By and large, the GCEC is shaped by the strong finance and market outlet of Hong Kong, the technology and capital of Taiwan, and the abundant labor of Southern provinces of China. The FDI of Taiwanese capital is a new phenomenon in Taiwan where the value creation of capital used to be realized primarily within the territory within its nation-state border. In keeping with productive capital’s moving around neighboring countries especially China, the flow of commodity production bounded in a national space stretches over a transnational space.

The regionalization of the Taiwan economy is quite evident. In the 1980s, Asian economies became increasingly interdependent through the flows of capital, labor and commodity. This shift to intra-Asia focus was apparent after Plaza Accord, with a result that Asia becomes its own most important and most rapidly expanding markets. Table 2 shows the long-term fluctuation in the relative importance of Asian and North American export markets. For while between 1957 and 1980 Asia fell and America rose, the recent trend witnessed a reversal: the Asian share has gained appreciably at the expense of the America. This reflects growing intra-Asia trading and division of labor and in particular, the rise of cross-Strait economic links largely effected through Hong Kong. The post-1980s in Taiwan, therefore, has witnessed the progressive dismantling of auto-centric national production system and its re-composition as a constitutive part of regionally integrated economic system.

Table 2. The Country Structure of Taiwan’s Export Market, Selected Years, 1957-95

<table>
<thead>
<tr>
<th></th>
<th>All Asia</th>
<th>Japan</th>
<th>Hong Kong (PRC)</th>
<th>Europe</th>
<th>North America</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>69</td>
<td>35</td>
<td>9</td>
<td>3</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>1970</td>
<td>38</td>
<td>15</td>
<td>9</td>
<td>10</td>
<td>42</td>
<td>10</td>
</tr>
<tr>
<td>1980</td>
<td>29</td>
<td>11</td>
<td>8</td>
<td>16</td>
<td>36</td>
<td>19</td>
</tr>
</tbody>
</table>
In the early stage of cross-strait interaction, the first businesses to venture into China were small and medium-sized firms. This trend changed significantly in the early 1990s, when bigger companies and business groups began to initiate investments projects across the Taiwan straits. In a sense, Taiwan’s big business groups find they are “pushed” into China by the SMEs. As SMEs “downstream” manufacturers relocate their factories to China, the big business as “upstream” suppliers of raw materials and components feel a pressure to follow suit and result in a “domino effect”. The petrochemical industry is a good example in point. With more than 80% of downstream manufacturers of apparel, toys, and footwear having moved to China, midstream plastics and rubber manufacturers fell pressed to follow in order to cut down transportation and labor costs. And if upstream industries do not follow suit, the midstream industries will shift to cheaper Korean or even Chinese suppliers (Leng 1996: 90). Therefore, Taiwan has become a new origin of FDI outflows, in keeping with the enhancement of its indigenous transnational corporations (TNC) activities. In addition to investment in China, Taiwan’s FDI in ASEAN has rapidly expanded from US$ 218 million for 109 projects in 1988 to US 1.5 billion for 3115 projects in mid-1990s.

Uncertainty and the exodus of capital contributed to a severe macroeconomic problem in Taiwan in 1986-1988, in which domestic savings began to far exceed investment. As a matter of fact, by the mid-1980s, Taiwan’s economy has entered a phrase of internal/external imbalance that is summarized in Table 3. Of particular interests in this table shows that the 1986 stands out as the year in which both internal and external imbalance peaked, leading to a huge accumulation of foreign exchange associated with upward pressure on Taiwan dollar, high liquidity, low interests rate and a “bubble” boom of land and stock market speculation. Coupling with the “exit” option of investment in China, these fluid capitals make Taiwan from previous “capital receiver” to a “capital exporter”.

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports as % of GDP</th>
<th>Imports as % of GDP</th>
<th>External imbalance as % GDP</th>
<th>Saving as % of GDP</th>
<th>Investment as % of GDP</th>
<th>Internal imbalance as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>39.6</td>
<td>42.9</td>
<td>-3.3</td>
<td>27.1</td>
<td>30.7</td>
<td>-3.6</td>
</tr>
</tbody>
</table>

Table 3. External and Internal Imbalances in the Economy, 1975-1995

8 The Central Bank of Taiwan liberalized the foreign exchange regime in 1987 by allowing free capital outflows under 5 million new Taiwanese dollars.
All in all, the trends of economic globalization, regionalization, the opening of China and democratization together triggered the transition of Taiwanese capitalism from embedded exportism to nested exportism. And this transition also means the previous mode of regulation under embedded exportism is in flux. Indeed, since the 1980s every component in the mode of regulation is under stress. Since I have laid out the basic features of the mode of regulation of Taiwanese accumulation regime during 1960s and 1970s elsewhere (Huang 2002, Chapter 3; for a brief summary refer to Table 4), in what follows I have chosen to juxtapose and emphasize only those differential characteristics distinct from the previous stage.

Table 4. Summary of Mode of Regulation, 1960s & 1970s.

<table>
<thead>
<tr>
<th>Mode of Regulation</th>
<th>International Regime</th>
<th>State Interventions</th>
<th>Monetary/Financial</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trade</td>
<td>Finance</td>
<td>Regime</td>
</tr>
<tr>
<td>Import from Japan, export to U.S.</td>
<td>Highly conservative financial flows</td>
<td>First U.S. aid, then U.S., Japan, and overseas Chinese foreign direct investment</td>
<td>Mainly credit-based financial market, rather underdeveloped capital market</td>
</tr>
<tr>
<td></td>
<td>Finance</td>
<td>Capital</td>
<td>Financial regulations</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Tightly controlled by state, pegged to U.S dollar</td>
</tr>
</tbody>
</table>
Enterprise Form

<table>
<thead>
<tr>
<th>Industrial structure</th>
<th>Upper-stream SOEs, intermediate LEs, downstream SMEs as main exporters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition among firms</td>
<td>Fierce price wars due to international competition and technical change</td>
</tr>
</tbody>
</table>

Wage-Labor Nexus

<table>
<thead>
<tr>
<th>Industrial relations</th>
<th>Market despotism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage formation</td>
<td>Low institutionalization, no union bargaining power</td>
</tr>
<tr>
<td>Welfare payment</td>
<td>No social wage</td>
</tr>
</tbody>
</table>

IV. Mode of Regulation under Stress: 1980s and 1990s

International Regime

Ideas. Since the 1980s there is a sudden and dramatic transformation of economic policy throughout the developing world, what John Ruggie (1982) has called “the resurgence of liberal capitalism” or Thomas Biersteker (1992) has termed “the ‘triumph’ of neoclassical economics.” If the 1960s and the 1970s were decades of unprecedented economic nationalism, a growing role for state intervention in the economy, the 1980s and 1990s, by contrast, has provided a complete turnaround in economic policy. Virtually everywhere, developing countries began restructuring the nature of their intervention in the domestic economy, liberalizing their domestic trade and investment regimes, privatizing state-owned enterprises, and pursuing a variety of economic reforms. Generally speaking, the core elements of this shift in thinking include a reduction and transformation of state economic intervention, an increased reliance of market mechanisms, more frequent use of monetarist policy instruments, and a shift in the public-private relations in the direction of greater support for (and increased reliance upon) the private sector (Biersteker 1992). The widespread acceptance of this change in the discourse of development through either contagion effects or policy bandwagoning whose ripple effects was undeniably felt in Taiwan’s academic circle and policy makers. In any international regime, norms, formal rules, and shared assumptions are as important in shaping the role of the state as flows of capital and goods. Taiwan’s economic “liberalization” would be better understood in this context. Since then pressure to liberalize markets has accelerated the pace of
globalization.

**U.S. Protectionism.** After the 1985 Plaza agreement, Taiwan quickly exploited the advantages she gained as her exports became more competitive relative to those of Japan. A surge in imports from Taiwan in 1986-1988 led the Regan administration and Congress to increase pressure for currency appreciation and liberalization of access to Taiwan’s domestic markets. Meanwhile, the increasing use of voluntary export restraints and other non-tariff barriers by the U.S. restricted the access of their exports to the American market. As a result, Taiwan was “graduated” in 1989 by the U.S. from its generalized system of preference (GSP). The US was no longer willing to look the other way at the restrictive trade practices of her major Asian trading partners, and the pressures to liberalize trade became steadily stronger.

**End of Cold War, Isolated Diplomatic Status.** More important than these trade pressures was the gradual erosion of Taiwan’s international position culminating in the transfer of US diplomatic recognition from Taipei to Beijing. By the late 1980s and early 1990s, direct contacts between Taiwan and the Chinese mainland were themselves expanding rapidly, but the most fundamental questions of Taiwan-China relationship remained unsettled. Fear of the consequences of Taiwan’s democratization for the international position of the island culminated in large military maneuvers in the Taiwan Straits in early 1996 and again in 1999. On balance, the issues connected with Taiwan-China political security relationships have exerted a conservative influence on economic policy.

**International Linkage of Propulsive Industry.** If the textile/garment industry is the cornerstone of Taiwan’s success during the initial period of economic development dominated by labor-intensive industries in the 1960s and 1970s, then the electronic industry (especially computer industry) provides the impetus for Taiwan’s further economic growth since 1980s. While the textile/garment firms are in the *buyer-driven* commodity chain, the computer makers are in the *producer-driven* commodity chain. Unlike textile industry which has an incipient base of development since the Japanese colonial period in Taiwan, electronics industry (that is, consumer electronics, electronic components and electronic equipment) had virtually no presence in Taiwan before 1960s, but has become the leading sector in the country’s industrialization and it is the embodiment of Taiwan’s postwar economic growth and transformation. If textile is the leading-edge industry in embedded exportism era, then in nested exportism it is the electronics industry (especially information and computer industry) that propels Taiwan’s economy.

The dynamics of leading-edge industries are of primary importance in understanding national trajectories of industrialization and corresponding spatial development. Since 1980s Taiwan has established itself as a world-class supply
source for different electronic hardware products; it is the world’s largest supplier of computer monitors, motherboards, switching power suppliers, mouse devices, keyboards, scanners, and various add-on cards. Since 1994 Taiwan also has become the world’s largest manufactures of notebook PCs. Most of these computers are sold to U.S. and Japanese computer companies, which then resell these machines under their own logo. What matters, however, is that 70% of the computers that are sold under such OEM arrangements have been designed by Taiwanese companies. This clearly indicates that Taiwanese firms have been able to develop significant design capabilities.

In addition, Taiwan has one of the world’s leading silicon foundry companies, Taiwan Semiconductor Manufacturing Corporation (TSMC), which is able to produce leading-edge ICs for major international semiconductor firms, with very short production cycles and with the most sophisticated process technologies and production equipment. Semiconductor industry can be seen as the propulsive sector and can be identified as the motor of growth for a new emerging regime of accumulation (nested exportism) in Taiwan. Semiconductor industry is held to constitute the “leading edge” of flexible accumulation in the sense that they are performing the function of “role model” in key areas of innovation in technology, organizational structures and labor processes, which spill over to other industries in Taiwan.

**New Competition.** Since the early 1990s, Taiwan was on a new competitive front or what Michael Best (1990) has called “the new competition”.\(^9\) Competition cuts across national and sectoral boundaries—hence the term “global competition”. Firms are now forced to compete simultaneously in all major growth markets. This has led to a rapid expansion of international production, with new production sites added at a breath-taking speed outside the industrial heartlands of Europe, North America, and Japan. The second tier NICs become some MNC’s favorite investment site to relocate their production due to their comparative advantage of cheap and abundant labor. Taiwanese economy is therefore faced with new challenges: she will have to replace her traditional production advantage of cheap labor with more sustainable ones based on technological capabilities. The intensified global competition and the emergence of production centers press hard on Taiwan’s accumulation regime and the state’s role in domestic and global economic affairs.

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\(^9\) According to Best (1990: 11), “The New Competition can be distinguished from the old in four dimensions: organization of the firm, type of coordination across phases in the production chain, organization of the sector, and patterns of industrial policy. The New Competition is about strategic actions within each dimension. The term “strategic” refers to market-shaping activities in contrast with market-reacting responses”.

State

State Autonomy and State Capacity on the Wane. The process of democratization in Taiwan over the last two decades has injected a new dynamism into state-society relations in Taiwan and cross-strait economic interactions. On the one hand, as part of the process of transition from an authoritarian state to democracy, many of the features such as high state autonomy and strong state capacity that had characterized the Taiwanese state in the earlier period have been transformed. Democratization has rendered the state increasingly porous and more attentive to interests groups and democratically accountable. Bureaucratic coherence and state dominance over society have thus become increasingly difficult to maintain. Together with the economic liberalization following from changes in the international political economy, the state’s control of society in general and business activities in particular has been greatly weakened.

On the other hand, as part of this process of transformation, the state is also facing a rising Taiwanese nationalism and competing national identities which complicated the government’s position toward China. While policy-making over cross-strait economic interactions is still firmly in the hands of the highest authority, state capacity to enforce the implementation of policies has been severely eroded by factional conflicts within the ruling party and a lack of coherence and coordination among different government agencies, and government policies have become increasingly inconsistent and confusing. The state was caught in between the tug-of-war of the economic interaction and political divergence. As a result, the process of policy variation and regard to cross-strait economic interactions are now more often reflections of national identity rather than any cost-benefit analysis of national development priorities. This constitutes a sharp contrast to the state’s dominance in economic policies during the authoritarian era. Now, security considerations have frequently produced policies that conflict with market realities.

State Intervention. The restructuring of the state takes place not only in the dimension of state structure, but also in its interventions reflected on economic strategies to enhance Taiwan’s competitiveness pressed by the challenge of global capitalism. These strategies involved policies such as building Hsinchu Science-based Industrial Park in 1980, promoting new high-tech strategic industries by extensive tax reductions and state’s involvement in R&D (in compensation for the technological incompetence of massive SMEs), and relaxing restrictive regulations for market

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10 In August 1993, a group of radical, primarily mainland members of the KMT bolted from the ruling party to form the New Party. New Party members were younger than the KMT elites, and generational differences and national identities helped cause the split.
operation (including the partial opening of the financial market, the liquidation of
state control of the upstream industries, and the privatization of state-owned firms)
(Wang 2001). Moreover, witnessing the decline of Taiwan’s export-led economy in
the late 1980s, the state also attempted to overhaul the decaying national physical
infrastructure which was mostly built under the “Ten Big National Construction
Project” in the late 1970s. The restructuring policy is enshrined in the Six Year
National Development Plan (1991-1996). The SYNDP was a massive public works
program costing US$300 billion, which was roughly eight times the size of central
government annual budget in the early 1990s. Although it included some 700 items,
the big-ticket items in the plan were a series of major public infrastructure projects,
transportation and communication projects that blanketed the entire country. In all
these state interventions, it is obvious that the state is still firmly “developmental”, at
least in intention, to steer the economy in certain direction, though probably its
capacity to deliver is not matched as in the past.

**Financial Regime**

**Changing Structure of Financial System.** During the 1960s and 1970s, the
Taiwanese developmental state had almost absolute control of credit and finance and,
based on such a power, could allocate credit and finance in a certain focal areas. The
economic opening and liberalization of the foreign exchange market meant an end of
such a situation. At the beginning of the 1980s, liberalization and internationalization
were adopted as a national policy not only because of the pressure from U.S. but also
as responding to the financial bubble occurred in late 1980s. Liberalization and
internationalization covered three areas: (1) price deregulation, including a move
toward abolish interest rate controls\(^\text{11}\) and a switch from a pegged to a floating
foreign exchange rate system,\(^\text{12}\) (2) relaxation of restrictions on capital movements,\(^\text{13}\)
and (3) opening of the market to new competitors and a broader scope of financial
activities. Previously, all the banks in Taiwan are state-owned. However, since 1991
the establishment of sixteen private commercial banks has been permitted and by end
of 1998 the total of 31 private commercial banks have been established.

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\(^{11}\) Before 1975, the interest rate was wholly determined by the Central Bank.

\(^{12}\) In the 1960s, Taiwan adopted a system of floating exchange rates which turned out to be de facto a
system of managed rates. The exchange rate was maintained within a ten percent band for more than
two decades. However, from 1985 to 1992, the New Taiwan dollar appreciated from 39.80:1 to 25.40:1
against the US dollar, which means that the New Taiwan dollar appreciated by 56.7%.

\(^{13}\) Before 1978, capital movement was strictly controlled by the government. However, once the trade
surplus started to increase and foreign exchange reserves to accumulate, the government started to relax
its control particularly after 1985.
Since the early 1990s, Taiwan’s financial sector is uniquely characterized by the co-existence of a conservative banking sector and a dynamic capital market. On the one hand, Taiwan’s banking sector has been a drag on the process of economic restructuring. The state-owned banks, which still dominate the banking sector, have been minimally internationalized and are very conservative in their lending policies. On the other hand, financial deregulation in the early 1990s has led to a boom in the capital market. Around mid-1997, Taiwan’s stock market ranked sixth in the world in average trading volume and fifteenth in terms of overall capitalization. In addition, Taiwan is the only place in Asia that has successfully followed the United State’s lead in pursuing venture capital, which fills a void created by the unwillingness of the island’s conservative banks to invest in risky start-ups (Chu 1999: 187).

However, Taiwan’s financial liberalization takes the form of “managed openness” and is therefore only partial, which is largely a historical legacy of the rampant inflation of the late 1940s that contributed to the KMT’s loss of the mainland. In addition, the PRC’s threats to instigate to bring Taiwan to its knees are so real that the national security concerns always get the first priority. Since Taiwan was ousted from United Nation in 1970, Taiwan’s international position has become more precarious over time as a result of Beijing’s efforts to isolate it and advance the cause of reunification. More importantly, Taiwan is not a member of the IMF or the World Bank since 1978, and thus cannot count on an international rescue package in times of crisis such as the missile tests it faced before the presidential elections in 1995.

Therefore, historically the Central Bank has consciously built up Taiwan’s shock-absorbing capacity by a huge foreign reserve and its path to financial liberalization to be partial is a natural and rational option. (Chu 1999; Haggard 2000: 135). The “garrison state” mentality of the Taiwan prevails since its relocation in Taiwan since 1940 even till now. Due to its dwindling diplomatic situation, Taiwan had an ever-narrowing circle of strategic allies in its dealing with a hostile China. KMT leaders thus opted for policy mechanisms designed to ensure high levels of monetary and financial stability and fiscal balance. Financial liberalization in Taiwan gave priority to deregulation of the domestic capital market rather than to foreign participation. The national security concern to restrict the foreign capital penetrate into Taiwan’s local market led the impact of the 1997 Asian financial crisis to a much lesser degree than its counterparts in East Asia.

14 It should be noted that the overall financial system even in the late 1990s was still dominated by the banking system rather than the capital market. As Wang (2001) points out: “In 1990, the proportion of indirect finance, mainly the bans, was 85.8% of the total borrowings, which reduced to 72.9% in 1999; while borrowing from direct finance, mainly money and capital markets, was only 14.2% in 1990 and which increased to 27.1% in 1999. Among these, the stock mark comprised 18.8% of the total capital borrowing in 1999. These figures indicate that although security market has been liberalized, it is still underdeveloped in the current stage as compared to the Anglo-Saxon capitalism.”
**Financing Industry.** In a study of the bank’s industrial financing during 1985 to 1995 conducted by Smith (2000), overall the banking loaning system is still in favor of large enterprises over SMEs. As Table 5 show, within the private sector, both SMEs and large enterprises relied on external finance for around a half to two-thirds of their financial needs during the period of 1985-95, with the rest being financed from internal sources. SMEs, in particular, have relied on the curb market for around 30-40 percent of their external financing, with this share remaining relatively constant over the period 1985-1995. Large enterprises, on the other hand, have relied almost exclusively (around 90 per cent) on the regulated finance sector.

<table>
<thead>
<tr>
<th>Year</th>
<th>SMEs</th>
<th>Large enterprises</th>
<th>SMEs</th>
<th>Large enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>58.7</td>
<td>61.1</td>
<td>41.3</td>
<td>38.9</td>
</tr>
<tr>
<td>1987</td>
<td>62.4</td>
<td>58.6</td>
<td>39.1</td>
<td>41.4</td>
</tr>
<tr>
<td>1989</td>
<td>58.2</td>
<td>56.7</td>
<td>41.8</td>
<td>43.3</td>
</tr>
<tr>
<td>1991</td>
<td>59.3</td>
<td>54.3</td>
<td>40.7</td>
<td>45.7</td>
</tr>
<tr>
<td>1993</td>
<td>60.7</td>
<td>60.7</td>
<td>39.3</td>
<td>39.3</td>
</tr>
<tr>
<td>1995</td>
<td>65.8</td>
<td>53.3</td>
<td>34.2</td>
<td>46.7</td>
</tr>
</tbody>
</table>


**Enterprise Form/Industrial Structure**

**GDP and Employment by Sector.** Through the rapid industrialization of the 1960s and 1970s, Taiwan’s industrial structure has been significantly transformed. This is quite evident from the changes of employment structure and GDP shares among primary, secondary and tertiary sectors. In terms of employment structure, the manufacturing sector began to surpass the primary sector in 1973 for the first time. And the momentum of the manufacturing sector continued to grow with no sign of abating until 1988 when the tertiary sector began to exceed the manufacturing sector,
which was 43.8% as compared to 42.5% in manufacturing sector. From then on, the tertiary sector has become the dominant industry in the employment structure till the present. In 1999, employment in the primary sector was only 8.3%, 37.2% in the secondary, and 54.5% in the tertiary (Table 6).

Table 6 Taiwan’s GDP and Employment by Sector, 1952-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary</th>
<th>Secondary</th>
<th>Tertiary</th>
<th>Employment</th>
<th>Secondary</th>
<th>Tertiary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>32.2</td>
<td>19.7</td>
<td>48.1</td>
<td>56.1</td>
<td>16.9</td>
<td>27.0</td>
</tr>
<tr>
<td>1960</td>
<td>28.5</td>
<td>26.9</td>
<td>44.6</td>
<td>50.2</td>
<td>20.5</td>
<td>29.3</td>
</tr>
<tr>
<td>1970</td>
<td>15.5</td>
<td>36.8</td>
<td>47.7</td>
<td>36.7</td>
<td>28.0</td>
<td>35.3</td>
</tr>
<tr>
<td>1980</td>
<td>7.7</td>
<td>45.7</td>
<td>46.6</td>
<td>19.5</td>
<td>42.5</td>
<td>38.0</td>
</tr>
<tr>
<td>1990</td>
<td>4.2</td>
<td>41.2</td>
<td>54.6</td>
<td>12.5</td>
<td>40.8</td>
<td>46.3</td>
</tr>
<tr>
<td>1999</td>
<td>2.6</td>
<td>33.1</td>
<td>64.3</td>
<td>8.3</td>
<td>37.2</td>
<td>54.5</td>
</tr>
<tr>
<td>2000</td>
<td>2.1</td>
<td>32.4</td>
<td>65.6</td>
<td>7.8</td>
<td>37.2</td>
<td>55.0</td>
</tr>
</tbody>
</table>

Source: Taiwan Statistical Data Book, 2001

In terms of GDP value, the main producer sector of the economy has shifted from mainly the primary sector in the early 1950s to the secondary in 1981 and finally to the tertiary in 1988. The highest production value of the manufacturing sector was in 1981, when it produced 50.24% of the total GDP value. However, it has continued to decline over the years while the tertiary has continued to increase in importance. By 1999, the primary sector produced only 2.6% of the GDP, the secondary 33.1%, while the tertiary accounted for 64.3% (Table 6).

**Public-Private Divide.** In 1949, state-owned enterprises (SOEs) account for two thirds of the industry, and the largest enterprises share remained high in the early 1960s. The state’s strong direct commitment in manufacturing activities was due to two main reasons: the colonial legacy and the first development strategy. The KMT party-state took over the Japanese enterprises and as operating them after their consolidation into 22 large corporations in 1946. Taiwan’s economy was thus dominated by SOEs, and their role remained important in the 1960s as they became a strategic tool to reduce import dependence in upstream industries, SOEs still enjoy a monopoly position in a few capital-intensive intermediate products industries, but their contribution to manufacturing output has decreased dramatically and the dominant role in manufacturing has shifted from public enterprises to private sector. In 1998, the ownership structure of private sector is 92.1% while SOEs only take a 7.9% share. And Taiwan also shifts from a light-industry-based to a heavy and chemical industries based production structure (Table 7).
Table 7. Production and Ownership Structure in Post-war Taiwan’s Manufacturing Sector, 1952-1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Light</th>
<th>Heavy and chemical</th>
<th>Private</th>
<th>State-owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>n.a.</td>
<td>n.a.</td>
<td>43.8</td>
<td>56.2</td>
</tr>
<tr>
<td>1960</td>
<td>76.0</td>
<td>24.0</td>
<td>56.2</td>
<td>43.8</td>
</tr>
<tr>
<td>1970</td>
<td>65.7*</td>
<td>34.3*</td>
<td>72.3</td>
<td>27.0</td>
</tr>
<tr>
<td>1980</td>
<td>53.8</td>
<td>46.2</td>
<td>85.5</td>
<td>14.5</td>
</tr>
<tr>
<td>1990</td>
<td>33.6</td>
<td>66.4</td>
<td>89.7</td>
<td>10.6</td>
</tr>
<tr>
<td>1998</td>
<td>28.5</td>
<td>71.5</td>
<td>92.1</td>
<td>7.9</td>
</tr>
</tbody>
</table>

Note: *The 1972 figures.
Source: Taiwan Statistical Data Book, various issues.

Export Structure. This also reflects on the export structure. While exports have led Taiwan’s economic growth, the export industries have undergone significant transformation. The initial exports were mostly agriculturally based, such as bananas and sugar. Subsequently, processed agricultural products such as canned asparagus and mushrooms, became dominant exports. Then Taiwan’s export was dominated heavily by textiles, including garments, and then by shoes, toys, and handbags. When the New Taiwan dollar began to appreciate in 1986, many of the traditional export industries in Taiwan, such as garments and shoes, were forced to either close down, contract out, or move offshore to countries with lower labor costs. Then, new product lines were developed. For example, monitors, motherboards, personal computers and notebook computers have come to replace the traditional exports.

Changing Status of SMEs. Until 1997, the dominant enterprise form in Taiwan has been still the SMEs which comprised 97.81% of all firms and employed 78.43% of all the labor force. However, there is one noticeable change worth mentioning here. While previously most of the SMEs in the manufacturing sector were producing for export market, the ratio of export of SMEs has reduced significantly from the highest 75.53% in 1982 to 51.47% in 1997. In terms of the ratio of export value, the big enterprises comprised 76.21% of the total value while the SMEs was only 23.79% in 1998 (MOEA 1999: 27). Obviously, the big enterprises now became the dominant player of export activities and SMEs’ importance in export has decreased significantly, which is a sharp contrast to the previous embedded exportism stage. The main reason for the decrease of importance in export of SMEs has much to do with the capital outflows of SMEs to the ASEAN countries and China that engaged in export in such a way that the SMEs now become internationalized with characteristics of cross-border
division of labor. The Taiwanese SMEs now play the logistic as well as R&D functions while their peripheral firms in China or ASEAN countries producing goods for direct export.

**Industrial Restructuring.** As a whole, since the late 1980s Taiwan was experiencing a significant industrial restructuring and the typical strategies of industrial restructuring at the national level include the following. First, investing in the advanced economies. Thus, technological level of both process and products, thus becoming competitive on the same terms as advanced countries. Realizing that they can no longer compete as low-cost producers in labor-intensive industries, many firms in Taiwan have begun to restructure their production. Taiwan is pushing into higher-value-added, more skill-intensive production. The state supports the move toward higher value-added production by identifying a number of strategic industries, including telecommunications, computers, optoelectronics, and biotechnology, which are entitled to preferential loans and special support. State spending on research and development has increased dramatically, and it has been subsidizing entrepreneurs in high technology areas. A fourth strategy is to import labor. It has been estimated that in 1989 Taiwan was short some 200000 workers and these shortages are increasingly filled with clandestine foreign workers, the estimated number of which vary from 200000 to 300000 (Kim 1993).

**Wage/Labor Nexus**

**Changing State-Labor Relations.** In the stage of embedded exportism (1960s and 1970s), by mobilizing the anti-communist ideology, the developmental state did not allow basic rights of workers, such as freedom of association and collective actions (Deyo 1989). To prevent possible worker’s revolts, the state tightly controls the workplace through the use of an oppressive apparatus, such as legal, political, and physical measures that include state surveillance and violence. With the help of the state’s oppressive apparatus, labor control inside the Taiwanese firms can be properly characterized as *factory despotism*, which has been the micro-foundation of the growth machine in Taiwan’s economic development. Despotic control under state’s oppression of labor make it possible to exploit workers through extremely long working hours with a high rate of industrial injuries.

However, by the late 1980s, the establishment of a formal opposition party, the demise of the Chiang dynasty, the lifting of martial law and the special provisions, constitutional reform, and the complete reelection of the Legislative Yuan fundamentally altered the political system and the state-society relations. By the end of 1989, eighteen social movements had already taken shape in Taiwan’s resurrected
civil society covering various sorts of issues. Only within the context of the overall changing state-society relationships and the dialectic dynamics between social movements and political liberalization can the origins, formation, and significance of labor movement in Taiwan of the 1980s can be better understood. Since the late 1980s, Taiwan has witnessed considerable worker mobilization and the formation of independent trade unions. Collective actions involved in the labor disputes of the 1980s were largely the organized expression of workers’ frustration and dissatisfaction toward the employers’ violation of legal rights for workers and the ineffectiveness of the state in enforcing labor regulations. Therefore, the state became the primary target of those labor collective actions, as the state has been regarded as the dominant force behind the state-capital connection. The collective actions directed at the state power also reflect the demand for more laborer’s autonomy in the balance of state-labor relationship (Hsiao 1992). The once “statist corporatist” labor regime was now facing the challenges from an increasingly organized working class movement.

**Shifting Class Power from Embedded Exportism to Nested Exportism.** However, the new rising working class power was soon offset by the structural transition from embedded exportism to nested exportism since 1990s. Since accumulation regime is embedded in a network of social and political relations and capital accumulation must be understood as the reproduction of capitalist social relations on an ever expanding scale through the conversion of surplus value into new constant and variable capital, in dealing with social structure of accumulation shifting from embedded exportism to nested exportism, we better pay more attention to the changing state-capital-labor nexus. Under nested exportism, the immobility of labor has placed labor at a disadvantage in bargaining for higher wages and improved work conditions. Industrial capitals will respond to increasing costs of operation by simply relocating elsewhere. The enhanced locational substitutability that capital enjoys has also served to limit the regulatory powers of nation-states. The counter-posing of capital which is mobile at diverse scales to the relatively immobile of labor has given capital a bargaining advantage. Where “footloose” capital can choose its landing spot, does an individual country realistically have the room to maneuver to implement a policy regime that is more costly than those of its neighbors and competitors? Capital mobility may initiate a race to the bottom in terms of social protection, labor rights, wage levels, taxation rates and thus public investment, and hence threaten the stability of countries that do not follow the market-based pattern. Since the late 1980s, Taiwan’s embedded exportism becomes further absorbed into global circuits of capital and thus necessitating further supra-nationalization of power. Thus, state loses some control over accumulation process and becomes more responsive to the demands of capital.
In a nutshell, the shift from embedded exportism to nested exportism involves the time-space restructuring of the production process and the attended mode of regulation. We have illustrated briefly the transition process from embedded exportism to nested exportism since the 1980s and we have also laid out the resultant mode of regulation as one that every core elements were all under stress. In what follows we’ll try to tease out the implications and challenges of this time-space restructuring that the state is now facing.

V. Crippled Levianthan: The Embattled Developmental State Coping with the Global-Local Nexus

Owing to the increasing incorporation into regional economy and growing investments in mainland China, the state’s influence on capital accumulation beyond national boundary significantly decreased. This tendency was further enhanced by the de facto threats from China and diplomatic isolation in the international community. However, primarily owing to security concerns and political dominance, the state remained a primary role in policy formulation and implementation, while limited to domestic issues. This being said, however, the challenges of economic governance by the state are formidable and can be observed through the following aspects.

First, at domestic level, the developmental state with an agenda of capital accumulation served as midwife to the emergence of two distinct classes: a class of industrial entrepreneurs, which then come to prefer its own quest for profitability over a state-led project of accumulation, and a class of laborers increasingly determined to give redistributive goals priority over state-sponsored accumulation of capital. Democratization signifies openness to, and tolerance of, divergent groups and their demands. Openness to divergent perspectives is a critical component of democratization, and democratic consolidation is a process in which this is institutionalized and formalized. Various classes that emerge in the process of economic development present different demands to the state. The state was obligated to listen to the demands of both capital and labor, since the political environment is one of democracy and not the authoritarian regime by the mid-1980s. Democratization greatly complicated governance in Taiwan. The state is thus challenged to negotiate not only production but also redistribution issues to cater to divergent demands. To do this successfully requires more skills and greater finesse than are found in an authoritarian regime, when the state can simply repress and ignore demands.

Thus, the KMT party-state’s economic policies was caught in and oscillated
between pro-capital and pro-labor policies during the late 1980s and early 1990s. As witnessed, the state has fluctuated openly back-and-forth from the capital’s demand for a growth-oriented productivist state to labor’s welfare state. In this sense, on the one hand, state loses some control over accumulation process and becomes more responsive to the demands of capital. Previously business associations as one of the governance mechanism under state corporatism were only what Juan Linz (1970) calls “auxiliary government” or an “agent of implementation”, not a “source of pressure”. They were the transmission belt of the KMT party-state and were used to legitimize the state’s economic policy. But now the state needs to negotiate with them and incorporated them into policy network as junior partners. On the other hand, the rise of working class forces the developmental state to add a re-distributive agenda to a project of accumulation, which complicates and compromises the state’s previous single-minded developmentalism.

Second, at the international level, the once-vaunted developmental state in Taiwan might become less competent now especially under the given current international accumulation regime propelled by globalization. It would be useless to deny that the institutional architecture which provided a basis for the embedded exportism has been gradually eroded by the convergent pressures of structural transformation under globalization especially in the state’s capacity to deal with the China-Taiwan economic interaction and political tension.

For example, in studying the governance of cross-Strait economic region of Taiwan and South China, Wang (2001) argued that industrial networks instead of the state in Taiwan and local states (instead of the central state) have played crucial roles in the formation of the Taiwan-China cross-border economic region. The absence of a single state with sovereignty over a cross-border means some other governance mechanisms and social institutions are important. It is in this context that inter-personal networking and inter-organizational negotiations become crucial in bridging the public-private divide across frontiers and in securing the cooperation of key players. However, to guarantee the smooth functioning of network relationship entails the process for contending economic actors to be regulated, or regularized, into the arrangement of durable and coordinated interaction. In this regard, the state still has its role to play and how the resulting “politics of scale” are being resolved through the restructuring of the state becomes an extremely urgent task to tackle.

Regarding this, Jessop suggests the restructuring of the state as one shift their roles from government to one of meta-governance as well as of co-participation in

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15 The Taiwanese state lacks the capacity to regulate profit-seeking private firms by means of restrictive laws and macroeconomic policies. These firms are governed by the market mechanism in their efforts to cultivate the Chinese market, and the state can do no more than legitimize the existing situation. In a word, the state has been to “follow the market” rather than “govern the market”
specific governance mechanism (Jessop 2001). It is in this context that we see the concept of mode of regulation useful to shed light on further explorations of the changing governance structure of contemporary Taiwanese capitalism from embedded exportism to nested exportism. Although the 1990s have shown rapid growth in Taiwan, nevertheless, Taiwan still faces important challenges. One of the biggest uncertainties regarding its future is in its relationship with the People’s Republic of China. Although business contacts across the Taiwan Strait flourishes as never before, the treacherous political undercurrents and hostilities which now and then take place reminds us of the fragile economic and political situation which needs a more stable solution for the future.

Therefore, one of the fundamental tensions of the nested exportism (1980s and 1990s) is the uneasy interface between national forms of regulation and the globalizing dynamic of accumulation. There is an important sense in which embedded exportism (1960s and 1970s) was undermined by its emergent geographical contradictions or, alternatively, the contradictions of embedded exportism took on a geographical form. Central to this was the contradiction between globalizing accumulation and national regulation, or more particularly between the emerging unregulated global credit system and the fiscal integrity of the state. State’s fiscal policy is constrained by capital mobility, for taxes cannot be raised without reducing the “competitiveness” of domestic producers, and large budgetary deficits, absent the possibility of exchange rate adjustments, raise prospects of inflation and higher interest rates. In this sense, the global movement of capital has become the nerve center for the globalization of the international economy.

As a whole, the future viability of the developmental state is subject to a double squeeze: from the outside by the international regime (globalization) and from the inside by an increasingly assertive and vibrant civil society (democratization). The developmental state is caught in between these two (sometimes opposing) forces and found itself in a new battlefield. To cope with these challenges, the role of the state was thus reconfigured. It is precisely in this sense that the developmental state is a dynamic entity of amorphous configurations, occurring over a long period of time in various incarnations and poised to adapt itself to still newer realities.

Since the embeddedness of economic institutions at the level of national state has been progressively eroding and national economy in Taiwan is now nested into a set of interdependent flows involving trade, finance, and technology, these observations raise the issue of the recombination of economic institutions at various spatial levels (e.g., global, regional, national, local). Whereas the national state provide the primary scale of political organization in the economic space during embedded exportism, the current nested exportism period is characterized by a marked dispersion of political
and policy issues across different scales of organization. Increasingly, major institutions of coordination are interwoven at all levels of the world—at the sub-national region, the nation-state, the transnational region and the global level. As a result, no single authority has the power to monitor and to regulate all economic activity in such a complex system and, as a result, coherence in economic coordination is becoming increasingly difficult (Boyer and Hollingsworth 1997).

As Neil Brenner has noted: “the spatial scales of capitalist production, urbanization and state regulation are shifting under our very feet, so dramatically that inherited geographical vocabularies for describing the nested hierarchy of scales that interlace world capitalism—urban, regional, national, global—no longer provide adequate analytical tools for conceptualizing the multi-layered, densely interwoven and highly contradictory character of contemporary spatial practices” (Brenner 1998). As Taiwan experienced a shift from a national embeddedness of economic institutions to institutions nested within a multilevel global system, the complexity of nestedness makes coherent state governance more difficult than ever. Therefore one of the great challenges now confronting Taiwan is first to comprehend the nature of this nestedness and to spell out how the resulting “politics of scale” can be resolved through the restructuring of the state. One of the major uncertainties to weigh heavily on twenty-first century form of Taiwanese capitalism probably stems from lack of coherence between the dynamic of accumulation, which increasingly go beyond the space controlled by the political powers of the state, and the difficulty of creating new principles for collective interventions at a relevant level—whether this be national, regional, or world-wide. And it is in this sense that the challenges of governance in a globalizing era should be taken very seriously.

A Brief Concluding Remark

By way of conclusion I would confine myself to highlight some points to tighten up my broad mapping of the transition of mode of regulation from embedded exportism to nested exportism. Among developing nations, Taiwan has engaged in substantial government steering. Taiwan is commonly viewed as among the most successful newly industrializing countries at raising productivity and spurring sustained growth. Although orthodox economists frequently attribute this success to a faithful commitment to laissez faire, the record suggests otherwise. The Taiwanese state has made extensive use of loans, subsidies, tax incentives, import protection, technology assistance, and other measures to direct this nation’s development toward particular industries and away from others. It has also maintained strict control over finance, limiting foreign ownership and restricting capital outflows, in order to assure national control over industry. Careful analysis indicates that industrial policy has had
an important hand in the so-called Taiwanese “economic miracle”.

Thus, the state form and social policy are among the most important aspects of the mode of regulation governing an accumulation regime, especially in the case of Taiwan. The state is in fact the archetypal form of all regulation which calls forth the rise, consolidation, and demise of a regime of accumulation. This is because the state can be seen as an ensemble of institutionalized compromises which reflected the temporal crystallization of particular (allied) and often diffused class interests within the state apparatus and create rules and regularities that operate almost in a semiautonomous form (Swyngedouw 1997; Lipietz 1987). Therefore, the form of the state and other institutional forms are closely interrelated. For example, the main elements within a mode of regulation such as capital-labor relationship (the wage nexus), the forms of inter-firm competition and cooperation (the enterprise form), and the monetary and financial management (the monetary/financial regime) are embedded and embodied in the form and structure of state.

In this sense, it is almost impossible to theorize the passage from one regime of accumulation to another without alteration in the form of the state (Jessop 1990). Though analysis of the state has always been the Achilles’ heel of the regulation school (Jessop 1990; Boyer 1990), I will, however, stress emphatically the role of the state simply because of its paramount importance within the mode of regulation, especially in the case of Taiwan where the KMT party-state enjoyed a rather high degree of state autonomy as well as a historical record of strong state capacity that few countries can be kept up with. Seen from a regulationist angle, in Taiwan’s economic development, social regulation is invariably mediated through the “steering” role of the state at the helm. It is the state as framework-setter that plays an important role to articulate other core components into a relatively coherent whole that buttress and steering Taiwan’s economy. In short, the coupling mode of regulation to embedded exportism was undeniably state-led on in which the characteristics of the state overwhelmingly dominated and unintentionally produced a coherently institutional arrangement for this accumulation regime. The 1960s and 1970s represents the heyday of Taiwan’s “economic miracle”. However, when entering the 1980s all the core components within the mode of regulation are all under stress and the coherence also becomes unraveling.

Adaptation to the double squeeze of democratization and globalization brought about a sequence of substantive changes in the mode of regulation of Taiwanese capitalism, and these changes in turn opened fissures that stymied further positive adaptation. These changes in the key components of mode of regulation meant that by the late 1980s and early 1990s the Taiwanese political economy had strikingly diverged from what it had been in the 1960s or 1970s. Numerous parts of the once
fine-tuned machine of regulation mode no longer meshed so smoothly. This paper is a preliminary exploration of the contested re-configuration of the Taiwanese developmental state coping with global-local nexus. The re-configuration of the state is part and parcel of a wider and more global restructuring of the political economic geography of accumulation of what is invariably labeled as post-Fordism, flexible accumulation or post-industrialization. And the once vaunted Taiwanese developmental state is now becoming an embattled developmental state and is in the painful restructuring process. We are wondering if the “space of flows” of increasing globalization will erode the place-based “politics of place” of the developmental state.

We live in dynamic and uncertain times, and the world is changing rapidly. Gazing through our cloudy crystal ball into the future, at the 21st millennium, Taiwan is still wobbling through uncertain transitions toward new pattern of stability. However, so far the new emerging mode of regulation has yet to be crystallized into a coherent whole as an “institutional fix”. As macro-economic tools appear to lose their efficacy, as external pressures for homogenization of trade regimes increase, and as cross-border flows of people and finance between China and Taiwan threaten the domestic base, the Taiwanese state is in many ways taking the bull by the horns, trying to steer its own course as desired and the state needs to be reconfigured to adapt to new realities. Retooling the developmental state is an uphill task as path dependency has the effect of past choices impinging on future options. We cannot help wonder whither the developmental state and what new shape it will take.

Prognosis of the times is like the Tower of Babel. However, one thing is certain that the challenge of democratization and globalization will recast the Taiwanese developmental state in a new light to test how it faces and copes with the stresses and strains of adjustment to a multipolar, kaleidoscopic, global economy. And how the state stands to the test and steers a stable course to navigate between Scylla and Charybdis remains to be seen.
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