State transformation and the evolution of economic nationalism in the East Asian developmental state: the Taiwanese semiconductor industry as case study

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This paper empirically highlights the role of nationalism in the development of the semiconductor industry in Taiwan. First, it demonstrates how the pre-1980s Taiwanese developmental state mobilised Chinese economic nationalism against Japanese colonialism and Chinese communism and adopted the strategies of graduated sovereignty, selectively subsidising certain areas and sectors, and promoting national (homogeneously imagined) territorialisation to integrate with the international market. Second, the paper exhibits how in the late 1980s, when the outflow of capital to Mainland China became a compelling phenomenon and Taiwan democratised, popular sovereignty became the norm and Taiwanese nationalism emerged. In response, the democratised state started employing Taiwanese economic nationalism and implementing populist territorial policies to consolidate the support of ‘us’ (the Taiwanese/Taiwan) versus ‘them’ (the Chinese/China). This made China and everything related a security concern that had to be excluded as ‘the other’. This paper responds to the appeals of political geographers to give nationalism a central place in contemporary theories of the nation-state and contributes to the theory of the developmental state by bringing ‘the nation’ back. Accordingly, through valuing the nation this paper promotes a theory of the developmental nation-state.

Key words China; economic nationalism; economy–security nexus; developmental nation-state; Taiwan

Introduction

In the mid-1970s, East Asian Developmental States (EADS) like Korea and Taiwan embarked on a developmental programme to reduce their reliance on labour-intensive, low-skill industries and upgrade their economies to the relatively capital- and technology-intensive material or component industries, such as steel, petrochemicals and semiconductors. Given its lack of endogenous technology, how to select, evaluate and execute technology transfers was a difficult issue for an industrialising economy like Taiwan. In search of industrial independence and an enhanced national competitive advantage, the state mobilised certain kinds of economic nationalisms to foster the popular will to develop strategic industries (Amsden 1999; Woo-Cumings 1999 2005). This paper seeks to uncover the ideas and institutions that undergirded economic development in the late-industrialising Taiwanese state, which in the 1970s was engaged in political transition and economic restructuring. Moreover, it answers the question whether or not the democratic developmental state was a solution to the nationalism-haunted economy, particularly under the concern of national security after the 1990s, when political democratisation and economic interdependencies accelerated the transformation of the developmental state.

The main argument here is that mainstream explanations of the success of industrial upgrading in EADS focus on the role of ‘the state’, in terms of both the autonomy and the capabilities of the state, while little attention is paid to ‘the nation’, which is usually conflated with the state within the framework of the nation-state (Agnew 2003). However, understanding the catch-up race for national pride witnessed in EADS depends on a theory of nationalism in which the imagined community of the people needs to be seriously taken into account by political geographers (Kuus and Agnew 2007). Moreover, as increasing cross-border flows of capital and people give rise to...
contending nationalisms with divergent homelands, how these states reposition themselves to represent the well-being and security of their populaces and imagined territories becomes a key question. This paper examines the case of the development of the semiconductor industry in Taiwan, which is key to the economy–security nexus of the island, to illustrate the interplay between nation-building and state-building in the process of industrial development. The paper addresses the intermingled theoretical issues of the variegated effects of sovereignty, nationalist imagined territories and the cross-border economy, as raised by political geographers and scholars of geopolitics such as Sparke (2005) and Agnew (2009).

The second section of this paper examines theories of the developmental state. However, in contrast to the emphasis most statists place on the rationality of the bureaucracy, the discussion focuses on the ideas and practices that constitute and discipline the national populace’s worldviews and their devotion to specific developmental projects. I argue that economic nationalism drives the development of the political will, which causes the success or failure of such projects. As such, by showing how the interplay between contending nationalisms and the political will of the populace produces state policies, the section relates national identities to the geographical scales and contexts in which they are embedded. The third section examines nationalism in the context of the development of the semiconductor industry in Taiwan and against the backdrop of Cold War politics and the development of (Chinese) nationalism in the 1970s. The fourth section illustrates how Taiwanese political leaders after the democratisation process in the 1990s fostered a kind of Taiwanese nationalism, which subsumed the hegemonic Chinese nationalism of the 1970s, in order to deal with the rise of China. This new kind of nationalism had consequences for the economy–security nexus of the Taiwanese semiconductor industry in the context of cross-strait economic exchanges. The final section summarises the empirical findings and concludes by re-examining the theoretical implications of the conjuncture and disjuncture of nation, state and territory.

Economic nationalism and the economy–security nexus under the transformation of the nation-state

Two diagnostics, nationalism and security, offer the most powerful explanations of success (and failure); they illustrate both the enormous difference between the northeastern and southeastern patterns of Asian development and the vast space between the imaginings of Western economists and the realities of East Asia. (Woo-Cumings 2005, 92)

Western critics usually discredit economic nationalism as some form of mercantilism that causes depression and war. Political leaders are urged to discard mercantilist policies. However, such a narrow definition of economic nationalism in terms of protectionism is contested by a number of development scholars, such as Crane (1998), D’Costa (2012), Glassman (2004), Harmes (2012), Helleiner and Pickel (2005), Nakano (2004), Pickel (2003) and Shulman (2000). These scholars argue that economic nationalism should not be interpreted as any particular substantive doctrine, but instead be understood fundamentally as a generic discursive structure (Helleiner and Pickel 2005). Economic nationalism can be considered as a set of practices designed to create, bolster and protect national economies in the context of a world economy. Although economic nationalism is not necessarily antithetical to external economic activity, it is opposed to allowing a nation’s fortunes to be determined by world markets alone (Nakano 2004).

Economic nationalism implies that a state’s economic development is embedded in nationalism or a state’s national identity. Due to the key role played by the nation-state in most public discussions, distinguishing between the nation and the state is constructive for understanding the dynamics of economic nationalism in a state’s development. While the concept of the state refers to the concrete political apparatus that governs people, territory and resources, the concept of the nation is more abstract and refers to a collective identity or an imagined community (Anderson 1983) that draws people together to undertake political action.

The state can derive its political power from the nation in two ways. First, developmental statists such as Amsden (1989) and Woo-Cumings (1999) argue that the state can guide and protect the economy in order to safeguard the nation from external imperialist and communist threats. Second, the cohesive power of the nation could foster an imagined community shared by the members of the state, which then enhances social integration crucial for developing a successful state economy (Herrera 2010).

Arguing that state policy is embedded in national identities does not pretend that nationalism is a pre-existing entity ‘out there’. In contrast, the argument perceives nationalism as representing a complex web of disputed and contingent relations between the self and other (people) and the onshore and offshore (territoriality). All are indeterminate and usually defined by the state through political practice and law stipulation (Kuus and Agnew 2007; Mezzadra and Neilson 2013).

Similarly, the state, as the political organisation governing the territory, strengthens nation building in two ways. First, the state can enhance the imagined community of the nation by creating real and material communities of interest in which large numbers of

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residents see their economic fate tied to that of the national state (Penrose and Mole 2008). As such, a powerful state can be key to developing popular support for nationalism as a modernisation project through creating national markets and promoting industrialisation (Gellner 1983). The resulting economic development then creates and stimulates the idea of and attachment to the nation, which, in turn, increases the political power of the state. Second, successive legal and business frameworks implemented by the state mark distinct phases on a divergent path of national economic development. These diverse trajectories of economic development could become embedded in the national identity, and thus lead to national varieties of capitalism in the world system (Crane 1998; D’Costa 2009).

Given the interplay of state policies and economic nationalism, the relation between the interests of the individual and the prosperity of the collective is ambiguous and its dynamics can have divergent effects on the politics of national membership. Whose interests exactly are articulated in the mobilisation of nationalism? In most cases, economic nationalism presumes a hierarchical system of interests, in which a unitary collective identity is prioritised over the composite individual interests. As argued by Agnew (2003), economic nationalism can be traced back as far as the age of naturalised geopolitics in the late 19th century, when firms and individuals were held to be subordinate to the greater needs of the nation-state.

On the surface, EADS clearly illustrate the priority of the national collective interest to mobilise economic momentum.1 However, two caveats should be added here. First, EADS adopted interventionist industrial and spatial policies that selectively favoured certain sectors, regions and people, referred to by Ong (2006) as a strategy of graduated sovereignty.2 Second, EADS are mostly authoritarian states, with the exception of Japan, which obtain their legitimacy not from some form of representative democracy, but rather through ensuring rapid economic growth and maintaining security in the face of external threats. But, the democratisation of the EADS became notable in the 1990s, and the equalisation of individual and regional interests gradually became the norm under the principle of popular sovereignty. How was the economic nationalism that emphasises the priority of the national collective interest affected in the democratisation process?

Among challenges to the democratic EADS, like the conflict incurred by nationalism or confronting national identities, another key issue is governing the cross-border flow of capital and people. Identity is constructed in relation to that which has previously been specified as external, and is defined in terms of difference (Dalby 1998). Agnew (2008) argues that identity under nationalism is not just a popular sentiment but also a programme of political action in which it is defined with reference to both the self and the other. Any othering strategy always involves political mobilisation of national identities (see also Penrose and Mole 2008). These othering strategies typically revolve around the axis of ‘us versus them (the enemy)’ rhetoric which, on the one hand, strengthens the movement for sovereignty, but on the other might also cause mass hatred and even a territorial split. Combined with a security threat, such as a communist takeover or a terrorist attack, this could become the crux to excluding the enemy within the nation. In this vein, Campbell (1988) argued that security discourses should be taken as performative boundary-drawing exercises that constitute, rather than represent, the threat and the formulation of the self and the other. Accordingly, threats to the ‘homeland’ by external enemies and their fifth column can be constructed to legitimise the state, even under the principle of popular sovereignty, and affect emergency measures to guard against alleged external threats, exclude others/enemies and in the process control the domestic political sphere (Sassen 2003; Sparke 2005).

**Chinese nationalism and the development of the semiconductor industry in the 1970s**

In the 1960s, East Asian states like Taiwan relied on the USA for both geopolitical stability and geo-economic growth (Glassman 2011; Gray 2011). As the Seventh Fleet placed Korea and Taiwan under its military umbrella to provide the military and material aid they needed to develop their economies, the USA provided the geopolitical basis underpinning East Asian exportism. By doing so, these Asian states became the first island chains to confine the expansion of Chinese communism. Yet, Japan (and the USA) geo-economically served as the major technological innovator(s), Taiwan and Korea as the manufacturer and the USA as the key market outlet. Simultaneously, the geo-economic tri-alliance between the USA, Japan and Taiwan provided the geopolitical means to constrain the expansion of Communist China. In short, political stability and economic prosperity reinforced each other during the Cold War.

However, the worldwide economic crisis of the early 1970s shrunk market demand in advanced countries, which had a grave impact on economic development in the developmental state Taiwan. Moreover, the geopolitical foundation under the exportist model eroded in the 1970s when the US government decided to break diplomatic ties with Taiwan and develop diplomatic relations with Mainland China. In 1971, Taiwan was replaced by Communist China as the standing committee member of the United Nations Security Council.
As a result, most countries, and especially the major powers in the West, broke off diplomatic ties with so-called ‘Free China’, Taiwan. Although Taiwan was no longer taken as the de jure government of China, it still remained a de facto economic entity in international relations.

This geopolitical economic crisis forced the Taiwanese state to adopt more innovative efforts to boost the economy. One of the moves undertaken by the KMT (Kuomintang) government was to establish the semiconductor industry. Despite the fact that the semiconductor industry was relatively new technology and capital intensive for an industrial latecomer like Taiwan, developing the industry proved critical to upgrade the booming electronics industry at the time.

In fact, a heated debate ensued in the early 1970s when the Minister of Economic Affairs, Sun Yun-xuan, proposed developing a national semiconductor industry. Wu Ta-you, a highly respected scientist and then director of the National Science Council, questioned whether it was worth spending more than US$10 million on the semiconductor industry, and doubted if such advanced technology would be appropriate for a developing country like Taiwan. ‘We should use the money to do more basic research to get the industry “rooted” in Taiwan’, argued Wu (cited in Xu 1995, 78). However, the new strongman, Premier Chiang Ching-kuo, supported Minister Sun, and it was clear to him that basic research should not be the target of late-developing countries like Taiwan. Chiang argued, ‘We should not spend our limited resources on basic research, but should focus on applied research for industrial purposes’ (cited in Xu 1995, 78).

However, political will alone was not sufficient to overcome the technological barrier and accomplish the ambitious goal of industrial upgrading. In the early 1970s, most of Taiwan’s private firms did not have the capital to invest in such a capital-intensive industry due to their small size. Therefore, after the debate about the appropriate focus for scientific research between the Ministers, the government founded the Industrial Technology Research Institute (ITRI) in 1973. ITRI was designed to be a publicly funded laboratory to do applied research to facilitate industrial upgrading. In 1974, ITRI started the Electronics Research and Service Organization (ERSO) as the major governmental vehicle to implement semiconductor-related research projects.

As a newcomer to the semiconductor industry, Taiwan had to find out a way to gain access to the necessary technology through outsourcing. But, evaluating and choosing the appropriate technology was beyond the capacity of state bureaucrats and the local science and technology community. To overcome this problem, the government, with the full support of Minister Sun, organised a group of senior overseas Chinese electronics engineers to provide advice and guidance. The group later was organised as an unofficial Technical Advisory Committee (TAC). The TAC regularly held meetings to discuss the progress of Taiwan’s semiconductor industry. After evaluating the future of Taiwan’s electronics development, Dr Pan Wen-yuan, the head of TAC, stated that ‘the best way to develop the semiconductor industry was to transfer technology from foreign companies, especially from American companies, to save valuable time’ (ERSO 1994, 5).

Persuaded by Dr Pan, the government invested more than US$10 million to introduce the basic technology needed for the semiconductor industry. The government invited US companies to initiate technology transfers, and specifically targeted investments in Complementary Metal-Oxide Semiconductor (CMOS) devices. The decision to target CMOS proved to be farsighted, as this became the dominant technology for the semiconductor manufacturing process.

In 1976, Radio Corporation of America (RCA) was chosen out of seven companies that submitted bids for a technology transfer agreement. The key element of the agreement was that Taiwan would dispatch a team of engineers to RCA to engage in the technology transfer. They would learn not only the technical aspects of the manufacturing process such as wafer manufacturing, circuitry design and mask making, but also the management skills required to operate a semiconductor factory.

As a response, ERSO and TAC started to organise the team to be dispatched and established a technology transfer task force. Dr Hu Ding-hua was recruited as the head of ERSO to take charge of implementation. Dr Hu recruited many of his students from National Chiao Tung University and established a local technology recipient unit. Additional impetus came from the participation of three key figures in the development of Taiwan’s semiconductor industry. Dr Yang Ding-yuan (later the head of planning and marketing at ERSO), Dr Shih Chin-tay (later the president of ITRI) and Dr Chang Ching-chu (later the head of ERISO) all quit their jobs in the USA and returned to Taiwan to join ERSO. Later, they led a team of 37 engineers for a year of technical and management training at RCA. This so-called RCA-37 constituted the first group of specialists in Taiwan’s semiconductor industry and became the pillar of the future development of the industry.

All three pioneering returnees had been PhD students in Princeton at the time of the Baodiao (defend the Diaoyu Islands) movement in 1970. The movement unexpectedly fractured the community of overseas students along political lines. Different groups of students and scholars maintained divergent political identities. Among them, one group of scientists returned to Taiwan to ‘use the knowledge learned
abroad to serve our country to fight against Japanese imperialism’ (ERSO 1994, 4). Chang later mentioned that his decision to return to Taiwan was initiated during the movement, ‘The Baodiao movement drove us, the overseas Chinese students, crazy. We strongly felt bullied by Japan. We had to save our country. As a scientist, I could dedicate my studies to facilitate industrial development in order to make our country stronger and defeat Japan someday’ (ERSO 1994, 4). Patriotism and nationalism drove the three Princeton-trained PhDs to give up their opportunities in the USA and join the semiconductor project as technological entrepreneurs.

Tsu (2005) claims that using science and technology to save the country and wash away the shame of a century of humiliation has been a mission for Chinese intellectuals since the end of the Qing dynasty. This sentiment was widely shared by scientists and engineers who became returnee scholars and occupied key positions in forming economic policy. In particular, the failure to defend the Diaoyu Islands became another national humiliation that drew ethical boundaries between us and them, between the domestic and the foreign (Callahan 2004). This negative national memory became a driver in the quest for national glory. Combined with political will, this nationalist passion for a catch-up process constituted the main mentality of the emergent state during the development of Taiwan’s semiconductor industry. However, this mentality evolved and competed with other forms of nationalism to shape and complicate subsequent state decisions.

The Hsinchu Science-Based Industrial Parks: graduated sovereignty of the developmental state

Besides technology transfer agreements, the government also established the Hsinchu Science-based Industrial Park (HSIP) to host the new high-tech firms in 1979. The HSIP is located 45 miles southwest of Taipei and includes 210 hectares of land next to the main North–South Expressway, the most important transportation artery in Taiwan. According to the government’s plan, the HSIP was located in close geographic proximity to ERSO, which could offer contract research in many technical areas to the firms located in the park. Two nearby technical universities, National Chiao Tung University and National Tsing Hua University, provided a pool of engineers for the HSIP. The government also provided tax incentives and public infrastructure for the park. High-technology firms located in the HSIP were exempted from tariffs and commodity and business taxes during their first five years of business. The HSIP also provided utilities, residential housing and schools for the park’s firms and their employees.

The HSIP became an icon of ‘Free China’. Its values were closely related to Western ones and its lifestyle based on that of the Silicon Valley. This clearly distinguished the HSIP from communist China (HSIP 1998). In other words, the HSIP became a zone of exceptionalism, or graduated sovereignty, that hosted special sectors and people from overseas. As such, it was supported by and mobilised a national identity (cf. Crane 1994).

The dynamics of the economy–security nexus in the Taiwanese semiconductor industry after the 1990s

A new political economic situation emerged in the late 1980s, when Taiwan again faced a crisis over the succession of power. Chiang Ching-kuo, the old political strongman, died in 1988. Before his death, the establishment of an oppositional party, the Democratic Progress Party (DPP), in 1986 and the lifting of martial law in 1987 by the KMT government had both marked big steps on a road toward democratisation. From that point onwards, competition between the two political parties radically altered the state–society relationship. A complete re-election of the national legislature was held in 1992, realising the principle of popular sovereignty.

The new president, Lee Teng-hui, was an ethnic Hoklo, the ethnic community that constitutes over 70 per cent of the population of Taiwan. He identified and positioned himself as native Taiwanese. He started a political struggle for the ‘de-sinicisation’ of Taiwan while promoting Hoklo nationalism. He used an ‘othering’ strategy, which denounced Chinese nationalism as an ideology imposed by the old mainlander elite. The strategy mainly unfolded in two political arenas, but gradually trickled through all segments of society.

Domestically, Lee skilfully removed the old mainlander Chinese elite from power, and looked for support in local Taiwanese society, even from hitherto marginalised political factions. He denounced the mainlander Chinese elite as colonisers who had slaughtered more than 10 000 Taiwanese people in the notorious ‘228 event’, and who did not have the wellbeing of the land and the people of Taiwan at heart Lee (1995). By doing so, he branded his political rivals as ‘others’ who imposed their will on the Taiwanese people. Chu (2004) argued that this struggle within the KMT was not just about the redistribution of power, but, more fundamentally, represented a clash between two seemingly irreconcilable emotional claims about Taiwan’s statehood and the national identity of the people of Taiwan. As a result of this political struggle, Lee’s popularity increased rapidly among the ethnic Hoklo people. He was re-elected as president in 1996. This presidential election was the first time that the Taiwanese people could vote to choose their own political leader and practice popular sovereignty.
More dramatic political change occurred in cross-strait relations. Under Lee’s administration, Taiwan was eager to move away from the ‘one China’ principle, and applied for membership of the United Nations, something reserved exclusively for sovereign states. During the first cross-strait talks after 1949 in Singapore in 1992, Mainland China’s proposal to open up postal, transportation and trade links between the two sides was resolutely rejected by Taiwan. In his 1996 presidential campaign, Lee used a public speech at his alma mater, Cornell University, to renounce the US-China agreement on the Taiwan issue. Mainland China responded by launching missiles into the seas around Taiwan. Finally, in a public interview before the end of his second term in office in 1999, Lee claimed that the relationship between Taiwan and China constituted ‘a special state-to-state relationship’. After this interview, Lee was asserted as a diehard supporter of Taiwan independence.

Lee’s presidency also emphasised the autonomy of the local society by arguing that Taiwan’s history, geography and culture were distinct from China (Lou 2004). The Ministry of Education revamped the history and geography textbooks in order to emphasise indigenous elements in Taiwanese society. Lee was determined to encourage the solidarity of the people in Taiwan with the final goal of bringing about the birth of a new Taiwanese nation. In order to do so, he promoted a form of Taiwanese nationalism, which was in fact an ethnic Hoklo nationalism, under the name of an imagined community (sheng-ming-gong-tong-ti) (Lee 1995).

Lee’s policy of de-sinicisation was closely followed by the DPP regime after their unexpected victory in the 2000 presidential election.5 In a public speech in 2002, the DPP president Chen Shui-bian asserted that the relation between China and Taiwan could best be described as ‘one country on each side’. Chen’s administration further revised the old high-school textbooks and replaced the China-centred historical narrative with a Taiwan-focused one. The 5000-year history of China was replaced by a 400-year Taiwanese history that started with the Portuguese naming the island ‘Formosa’. Moreover, the DPP regime replaced the terms ‘China’, ‘Republic of China’ and ‘Taipei’ with the term ‘Taiwan’ on all of its official documents and in the names of Taiwan-registered organisations, companies and public enterprises. By doing so, the DPP government aimed to tell the world that ‘Taiwan is Taiwan, and China is China’. In a sense, whereas Taiwanese nationalism was incubated under Lee’s administration, it became mature under Chen’s government. Lee and Chen shaped the imagined community of the Taiwanese nation in every aspect of governance, from language, memory, culture and politics to naming (Chu 2004; Yeh 2014). Through doing so, Chen denounced the KMT’s tacit subordination to Beijing and successfully won the support of the people who identified with the Taiwanese nation. Ethnicity and identity were instrumental as us/other symbols, as they were rooted in the past and flexibly interpreted to build a politically preselected future. Winning this symbolic contest helped Chen’s DPP win re-election by a slim majority in the 2004 presidential election (Dittmer 2005). Indeed, the democratisation and indigenisation movement dramatically changed the political system. After the KMT to DPP regime change, the authoritarian tenet that had formerly fostered developmentalism waned, and was replaced by a kind of popular sovereignty with a nationalist core.

Despite this domestic political success for the DPP, the cross-strait economy showed a completely different picture. After decades of separation between Taiwan and the Mainland, Chiang Ching-kuo lifted Martial Law and allowed cross-strait visits in 1987. Taiwanese capital followed and investments started flowing into the mainland’s coastal regions. Whereas the first wave of Taiwanese investments followed the comparative advantage principle and focused on labour-intensive, small-scale sectors, from the late 1990s onwards, the investment focus shifted to more technology-intensive large-scale industries. The main catalyst was China’s entry into the World Trade Organization, which caused analysts to believe that China’s market would continue to open up.6 The Taiwanese government estimated that in 1999 Taiwanese investors invested over US$14.5 billion into China (45% of the total amount of Taiwanese outward investment for that year). The total amount of Taiwanese investments in China was likely even higher, due to the tendency of government reports to underestimate the numbers (MOEA 1999). This increasing scale of Taiwanese investments in China raised concerns about the hollowing out of the industry of high-technology value-adding activities within Taiwan.

The Taiwanese government feared that investments in China would endanger economic growth and national security. Therefore, to retain investments locally, the state adopted two policies, the first playing the role of a stick to restrain investors from investing in China, and the other the role of a carrot to keep investors in Taiwan. In 1991 President Lee Teng-hui stipulated the explicit policy of ‘Don’t rush, be patient’ (jieji yongren) to discourage the expansion of cross-strait investments. Investors who did not report their cross-strait investments to the government would be fined and some of them even received prison sentences.

In response to this policy, many Taiwanese investors, particularly in high-technology industries, chose not to report to the Taiwanese government, but rather to register in a third country, such as the Cayman Islands, to manage their investments in China.
To persuade businesses to stay in Taiwan and compensate for the losses incurred by not investing in China, the government offered land subsidies and fiscal benefits. To accommodate investors, the government planned and launched the Tainan Science-based Industrial Park in Southern Taiwan in 1995. This new science park was designated as an extension of the Hsinchu Park and offered subsidies to semiconductor firms to expand their operations in Taiwan without moving to China (Hsu 2011). In his inauguration speech, the Tainan Science-based Industrial Park director dissuaded the HSIP semiconductor firms from going to China by stating that ‘rather than going west (to China) it is better to go south (to Tainan)’ (Liberty Times 26 January 2003). However, these two policies did not curb the migration of capital to China. The lure of a huge pool of well-educated labourers and a growing emerging market proved too great for Taiwanese investors to resist (Hsu 2005; Leng 2002).

In fact, following the Tainan Science-based Industrial Park, a third high-tech park was planned and constructed by the DPP government in 2003 in Central Taiwan, the Taichung Science-based Industrial Park, as shown in Figure 1. The government used these high-tech parks to counter, though unsuccessfully, the allure of the Chinese market. Moreover, people in other regions of Taiwan complained the regional disparity caused by the concentration of high-tech parks, and supported the dispersion policy (Hsu 2011; Huang and Fernandez-Maldonado 2016). As such, the high-tech park, which had once been the symbol of graduated sovereignty and the growth pole of national development, instead became the channel for economic compensation and the plaything of political populism.

The semiconductor emigration debate
The growth of cross-strait investments was particularly sensitive in the semiconductor industry which has military and national security significance. Accordingly, the Taiwanese government banned the migration of semiconductor firms to China. But the situation changed dramatically in 2000 as two new semiconductor manufacturers were established in China. The first was the Grace Semiconductor Manufacturing Corporation (Hongli), co-founded by Mr Wang Wen-yang, the son of Taiwan’s richest tycoon, and Mr Jiang Mianheng, the son of China’s former president. The second was Semiconductor Manufacturing International Corporation (Zhongxin), whose founder was the senior vice president of TSMC, the largest semiconductor producer in Taiwan. The establishment of these two key players in close connection with the Taiwanese semiconductor sector raised concerns among other Taiwanese semiconductor firms, such as TSMC and UMC. Taiwanese firms argued that they could compete with the recently established Chinese semiconductor firms only by gaining first mover advantage into China, which could give them a strategic position in China’s market (Fuller 2008). Consequently, key Taiwanese semiconductor firms lobbied the DPP government to loosen controls over cross-strait investments.

Chu (2004) argues that the lack of experience in economic affairs formed an Achilles heel for the Chen Shui-bian government. President Chen responded to
the lobbying of the semiconductor firms by announcing the new policy of ‘active opening, effective regulation’ (jiji kaifang, youxiu guanli) in 2002.7 Under the new policy, the director of the Mainland Affairs Council (MAC), Tsai Ying-wen, the current (2016) president of Taiwan, proposed legalising migration of 8-inch wafer fabrication plants to China. This policy was soon criticised by some key figures in the political arena, such as Vice President Lu and former President Lee, who worried about the detrimental effects on Taiwan’s economic development and national security. The heavy-weighted opponents forced the government to revise the proposal by reducing the maximum amount that could be invested and imposing a penalty for those who exceeded this amount. But none of the new investments were allowed, as President Chen changed to adopt a hard line against China in his 2004 re-election campaign. This signalled the start of a cooling-down period in cross-strait relations.

The two major semiconductor firms, TSMC and UMC, responded differently to the vacillating attitude of the government. TSMC expanded its operations in the Tainan Science-based Industrial Park with the help of government subsidies designed to curb high-technology investments in China, and kept lobbying key policymakers to change their minds. UMC decided to go its own way. In 2003 it was accused of investing in Hejian Technology, the second largest semiconductor manufacturer in China, based in Suzhou. Consequently, the government later prosecuted Robert Tsao, the president of UMC.8

After his re-election in 2004, President Chen sought to adopt a softer approach to cross-strait exchanges. However, SMIC, the Chinese semiconductor champion, continued poaching high-ranking employees of TSMC to appropriate advanced technology by recruiting whole teams of engineers. TSMC started a litigation war with SMIC, and aggressively lobbied the Taiwanese government to adopt legislation concerning cross-strait investments in semiconductor manufacturing enable competition with Chinese firms. Finally, President Chen announced a new government policy in 2006 that shifted from being ‘regulation focused’ to ‘opening centred’. This enabled TSMC to establish an 8-inch wafer semiconductor manufacturing facility in Shanghai in 2007.

The shift in policy sparked a fierce debate about whether the Taiwanese government should permit semiconductor firms to expand their operations in China, especially operations related to relatively advanced products such as 8-inch wafer fabrication. Opponents argued that the migration of the semiconductor industry, including capital, people and technology, directly strengthened Chinese business competitors and indirectly increased the PRC’s leverage in cross-strait negotiations or conflict. Moreover, as the semiconductor industry is crucial for military activities, increased cross-strait migration strengthened the People’s Liberation Army’s capability to invade Taiwan (Chu 2008).

Supporters of increased cross-strait investments, in contrast, argued that firms moved relatively mature and uncompetitive segments of their production processes to China while keeping their state-of-the-art production technologies within Taiwan. This meant that semiconductor producers investing in China would not strengthen their competitors, but rather could take advantage of cheap resources in China, such as land, labour and even capital. Moreover, they argued that obtaining a strategic position in China would be critical for the survival and prosperity of Taiwanese semiconductor firms in this emerging market, which was already targeted by other key competitors from Japan, the USA and even Korea (Brown and Linden 2009). In terms of military security, supporters argued that technological spillovers to the People’s Liberation Army would be limited, because the migration of semiconductor equipment fell under the Wassenaar Agreement which regulated the exports for conventional arms and dual-use goods and technologies.

Internal bordering: an effect of Taiwanese economic nationalism

The issue of economic security has haunted cross-strait economic exchange since the 1980s. Especially after the speed of exchange accelerated after the 2000s, opponents have repeatedly warned against Taiwan’s economic over-reliance on China. They argued that a ‘one-China common market’ would make Taiwan economically dependent on China, leading to a ‘hollowing-out’ of Taiwan’s industrial base and employment structure (Chase et al. 2004; Lim 2010). However, evidence of a hollowing-out process is quite vague, so that it remains difficult to validate causal effects the opening up to China might have on a hollowing-out process within the Taiwanese economy (Chen 2010; Fuller 2008). More specifically, Hsu (2010) shows that some sectors and regions gain, while others lose, from the liberalisation of cross-strait trade and investment.

Nevertheless, the expansion of economic integration between two politically adversary states seems to follow Harvey’s (2003) observation that the logic of capitalism is clearly in ascendance over the territorial logic of power. In fact, cross-strait trade increased rapidly, even under the ‘China-bashing’ DPP regime. Figure 2 shows that, since the DPP came in power in 2001, China (including Hong Kong) replaced the USA as the largest export market for Taiwanese products. Moreover, Taiwanese exports to China continued to increase under the DPP government until it left power in 2008. In other words, looking at the pattern of cross-strait trade, it is hard to argue that the DPP is ‘anti-
China (or anti Cross-Strait)’ (Fell 2005). This suggests that even though the logic of capital trumps the territorial logic of power in cross-strait relations, the increased economic exchanges between China and Taiwan were represented in the domestic political sphere in Taiwan as representing a direct threat to national security.

For instance, during the DPP’s period in power, Taiwanese businessmen, like UMC’s Robert Tsao, were demonised as traitors jeopardising national security and were even suspected of constituting a fifth column of political agents installed by the Chinese government to influence the Taiwanese government (Chen 2010; Keng and Schubert 2010). However, recent studies suggest that Taiwanese businesspeople living in Mainland China often maintain a stronger sense of Taiwanese identity, despite popular belief to the contrary (Cheng 2005; Wang 2009). Bush (2005) and Kastner (2013) argue that rather than a desire to act as a fifth column proclaiming unification, these people worry the most about the possibility of a cross-strait war and the placing of restrictions on cross-strait business. So, how can we explain the gap between the real intensification of cross-strait economic exchanges and the imagined threat it poses to national security?

Chen (2010) argues that Taiwan’s economic policy with respect to Mainland China can be understood as a boundary-producing exercise that discursively constructs a vulnerable Taiwan economically threatened by a rising China. Constructing these boundaries serves to demarcate an ‘inside’ from an ‘outside’, a ‘self’ from an ‘other’ and a ‘domestic’ from a ‘foreign’, and is thus part of an identity-forming process. From this perspective, what appears to be an ineffective or even irrational policy actually performs the function of shaping a distinct Taiwanese identity. Using this identity, the DPP and its allies can always play the patriotic card and accuse their opponents of slowing down or preventing the push for Taiwanese sovereignty or, much worse, ‘selling out the nation’ (maiguo). By doing so, the DPP can invoke a form of Taiwanese nationalism, a moral appeal, and attack the KMT as Beijing’s ally that betrays Taiwan’s national interests without, in fact, having any evidence. In this way, the national card becomes a trump card in the hands of the DPP, which it can play to politically outflank the KMT (Anderson 2004; Hou et al. 2004). However, this exclusionary form of nationalism is not without risks because it can both foster domestic political conflicts over the deployment of national resources in creating transborder connections, and also limit the ability of ‘national champions’ to take advantage of global production networks (Fuller and Rubinstein 2013; Hsu 2011). In other words, although the creation of internal and external enemies may have short-term benefits in uniting the populace and protecting economic security, it might also have long-term negative consequences by contributing to animosities between different groups within the Taiwanese state. Hence, whereas the use of Taiwanese nationalism in the cross-strait economy–security nexus is highlighted by its successful drawing of a boundary within the Taiwanese populace for the sake of national security, its limitation is underscored by the failure to curb the cross-strait flow of capital.

Conclusion: state transformation and the mutation of economic nationalism

This paper has demonstrated that Chinese nationalism, even diaspora nationalism among overseas Chinese engineers, can be mobilised to complement the state bureaucracy and facilitate technological leapfrogging in the homeland. It has shown that the nation was necessary for the state to implement economic policies effectively (Kuus and Agnew 2007). Nationalism can thus be an effective tool for state-building.
The rise of Taiwanese Hoklo nationalism linked to the continuing cross-strait political separation and the indigenisation movement challenged the hegemony of Chinese nationalism in Taiwan. The findings of this paper contradict the argument put forward by scholars such as Higgott (2000) and Stubbs (2009) that nationalism would wane at the end of the Cold War because the demise of the Communist threat undermined the legitimacy of state authority to mobilise resources. Instead, the rise of Taiwanese nationalism shows that the policies first implemented by Lee Teng-hui and later inherited by the Chen Shui-bian administration continue exclusionary politics. These made cross-strait hostility the norm and constructed people with a China connection as ‘others’. It is ironic that the more democratic the political regime in Taiwan became, the larger the cleavage also became between the in and out group (us versus others) within the same body of people that constituted Taiwanese popular sovereignty and legitimised the regime change in the first place.

Indeed, it is possible to construct the outflow of capital as an external threat to the territorial integrity of the nation, even under the democratic regime. The state is supposed to protect the territorially defined interests of the nation against external threats of transborder flows. Consequently, (in)security is an integral part of the process of establishing the identity of the state. Just as Mitchell (1991) argued, one of the central aspects of modern modes of power is formed by the distinction between what the state is and what it is not, and by linking extra-territorial threats to intra-territorial security issues the state ‘performs’ to govern the ungovernable. As such, the regulatory interventions that serve to strengthen national hostility against so-called ‘national traitors’, rather than provide ‘security’ for the populace will become part of the interplay between nation-building and state-building in cross-border economies.

As I argue, popular sovereignty seems unable to solve the problem of nationalist exclusion in the process of global economic integration. Political scientists and geographers, such as Greenfeld (2003), Kuus and Agnew (2007) and Yack (2012), argue that this might be due to co-existing yet incoherent conceptions of political legitimacy and the nationalist project. Currently, theories of economic nationalism claim to ‘bring the nation back in’ and focus on the ‘nation’ rather than the ‘state’ as the key driver behind economic activities (Crane 1998; Nakano 2004). However, an immanent tension might exist between the socio-political subject (the people in popular sovereignty) who master the state territory and the socio-cultural subject (the subject of nationalism) who imagines the national homeland. This tension could exist without jeopardising the democratic system of the modern nation-state only if the nationalism confines itself to the self-identity issue. But, conflict might arise and lead to exclusionary politics when either the politicisation of the national project or nationalism crosses the line to become a socio-political arrangement (Yack 2012). In other words, the concept of ‘the nation’ carries a strong sense of morality, and could be mobilised to create and exclude ‘the other’ when it becomes part of a political project, even in the name of popular sovereignty.

In this sense, democratisation might not necessarily lead to the decline of the developmental state, because the goal of development could be reached in a participatory way (Haggard 2015). But democratisation of the state could not assure the national will for development remains clearly defined and consensual. Most of the existing developmental state literature focuses on how the role and effect of ‘the state’ influence economic development (such as Amsden 1989; Evans 1995; Wade 1992) and treats ‘the nation’ as the exogenous factor to be mobilised by the state. Few of them take the dynamics of ‘the nation’ into account seriously. Consequently, they could not provide sufficient explanations of why and how a state may focus on development, and gave no clues to the dynamic effect of nationalism in the process of state transformation. Bringing ‘the nation’ back in will complete a theory of the developmental nation-state.

Moreover, the moral height of the nation is critical in explaining the different developments of spatial selectivity of economic activities under different sovereignty regimes in the state transformation of EADS (Hsu 2009; Park 2005). Graduated sovereignty, the modus operandi of EADS, is used to demand individuals and regions sacrifice the (imagined) high-order national interest. In other words, economic nationalism assumes priority of the collective interest over the individual. But the principle of popular sovereignty claims that the legitimacy of the nation-state is based on the aggregation of individual interests and stresses the spillover and compensation effects to individuals and households who suffer from polarised development, such as the rise of regionalism in the recent neoliberalisation process (Brenner 2004; MacLeod 2001). As such, the shift of the principle of nation-state formation from graduated sovereignty to popular sovereignty aptly illustrates the transformation of EADS from authoritarian-developmental states to populist-security states.

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Notes

1 Amsden (1989), Wade (1992) and Woo-Cumings (1999), among others, show how East Asian states expanded their capabilities through the instrumental use of economic nationalism. See Stubbs (2009) for a comprehensive review.

2 Ong (2006) used China’s special economic zones to illustrate that the state maintains control over its territory, but lets corporate entities set the terms for constituting and regulating some domains. Consequently, the state takes advantage of the differentiated treatment of people and territory to selectively articulate with the global forces. It is not the existence but the nature of sovereignty, therefore, that is transformed by the workings of graduated sovereignty.

3 The Baodiao movement was a social movement in China, Hong Kong and Taiwan that asserted Chinese sovereignty over the Diaoyu Islands (Senkaku Islands). The Diaoyu Islands became a controversial issue when in May 1969 Japan acted to ‘legitimise’ its sovereignty claim by installing cement poles on the Diaoyu islands and patrolling the nearby waters. A group of overseas Chinese students (at the time only from Taiwan and Hong Kong) started the Baodiao movement in mid-December 1970 at Princeton University, where they organised protests against Japan. The movement soon spread to other campuses across the USA. In the end, the movement caused the overseas Chinese students to split politically over the legitimacy of the ROC government. Some students became passionately patriotic and returned to Taiwan to contribute their knowledge, as the gang of three from Princeton did. Other, more radical, students complained about the ROC government’s too soft stance towards Japan for geopolitical reasons, and organised protests for tougher action against Japan. Some members of the latter group even travelled to Mainland China, a political taboo at the time. Consequently, some of the organisers were blacklisted by the ROC government and were not allowed to return to Taiwan for a very long time.

4 At the time, the PRC government officially remained silent on who could govern the Diaoyu Islands. It is believed that the PRC’s lukewarm response towards the Baodiao movement was instigated by the diplomatic talks between Japan and the PRC. Some time after visiting Japan in 1978, Deng Xiaoping remarked that the dispute about the Diaoyu Islands could be solved peacefully.

5 According to Lin (1989), 79.1 per cent of the DPP’s votes in the early stage of its foundation in the late 1980s came from working class and petty bourgeoisie (mostly small business, self-employed entrepreneurs and professionals), Moreover, an overwhelming majority (96.5%) of those who voted for the DPP belonged to the Hoklo ethnic group. The average size of investments into China rose rapidly from US$735 000 in 1991 to US$2.78 million in 1995 (Chung 1997).

6 The policies adopted by the DPP administration could not be taken as ‘developmentalist’. The theorists of developmental state, such as Amsden (1989) and Wade (1992), argued that the key distinction of those developmentalist policies from others hinges on the existence of state leadership. In other words, the developmental state should adopt policies to shape the market mechanism, even against the market signal, to lead industrial development. As shown above, the state pushed for the risky semiconductor industry, with the hesitation of private capital, by fostering new firms in the 1970s. The state led the market. In contrast, the DPP government was forced to respond to the pressure of private capital to follow the market in the 2000s. The state was follower, rather than leader.

7 Robert Tsao was finally declared not guilty in 2009, after the DPP lost power. In response to the accusation of being a traitor, Robert Tsao renounced his Taiwanese citizenship and was naturalised as a Singaporean.

8 The priority of the collective interest over the individual was first argued by Friedrich List (1789–1846). During the Austro-Hungarian Empire, he formulated a theory of economic nationalism as a belligerent criticism of Adam Smith, whose economic liberalism ignored the importance of late development, which needed state intervention rather than a focus on the individual interest to mobilise the principle of nationality to enter the international market (Levi-Faur 1997).

9 Jessop (1982) mentioned that under Thatcherism the ‘two nation’ projects aimed to mobilise the support of strategically significant sectors of the population and to pass the costs of the project to other sectors. To soothe the discontent of this uneven development, the government proposed that the future ‘trickling down’ of wealth would make up for those people in the lagging regions.

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