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Populism, Nationalism, and Hegemonic Struggles over Trade and Economic Liberalization in Taiwan

submitted by Szu-Yun Hsu in partial fulfillment of the requirements for the degree of Doctor of Philosophy in Geography

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Abstract

This research examines trade and economic liberalization in Taiwan in relation to crisis and hegemonic restructuring. Drawing on Gramscian scholarship, postcolonial theory, and critical geopolitics, the analysis expounds on the multiple crises facing Taiwan since the 1980s, documents the trade-related social and political struggles, and illustrates their profound implications to neoliberalization.

The first half of the dissertation tackles emerging populist politics along with democratization, the challenges it presented to state control of trade and capital flow, and the rise of economic deterritorialization as a consequence. It then explains how the state transformed itself into a populist authoritarian regime by articulating a deterritorialized national economy, which consisted of a neoliberal regionalist initiative and a series of geoeconomic maneuvers that variously invoked the people and the nation to regain leadership and legitimacy. The second half of the dissertation illustrates the ways in which the neoliberalist agenda has advanced since the 2000s, a non-hegemonic era marked by unfettered outward investment, polarized party politics, and broiling nationalist disputes. The prevalence of financial nationalism and the subsequent turn to embracing cross-Strait economic liberalization after 2008 are the foci of analysis. My dissertation concludes with a note on the 2014 Sunflower Movement, a populist frenzy opposing cross-Strait service trade liberalization. The study investigates the re-articulation of “the nation-people” through the movement and discusses its potentials and limits of challenging the trend of neoliberalization.

Eventually, the analysis unravels the dialectical relationship between political democratization and economic liberalization, highlights the centrality of trade and economic liberalization in the hegemonic struggles, and indicates the fundamental role of nationalism and populism in shaping and conditioning the path to neoliberalization in Taiwan. My research contributes to the existing literature by highlighting the usefulness of conjunctural analysis and its theoretical implications. It demonstrates that neoliberalism neither presents a strong discourse nor a consistent policy regime. Rather, it is contingent and speculative in nature, articulating with different forms of populist and nationalist politics at particular historical conjunctures and advancing through the moments of crisis along the course of hegemonic restructuring.
Lay Summary

This research examines trade and economic liberalization in Taiwan in relation to political transformation since its democratization to date. The analysis expounds on the multiple crises facing Taiwan since the 1980s, documents the trade-related social and political disputes, and illustrates their profound implications to the long course of economic neoliberalization. They include early tariff and foreign exchange control-focused trade and economic liberalization, the pursuit of regionalism, the proposal of multiple waves of geoeconomic maneuvers, liberalization of cross-Strait investment, and ultimately, financialization. It unravels the dialectical relationship between political democratization and economic liberalization, highlights the centrality of trade and economic liberalization in the democratization era, and indicates the fundamental role of nationalism and populism in shaping and conditioning the path to neoliberalization in Taiwan.
Preface

This dissertation is original, unpublished, independent work by the author, Szu-Yun Hsu.
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<td>American Institute in Taiwan</td>
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<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
</tr>
<tr>
<td>ARTS</td>
<td>Association for Relations across the Taiwan Strait (PRC)</td>
</tr>
<tr>
<td>CCP</td>
<td>The Chinese Communist Party</td>
</tr>
<tr>
<td>CEPA</td>
<td>Mainland and Hong Kong Closer Economic Partnership Arrangement</td>
</tr>
<tr>
<td>CEPD</td>
<td>Council for Economic Planning and Development</td>
</tr>
<tr>
<td>DPP</td>
<td>Democratic Progressive Party</td>
</tr>
<tr>
<td>EADS</td>
<td>East Asian developmental state</td>
</tr>
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<td>ECFA</td>
<td>cross-Strait Economic Cooperation Framework Agreement</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<td>FSC</td>
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<td>ICC</td>
<td>United State Council of the International Chamber of Commerce</td>
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<td>The International Cooperation and Development Fund</td>
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<td>ICT</td>
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<td>IPE</td>
<td>International political economy</td>
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<td>IPO</td>
<td>Initial Public Offer</td>
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<td>Mainland Affairs Council</td>
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<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>NCC</td>
<td>National Communications Commission</td>
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<td>NICs</td>
<td>Newly industrialized countries</td>
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<td>OBU</td>
<td>Offshore banking unit</td>
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<td>OECF</td>
<td>Overseas Economic Cooperation Fund</td>
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<td>PoEs</td>
<td>Party-owned enterprises</td>
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<tr>
<td>QDII</td>
<td>Qualified Domestic Institutional Investors</td>
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<td>ROA</td>
<td>Return on assets</td>
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<td>R.O.C.</td>
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<td>SARS</td>
<td>Severe acute respiratory syndrome</td>
</tr>
<tr>
<td>SEF</td>
<td>Strait Exchange Foundation (Taiwan)</td>
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<td>SMEs</td>
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<td>State-owned enterprises</td>
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<td>Taiwan Solidarity Union</td>
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<td>IPO</td>
<td>首次公開募股</td>
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<td>台灣存託憑證</td>
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<td>TSU</td>
<td>台灣團結聯盟</td>
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**Glossary of Chinese Names**

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<tr>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>Chen, Yun-lin</td>
<td>Chairman of ARATS (2008-2013)</td>
</tr>
<tr>
<td>Chiang, Shou-chieh</td>
<td>Director of the Chinese Economic Research Institute, Disciple of the liberal economist Friedrich von Hayek</td>
</tr>
<tr>
<td>Gou, Terry</td>
<td>CEO of Foxconn</td>
</tr>
<tr>
<td>Hao, Bo-chun</td>
<td>Premier (199--1993)</td>
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<td>Hu, Jintao</td>
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<td>Li, Deng-hui</td>
<td>President of R.O.C. (1984-2000)</td>
</tr>
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<td>Lin, Chuan</td>
<td>Minister of Finance (2002-2006); Prime Minister (2016-2017)</td>
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<td>Ma, Ying-jeou</td>
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Chapter 1
Introduction

I. Rethinking Trade and Economic Liberalization in Taiwan

Taiwan depends greatly on trade for its economic development and has faced numerous disputes over trade and broader economic liberalization in the last few decades. Controversies over market opening in the 1980s, the social dispute over manufacturing’s outward investment in the 1990s, and the political contentions surrounding regulations put on the high-tech industry’s westward migration to mainland China during the 2000s, all underscore the centrality of trade in Taiwan’s political, economic and social struggles in relation to the broader world political economy.

A particularly unsettling period arose when the KMT (Kuomintang political party) accelerated liberalization of cross-Strait trade and economic relations after it resumed power in 2008, generating both anxiety and approval within Taiwanese society. The new regime’s propaganda celebrating the prosperity brought by cross-Strait trade and economic liberalization prevailed in stark contrast to surging social discontent, and heated public debate became a fixation in the media. In debating the social, political and economic impacts of cross-Strait trade and liberalization policies, oppositional voices ultimately coalesced into a huge social movement in the spring of 2014, where hundreds of mostly students occupied Parliament for twenty-four days and half million protesters took the street protesting against the signing of the Cross-Strait Service Trade Agreement—events later known as the “Sunflower Movement.” The defeat of the KMT in the 2016 general election was commonly seen as the consequence of the far-reaching influence of the Movement.

Facing social and political turmoil, a variety of scholarly disciplines have explored the causes, dynamics, and implications of the recent trade disputes to Taiwanese society at large. Economists busied themselves comparing different free trade regimes and infrastructures as a way to diagnose the cause of disputes and to prescribe solutions; economic sociologists drew on globalization, neoliberalism, and their contestation to make sense of the disputes; international scholars tackled
the issue of sovereignty, nationalism, and security in relation to the changing cross-Strait geopolitical economy; political scientists and sociologists focused on the implications this incident brought to democratization and the reshaping of civil society in Taiwan.

However, the fact that scholars, despite their disciplinary divisions and research agendas, have commonly framed these recent social upheavals in Taiwan as key moments and a critical break from previous developments, unintentionally prohibits us from critically evaluating the historical development of trade and economic liberalization in Taiwan. A number of questions loom large: In what sense are the recent disputes over trade and economic liberalization different from the previous ones? Are trade disputes only a matter by and of themselves, or do they indicate a deeper crisis of Taiwan’s political economy at large? If it is the latter, how can we grasp the changing relations between state, capitalism, and society through the lens of trade and foreign economic policies? What is the proper time-frame for probing such questions? When should the analysis begin, and where shall the story end?

These questions eventually led to my commitment to pursue a history-oriented research project. In order to comprehend the proliferating and ever-changing disputes over trade and economic liberalization in Taiwan, I decided to trace the long-standing crisis facing Taiwan’s political economy back to the 1980s. It was an unsettling era where the social relations of production underpinning Taiwan’s SME-led export-oriented economic miracle in the post-War era had experienced fundamental challenges from restructuring of the international political economy. The disputes over trade liberalization arose almost synchronously with political democratization movement at home and the end of the Cold War in the international arena. Thus my project seeks to make sense of the logic between economic and political struggles and to tell a story about Taiwan’s liberalizing political economy in relation to the global economic restructuring through trade.

Theoretically, I will demonstrate that Gramscian scholarship, especially its critical engagement with the debate on neoliberalism, helps shed an alternative light on the existing literature of Taiwan’s trade disputes. I will first locate my research problematic in the debate on Gramscian hegemony theory and its wider application to the study of neoliberalism. Following the criticism,
I will identify a number of alternative approaches proposed by Gramsci-inspired scholars. I will then plot my major research themes and explicate the methodology and research methods that I will utilize to operate such a research project accordingly. Lastly, I will illustrate the contour of the chapters that constitute my dissertation.

II. Theoretical Orientation

Tackling trade and economic liberalization in Taiwan, it would be natural for my research project to be conceived as part of the plethoric dialogue on “neoliberalism” or “neoliberalization,” especially when the construction and expansion of free-trade in the post-war era has been the center of the literature on hegemonic neoliberalism, although with different regional or institutional focuses. However, applying the theoretical framework of neoliberalism to the study of Taiwan’s trade liberalization inevitably encounters the problems of definition and periodization. Given that Taiwan has long been incorporated in the post-War free-trade regime led by the US and then institutionalized in WTO, when did the policy embracing trade and economic liberalization turn “neoliberal?” Is neoliberalism merely a new manifestation of the earlier pursuit of economic liberalism? Has neoliberalism ever become a hegemonic ideology in guiding trade and market liberalization measures in Taiwan? To address these questions, and to construct the analytical framework of my research project, I draw on insights from Gramscian theory and specifically locate the aforementioned questions in the existing scholarly debate on hegemony and neoliberalism. After proposing some possible theoretical interventions, I will also explain how my inquiries can be advanced with the aid of geopolitical economy and critical geopolitics, which tackle neoliberalism from the perspectives of sovereignty, security, and territoriality. This scholarship contains diverse analytical strengths for making sense of the world’s political economy and international politics that Taiwan is situated in.

**Hegemony and Neoliberalism: A Theoretical Engagement**

Gramscian theory on hegemony introduces a non-reductionist and non-essentialist approach to class relations and social struggles in the holistic dynamics between politics, ideology, and economics. The Gramscian notion of hegemony, after its introduction to Western academia in the
1980s, has enriched various scholarly works in cultural studies, international political economy (IPE), and other academic approaches (Glassman 2009). While the neo-Gramscian school pioneered by Cox in IPE utilizes the notion of hegemony to capture the world order underpinned by the formation of a transnational historical bloc, the concept is adopted by British scholars to account for the rise of neoliberal Thatcherism in the late 1970s and 1980s in the UK. However, British Gramscian scholars are rife with disagreement on how hegemony theory should be applied to the analysis of neoliberalism. While studies led by Stuart Hall accentuate the ideological production and overdetermined outcome of neoliberalism—known as the cultural studies camp, the work spearheaded by Bob Jessop emphasizes state restructuring in the face of crises in capital accumulation—known as the school of critical political economy.

Although the debate on hegemony and neoliberalism originated from the British context in the 1980s, it is the expansion of neoliberal agendas across the world in the post-Cold War era, i.e. the dismantling of the Communist World, the expansion of free trade regimes, the rise of international financial organizations, and the prevalence of structural adjustment programs in the 1990s, that contributed to a surge of scholarly interest in applying hegemony theory to the study of neoliberalism (Howson & Smith 2008; Worth 2015). Besides the more generic use of the notion of hegemony in IPE and international relations (IR), many neo-Gramscian scholars also deploy the notions of historical bloc, leadership, coercion, and consent to account for the global stretch of free-market economy. In such conceptualizations, neoliberalism is often portrayed as either an omnipresent ideology derived from the hegemon or a structurally coherent, class-based project that seeks to achieve hegemonic status in the post-Cold War global economy through constructing interstate alliances. Such a process is argued to serve the interest of transnational elites and materialize through US-led international institutions such as World Bank, IMF, and WTO with their local collaborators. As such, the combined notion of “neoliberalism hegemony” has become prevalent in many studies of the contemporary political economy above, at, and below the state scale.

But it is not only the concepts of “neoliberalism” and “hegemony” that have received extensive reflexivity on their own terms; the popular trend of bundling these two questionable concepts together, which is increasingly common in IR and IPE studies, further raised great concerns and
skepticism. The most direct criticism holds that neoliberalism, even in its heyday, never achieved homogeneous and stable hegemonic status either at domestic or international levels. Rather, it remains a failing hegemonic project that constantly requires different forms of intervention to save it from collapsing the entire market economy (Jessop 2013). What is often portrayed as “hegemonic neoliberalism” is in effect a set of ad hoc, opportunistic accommodations to the unstable dynamics of social change, rather than the outcome of highly coherent political-ideological projects (Barnette 2005, p. 10). A number of Gramscian-inspired scholars also lament how such a notion has been misused at the current moment because the forging of the notion “neoliberal hegemony” has been underpinned by superficial adoption of hegemony theory and de-historicized interpretations of Gramsci’s intellectual legacy (Howson and Smith 2008; Worth 2008, 2011).

In addressing conceptual shortcomings, scholarly endeavors take two general approaches: the refashioning of “neoliberalism” as an analytical concept and the revisiting of Gramsci’s fundamental concepts in hegemony theory. First, questioning the proposition that neoliberalism has ever become hegemonic, the “Regulation Approach (RA)” studies different social regulatory norms, institutions, and technological networks across historical and geographical contexts that manifest the rather opportunist, improvised, and heterogeneous landscapes of neoliberal processes and their outcomes—a messy reality coined as “actually existing neoliberals” and “variegated neoliberalizations” by regulation theorists (Brenner et al. 2010a, 2010b; Peck 2013). However, the solution proposed by the regulation school is conceived insufficient among other Gramscian scholars. Pointing out the regulation approach’s over-emphasis on the economic aspects of regulation, its overlook of the ethical-political dimensions of regulation, and its methodological inability to address ideological struggles, Sum & Jessop (2013) proposes the concept of “cultural political economy”—a cultural turn to critical political economy—as a way to “move beyond the Regulation Approach.”

Perhaps the full-scale criticism of the theoretical marriage between hegemony and neoliberalism comes from the cultural studies camp. Barnett’s (2005, 2010) criticism of the analytical applicability, theoretical desirability, and the political effects of such theoretical linking is most exemplary. On the one hand, Barnett (2010) criticizes the classic political economists’
conceptualization of neoliberalism as a hegemonic “common sense.” Harvey for instance, simply conceives neoliberalism as a process translating the abstract theorization of free market ideology into reality. Such conceptualization not only leaves the “mechanism of naturalization” opaque and unexplained but also sees the political connotations carried by neoliberal ideology, i.e. freedom and liberty, as mere “rhetoric” that serve to cover up its material consequences. On the other hand, Barnett contends that RA similarly assumes geographical diffusion of neoliberalism from its “heartland” of North America and Western Europe to the periphery of the world, although attending to its uneven geographical outcomes and the “variations” and contingencies of when, where, and how they combine other domestic forces to produce distinctive manifestations (Barnette 2005, p. 8). Therefore, the regulation approach’s proposal of neoliberalization presents nothing more than a meta-theory that throws “local factors” into the “contextualizing mill” (Barnett 2010). The controversy over the hasty combination of neoliberalism and hegemony led Barnett to provocatively suggest that we should stop thinking of neoliberalism as a hegemonic project altogether, for it “pays little attention to the pro-active role of socio-cultural processes in provoking changes in modes of governance, policy, and regulation.” The factors driving the ongoing changes of “neoliberalization” involve variegated social forces that add up to much more dispersed populist reorientation in policies and politics rather than one-dimensional hegemonic subjugation to market forces (Barnett 2005, p. 10).

Despite Barnett’s provocative proposition, there have been alternative ways to address the pitfalls of the theoretical construction of “neoliberal hegemony” without “throwing the baby out with the bathwater” proposed from within the Gramscian scholarship. These scholarly endeavors seek to retain the analytical strength of hegemony in capturing the neoliberalized global present by focusing on political dimensions of the hegemony theory and its intrinsic connection to other fields of scholarship. Among these endeavors, two approaches are pertinent to my research initiatives and will thus be discussed at length. The first approach is to critically revisit Gramscian theory by heeding to crisis, conjunctures, and hegemonic restructuring in the modern capitalist world; the second approach appropriates postcolonial theories to examine the “political” that mediates the processes and outcomes of neoliberalization, with the political subject of the nation and the people presented as critical sites of theoretical intervention.
**Crisis, Conjunctures, and Hegemony Restructuring**

One way to address the conceptual problem of “neoliberal hegemony” not only recognizes the ad hoc, temporary and variegated enactment of neoliberalization but also highlights the intrinsic relationship between crisis, the social struggles it entails, and their implications to hegemonic restructuring. Rather than seeing neoliberalism as having reached a stable hegemonic state, neoliberalism as a hegemonic project is always crisis-prone and requires constant reworking. Crisis, ruptures and the subsequent settlements are therefore the focus of analysis. While crisis theory has played the central role within Marxist scholarship, it is beyond my intention to engage with the sea of literature and debates on this matter. Instead, I focus on the Gramscian perspective of crisis. Two different forms of crisis—conjunctural crisis and organic crisis—are featured by Gramsci: While conjunctural crisis refers to miscellaneous ruptures in the social relations of production and oppositional forces to maintain the status quo, organic crisis denotes a far more comprehensive situation, where the society, after periods of struggles, fails to achieve a consensus in terms of how to stabilize the ruptures and reconstitutes a new form of state-societal relations to regenerate the process of capital accumulation. The nature of organic crisis is therefore economic, political, social as well as ideological, and the evolution from conjunctural crisis to organic crisis inevitably indicates a legitimacy crisis of the hegemonic rule.

However, despite highlighting the crisis-prone nature of neoliberalism, Gramscian scholars once again diverge in terms of what accounts for “crisis” and how to study it. This discrepancy continues from the different accounts for Thatcherism to the 2008 financial “crisis” and its aftermath. For critical political economists, neoliberalism is conceived as a political project that seeks to reconcile, contain, defer, or displace crisis arising in post-War capitalist accumulation (Jessop 2013). By “placing neoliberalism in its place”, Jessop identifies at least four models of such development and their respective crisis-prone tendencies: Atlantic Fordism, import-substitution industrialization in Latin America, export-oriented growth in East Asia, and state socialism in the Soviet bloc, China and Indo-China. In other words, the variation of neoliberal outcomes across the world derives from the distinctive position each state occupies in the world economy and the ways in which their distinctive crisis-prone tendencies are addressed.
Despite accentuating the nature of capital accumulation as the initial roots of crisis, the critical political economy camp also emphasizes the conjunctural nature of crisis itself. For instance, in analyzing the recent issue of Brexit where Britain voted to leave the European Union, Jessop (2017) traces the conjunctural domestic and international intersecting threads—including the protracted crisis facing Britain’s Atlantic Fordist model of accumulation, the subsequent failure of state strategies in adopting a knowledge-based economy and financialization, and the crisis of the Eurozone project marked by fiscal deficit. These conjunctural crises and the following neoliberal remedy only worked to worsen polarization, sustained uneven development, and consequently generated wider social discontent in the UK. Brexit therefore presents itself as the populist outlet of such sentiments. In conclusion, Jessop maintains that the choice offered in the referendum was “ill-defined,” for it should have been the choice between in or out of neoliberalism instead of in or out of the European Union.

Although similarly emphasizing conjuncture, accounts of crisis for cultural studies scholars differ from those of the modified regulation school in a number of ways. First, in the eye of critical political economists, a crisis is initially structurally induced and overdetermined (in Althusser’s sense) by the distinct mode and dynamics of capital accumulation a particular state is endowed with, or a crisis in accumulation at multiple scales. As such, social, cultural and political elements are seen as institutional “variables” mediating the ways in which the crisis is tackled, and due to historical and geographic specific contexts, it inevitably generates a variety of neoliberal outcomes. In the same vein, its political contentions and social resistance are conceived of as reactions to such outcomes. Therefore, it is argued by cultural studies scholars that the “historicity of politics” is presented as nothing more than a ramification of the history of capitalism without adequate theorization. Moreover, unwilling to attribute economics as the single initiation of crisis, some cultural studies scholars maintain that the causal conception of chains of crisis as an organic transformation from crisis in capital accumulation to the legitimacy crisis of the state is at best “instructive.” Instead, the question of how different forms of crisis are connected/articulated/translated from one to another should occupy the center of inquiry (Clarke 2010).
For example, against the rising trend of viewing the 2008 financial crisis exclusively in economic terms—be it the consequence of deregulation and financialization of debt—, the cultural studies approach highlights the complex moments and multiple origins from which the crisis forms to avoid “falling back on economic determinism” and to move beyond the model of “economic crisis-plus-its-ramifications” (Hall & Massey 2010). That approach maintains that the 2008 financial crisis has economic, political and ideological roots, and the crisis should be addressed “as a whole.” The crisis caused by financial deregulation only reveals the accumulation of antagonism and contradictions that may not be reducible to economic dynamics of crisis but leads instead to the formation of the classless “property-owning democracy,” the rise of anti-state sentiment, and the racial tensions produced in the postcolonial condition (Clarke 2010; Hall & Massey 2010). Hall and Massey (2010) further contend that the “economic” has been successfully separated from the “ideological” and the “political” origins of the crisis, that the entire political discourse about public interest, inequality and wealth redistribution has been “cleansed,” and that all the remedies proposed to “re-regulate” the financial sector can only work to help business “back to normal” without generating transformative outcomes.

Interestingly, Jessop (2010) also makes a very similar comment regarding how the 2007 crisis is selectively read as a crisis in a financial-led accumulation regime, and the function of the market economy can therefore be restored simply by imposing stricter regulation. In the methodology of cultural political economy, the notion of “strategic selectivity” is highlighted to capture the initial step of how certain discourses are preferred and strengthened while others are eliminated. This problematic resonates well with the cultural studies camp’s agenda, which utilizes discourse analysis to unpack “what social forces have been made visible in the crisis, and how are they represented?” (Clarke 2010, p. 345). As such, the two camps, despite their unresolved disagreements, demonstrate a merging path in grasping the conjunctural nature of neoliberalism, crisis, and management of its aftermath.

**The Politics of Hegemonic Struggle: The Nation, the People, and the Postcolonial**

To avoid the “sophisticated version of reductionism” in tracing the various forms of neoliberalization (Barnett 2010), another critical intervention highlights the necessary attention paid to “the political.” This approach emerges from the general concerns of the undertheorized
“political” aspect in the political economy literature. The expansive interrogation of “the political” is based on Gramsci’s conception of the “integral state” or “the integral politics,” where the state does not exclusively denote formal and institutionalized forms of politics (the “political society” in Gramsci’s notion) as opposed to the civilian sphere in the capitalist society, but embodies a dialectical unity of “political society” and “civil society.” (Gramsci 1971; Jessop 1997; Thomas 2009). Given such inclusive reading of the state, the political terrain extends well beyond the governmental apparatus to realms such as representational politics, religions, schools, and family lives through which social classes compete with one another to establish hegemony.

Although claiming to embrace the encompassing conception of the state, the regulation school’s account of neoliberalism and its institutional ensembles does not fully embody Gramsci’s inclusive and dialectical notion of “the political.” Specifically, it is criticized for its narrow understanding of “politics” and its restricted recognition of the “political moments” in theorizing neoliberalism as a “political project” (Barnett 2010). Focusing on elites and their alliances as the primary agent providing “direction and decision” and guiding social change, the regulation school not only falls short in capturing how contemporary forms of democratic politics—representative democracy premised on the territorially constrained electoral system—mediate the neoliberalization forms and outcomes, it also risks “de-politicizing” politics as its consequence (ibid.).

Contrarily, the proposal to refocus on the political treats seriously how political forces, formed in particular historical and social relations mostly pre-dating neoliberal restructuring, shape, give meaning, and mediate struggles of neoliberal economic agendas. It therefore presents a challenge to the a-historical ideal-typical explanation of the politics involving neoliberalism and its counter-movements. It maintains that not only seeking a more generalizable model of neoliberalism is analytically impossible, but framing its counterforce as “anti-neoliberal” is politically undesirable. After all, it represents nothing but a wishful thinking from the radical leftists without understanding the conjunctural forces of destabilization at work and is therefore unable to fulfill the organic intellectual’s task of invoking progressive social change (Hart 2008; Barnett 2005, 2010).

One of such key political dynamics in the Western context is the birth and transformation of bourgeois democracy—a social and political norm emerging from the dialectical relationship
between political liberalism and economic liberalization. In explaining how neoliberalism took hold in Britain, Hall (2011) delineates how the classic idea of political liberalism, born in the wake of industrialization and established by the bourgeoisie class in England, has gradually been harnessed and reduced to the notion of economic (neo)liberalism—a process along with the rise of merchant and liberal imperialist classes as the British Empire expanded to the rest of the world. Tracing the convoluted relationship between political and economic liberalism and its evolution in the post-war political economy thus occupies the core of the study of neoliberalization in the UK. Such a research agenda is further operationalized by Barnette (2008, 2010), who foregrounds the importance of political logic in the Western liberal democratic regime, such as party politics, territorialized electoral institutions, and parliament procedures in tackling the ways in which neoliberal agendas are negotiated, contested, and mitigated in the UK and beyond.

Highlighting the historically formed bourgeois democracy as the political crucible that shaped particular neoliberalizing outcomes in the UK also implies “provincializing” the British experience. Such a proposal resonates well with a surging call to move beyond Euro-American confinement in explaining the political by bringing insights from postcolonial studies to Gramscian theory. Gramsci’s proposition of the “Southern question” in Italy manifests a postcolonial moment in hegemony theory. The broader Gramscian scholarship, with its engagement with imperialism and uneven development, its conceptualization of subalternity, and its focus on the “national-popular” in the counter-hegemonic political strategy, further generates constructive dialogues with postcolonial theories (Rosengarten 2009; San Juan Jr. 2009; Bhattacharya & Srivastava 2012; Kipfer & Hart 2013).

Putting neoliberalism in the postcolonial historical geography, two interrelated political subjects and the politics invoked in their name writ large: the nation/nationalism, and the people /populism. Postcolonial theories have extensively unraveled the enduring social and political dynamics inherited from the colonial legacies, including the remaining racial and ethnic conflicts and the nationalist identity struggles. However, nationalism in the postcolonial states is not just about ethnic politics and identity struggles—although in most cases it is unavoidably fraught with these dynamics. What is more, with its promises of economic development and political liberation from the exploitive and oppressive colonial regime, postcolonial nationalism inevitably invokes a
corresponding reconfiguration of economic, social, and political relations in pursuit of moral legitimacy. While postcolonial nationalism can take the form of top-down passive revolution, with official nationalism being summoned by the (postcolonial) ruling class to consolidate the existing power structure or to accommodate surging requests for change, it can also invoke radical transformation (anti-imperialism). Much postcolonial research has shown that postcolonial societies often manifest dynamic connections and struggles between these varied nationalist projects, and the material outcomes are far from fixed. In any event, postcolonial nationalism entails the production of new forms of territoriality and space of “national economy,” through which social and political relations are reconfigured (Goswami 2004).

Besides nation and nationalism, people and populist politics are also pertinent to understanding postcolonial political economy. The politics of the people manifests in different ways in Gramscian scholarship—as the national-popular being the crucial mechanism in establishing full hegemony proposed by Gramsci, as a political subject formed through articulating various identities opposed to the dominant bloc (Laclau 2005), and as the bearer of popular sovereignty upon which the modern state is premised (Chatterjee 2004). In the postcolonial context, invocation of the political subject of the “people” usually comes with the promise of democracy and emancipation as the source of governing legitimacy. However, the notion of “democracy” proves to be highly contested and politically charged, and the politics in the name of the people usually forms an uneasy relationship with postcolonial democracy. It is because the relationship between the postcolonial state and the people is not simply defined by bourgeois democracy based on civil right or constituted through antagonistic tensions; it is also bounded by a moral tie that entails complicated and dynamic negotiation between the state and the political society to meet the material needs of the governed (Chatterjee 2004, 2011). The liberal democratic model is thus hard-pressed to come to grips with the public perception of “democracy” and its discursive effects in the postcolonial or post-authoritarian society, the symbolic meaning and social mobilization capacity of electoral politics, and the moral weight endowed in the notion of popular sovereignty.

Rethinking economic liberalization and neoliberalization through a postcolonial Gramscian perspective has yielded fruitful results across different historical-geographies. Although without direct citation of “neoliberalism,” Chatterjee’s (2011) account on how India’s postcolonial
capitalism substantiated by electoral democracy and passive revolution from the landed elites has transformed class relations and associated political dynamics in the globalization era provides another vivid demonstration. The dismantling of the license regime, greater entry granted for foreign capital, and liberalization of state-monopolized sectors have contributed to the rise of a transnational urban bourgeoisie less dependent on electoral mobilization in gaining governing legitimacy. Such transformation consequently reconfigured the domain and operating logic of the political society—the social space where subalterns negotiated with the postcolonial bourgeois nation-state for livelihood survival—now resorting to individualized distributive justice. Built on Gramsci’s insight on passive revolution and Chatterjee’s study on the state-society relationship in democratic India, Corbridge and Harris’s (2013) detailed research on the reinvention of India aptly documents the co-construction of Hindu nationalism and economic liberalization.

In the appeal to decolonize “actually existing neoliberalism,” Goldstein (2012) contends that the different forms of neoliberalism are not just “variegated local manifestations” of globally diffused ideas or economic paradigm, but are actually lived realities from local history, much of which is shaped by colonialism and its aftermath (p. 305). Goldstein’s study on neoliberalism and its contestation in Bolivia trenchantly demonstrates how the notion of “neoliberalism” is tactically equated with the continuation of colonial dominance—a social force predating the introduction of “neoliberalism” by a regime that claimed to represent Bolivian indigenous socialism and yet continued to exercise neoliberal-oriented policies.

Combining Gramscian and postcolonial theories, Hart’s (2014) analysis of South Africa’s post-apartheid globalization and economic neoliberalization experiences yields a sophisticated analysis of racial politics, nationalism, and capitalism. As Hart maintains, the hegemonic project of the African National Congress (ANC) in the post-apartheid South Africa has to be comprehended through the dialectical processes of de-nationalization—where corporate capital sought to set itself free from the operation and constraint of national economy and to connect with the financialized global economy—and re-nationalization—where ANC paradoxically conjured up racial nationalism with bourgeois democracy to win its legitimacy. The result is a highly unstable articulation between racial nationalism-bourgeois democracy-globalized capitalism—a formula full of tensions and contradictions.
Research as such demonstrates that neoliberalization in postcolonial societies does not just render another case study for the concept of variegated neoliberalism. Rather, focusing on the forms and logic of postcolonial politics, the birth of the postcolonial political subjects, the volatile articulation of the nation-people-state, and the contested terrain of ideology and political economy in hegemonic struggles generate far more productive analytical outcomes. I will build on these theoretical insights to unpack trade and economic liberalization in Taiwan—a country undergoing multiple colonialisms and still embroiled in postcolonial struggles. Utilizing Taiwan’s experiences, I will argue that multiplying the tripartite relationship of state-capital-society by the unsettling formula of nation-people-state in postcolonial societies has the potential to shed an alternative light on what we know about hegemony and neoliberalism.

**Geopolitical Economy, Critical Geopolitics, and Territoriality**

While most of my focus remains situated in the dialogue between hegemony theory and neoliberalism, I also draw on other forms of knowledge pertinent to my research project: critical geopolitics and geopolitical economy. The connection of these bodies of scholarship to my research subject is apparent. Hegemonic struggles in relation to trade and economic liberalization in Taiwan are fundamentally informed by broader geopolitical economic contexts, with US-led global free trade regime and post-war geopolitical order on the one hand, and China’s market reform since the 1980s and its growing influence on the world political economy on the other. Being situated between these two power hegemons makes Taiwan’s case particularly exemplary of struggles over trade and economic liberalization elsewhere in the world.

The empirical significance also indicates the usefulness in utilizing associated theoretical lenses in this regard. First, the literature on geopolitical economy, emphasizing the intertwined nature of geopolitics and geoeconomics, serves as an important source to examine structural forces and crises in neoliberal conjunctures (Agnew & Corbridge 2002; Glassman 2018; Sparke 2018). Literature as such provides an analytical framework to tackle the complicated ways in which geopolitical and geoeconomic forces and domestic politics are intertwined. The decline of US hegemony worldwide and its transformation into a “global market-access regime” came synchronically with China’s fast-changing economic development in the market reform era. Thus,
the reordering of Pax Americana in East Asia, along with China’s fundamental influence on the
regional economy, have greatly restructured social, political, and economic relations and
conditioned the ways in which hegemonic struggles over neoliberalization took place in Taiwan.

Second, critical geopolitics scholarship, with its emphasis on security, sovereignty and
territoriality, demonstrates a variety of insightful approaches in grasping the symbolic, institutional,
and material composition of the state in the global political economy. These approaches include
studies on the neoliberalized institutional changes that blend state and non-state institutions and
domestic and international realms in governing global economic affairs and their crises (Kuus
2018), on the geopolitics of border control over people, goods, and gradually unfettered financial
capital (Sparke 1998; Coleman 2005), and on the operation of war on terror that are intrinsic to the
ascendancy of neoliberalism globally (Cowen & Smith 2009). The intervention critical geopolitics
provides to the study of neoliberalism also includes unpacking geopolitical discourses and
examining how they create meanings, generate fears and hopes, and mobilize identity politics
associated with economic liberalization (Sparke 2007).

Another conceptual question regards the transformation of state sovereignty and territoriality in
the globalization era, with the problematic of deterritorialization at the core of its inquiry (Tuathail
1998, 1999; Agnew & Corbridge 2002). It is now all too common to define neoliberalism as the
replacement of state with market and the loss of territorial controls over economic activities leading
to erosion of state sovereignty. In that, territory simply became an obsolete concept for the
neoliberalized world economy. However, this take on territoriality paradoxically demonstrates the
flip side of the “territorial trap” cautioned by Agnew (2010). Imagining a totally deterritorialized
and borderless world with diminishing state sovereignty is simply avoiding the “territorial trap”
by ignoring it (Newman 2010). Seeing territory as a spatial manifestation of effective sovereignty,
critical scholarship has proposed a more nuanced understanding of the spatial workings of
sovereignty in the globalization era. For instance, the idea of “graduated sovereignty” (Ong 2000)
denotes that yielding control in certain segments of the population and the territorial space to
facilitate capital accumulation can, in effect, serve to reassert sovereignty. Similarly, the
prevalence of the offshore economy and the international operation of Sovereign Wealth Funds
can be seen as another mutation of effective sovereignty and the reconfiguration of territoriality in
the neoliberalized global economy (Agnew 2009). The territorial logic of economic liberalization thus involves far more complicated workings of state power within, along, and across the borders.

Although territorially implies various logics, forms and scales of spatial organization of state power in the globalization era, my use of the notion will focus on its role in the nation-building and state-making project and accentuate its way of articulation with the “national economy.” Critical approaches to territoriality have freed our conception of the “national economy” from physically-defined territorial boundaries and enabled a more nuanced understanding of what it constitutes, how it is defined, and where it operates. The reworking of territoriality of the national economy in the globalization era therefore not only invokes rearrangement/rescaling of the “effective sovereignty,” but also involves geographical re-imagination of the terrain across which it is exercised and reconstruction of the subject position it bears.

The vast body of critical geopolitics and geopolitical economy scholarship—as well as its potential contributions to the study of neoliberalism—defies full illustration in such limited space. While charting out the overall implications of these studies to my research on trade and economic liberalization in Taiwan, I will also discuss in more detail how they inform my analysis of particular themes in the coming chapters.

**III. Research Agenda**

Charting out the intellectual terrain on hegemony and neoliberalism, especially recognizing the discrepancies between different factions within the Gramscian school in tackling these issues, it is certainly beyond my intention to side with a particular position, nor do I seek to engage in the debate in an abstract manner. Rather, I will demonstrate how these approaches, endowed with different analytical strengths, inform my research project and equip me with better tools. Based on the preceding theoretical discussion, I propose three major themes that I seek to engage with in my investigation of the hegemonic struggles over trade and economic liberalization in Taiwan. They are the dialectical relationship between political democratization and economic liberalization; the multifaceted populist and nationalist politics and their contingent articulation with
neoliberalization; and the centrality of trade and economic liberalization in hegemonic reconstruction in Taiwan since the 1980s.

**Political Democratization and Economic Liberalization: A Dialectical Process**

As discussed above, a historically-grounded examination of the evolving relationship between political liberalism and economic (neo)liberalism is key to understanding the process of neoliberalization, both in the Western and in the postcolonial contexts. Here, I seek to trace the particular ways in which these two forces took shape and entangled in Taiwan. My analysis starts from the critical era of the 1980s, where Taiwan began to encounter crisis in both political and economic realms. On the one hand, the anti-authoritarian democratization movements emerged in the 1970s began to prevail, challenging the legitimacy of the KMT regime which had held power since 1949; On the other, Taiwan’s post-war growth model was in deep crisis due to the fall of the SME-led export-oriented accumulation regime, leading to calls for economic liberalization to tackle the gradually stagnant economy.

Despite their synchronistic nature, political democratization and economic liberalization in Taiwan are largely studied as two separate issues by different disciplines. When considered together, they are usually assumed to have a fundamentally causal and fatalistic relationship. It is argued that democracy in Taiwan favors the market economy as the guiding principle over state intervention in the economic life and therefore unavoidably contributes to the unsuccessful transformation of the developmental state and the ascendancy of neoliberalism (Chu 2011). It was because democratization movement in Taiwan was characteristic of partisan ways of resource distribution and driven by anti-state sentiment and national identity-focused politics, which fundamentally impaired the state capacity to form effective economic policies. However, instead of “victimizing the state” and denoting a stable and causal relationship between political democratization and economic liberalization, my research project seeks to demonstrate a dialectical and highly volatile relationship between the two.

Such a research project first requires situating economic liberalization in the broader process of passive revolution in Taiwan, where the KMT regime deployed both ideological and material means to realign social, political, and economic forces in order to maintain its governing
legitimacy in light of multiple crises (Chuang 2013). I will, therefore, attempt a more nuanced reading of the political attack against the KMT-led party-state-capitalism and its complicated transformation. I will seek to demonstrate that the state did not just passively accommodate bottom-up social requests for economic liberalization but actively appropriated the appeal and reshaped the agenda toward its own end. The research also calls for a critical examination of the dialectical relationship between the external liberalization (tariff removal, liberalization of currency control, deregulation of capital flow, etc.) and internal liberalization (liberalization of state-monopolized economy, privatization of state-owned enterprises tax cut, etc.), which has been largely overlooked in the theorization of neoliberalism in Taiwan and beyond. In a nutshell, the state-capital-society relationship is far from fixed, as is the dynamic between political democratization and economic liberalization.

**Populism, Nationalisms, and Neoliberalization**

Second, I seek to contribute to the debate on hegemony and neoliberalism by attending to the political dynamics mediating hegemonic struggles over neoliberalization, where populism and nationalism unavoidably come to the fore in the postcolonial context. I maintain that a historically grounded understanding of nationalism and populism—as well as their articulation with the concurrent social forces at a particular historical conjuncture—is imperative in understanding how various neoliberal agendas are framed, conceived, and contested.

Nationalism in Taiwan is known for its polarized identity politics charged with ethnic tensions (Wu & Chang 1993; Wu 1996; Shih 2007; Wang 2008). While official Chinese nationalism was imposed by the KMT government in Taiwan after its defeat in the Chinese civil war and further embraced by its followers who immigrated from the mainland (wai sheng ren), Taiwanese nationalism was seen as a counter-identity that emerged among the indigenous (Han) Taiwanese people (ben sheng ren) along with the democratization movement. This complex identity-ethnic antagonism was formed in a postcolonial context, where KMT’s settler regime (a minority) sought to maintain its hegemony and leadership via both violent and non-violent measures. Due to the memory of white terror and state oppression and because of the systematically implemented discriminating policies regarding language, education, political opportunities, access to government jobs, and social status based on the ethnic divide, the entire Taiwanese society is left
with distrust between indigenous Han Taiwanese and mainlanders. Although recent research on national identity and popular struggles illustrates a far more ambivalent picture than the usually told black-and-white story of ethnic divide, social distrust continues to thrive, and ethnic-centered discourse still dominates the narrations of nationalist contestation, of the democratization movement, and of state-society relations until the opposition party DPP gained power in the 21st century.

Nonetheless, nationalism and populism are not simply about identity politics; these two concepts are also extensively deployed by the existing literature in tackling trade disputes and economic liberalization in Taiwan. However, due to the entrenched ethnic politics, their meanings are usually presented as either transcendental or completely ungrounded in these studies: Nationalism is either conceived as a dominant ideology enjoying moral supremacy and guiding developmental practices for the governing elites (Chu 2009; Hsu 2017), or is conflated with a discursively constructed identity which invokes politics in its name with no or limited material base in critical IR and IPE (C. Chen 2010; Lin 2016). Likewise, populism is reduced to either an irrational anti-state sentiment preferring free-market solutions to state intervention in the economic arena (Chu 2011) or is conceived as a paradoxical combination of market principle and distributive politics for the regime to earn popular support (Hsu 2009). Most of this literature on nationalism and populism captures their manifestations from a particular time period and projects them to the analysis of a specific dispute over trade or economic policy, without providing a more historicized analysis of the political evolution of “the people” and “the nation” in relation to the state situated in the changing social relations of production. In other words, the “transformation” of variegated forms nationalism and populism should be treated as the key question to tackle, not the contextual variations.

Such a problem can be further unpacked through the following interrogation. Given Taiwan’s “atypical” postcolonial conditions,1 nationalist and populist politics and their relationship with the state have proven to be far from stable. Indeed, the articulation between the “nation” and the “people” has been highly volatile. The rule of the KMT authoritarian settler state following the

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1 To date, scholars are still debating whether and to what extent the notion of “settler colonialism” or “neo-colonialism” can be applied to explain the nature of the KMT regime in Taiwan. See Wang (2015).
end of Japanese colonization imposed both anti-communist Chinese nationalism and discriminatory ethnic policies on the island, leading to persistent ethnic tensions under the “One-China” flag. The rise of popular society and the anti-authoritarian democratization movement during the 1980s was followed by the popularization of Taiwanese nationalism, both of which posed challenges to the governing legitimacy of the authoritarian party-state. The subsequent indigenization of the KMT and its invocation of the “new Taiwanese people” in the 1990s did not last long before turning to re-embrace the One-China principle in alliance with CCP as a way to deter the growing political influence of the pro-independence camp on the island. The subject position of the “people” and the contesting nationalist projects appearing in different historical conjunctures also indicate a rather complicated mechanism for the postcolonial state to build its leadership and maintain its legitimacy.

Furthermore, the analysis of populist and nationalist politics has to be rooted in the particular class project emerged in Taiwan. Different from South Korea, class consciousness has been rather ambiguous in Taiwan, where the majority of the population conceive themselves as “middle class” or “middle-lower class” instead of “working class” (Hsueh 1997). Such a distinct class consciousness arose from Taiwan’s SME-dominated, export-driven and light manufacturing-oriented post-War economy. As factory owners also perform labor in their own shops, the line between “workers” and “petit capitalists” has been rather ambiguous. This distinct class project is well demonstrated in Shieh Guo-hsiung’s (1989) illustration of the highly fluid class mobility in Taiwan’s SME-dominated manufacturing industry and Hsiung Ping-chun’s (1996) exploration of how typical Taiwanese households’ living rooms were turned into factories in the SME-led, family-centered light manufacturing system. Given their huge success in the export market, the hundreds of thousands SMEs, rather than the subject position of workers, were constructed as the key to such a class project as well as the historical agent demanding changes in trade and economic policies.

However, the SME-centered class project also evolved against fast-changing capital relations within Taiwan and across Asia. South Korea has constructed a solid “Korean Inc.” between state, chaebol, and society since the 1970s, and the subsequent politics over globalization can thus be attributed to the struggles between transnational corporates and labor (Woo & Woo-Cumings
1991). In Taiwan, capital relations have undergone fundamental restructuring since the 1990s. Not only big corporations have surpassed SMEs in Taiwan’s export sector in the mid-1990s, but different forms of capitals have been constantly competing in both export and domestic economies. Capital factions consisting of SMEs, industrial capitalists, state-franchised business, state-owned enterprises, and newly booming hi-tech industries were all in dynamic competition to influence state policies. Therefore, the analysis of Taiwan’s trade liberalization, or neoliberalization at large, has to accentuate the contingent articulation between nationalist and populist politics and evolving material forces. As such, my research will investigate social struggles over trade and economic liberalization by shedding light on the multiple courses of political subject formation of “the nation,” “the people,” and the politics in their name as the way to link conjunctural crisis and contesting capital relations across different time periods.

**Hegemonic Struggles over Trade Liberalization and Economic Deterritorialization**

The last theme my research seeks to explore is the centrality of trade and economic liberalization to the hegemonic struggles in Taiwan. It is therefore not just a study of trade and economic policies per se but also an inquiry through which to unravel the unsettling social forces and conflicts in Taiwan from the 1980s onwards. The changing course of trade policies vividly demarcates the reconfiguration of social relations of production in Taiwan, and such social relations of production were also deeply embedded in the evolving geopolitical/geoeconomic dynamics that shot through the island.

Moreover, hegemonic struggles over trade and economic liberalization since the 1980s are highly spatial in nature. As discussed in the theoretical section, much literature on geopolitical economy and critical geopolitics has probed into the production of territoriality intrinsic to the hegemonic project that works beyond the boundary of the sovereign state and can therefore successfully avoid the “territorial trap” (Agnew & Corbridge 2002; Agnew 2009; Cowen & Smith 2009; Moisio & Paasi 2013; Lee et al. 2018). Utilizing a postcolonial Gramscian perspective and the theoretical lens of space production of the nation, Hart (2014) also provides a sophisticated account of how a postcolonial state located at the periphery of global capitalism, i.e. South Africa, struggles with economic denationalization led by multinational corporations’ (MNCs) capital flight on the one hand and “rebounding the nation” via conjuring the rainbow nation and yet tightening immigration...
control on the other. In other words, deterritorialization in the economic arena was accompanied by reproduction of the national space through ethnic and cultural policies.

Using a similar focus on postcolonial struggles over economic deterritorialization and nationalist politics in the globalization era, I seek to further unpack the relationship between territoriality and the national economy in such dynamics. In Taiwan’s case, I propose the concept of “deterritorialization of the national economy” to capture the spatial dynamic of struggles over trade and economic liberalization and to further question in what sense such a deterritorialized economy is still “national.” I will argue that, in Taiwan, the construction of the new nation in the face of economic globalization does not necessarily mean “rebinding the national space” in the cultural and ethnic senses; it can also indicate articulating a “deterritorialized national economy” materially, institutionally, and discursively.

This proposal is indebted to critical geopolitics on the transformation of territoriality and sovereignty, on the geoeconomic reasoning of national survival, wealth, and security, and on the politics of geoeconomic subject formation in the neoliberalized global economy. Specifically, if we bridge the insight of critical geopolitics on territoriality and state sovereignty with Gramscian analysis of hegemonic struggles of the state (as a social relation of production embedded in international political economy), we begin to see a far more complicated picture of how multiple forms of territoriality are produced along with the changing nature of the state in the globalization era.

It is in this sense that I seek to engage with Chen Kwan-Shin’s (1994, 2000) renowned criticism of Taiwan’s overseas economic expansion since the 1990s as an “sub-empire.” In that, Chen denotes a tripartite hegemonic project—state restructuring, capital expansion, and the invoking of Taiwanese nationalism—that underpins Taiwan’s imperial-like economic expansionism. Rather than portraying a winning hegemonic project underpinned by a coherent set of capital-state-nation relations, however, I will demonstrate that deterritorialization of Taiwan’s national economy is in effect a complex process driven by fractured capital, discrepant agents, a range of desires and aspirations, and contesting political agendas. Therefore, the “hegemonic moment” manifest in Taiwan’s economic deterritorialization is never free from ideological and material contradictions.
Studying the articulation between materiality and discourse in the production of the
deterritorialized national economy at different historical conjunctures also enables us to grasp the
ways in which different forms of economic deterritorialization—market opening, outward FDI,
regionalism, and financial liberalization—are associated with the hegemonic restructuring project
in Taiwan.

IV. Methodology

Articulation and Conjunctural Analysis

Drawing on Gramscian theory to illuminate hegemonic struggles over trade and economic
liberalization that have spanned over three decades in Taiwan, my research project is grounded in
historicism as its epistemology. Specifically, I will employ conjunctural analysis. Originally
proposed by Althusser and Gramsci, the method of conjunctural analysis has been extensively
elaborated by a number of contemporary scholars in terms of what consists of a “conjuncture,”
where to start the analysis, and how to operationalize it. According to Hall and Massey (2010, p.
57), a conjuncture is “a period during which the different social, political, economic and
ideological contradictions that are at work in society come together to give it a specific and
distinctive shape.” Different from pursuing a general theory, or so-called “epochal mode of
analysis,” conjunctural analysis presents itself as an authentic historical analysis which does not
seek to define the dominant features of a particular system, but traces the process through which
different forces struggle to “contain, displace, neutralize or incorporate” the residual and the
emergent social forces, a process rife with slippages, openings, and contradictions (Williams 1977;

Moreover, historicism-based research is intrinsically about explicating continuity and social
change over time. It differs from a linear progress viewpoint; indeed, the view of time for
conjunctural analysis’ is multiple, emerging and contingent. While pinpointing a particular time or
event as the turning point of the historical process is nearly impossible, conjunctural analysis
presents an alternative approach to historical periodization, which highlights the co-existence of
“multiple temporalities” (Clarke 2010, 2014, 2015; Jessop 2012; Spielman 2018). Similarly,
Jessop (2012) maintains that conjunctural analysis focuses on the articulation between different periodizations, which can include structural-oriented accumulation crises, election cycles, tides of imperialism, etc.

To conduct a thorough conjunctural analysis, it is imperative to attend to the notion of articulation. Although working across the epistemological, political and strategical levels, articulation represents a common method deployed by cultural studies. As a research method, it provides a way of “contextualizing” the object of one’s analysis (Slack 2006, p. 113) while treating context as emerging forces instead of backgrounds (or known as radical contextualization). The method of articulation concentrates on how vast numbers of events, forces, contradictions and antagonisms across time are connected together in a conjunctural moment and perceived as a continuation.

Nonetheless, Hart’s (2007) genealogical tracing of the concept points out that articulation not only denotes the practice of “connecting together,” but also “giving expression to,” where language plays a crucial role in meaning making. This second aspect is fully elaborated by Stuart Hall (1985), who interprets Althusser’s approach to “articulation” in a non-determinist and non-structuralist manner. As Hall (2001) clearly explicates, articulation entails a double process of “decoding/encoding.” As such, the method of articulation is both about deconstruction and reconstruction; the former discovering the heterogeneous, fragments and differences in the whole, whereas the latter making linkages, building narratives and giving meaning to reconnect the fragments (Grossberg 2010).

Connecting fragments and expressing heterogeneity in a coherent unity, articulation inevitably occupies the center of Gramsci’s theory on hegemony. Besides Hall’s emphasis of its theoretical centrality in analyzing ideology and dominance, Laclau (2005) also foregrounds the notion of articulation in his analysis of hegemonic struggles—either the formation of a historical bloc to achieve hegemony or the attempt seeking to challenge such status. Despite bearing the criticism of taking an extreme post-structural stance to discourse, Laclau’s approach to articulation nonetheless provides a toolkit for interrogating such dynamics and identifying the emerging political subject in particular historical conjunctures.
As such, conjunctural analysis, with specific attention paid to dominant forms of articulation, constitutes the methodological underpinning of my research. I will proceed to illustrate how such a research method will be operationalized against Taiwan’s context of hegemonic struggles.

**Research Methods**

To conduct empirical research on hegemonic struggles over trade and economic liberalization in Taiwan, I draw on a variety of sources as the materials of analysis. They encompass official policies, government propaganda, professional knowledge production, and public opinion. The wide range and diverse types of data sources embodied in my research aim to go beyond state centrism and to avoid economic determinism in tackling the aforementioned issues. Together, they help to trace how particular trade policies are formed, interpreted, connected and contested in a broader social and political context from the 1980s to the present.

In terms of official policies and government propaganda, I rely on resources such as the Presidential Office Gazette, policy reports from different governmental sectors, and government online databases to capture the official narratives regarding trade issues. Specifically established in 1991 to take charge of cross-Strait political and economic affairs, the Mainland Affairs Council provides an online database which documents official propaganda related to cross-Strait affairs on a monthly basis and therefore serves as a rich source to track the (trans)formation of geopolitical and geoeconomic rationales of the state. The data range from presidential speeches at various occasions and policy measures announced by associated government agencies to departmental press release addressing particular issues. Recognizing that the “state” is not a monolithic entity with unified policy rationales, these multiple sources help portray a complicated and sometimes ambivalent picture of the “state rationale.”

Moreover, the study of official policies and associated discourses is supplemented by “expert opinions.” This includes research projects and policy evaluations done by semi-official think tanks (i.e. Chung-hua Institute for Economic Research) and party-affiliated research institutes or foundations (i.e. KMT-associated National Policy Foundation and Taiwan Foundation for Democracy established by the DPP government), professional journals targeting specific issues, and government publications with first-hand insider research outcomes. This includes Central

Perhaps the biggest challenge to my research is to represent “public opinions” associated with trade and economic liberalization and to unpack their ideological underpinning and discursive effects. Both hegemony theory and critical geopolitics have cautioned about the inclination to state-centrism. It is therefore pertinent to notice how trade-associated ideas are circulated, contested, and resurrected both within and beyond statecraft and become “common sense.” To reconstruct the vibrant social dynamics and to capture the prevailing popular discourses, I utilize multiple resources—interest-group lobbying, media reports, social protests, straw polls, and election campaigns.

First, representative politics plays an initial role in delivering filtered “public opinions.” Thanks to democratization, the role of Parliament (or the “Legislative Yuan”) in Taiwan has changed from a “rubber stamp” of the state to a crucial channel through which voices and interests from civil society are voiced (Liao 2005). This transformation took place when many “outside-the-party” political figures started to gain access to formal politics due to the early-stage passive revolution initiated by the KMT to secure legitimacy after losing its Westphalian sovereignty in the 1970s. The well-documented Legislative Yuan Gazette encompassing legislative interpellation, notes for standing and special committees, public hearings, and the National Conference minutes provides a systematic resource to grasp how particular interest groups conduct lobbying for certain trade and economic liberalization policies and how popular appeals reverberate in official politics.

Second, I draw on media as a vital resource to illustrate divergent social opinions. Although the government had had significant influence over major media houses under authoritarian rule via cultivating patron-client relations with the private press, the worsening legitimacy crisis of the KMT regime and growing populist appeal for the press to reflect true social opinions in the decade before democratization gradual dismantled that cozy relationship (Lin 2000). While the KMT-run news press Central Daily News (中央日報) continued to perform as the official platform to convey
state ideologies, other major private presses had already begun to take a more neutral stance and incorporate many discordant opinions, not to mention the “outside-the-party” press and magazines which were never shy about criticism. The newspaper reports from the 1980s, therefore, serve as an effective lens to peep into the social and political dynamics of the time. In is also noted that in the post-democratization era, the growing competition between political parties also reflected on the polarized standpoints taken by different media: Some take pro-business stances; others represent a clear party inclination in their political orientation. While recognizing a variety of styles due to different political affiliations or social positions across the media landscape, the main purpose of my research is to identify prevailing discursive structures and to portray general trends of social forces instead of conducting a micro-level semiotic analysis of the media.

Last but not least, in order to capture the voices from the “civil society,” I also draw on different kinds of resources and references. While business magazines (i.e. Commonwealth Magazine and Business Today) represent the popular opinions of the business community and echo voices from the managerial class, NGO’s conference minutes, online fora, and press releases provide alternative perspectives to those of political and economic elites. Moreover, I draw on second-hand polls and surveys to indicate the general trend of popular attitudes towards certain issues. For instance, the longitudinal survey conducted by the Election Study Center at National Chengchi University provides reliable documentation of the long-term transformation of national and party identifications in Taiwan; the Mainland Affairs Council also conducts surveys both on long-term public attitudes toward cross-Strait political and economic affairs and short-term social responses to particular incidents. Together, they provide indications of the ways in which geopolitical and geoeconomic situations are perceived in Taiwanese society.

The variety of resources helps me develop a comprehensive understanding of the complex articulation between specific incidents, agencies, and discourses that formed particular historical conjunctures. By doing so, I seek to provide a genuine politics-centered account of hegemonic struggles over trade and economic liberalization in Taiwan. Rather than relying on idealized

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2 Commercial Times and Economic Daily News are the two major pro-business newspapers.
3 While The China Times and United Daily News are affiliated with KMT, The Liberty Times and Independent Evening News are the platform for anti-KMT or pro-DPP voices.
theories to trim the reality, the story I am going to tell is full of contingencies, contradictions, and messiness.

V. Organization of the Chapters

Following the introductory chapter, my research themes will unfold in the proceeding chapters: Chapter 2, titled *Democratization, Populism, and Taiwan’s Early Trade and Economic Liberalization*, traces the origin of trade and economic liberalization in Taiwan from the mid-1980s when post-war hegemony was undergoing a series of conjunctural crises. They include the crisis in SME-led export-oriented accumulation regime due to global economic restructuring, geoeconomic pressures from the US for tariff reduction and New Taiwan Dollar currency appreciation, and rising populism coupled with the pro-democratization movement that challenged the legitimacy of KMT authoritarian regime which had remained in power since 1949. Highlighting the dialectical dynamics between political democratization and economic liberalization, it explains how the emergence of populist politics mediated the ways in which the structural crisis was addressed. The state decision to let go of foreign-exchange controls and launch top-down democratization in 1987 kicked off a massive outward investment trend. Further articulation between populist struggles and post-Cold War geopolitical dynamics also led to decriminalization and deregulation of outward investment in China.

Chapter 3, *Twist and Turns to Trade Liberalization: Populism, Nationalism, and Embracing Free Trade*, traces the populist and nationalist politics surrounding trade and the subsequent rise of the free-trade regime in Taiwan. It seeks to provide a dialectical account between market-led US hegemonic expansion and domestic struggles against party-state-capitalism – a process full of contradictions, paradoxes, and unexpectedness. It first portrays the populist appeal of revoking tariff protection for franchised markets and infant industries in the name of meeting the economic well-being of the people in the face of a failed “managed liberalization strategy” proposed by developmentalist bureaucrats from the mid-1980s. It then discusses how the decision of NTD-currency appreciation under US pressure ironically contributed to advocacy for further market opening as a way to save Taiwan’s export-oriented SMEs. The ambivalence in the official endorsement of the multilateral free-trade regime (GATT/WTO) as a nationalist call to resume
sovereignty against US hegemony and champion international recognition of Taiwan will be discussed in a critical manner.

Chapter 4 and Chapter 5 explore the centrality of trade liberalization and economic deterritorialization in the hegemonic restructuring of the post-democratization era of the 1990s. Chapter 4, *Re-articulating the Nation-peole Nexus in the Deterritorialized Economy I: Populist Authoritarianism and Neoliberal Regionalism*, delineates the relationship between early neoliberalization and the rise of populist authoritarianism driven by KMT’s indigenization in Taiwan. Specifically, it unravels the conjunctures from which the populist authoritarian regime formed a contingent alliance with the neoliberalists in promoting economic regionalism along with the construction of the post-democratization nation-state. I will follow the story of reconstructing official nationalism, from resorting to orthodox Chinese nationalism to embracing Chinese-Taiwanese dual identity, coupled with the invocation of “liberalized people” in creating the new nation-state. The proposals for the “Greater China Economic Circle” and “Asian Pacific Operational Center (APROC)” show that these are key to the promotion of neoliberal regionalism.

Chapter 5, *Re-articulating the Nation-people Nexus in the Deterritorialized Economy II: Geopolitical Economy and the Neoliberal Excursion*, further illustrates how hegemonic restructuring of the state is achieved through articulation with the increasingly deterritorialized economy, which produced the passive revolution in response to the growing populist attack on the party-state-capitalism under KMT. The analysis first unravels the divergent forces, multiple agencies, and capital fractions contributing to such development and then describes how the state reconstituted its leadership against this backdrop by discursively articulating a unified notion of “outward national economy.” Furthermore, by focusing on the targets of the geoeconomic proposals involved in the process—from the first Southward Policy (1994), to the “invest Taiwan” advocacy (1996), to the second Southward Policy (1998)—the chapter argues that the most crucial implications for hegemonic reconstruction do not lie in the cultivation of anti-China, pro-independent Taiwanese nationalism or imperialist overseas capitalist expansion but in the changing social relations of production (i.e. the fall of SMEs and the rising importance of business conglomerations) and in the long-term implications for neoliberalization—a process too often buried under the framework of geopolitical and nationalist dispute.
Chapter 6, *Contesting Financial Nationalism in the Globalization Era*, traces both the structural factors and conjunctures that contributed to the surge of financial neoliberalism during the 2000s, the time when the opposition party, DPP, unexpectedly came to power for the first time after democratization in 1987. The chapter first explains how, as a failed hegemonic project, the DPP regime struggled to propose the globalization agenda as a strategy to resolve escalating tensions between neoliberal and protectionist camps on the issue of further de/regulation of cross-Strait investment conducted by a growing important business community—*Taishang* (Taiwanese businessmen who conduct business overseas). It documents the emergence of and contestation among different forms of financial nationalism as a result of the struggles targeting *Taishang*’s capital flight and repatriation. Lastly, it identifies the fast-changing cross-Strait geopolitical dynamics during DPP’s second presidency (2004-2008) and their influence on the proposed course of financial neoliberalization.

Chapter 7, *When Neoliberalism Meets the United Front Strategies: Advances, Disturbances, and Ruptures*, tackles the gradually intricate dynamics between neoliberalization and cross-Strait geopolitical economy. It first identifies multiple factors—both external and internal, economic and political—that contributed to the temporary hegemonic consensus on cross-Strait economic liberalization along with KMT’s return to power in 2008. It proceeds to depict how the KMT regime launched a full-blown neoliberal agenda, from cross-Strait financial deregulation to signing up comprehensive bilateral free trade agreement (ECFA) by appropriating the very same (Taiwanese) nationalist and populist discourses that had prevailed under the DPP. However, far from assuming neoliberalism has finally reached hegemonic status, I unravel a number of key sites of struggles and the ways in which nationalism and populism mediated these struggles. The chapter concludes with an analysis of the Sunflower Movement in 2014, focusing on the rise of popular sovereignty and the reconstruction of the “nation-people.” This revitalized entity will help negotiate the state’s trade and economic liberalization measures with China in particular and embrace a deterritorialized national economy in general. While discussing the limits of such a strategy, it also sheds light on the persistent effects and potential of the populist intervention in the course of neoliberalization henceforward.
Chapter 2
Democratization, Populism, and Taiwan’s Early Trade and Economic Liberalization

I. Introduction

Conjunctural analysis has proved to be productive in studying hegemonic crisis and path to neoliberalization across different historical and geographical contexts. Originated from Gramscian theory, conjunctural analysis investigates neoliberalism as a political project transcoding long existing social, economic and political forces, imaginaries, and practices within and across hegemonic groups through multiple forms of crisis, especially in its transnational articulation. It also attends to variegated, sometimes contradictory, discursive practices at multiple sites in a particular historical moment and therefore illustrates rather contingent outcomes of neoliberalization.

For societies caught in the postcolonial conditions, populist and nationalist politics plays a crucial role in such a project, where impulses of economic liberalization often come in tandem with emerging struggles for democratization and reconfiguration of nationalist politics within society. To many East Asian states, democratization and economic liberalization also indicate a challenge to the “developmental state”—a growth model underpinned by the social relations of production largely orchestrated by the state. The particularity of Taiwan’s history situates at the intersections of both of the dynamics. As such, the ways in which these evolving social and political trends articulated with liberalization impulses, as well as their distinct outcomes, present a rather complicated story to tell.

In this chapter, I seek to demonstrate the conjunctural origin of Taiwan’s early trade and economic liberalization in relation to the process of hegemonic restructuring of Taiwan since the 1980s. To illustrate the process, I examine the ways in which emerging political forces—oppositional movement and populist politics—reshaped the official economic agenda and redirected policy orientation. The analysis will start with a review of the existing literature on the initiation of
Taiwan’s economic liberalization. The review sheds light on the statist tendency dominating prevailing analyses of trade and foreign economic liberalization and hints at the shortcomings of this statism. I examine the precursor of trade and economic liberalization in Taiwan, foreign exchange reserves and its deregulation. Specifically, I illustrate how foreign exchange was transformed from an issue of internal struggles within the governing regime to a populist concern, against the backdrop of a rising popular movement whose project was made more convoluted by the force of NTD currency adjustment. The social responses this entailed not only challenged the moral ground of the state’s restrictive monetary policy but also contributed to the birth of a new political subject—the people—that has driven further liberalization of trade and foreign economic policies in Taiwan.

II. Liberalization of Trade and Foreign Economic Policies in Taiwan: the Statist Approach and Its Critique

Economic liberalization refers to a wide array of policy initiatives ranging from privatization of state-owned enterprises (SOEs), the opening of domestic market, to the pursuit of financial deregulation. In the real world, these policies are usually implemented in a discrepant manner as a result of complex dynamics between external and internal forces at particular historical conjunctures. While Taiwan makes no exception in this regard, the existing literature on Taiwan’s economic liberalization bifurcates between studies on domestic realm and on foreign economic affairs and approach them separately. These approaches not only yield discrepant evaluations of policy outcomes and their implications to state capacity, but also utilize very different analytical lenses in explicating their drivers (see Figure 2.1).
### Figure 2.1 Analytical Frameworks to Economic Liberalization in Taiwan

<table>
<thead>
<tr>
<th>State autonomy</th>
<th>Policy domain</th>
<th>Driving force</th>
<th>Ideological underpinning</th>
</tr>
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<tbody>
<tr>
<td>Domestic economic realm</td>
<td>Weakened state autonomy with a variety of neoliberal outcomes</td>
<td>• Privatization of SoEs&lt;br&gt;• Liberalization of State-franchised and state-controlled industries</td>
<td>Endogenous&lt;br&gt;• Rearrangement of state-society relationship&lt;br&gt;• Political democratization</td>
</tr>
<tr>
<td>Foreign economic policies</td>
<td>Strong state bureaucrats adopting “liberalization plus” strategy to utilize market forces</td>
<td>• Proactive selectivity of FDI&lt;br&gt;• Paced trade liberalization&lt;br&gt;• Financial surveillance&lt;br&gt;• Strong trade-industry policy nexus</td>
<td>Exogenous&lt;br&gt;• US market-access hegemony</td>
</tr>
</tbody>
</table>

The literature focusing on the domestic realm largely draws on privatization of state-owned enterprises (SoEs) and liberalization of the state-franchised or state-controlled economic arena since the late 1980s as proof of the prevalence of neoliberalism in Taiwan. Despite discrepant outcomes in different policy domains and the dichotomous assessment of their influence on the autonomy and capacity of the developmental state, they are commonly attributed to endogenous forces working to restructure internal state-society relations, with the capital class gradually dominating the policy forming procedure. As to cultural and ideological underpinnings, the rise of populist politics and Taiwanese nationalism are usually highlighted as forces contesting state autonomy (Tsai 2001; Chang 2008; Lin 2008; Chu 2009; Hsu 2009; Chen & Li 2012; Wang 2012).

On the contrary, research on liberalization of trade and foreign economic policies usually draws on the theoretical framework of neoliberal hegemony, where neoliberalization is deemed exogenous and materialized in the rise of US market-access hegemony (Li 1990; Tsai 2001; Dent 2003a). Scholarship of this kind largely holds a firmer stance on the persistence of state autonomy and capacity in accommodating, harnessing, and utilizing externally imposed neoliberal forces for its own benefit against pressure from the US to liberalize. The Taiwanese government’s proactive selectivity of inward foreign direct investment (FDI), its pacing of trade liberalization, its weakening yet enduring financial surveillance, and its capacity to utilize global markets to enhance
the competitiveness of domestic business are highlighted in these arguments (Dent 2003; Thurbon & Weiss 2006; Chu 2007).

Neoliberal hegemony from afar and proactive adaptation by bureaucrats from within has become the dominant explanatory framework in the literature on liberalization of trade and foreign economic policies, where the state is viewed as the active agent responding to external hegemonic forces for marketization. Scholarship of this kind shares the following theoretical presumptions: it conceives neoliberal hegemony as emanating from a single source—Western economic doctrine—with local adaptations, it emphasizes the oppressive nature of neoliberal hegemony, and it sees the state as the major site from which to confront externally imposed neoliberal forces, in which political elites and state bureaucrats serve as the major agents. Such a stance is manifest in Dent’s (2003) justification of focusing on the state bureaucrats to interrogate trade and foreign economic policy liberalization in Taiwan. Foreign economic policies contain greater knowledge barriers and therefore seem opaque to the populace, and state bureaucrats continued to enjoy autonomy because corporatism was effectively curbed to avoid its influence in central decision-making processes, and Taiwanese civil society had not yet developed the capacity to challenge state-business relationships.

Despite the emphasis put on institutional and regulatory change (or persistence) in Taiwan’s trade and economic liberalization, the statist approach hints at an enduring trait of “economic nationalism” of the techno-bureaucrats as the cultural and ideological underpinnings of such an economic paradigm. However, their approach to economic nationalism is rather instrumentalist (Crane 1998). While emphasizing the role of the state in reorganizing social and economic relationships by invoking nationalist discourses, it leaves the notions of the “nation,” “national identity” and “national economy” largely unexplained. As a consequence, it not only ends up reproducing the discourse coined by official nationalism—or nationalism from above—but also obscures the significant role nationalist politics might have played in Taiwan’s initiation of economic and trade liberalization.

Moreover, the statist approach obscures as much as it reveals about the ascendency of neoliberalism in a particular space-time and its underpinning political forces. As Barnett (2005, p.
10) reminds us, “[r]ecent theories of ‘neoliberalism’ have retreated from the appreciation of the long-term rhythms of socio-cultural change, which Stuart Hall once developed in his influential account of Thatcherism as a variant of authoritarian populism. Instead, they favor elite-focused analyses of state bureaucracies, policy networks, and the like.” It is because the statist approach conceives “society” as the residual of bureaucratic governance or simply the derivative expression of power struggles between a set of given interest groups or classes, that the political analysis it yields is rather partial. What is missing in such conceptualization of the “social” is the long evolution of bottom-up populist politics and the ways in which it works to re-orientate trade and foreign economic policies.

Addressing such an analytical bias is of particular importance when investigating Taiwan’s early trade and economic liberalization, for the decade of the 1980s not only witnessed the initiation of trade and economic liberalization in Taiwan, but also underwent boiling social, cultural and political contestations challenging state hegemony. The domestic turmoil originated in fast-changing international dynamics of the 1970s, when the One-China policy and the official Chinese nationalism imposed by the KMT regime after its retreat to Taiwan in 1949 began to face fundamental legitimacy crises. It was the time when the international community was shifting its recognition to CCP’s sovereignty; the subsequent oppositional movements following the 1979 Formosa incident had escalated to its peak when thousands of opponents emerged to openly confront the KMT’s authoritarian regime and contributed to the abolishing of martial law in 1987. More importantly, the political dissidents arising from the democratization movement managed to make their way into the parliament via election with limited seats open to indigenous Taiwanese. Facing legitimacy crises in both the political and cultural arenas, the KMT was forced to launch indigenization, which on the one hand contributed to the “Taiwanization of the R.O.C. regime” (Wakabayashi 2014) and on the other caused a bifurcation between the faction that upheld a status quo cross-strait relationship and one that embraced irredentism. These internal cultural-political struggles were further convoluted with the fast-changing international economic environment,

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4 Also known as the “Kaohsiung incident,” the Formosa incident refers to the political event that happened in December 10, 1979, when the authoritarian state arrested a number of oppositional political leaders in the name of insurrection. Most of these political leaders were founders of the Formosa Magazine, which promoted democracy and freedom against the authoritarian KMT regime that imposed martial law in Taiwan.
including the rise and transformation of US market-access hegemony and China’s economic reform, creating complicated intersections between geopolitics and geoeconomics as a result.

By deploying a more rigorous understanding of “social” and “political” forces, I seek to provide an alternative account of trade and economic liberalization in Taiwan that challenges the prevailing “neoliberal hegemony versus developmental state” analytical nexus. Rather than being preoccupied with policy discourses from political elites and bureaucrats, I draw on news threads and editorials in the newspapers, social commentaries from economic magazines, and the legislative interpellation records as ways to capture the populist discourses and imaginaries “from below.” In doing so, I trace the initiation of trade and economic liberalization to the politicization of foreign exchange reserves and their control during the mid-1980s, from which the story unfolds.

III. Early Trade and Economic Liberalization: A Paradigm Shift

Taiwan’s economy experienced growth in the 1950s after World War II. Yet it was the 1960s when the Taiwanese state began to adopt export-oriented industrialization under the US’s Cold War regional geoeconomic deployment that its economy started to boom in an unprecedented fashion. The growth model, although it won a renowned reputation of “economic miracle” for Taiwan for its great success, encountered fundamental challenges in the 1980s. On the one hand, the SME-driven export business experienced a decline in international competitiveness due to a rise in labor costs; the domestic economy also showed stagnation in investment with excessive savings, hinting at a serious imbalance of money supply. On the other hand, the rise of US protectionism from the late 1970s led to measures to address the trade deficit and trade sanctions against the East Asian newly industrialized countries (NICs), making Taiwanese exporters’ heavy reliance on the US market difficult to sustain. These internal and external forces together slowed down the growth engine to a great extent, challenging the efficacy of the development model that underpinned Taiwan’s post-war economy.

In response to the structural crisis, the Taiwanese government developed in 1984 new guidelines for future economic development—“liberalization, internationalization and institutionalization.”
The Economic Reform Committee was subsequently created in May 1985 with the aim of paving substantial paths for total economic restructuring. It was co-convened by three prestigious figures of the time—Chao Yao-Tung (趙耀東), Minister of the Council for Economic Planning and Development (CEPD), Chiang Shou-Chieh (蔣碩傑), Director of the Chinese Economic Research Institute, who was also a disciple of the well-known liberal economist Friedrich von Hayek, and Koo Chen-Fu (辜振甫), President of the Chinese National Association of Industry and Commerce, Taiwan. Noticeably, the Committee was teamed up with dozens of business tycoons, including Wang Yung-Ching (王永慶), President of the Formosa Plastic and Petrol Group. Inauguration of the Committee marked a significant restructuring of the ruling coalition in Taiwan from the 1980s, where for the first time academic elites and business representatives were incorporated in the top decision-making mechanism of the government. Tightening the relationships between the state, academics, and economic elites also served as a strategy for the KMT regime to strengthen its governing legitimacy in the face of its loss of Westphalian sovereignty while at the same time accommodating growing appeals for democratization—a political maneuver termed by Wang “the backward legitimation” (1989).

Guided by the overarching principle of liberalization, the Committee spent six months conducting a thorough review of five major economic areas: finance, fiscal and taxation, trade, industrial plans, and economic administration. It concluded with fifty-six detailed proposals for different government branches to carry out economic reform initiatives. Although the consensus achieved by different committee members represents a paradigm shift to economic liberalization among the ruling class, the proposed measures are characteristic of being careful and gradual, rather than a prompt pursuit of drastic liberalization.

Such a liberalizing scheme based on a sense of practicability also reflects on the proposal for trade and foreign economic liberalization. In its Report released in 1985, the Committee advocated for market principles to replace state control over trade, including further tariff reduction; it also proposed non-orthodox free trade means such as encouraging countertrade practices. As to the

5 Countertrade denotes a reciprocal form of international trade practice where goods and services are exchanged between two or multiple countries without using hard currencies, which includes barter, switch trading, counter purchase, buyback, etc.
trade-related foreign exchange policies, despite proffering a number of liberalizing measures such as allowing firms to retain a certain amount of foreign currency for trading expenses, the Committee stated firmly that “due to our country’s particular political situation, there is still necessity to reserve foreign exchange control” (The Executive Yuan 1985, p. 55), with an instruction to the Central Bank to “adequately intervene in the foreign exchange market” (ibid p. 125-26). The emphasis on practicability in policy enforcement and active intervention of the foreign exchange market render Taiwan’s early liberalization experience far from the ideology of orthodox neoliberalism.

Interestingly, in just two years’ time, the Taiwanese government’s foreign exchange policy based on the principle of “adequate deregulation” shifted fundamentally. In 1986, foreign exchange control based on an approval system—enforced since World War II—was terminated, replaced by a spontaneous report system. Moreover, in 1987, the “amended bill for Foreign Exchange Control Act” was passed in Parliament, marking a nearly total deregulation of foreign exchange control. Even the policy review published by the Committee in 1988 expressed surprise at the extent to which liberalization of foreign exchange control had been accomplished by the Central Bank compared to other liberalization measures—many of which were halfheartedly implemented due to institutional path dependence. Such a policy shift yielded significant implications for Taiwan’s foreign economic policies as a whole: It not only unfettered cross-border capital flow but also triggered persisting waves of outward investment of Taiwanese capital for the ensuing two decades, which was not even conceived of in the Committee’s reform scheme. Apparently, such unprecedented transformation is not explicable solely by the paradigm shift among the governing elites or power restructuring of the ruling class. One has to look elsewhere to find better explanations. It is where the page turns.
IV. The Joys and Dilemmas of National Wealth

*Foreign Exchange Reserves as a Form of National Wealth*

Although the Taiwanese governing elites had reached a consensus about the scope, scale and pace of liberalization for various economic fields by the mid-1980s, mounting foreign exchange reserves and their control emerged unexpectedly as a highly debated issue. Too often bypassed in the analysis of Taiwan’s export-oriented development mechanism are the strict monetary policies it is premised on, where foreign exchange and currency control served as the major means to assist expansion of exportism (Wade 1990; Gold 2015). Under such a policy rationale, all the overseas profits made by private business in the form of foreign currency were required to be sold back to the Central Bank in exchange for New Taiwan Dollars, and monetary outflow was highly restricted. This stood in sharp contrast with the loosely controlled inward FDI policy initiatives implemented by the Taiwanese government from the post-War era, commonly referred to as “welcome the inflow; curbing the outflow” (管出不管進) FDI policy. Such a mandate was also an outcome of the lingering War legacy, where monetary outflow was deemed as “shaking the foundation of the country” for it reduced state capacity for war preparation and economic stabilization—the lesson learned by the KMT government after losing control of mainland China.

When the Republic of China in Taiwan lost its UN membership in 1971, it was subsequently disqualified from participating in international financial organizations such as the World Bank and IMF. Ever since then, foreign exchange reserves developed much broader symbolic power than as merely the basis for war preparation by the state. It includes the capability of repaying foreign debt, determines the purchasing power of the state, and serves as an overall emblem of the economic power of a nation. Together, these concerns contributed to the Taiwanese government’s obsession with holding foreign exchange reserves as a way to redeem its insecure sovereign status in the international political economy.

The excessive trade surplus brought by exportism, mediated by the mechanism of foreign exchange control, ultimately contributed to the consistent growth of foreign exchange reserves from the early 1980s in Taiwan (see Figure 2.2). After the mid-1980s, it further grew exponentially until the year 1987. The mounting foreign exchange reserves subsequently became the symbol of
national wealth, as Taiwan became the 6th ranked state in foreign exchange reserves and the highest ranked in per capita terms. Such an unprecedented accumulation of national wealth was hence hailed by the Taiwanese government as the demonstration of its efficacy in guiding the economic development of the entire country—especially in comparison with developing countries mired in huge amounts of foreign debt, South Korea in particular.

However, the joys of “national wealth” concomitantly brought dilemmas to the Taiwanese state. Apprehension regarding the role of the Central Bank and the negative effects its stringent foreign exchange control might cause arose among the Western-trained liberal economists and business leaders, both of whom were gaining prestige in the ruling class. While scholars from the official think-tank Chung-Hua Institution for Economic Research (中華經濟研究院) cautioned that the Central Bank’s manipulation of foreign exchange and currency markets would eventually lead to inflation and exacerbate trade imbalances, the business leaders, President of the Chinese National Association of Industry and Commerce (Taiwan) Koo Chen-Fu (辜振甫) for instance, also publicly warned against the potential consequences mounting foreign exchange reserves might bring, including insufficient domestic investment and deteriorating business environment. Such warnings first forced the Central Bank to promise suspension of massive surveillance for illegal evasion of foreign exchange.\(^6\) The voices were later incorporated in the government’s decision-making process by bringing liberal economists and business leaders to form the Economic Reform Committee in 1985, where the principle of “adequate deregulation” of foreign exchange control was officially proposed.

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\(^6\) Benevolent Measure Will Be Employed for Foreign Exchange Control. (1984, April 1). Economic Daily, 01.
Contesting Imaginaries of National Economy among the Ruling Class

The mounting foreign exchange reserve not only evoked apprehension over its potential side effects but also opened up the space for variegated—and sometimes contradictory—economic discourses and strategies from different strata of the ruling class, who competed over control of the “national economy.” Opinions varied between developmentalist bureaucrats, traditional industrial sector, and the growing influence of the international trade and commerce authority. Different opinions within the government body also resonated with the highly divergent voices from scholars who occupied important positions in providing policy advice to the state. The competing voices thus manifested internal struggles among the ruling class over the economy.

First, proponents of the traditional developmental state model, Minister of Council for Economic Planning and Development (CEPD) Chao Yao-Tung (趙耀東) and Principal of National Taiwan University, Sun Chen (孫震), for instance, emphasized the role of the state in utilizing the accumulated wealth for the good of the entire nation. They believed that the core problem of the mounting foreign exchange reserve was not financial or trade induced and therefore could not be
solved via trade or financial means alone. Rather, it signaled a quandary of the old development model based on light manufacturing; only industrial upgrades could help with the situation. Their prescribed diagnosis ranged from a Keynesian model of expanding public expenditure to cultivating strategic industries, but the latter had to compete with liberalization appeals which advocated for termination of tariff protection implemented in the name of cultivating “national industry.” Hence automobile and aviation industrial plans failed due to severe internal opposition. Against this backdrop, in 1986, the government initiated a fourteen-item development project and promoted high-tech industry with the aid of inward FDI—a brand new industrial sector that was able to escape internal political struggles over the vested interest of the “protected sectors.” Its subsequent success drove the second wave of Taiwan’s economic growth in the 1990s, but the continuing growth of foreign exchange reserves was stills a pressing issue for the government to tackle in the mid to late 1980s.

As a result, there was growing advocacy for trade and economic liberalization as a means to address the problem associated with mounting foreign exchange reserve—an equally influential policy initiative that is often neglected in industry-focused developmental state analysis. Such advocacy ranged from further opening of domestic markets to deregulation of foreign exchange control. Advocates of the former consisted of liberal economists from different academic institutions, including Chiang Shou-Chieh (蔣碩傑), Director of the Chinese Economic Research Institute, Lu Min-Ren (陸民仁), Chair of the Department of Economics at National Chengchi University, etc.. For them, the nature of the phenomenon was mainly a trade imbalance caused by the government’s blind pursuit of exportism and its mal-intervention in the free market economy. Trade liberalization was therefore endorsed as a way to restore market principle. Such advocacy gained much currency as liberal economists were gradually incorporated in the ruling alliance in the 1980s, and, as early as 1985, the Economic Reform Committee proposed large-scale tariff reductions.

Nevertheless, proponents of the latter regarded the foreign exchange reserve as a form of “idle capital” that could only be best utilized via deregulation. Such an appeal, however, was supported

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7 The populist political rationale opposing the development of the “national industry” will be discussed in greater detail in the following section.
by two camps with very different imaginaries of the “national” economy—direct overseas investment and indirect offshore financial capitalism. The first stance was advocated by the Administrative Deputy Minister of the Economic Affairs Wu Mei-Chun (吳梅村), who was also hailed as the “Father of Economic Processing Zones in Taiwan.” This camp promoted the Japanese model of moving the less competitive industries overseas in pursuit of greater market share and secure resources. This viewpoint was echoed by a number of business leaders from the traditional industries, along with legislators, who industriously urged the government to adopt a more flexible outward investment policy. Yet the government abruptly rejected the proposal, insisting that to avoid capital drain, overseas investment should not be hastily deregulated or even encouraged.

Meanwhile, campaigners for “indirect financial investment” argued that none of the above-mentioned policy initiatives—strengthening domestic investment and industrial upgrading, opening import markets to re-balance trade, and encouraging direct overseas investment—would “solve the problem” from its core. Instead, the only effective measure was to “learn from Singapore and Hong Kong” in turning the idle money into internationally operated financial capitalism. This novel advocacy was acclaimed under the banner of “turning Taiwan from a big country of exportation to a great country of investment,” including investing in foreign stock markets, purchasing foreign high-tech companies, setting up bank branches worldwide, and investing in overseas real estate. These ideas were embraced by a number of business leaders, Koo Chen-Fu for instance. However, given the fact that the financial industry was highly controlled by the government at the time, no effective pressure group was able to form to push through the ideas, and the proposals were easily turned down by the government out of concern for capital outflow and sustaining “economic security.”

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Institutional Response: Gradual Deregulation with a Managerial Approach

The preceding section noted a proliferation of imaginings of the foreign exchange reserve as a form of “national wealth.” The discussion around how to best utilize the national wealth subsequently triggered “problematicization” of the existing restrictive foreign exchange policy based on the logic of monetary control. Most importantly, discrepant opinions regarding the foreign exchange reserve and its deregulation remained an internal struggle over different development paths by different strata of the ruling class and therefore was still rendered a top-down reform initiative.

Facing a variety of advocates for deregulating foreign exchange control, the governing authority—including Premier Yu Kuo-Hwa (俞國華), who used to be the Governor of the Central Bank before succeeding to his new position—and the Central Bank continued to respond with a lukewarm tone, insisting on the necessity of maintaining large foreign exchange reserves in the name of the nation’s political and economic security. Two international incidents of financial crisis taking place in 1985 were repeatedly drawn on to justify the rationale of foreign exchange control—the foreign debt crisis in South Africa due to massive withdraw of FDI in the face of political upheaval, and China’s being short of foreign exchange as a result of abrupt economic reform. The discourse of security was so prevalent that it outdid other competing discourses from different strata of the government. Personnel hiring between governing agencies relevant to monetary policies together with the discourse of security manifest significant elements of institutional continuity regarding the decision for foreign exchange control.

Nonetheless, growing involvement of economists and business representatives in the policymaking mechanism transformed the standpoint held by the conservative monetary regulatory regime piece by piece. Under guidelines provided by the Economic Reform Committee, the Central Bank launched a series of policy adjustments gearing towards “adequate deregulation” of foreign exchange control, including lifting the limit of personal foreign exchange settlement by forty percent compared to that in 1984, increasing the upper limit for outward money remittance, facilitating public and private enterprises to accelerate their repayment schedule for foreign debts, and amending its Foreign Exchange Control Act from an approval system to spontaneous report system. In a nutshell, owing to both the institutional continuity and political compromise achieved...
through extending corporatism, the government was able to take a managerial and piecemeal approach to address the liberalization appeal from within the ruling class.

V. Politicization of Foreign-Exchange Control

_The Richest Poor? Popular Reinterpretation of the “National Wealth”_

The extraordinary growth of Taiwan’s foreign exchange reserve not only drew attention from the governing elites but also became a general concern among the populace thanks to the loosening of the “client press” system and the more balanced stance media reporting took in the mid-1980s (Lin 2000). At the early stage of the media’s growth, business pages from all the mainstream newspapers began to update the foreign-exchange numbers on a monthly basis. Such marathon-like reporting continued through the coming years, with social commentaries about what to do with the “national wealth” constantly making headlines. As Taiwan bypassed Japan and became the third largest foreign-exchange-reserve holding country in the world in 1986\(^{10}\), the business magazines—most of which came into existence in the 1980s as a result of the emerging entrepreneurial social atmosphere and political democratization—started to jump on the bandwagon of social criticism. For instance, one of the leading enterprising magazines, the Commonwealth (天下雜誌), which served as a pioneer promoting liberal economic thought in Taiwan since the early 1980s, utilized sensational headlines such as “Money Worries” and “It’s More Difficult to Spend Money” in its series reports on the issue of the mounting foreign exchange reserve.

With the aid of media, the issue of escalating foreign exchange reserves was rapidly popularized and then problematized among the public. Social critique started to term such a big fortune “the idle money,” commenting that Taiwan was suffering from the illness of prosperity (富貴病). Popularization of self-parody capturing this unprecedented phenomenon—from “scrooge” (守財奴), “the riches poor” (最有錢的窮人), “begging with a golden bowl” (抱著金飯碗乞討), and “money flood” (錢滿為患), to “confined in the golden mountain” (坐困金山)—soon stirred up

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\(^{10}\)Taiwan was ranked first in Foreign Exchange Reserve per capita.
doubt about the government’s insistence on maintaining excessive foreign exchange reserves as a form of “national wealth.” Moreover, social criticism also made its way into the representative politics as a number of legislators started to argue that the Central Bank’s conservative foreign reserve policy was nothing more than a superstitious belief in hoarding money. A number of legislators even utilized patriotic rhetoric by contending that depositing the money in foreign banks without using it was simply like helping other countries with their own economic development.

The aforementioned social commentaries began to question the adequacy of the state’s foreign exchange policy. The question of excessive foreign exchange reserve no longer remained a problem exclusive to the ruling elites but had become a concern among the public, mediated through the loosening of media environment and the burgeoning business press. Specifically, the discourses surrounding “the richest poor” and the like served to question the appropriateness of state control over the national wealth and therefore provided a competing discourse against “the success of planned-market economy” that had long been hailed by the KMT regime. However, despite the fact that deregulation of the foreign exchange reserve was from time to time mentioned in these social commentaries, “the state” was still conceived as the main agency to reform itself in pursuit of a more liberal foreign exchange policy.

**The Turning Point: The Currency War**

The government’s managerial adjustment of its foreign exchange control policy did not face severe challenges until mid-1986, when the issue of the foreign exchange reserve was connected with the currency adjustment measure—a turning point that officially transformed the nature of the dispute from questioning the state’s “appropriateness of control” over foreign exchange reserve to challenging the legitimacy of its attempts to sustain control over the reserve at large. In this transformation, pressure from the US served as the major—although not the only—driver.

In the mid-1980s, Taiwan faced a gradual slow-down in its economic growth as a consequence of the aforementioned structural constraints. Following industrial and trade measures, the efficacy of adopting currency adjustment as a means of boosting Taiwan’s economy came under the spotlight among the governing elites. Yet, advice regarding how to employ currency measures to address the problem bifurcated among the ruling class. While the liberal economists and some industrialists
emphasized market logic instead of “inappropriate” government intervention in guiding the economy, most of the export-oriented business representatives, with the support of Koo Chen-Fu, advocated gradual NTD depreciation as a way to enhance further exports. However, such advocacy unavoidably drew attention from the American Institute in Taiwan (AIT). AIT severely denounced the proposal for NTD depreciation in news reports by commenting that “with such a huge amount of foreign exchange reserve, how could Taiwan dare think of depreciating its currency?”

AIT’s forbidding condemnation had its political roots back home. The year 1985 witnessed a strong return of US trade protectionism after years of recession as a consequence of USD over-appreciation. In September 1985, the US reached the Plaza Accord with Japan, Western Germany, France and the United Kingdom to depreciate the USD against major currencies as a way to address its trade deficit and the rising protectionist appeal from the domestic environment. Its influence was worldwide though. In Taiwan, the pace of USD depreciation became so drastic and deep—a drop of nearly ten percent within a week—that the Central Bank in Taiwan had to intervene in the currency market by buying more USD in order to peg the currency rate. However, such conduct would not only exacerbate the problem of large foreign exchange reserves that had haunted the Bank from the beginning of the 1980s but also raise concerns from US authorities. Therefore, the Bank decided to let the NTD gradually appreciate in the long run—a maneuver that was designed to buy time for domestic industries to make necessary adjustments. This move effectively slowed down the pace and scope of NTD appreciation against the USD in the months to come, which turned out to increase only five percent over half a year (from 1:40.5 to 1:38).

The Central Bank’s intervention was generally applauded by the public, and it was commonly believed that the scale of NTD appreciation was enough to withstand the pressure from the US. However, at the end of 1986, US protectionism turned its claws directly towards Taiwan. In the past, the US market hegemony exercised its power over Taiwan primarily through the mechanism of “issue linkage,” meaning to manipulate discrepant interest structures among different trade items in order to pursue specific sectoral interests in the process of trade negotiations (Li 1990).

Yet in 1986, the US started to utilize what are regarded as “non-traditional” trade means—currency-exchange rates—to pursue its goals. At the US-ROC trade negotiations held at the end of 1986, the US authority made a strong comment that Taiwan’s great success in its foreign exchange reserve was at the expense of extensive job losses for the American people. In the hearings for the US Trade Act held in 1987, a number of politicians and business representatives—including IBM—expressed their concern that the structural cause for Taiwan’s over-accumulation of foreign exchange reserves and trade surplus against the US was the purposely de-valued NT dollars. Spreading through domestic news reports, these messages not only aroused huge anxiety among the Taiwanese populace but signaled deepening trade sanctions for the Taiwanese government.

The external pressure from the US came along with the growing internal challenge of monetary over-supply attributed to both the Central Bank’s previous intervention in the currency market and the persistent trade surplus Taiwan generated against the US. Facing tremendous pressure, different government sectors between the Central Bank, Economic Bureau and Council for Economic Planning and Development (CEPD) in Taiwan reached an agreement that the government for the first time would adopt market forces in currency appreciation as a means to collectively address joint issues including mounting foreign exchange reserves, trade imbalances, and excess money supply. The Bank’s previous intervention policy led society to anticipate a mild adjustment in currency exchange rate, but to the surprise of many, the government eventually decided to step aside, causing the NTD to appreciate against the USD by 20% from 1986 to 1987 (see Figure 2.3). Facing numerous social questions about the possible scope of NTD appreciation, the Central Bank responded that “we do not set any bar to the ‘reasonable range’ of NTD appreciation this time. Rather, we will respect market forces in determining the currency value.”

This seemingly “irresistible” choice made by the government had unexpected political consequences that were soon to come: the articulation of currency issues and foreign exchange control, and the total politicization of these issues by invoking the antagonistic relationship

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between the “people” and the “state.” This impetus not only made inroads into the state’s long-existing foreign exchange control regime but also challenged the state’s foreign trade and economic policies in general. Yet before explicating the ways in which the notion of the “people” was mobilized to contest the government’s foreign economic policies, I will shed some light on the social and political context that enabled such a political movement in Taiwan: the burgeoning oppositional movement against KMT rule and the rise of popular society.

![Figure 2.3 Exchange Rate between NTD and USD](image)

**Figure 2.3 Exchange Rate between NTD and USD**
Data source: Central Bank of the Republic of China (Taiwan)

**Oppositional Movement and the Rise of Popular Society**

The late 1980s witnessed the intensification of a political liberalization movement in Taiwan. After nearly four decades of political control, the Taiwanese state declared termination of martial law in 1987, a law that had been enforced by the KMT regime right after its retreat to Taiwan in 1949 as the legal basis for suppressing political dissidents. Such a transformation did not happen overnight though. It can be attributed to the ceaseless oppositional movement organized by the pro-independence dissidents and various new social movements rising in the 1970s through the 1980s, all of which surged as a response to the legitimacy crisis of the KMT regime after its loss of the
UN membership in 1971, its diplomatic severance with the US in 1979, and its inability to deal with economic stagnation in the 1980s.

As the authoritarian state faced futility in containing these surging forces via oppressive means, it transformed itself to soft authoritarianism, a governing mechanism to incorporate varied “social voices” by tightening relationships with local business elites and bringing “additional legislators” into the parliament—most of them of Taiwanese ethnicity. It was with this opportunity that some of the political dissidents organized themselves to form the oppositional party, Democratic Progressive Party (DPP) in 1986\(^\text{14}\) and made their way into formal politics by sending a number of candidates into the legislative Yuan via election.

While the progress of the anti-KMT oppositional movement is widely believed to be the main cause of change in the ensuing policy-making processes, this claim deserves a second look. As the political economist Wang Jenn-hwan (1989) trenchantly points out, at the end of the 1980s, the pro-independence democratization movement was still considered marginal among the populace, and the DPP legislators only gained twenty-two percent of the total votes in the election for the additional legislators, not to mention it’s minimal veto power in the Legislative Yuan given only a few seats they held at the time. Clearly, DPP in the Parliament alone could not move the government as a whole. It was the general rise of multiple forms of social movements as the expression of collective social discontent that besieged the state.

Progressive scholars at the time turned to the idea of “popular society” to account for the real political force of change. The idea of popular society has its particular term in Chinese—the “min-jian society” (民間社會). While it is sometimes translated into “civil society” (公民社會) in English, Taiwanese intellectuals of the time clearly noticed the difference between the two concepts. According to Mu (1987a), civil society is a notion based on modern, liberal Western political philosophy. The concept of popular society is indebted to Gramsci’s understanding of political society, Laclau’s theory of dominance and liberation, as well as Urry’s criticism of class-based orthodox Marxism. In Taiwan’s context, popular society characterizes an oppositional

\(^{14}\) Although established in 1986, the official registration of DDP was in 1987, the year when martial law was lifted.
relationship between “the authoritarian party-state” and the oppressed people, and the self-awareness of society in light of the pastoral power of the state. Its appeal to liberalization, both in the political and economic arena, therefore, carries a moral bearing and implies birth of a new political subject—the people (Mu 1987b, Jiang and Mu 1987). In practice, although popular society in Taiwan held an ambivalent relationship with the oppositional movements that prioritized the goal of independence—the major force causing its later split—it nevertheless sympathized with their democratization appeal to dismantle party-state authoritarianism (Chang 1994).

The People vs. the State in the Economic Realm

In the rise of the popular society, the antagonistic relationship between the state and the people is both political and economic in nature. In the progressive intellectuals’ theoretical construction of the “party-state-capitalism” (黨國資本主義) framework, the dominant structure consists of a tri-lateral relationship between “state-party,” “state-economy” and “party-economy.” Each pair denotes different forms of domination and therefore requires respective frontlines for social struggles (Mu 1987a). However, it was the notion of the “party-state-capitalism” itself that was widely circulated and gained momentum in the oppositional movement targeting the KMT regime. Such a populist appeal not only denounced the authoritarian party-state regime that had ruled oppressively on the island for decades in the name of counter communist insurgency, but also disapproved of the economic base through which the regime endured.

What lies at the center of the critique is the populist account of the duo-economic system between an extensive economic arena controlled by the government, and the rest, left to the people (Chen et al. 1991). In such a dual system, the state-owned enterprises monopolized the domestic market and utilized a number of franchise businesses to secure clientelism, where thousands of SMEs were left to seek survival in the risky international export market without any aid from the state (Y. Wu 2004). Driven by antagonistic framing between the authoritarian party-state and the oppressed people, the severe attack on state’s infringement of the private economic arena eventually contributed to a wide-scale liberalization in the domestic economic arena in the 1990s, including liberalizing the financial sector and marketization of state-owned enterprises. However, before the populist force extensively changed the landscape of the domestic economy, it made inroads into foreign economic policies with foreign-exchange control serving as its initial target.
“Leave Wealth with the People”: Foreign Exchange Deregulation

At the end of 1986, the government made the decision to let go of its long-existing intervention in the foreign-exchange market, causing the NTD to appreciate to an unexpected degree. Since nearly ninety percent of Taiwan’s foreign exchange reserve was deposited in the form of US dollars at the time, the immediate consequence of NTD currency appreciation against the USD was its sharp devaluation, with an estimated two billion NTD loss. Although the government unceasingly noted that it was a mere paper loss, it nonetheless instigated resentment against the government’s inappropriate programs, in the previous years, that had contributed to such a dire situation. Social criticism soon turned to challenging the state’s legitimacy in managing foreign exchange control for state security, thus triggering total politicization of the issue.

First, the Control Yuan\(^\text{15}\) announced that it would launch an investigation regarding whether the Central Bank’s foreign exchange control measures were “appropriate.” Social critique subsequently revolved around the boiling resentment over people’s hard-earned money being wasted by the government. Such a populist impulse further materialized in struggles within representational politics. A number of legislators—not limited to those from the oppositional camps—ceaselessly reproached the government’s misconduct as a moral flaw, not only because it had done harm to the people’s well-being but also because the state should not compete with the people in terms of profit-making. The parliament, therefore, reached an agreement to urge the Central Bank to “leave wealth with the people (藏富於民)” through foreign exchange deregulation. Such an appeal was also endorsed by business and industrial leaders, who proposed that the government should transfer the foreign exchange reserve to the hands of the people for their own use as a way to develop a “true people’s foreign exchange reserve.”\(^\text{16}\)

What makes the appeal politically significant is that social critique and legislative interpellation for the first time mobilized antagonistic conceptualizations of “the state” and “the people”

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\(^{15}\) The Control Yuan is an independent investigatory agency that belongs to the top five branches of the Government of the Republic of China (Taiwan). Set up according to the Constitution law of R.O.C., it monitors the other branches of government on behalf of the people and exercises the power of impeachment, censure, and audit.

regarding foreign economic policies. In the past, the foreign exchange reserve was deemed the collective wealth of the entire nation, and the final authority over the national wealth resided in the state. However, as the populist appeal made its way into formal politics, the legislators started to assert that the foreign exchange reserve belonged to “the people,” whereas the government only had temporary responsibility to take care of it. Therefore, the people have the right to withdraw it when necessary, not to mention when the government infringes upon people’s assets.

**Power Struggle between Legislative and Executive Authorities**

The mounting public pressure finally precipitated an abrupt deregulation of foreign exchange control in the summer of 1987. In the legislative amendment process, however, whether the final say about the foreign exchange reserves should belong to “the people” or “the state” continued to be a matter of struggle between the executive authority and the rising legislative power. As the Executive Yuan proposed to maintain the authority to suspend the law of deregulation in the face of “emergent circumstances” in its amendment draft, it infuriated both society and the Legislative Yuan as a whole. For instance, a journalist’s commentary cautioned that this design not only signaled the over-expansion of administrative power but also revealed that the government considered deregulation nothing but an act of benevolence to the people that could be withdrawn at any time. In the Parliament, thirty-one legislators from different political stances initiated a collective demand, insisting that only through authorization of the Legislative Yuan would the Executive Yuan declare suspension of foreign exchange deregulation. The ultimate triumph of legislative power, although it cannot be easily concluded to represent the loss of state capacity in monitoring foreign exchange activities (Dent 2003), symbolized the rise of the “people” as the political subject that worked to redefine the bearers of the national economy.

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VI. Outward Investment Deregulation in the Name of the “People”

**Contesting Outward Investment Regulation via the Duo Construction of “Political Liberation–Economic Liberalization”**

The day of July 15th in 1987 marks a threshold in Taiwan’s political and economic history. It is the official date for abolition of both martial law and deregulation of foreign exchange control. Their synchronic arrival subsequently infused an overall sense of freedom in the social atmosphere, as if the long existing political and economic fetters imposed on Taiwanese society were finally removed. In the social commentary, the analogy between “political liberation” and “economic liberalization” prevailed in popular discourses, forming a coupling narration between the two. Employing such a discursive coupling, a number of legislators from both the KMT and DPP sides started to campaign to “lift the economic martial law,” pushing the government to eliminate “unnecessary” economic controls and amend outdated economic laws to catch up with the pace of political liberation.18 This discursive practice gained so much momentum from populist supporters that it served as the engine for both internal economic liberalization and liberalization of foreign economic policies related to trade and investment, but struggles over liberalizing outward investment manifests the case in point.

As illustrated in the previous section, the conflict between the state and the people on trade and investment liberalization first revolved around the issue of foreign exchange control. As soon as its deregulation occurred, public discontent moved to challenge the state’s outward investment policies, which imposed strict limitations on outward investment of the private sector. What the popular forces confronted was a state still fundamentally occupied with concerns of capital drain. As the logic of trade diplomacy dominated the Taiwanese government’s outward investment policies after its exit from the UN (Dent 2003), the only form of outward investment encouraged by the government was that which served the diplomatic purpose of the state, where the Taiwanese government’s first-ever outward investment policy initiative, “Strengthening trade and economic cooperation with the Central American countries,” plotted in 1984 provides a case in point. Despite the deregulation of foreign exchange control in 1987, the state still held a nonchalant attitude

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towards the public appeal for loosening outward investment restrictions, not to mention providing assistance or policy incentives for this.\(^{19}\)

However, popular society did not simply comply with the state’s logic of trade diplomacy, nor did it endorse the moral underpinning of such a policy rationale. As the NTD appreciated more than forty percent during the years 1986 through 1988, numerous export-oriented SMEs—with an average profitability as low as five to six percent—went bankrupt. As an economic sector consisting of ninety-seven percent of all firms and more than eighty percent of the total employment in Taiwan, the currency appreciation problem facing the SMEs ultimately evoked an enormous crisis for the society as a whole. Populist resentment subsequently surged, asserting that the state’s willful decision was at the expense of SMEs’ survival.

The tension between the state and popular society—as embodied in the state attitude towards the SMEs—was further amplified by the state’s discriminative industrial-upgrading policy favoring FDI and big capitalists while excluding the local SMEs from its tax credit program, all of which fueled the populist view that the government was nonchalant towards the populace’s wellbeing. It was against this backdrop that the appeal for outward investment deregulation won its moral legitimacy: If the state could not guarantee sustenance of the SMEs at home, it at least should let go and allow them to seek survival abroad. In reality, numerous SMEs had already migrated overseas via informal channels since 1987—most of which were through personal remittance. It was estimated by the Chung-Hua Institution for Economic Research that within the single year of 1989, the amount of outward investment had already surpassed that of the total amount in the previous thirty years (Shi 2003). Witnessing such an unorganized yet large-scale social phenomenon, a reporter from Commonwealth Magazine even described their rashness as “exodus” rather than “outward investment.”\(^{20}\) It was not until 1989 that the Taiwanese state decided to face squarely such an undeniable fact through further deregulation of companies eligible for outward investment and their scope of investment.

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**Business Tour to Moscow and Soviet Fever**

The disagreement between the state’s foreign economic policy and the populist appeal manifests in their discrepant attitudes towards outward investment in the Communist world, which was undergoing substantial transformation in the 1980s. In Taiwan, under the state’s enduring Cold War geopolitical policies, any business contact with its communist counterparts was sanctioned due to the anti-communist campaign of the KMT regime. However, in the late 1980s, the Soviet world was experiencing a trend of economic reform, where some of the Soviet allies began to show interest in establishing economic relationships with the capitalist world. This subsequently posed great attractions for Taiwanese firms, which were seeking alternative markets to avoid rising US trade protectionism.

The ensuing pressure on the government to relax trade restrictions with the Soviet world came both from the top down and the bottom up. While it was the pro-business, high-ranking officers who initiated gradual de-regulation of trade towards some parts of the communist world after several informal business trips to Eastern Europe (Tubilewicz 2007), the Parliament also played a key role in endorsing such a trend by “representing the people’s voice,” where legislators from both DPP and KMT urged the government to adopt the principle of “separating trade from politics” (政經分離) by loosening its trade restrictions against communist countries. In doing so, DPP legislators continued to mobilize moral reasoning to compete with the state’s security discourse underpinning trade sanctions against the communist world. They highlighted the unfavorable situations facing SMEs as a result of the malicious state policy, hence requesting that the state abandon its groundless fear of Communism and actively assist SME’s outward investment as a form of compensation.21

The discursive struggle between “national security” and “people’s wellbeing” is vividly shown in the intriguing development of a political dispute over an “unauthorized” business trip to the Soviet Union in October 1988. Organized by the Import-Export Association of Taiwan, the visiting group consisted of fifty-eight business delegates from various industries who met with trade officers in Moscow. This tour thus marked Taiwan’s first contact with the Soviet Union after decades of Cold

War antagonism—still without official permission from the Taiwanese state. Because of its controversial nature, it inevitably aroused a stormy political dispute back home. The Executive Yuan was requested to provide a thorough review of its negligence by the anti-communist politicians in KMT, but such a mandate was contested by the Parliament. Legislators from both KMT and DPP highlighted the positive effects such “unofficial interaction” would bring to the society, and argued that the government’s resistant and passive attitude towards its people’s appeal would only exacerbate underground economic activities and leave Taiwanese enterprises to conduct business in a risky environment. The high pressure from the Parliament eventually caused the Deputy Secretary-general of the Presidential Office, Shen Chang-hwan (沈昌煥), a politician known for his outspoken anti-communist ideology, to step down from his position. Henceforth, a new wave of “Soviet fever” followed, with a number of important industrial associations—including the Taiwan Textile Federation, the Taiwan Association of Machine Industry, and the Computer Association—organizing business tours for SMEs to explore opportunities in the Soviet Union one after another.

In 1990, the Taiwanese state reached the decision to allow direct trade and economic interactions with the communist world. It was noted that the time for Taiwan to deregulate its trade restrictions with the Soviet Union was before the official dissolution of the USSR in the winter of 1991. As demonstrated above, besides the external pulls, it was driven by the transforming economic and political forces in Taiwan. The long path of passive revolution, including the turning to the soft authoritarianism of the party-state, the forced indigenization of the KMT regime, and the growing association between high-ranking officers and corporations, all contributed to such a trend. Nonetheless, it was the discourse of “people’s economic well-being” that was constantly drawn on to challenge the notion of “national security” inherited from the Cold War ideology and ultimately contributed to its transformation.

**The “People” in the Trade and Investment Deregulation with mainland China**

Compared to trading with the USSR, what triggered more political nervousness on the part of the Taiwanese state was the issue of economic interaction with mainland China. In 1948, the National Assembly under the KMT regime had passed “The Temporary Provisions Effective During the Period of Communist Rebellion (動員戡亂時期臨時條款)” to suspend the ROC’s constitution in
order to counter Communist insurgency. This Provision remained effective after the KMT
retreated to Taiwan in 1949 and served as the overarching legislation for the enforcement of martial
law. Under such a counter-communist campaign, the KMT regime in Taiwan continued to practice
the “Three-Nos Principle” (三不政策)—no contact, no negotiation, no compromise—by which
any forms of contact with Communist China was sanctioned. It was under such a special law that
trading with the Communist counterpart was criminalized; hundreds of suspects were even
sentenced to death by Chiang’s authority in the name of “financing the enemy” (資匪) at the early
stages of ROC rule on Taiwan.

However, China’s economic reform in 1979, along with Taiwan’s deregulation of foreign
exchange control in 1987, challenged the state’s agenda of containing Communism by trade
sanction. Facing ceaseless appeal from academia and legislators to loosen control of cross-Strait
economic interactions and to take a more active position in assisting SME investment in mainland
China, the top administrative officials kept reiterating the position of banning trade for security
reasons, with a blind eye turned to indirect trade made via third parties such as Hong Kong. It was
not until 1989, that the government finally recognized the existence of massive capital
outmigration via irregular channels and its significant influence on Taiwan’s economy. When this
happened, indirect trade and investment with the mainland was for the first time allowed by the
Taiwanese state. By October 1990, the Economic Bureau formulated “Regulations on Managing
Indirect Investment or Technological Cooperation in the Mainland Area,” marking the first time
that Taiwan’s outward investment in mainland China was incorporated into the government’s
regulations.

In accounting for the initial shift in Taiwan’s trade policies towards Communist China at the turn
of the 1990s, many analysts highlight the changing nature of the authoritarian regime as the driver.
Such arguments emphasize the symbolic struggle internal to the party-state as the major cause,
including indigenization of the KMT regime since the 1970s and the intensifying tension between
the “mainstream faction” (主流) led by the first Taiwanese ethnic President of ROC, Lee Teng-

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and the “non-mainstream faction” (非主流) led by mainlander politicians within the ruling party towards the end of 1980s. It was the rising power of the mainstream faction in the KMT relative to its non-mainstream counterpart after Chiang Ching-Kuo’s death in 1988 that loosened the KMT’s Cold War geopolitical antagonism against the Communist world, with deregulation of trade and investment in mainland China following suit. A political economic analysis further contributes to the argument by adding that it was the business leaders’ growing influence on the state, which sought wider legitimacy by drawing support from business elites that eventually pushed the government to amend its trade policy towards mainland China.

While the aforementioned arguments portray a top-down force of change, I argue that the persistent populist movement played a far more profound role in this transformation. Despite being discouraged by the state, thousands of Taiwanese SMEs had gone through irregular channels to either trade with or invest in China, at the risk of breaking the law. Clearly, the government’s insistence on restricting people’s trade activities with the mainland did not win it moral leadership or substantial support from the populace. In May 1988, two Taiwanese traders were indicted and sentenced to five years by the High Court for “financing the enemy” simply for purchasing fry directly from mainland China. Such a high-profile incident quickly ignited public criticism about the appropriateness of the government prosecuting its people in the name of security, especially after the rescinding of martial law. Not only DPP legislators openly protested against the decision made by the court, but also KMT legislators condemned the existing law, arguing that it no longer addressed the reality of the cross-Strait relationship. What is more, this incident stood in contrast with the Central Bank’s proposal to fund mainland China via the Asian Development Bank around the same period of time. The double-standard illustrated by the two instances was thus reproached by DPP legislators through recourse to the well-known Chinese proverb: “The magistrates are free to burn down the houses, while the people are forbidden to light their own lamps” (只許州官放火，不許百姓點燈).

All the contention revolving around the illegality of trade with mainland China and the subsequent discontent about the state’s restrictive attitude towards cross-Strait economic interactions took

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23 The designation of the Taiwanese ethnic Lee Teng-hui as the successor of Chiang Ching-Kuo itself is widely considered by scholars as part of the outcome of KMT’s indigenization.
place simultaneously with the furious democratization movement in the street. In the spring of 1990, nearly six thousand students occupied the Chiang Kai Shek Memorial Hall, demanding acceleration of political reform. Later named the “Wild Lily Movement,” the protestors’ appeal called for termination of the “Temporary Provisions Effective During the Period of Communist Rebellion” and restoration of the Constitution. Caught in a power struggle with the “non-mainstream” KMT faction—which mostly consisted of mainlander politicians benefiting from the existing political system—President Lee Teng-hui soon decided to ride with the tide by promising to honor the appeals of the students.

Although mainly targeting internal political reform, the democratization movement nonetheless had a profound effect on the reshaping of the Taiwanese government’s cross-Strait policy towards mainland China. It marked an official end of civil war as a condition for ROC rule in Taiwan and also opened up space for a more active cross-Strait policy to replace the “Three-Nos Principle.” The establishment of institutions specializing in cross-Strait affairs, including trade issues, was then proposed by the government: the Mainland Affair Council (MAC, 行政院大陸委員會) under the Executive Yuan as the chief authority in charge of cross-Strait affairs, and the non-government Straits Exchange Foundation (SEF, 海峽兩岸交流基金會) supervised by MAC as the executive body and the mediating organization to circumvent official contact with Beijing. In terms of trade and economic affairs, this process symbolized decriminalization, institutionalization and official recognition of Taiwanese outward investment in China—although with the “indirect” principle remaining intact.

Meanwhile, the notion of popular sovereignty nurtured by the democratization movement appeared for the first time in the Parliament, in reference to cross-Strait economic policy. In the midst of political upheaval and the government’s proposal for reforming its cross-Strait policies in 1990, a number of DPP legislators jointly petitioned the government to “develop a cross-Strait trade and economy policy on the premise of people’s consent and national security.” In this appeal, the legislators from the opposition party insisted that cross-Strait economic policy had to

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be formed through democratic procedures, and its operation should be put under the supervision of Parliament.

However, the notion of the “people” began to bifurcate as the government sought to act “on behalf of the people” via setting up a non-governmental “civil” organization to address peoples’ needs in cross-Strait interactions. Operated on half government funds and half business donations, the Straits Exchange Foundation was designed to comprise forty-three non-official economic elites from mostly big corporations as its board members, with Koo Chen-Fu, President of the Chinese National Association of Industry and Commerce in Taiwan, serving as the Chairman. With such a design, the Foundation was expected to function as the mediating channel of cross-Strait affairs to bypass sensitive sovereignty issues and to speak “on behalf of” the peoples’ interest, including enhancing cross-Strait business exchange and negotiating business disputes. Despite ostensible protest from the DPP over its monopolizing and undemocratic nature and the grievances expressed by SMEs for their under-representation, the government insisted on its right to endorse the Foundation as soon as possible by appropriating a populist appeal to address the peoples’ wellbeing urgently.

The political consequences of such an institutional design are multiple. On the one hand, by delegating business leaders to govern cross-Strait affairs on behalf of the state, it works to blur the demarcation between the public and the private; on the other hand, by conflating “economic interest” with “the people,” it monopolizes the interpretation of what constitutes this subject position. As a result, the people—as represented by a group of business leaders—denotes the non-official, economic-oriented and, most importantly, de-politicized arena. The tension between “the people” and “the state” in the trade and economic arena was thus temporarily glossed over, yet the distrust between the populace and the post-democratization KMT regime remained. It was not until the second wave of KMT’s indigenization, launched in the mid-1990s, that the state-people relation was reconstructed. How such a hegemonic restructuring process realized via invoking a new form of nationalism and rearranging the social-economic relations will be the analytical focus of Chapter 4 and 5. But before that, we shall turn to another aspect of trade liberalization of the same period—the tariff war—for illustration.
Chapter 3

Twist and Turns to Trade Liberalization: Populism, Nationalism, and Embracing Free Trade

I. Introduction

As analyzed in the previous chapter, the rise of US trade protectionism in the 1980s, along with its adoption of currency measures in the trade negotiation with NICs, marked a critical moment for Taiwan when it deregulated its previously highly controlled foreign exchange and liberalized outbound investment. The reconfiguration of the state-society relationship in the domestic environment, as characterized by intensification of the opposition movement and the rise of minjian society (民間社會), served as the crucial mechanism to accommodate such an exogenous force. Consequently, it turned the pressure into a populist critique of the state regarding the moral underpinning of the official notion of “national economy” and the legitimacy of its foreign economic policy.

What is more, the articulation between external geoeconomic forces and social-political impulses from within had not only kicked off deregulation of foreign reserve control and outward investment but generated profound influence on the inauguration of trade liberalization and its transformation in Taiwan during the decade ahead. Utilizing Taiwan’s path to trade liberalization and further consolidation of the free trade regime as the case in point, this chapter seeks to explicate that Taiwan’s pursuit of trade liberalization is inherited from the convoluted historical conjunctures of the 1980s, where trade liberalization had achieved a great level of “consent” among an array of liberal technocrats and economists, transnational business elites, politicians from different political spectrum, and the general public—involvement of each rests upon different types of interests, ideologies and social and economic structures. Together they formed a temporary historical bloc that provided the prerequisite for free trade hegemony to take shape in Taiwan.

As the analysis proceeds, attention will be paid to the role of ideas, discourses, and aspirations in constituting temporary “consent” for trade liberalization. The notion of “liberalization” will be
highlighted, as it consists of a set of malleable discourse modalities that are able to articulate with a wide range of social strata and political dynamics under different contexts and circumstances. Such articulation materialized in the unilateral, bilateral and multilateral trade liberalization agendas at multiple historical conjunctures and ultimately contributed to the seemingly “gradual yet persistent” pursuit of trade liberalization in Taiwan. I am thus seeking to provide a more historically-grounded and dialectical account of trade liberalization in Taiwan as an alternative to the prevailing account of US hegemony.

II. Taiwan’s Trade Liberalization under US Hegemony: Popular Explanations and Beyond

Ever since the US shifted its diplomatic recognition from ROC (Taiwan) to PRC and its subsequent passing of the US-Taiwan Relations Act in 1979, the “Sino-US trade negotiation” mechanism was formed as the de facto platform for the two governments to negotiate over a variety of economic and trade matters (Baldwin et al. 1995). Important issues to be negotiated ranged from tariff rate, Taiwan’s procurement from the US, industrial cooperation through investment, and annual negotiation about importation quotas of Taiwanese products to the US market such as textile, shoes and color TV. Although facing increased pressure from the US to address the issue of trade surplus, under the principle of “mutual benefit” promised by the US and the Taiwanese government’s inauguration of public procurement from the US of a variety of goods from agricultural products to military equipment as a way to show its “sincerity” to tackle the problem of Taiwan’s trade surplus, the annual negotiation in the early years was generally considered “smooth” and result relatively “successful.”

Nonetheless, the rise of US trade protectionism during the second Reagan administration, along with the expansion of the market-access regime in the name of “reciprocity” and “fair trade” after the conclusion of the Trade and Tariff Act in 1984, marked a threshold of US foreign trade policy.

It further framed the mounting trade surplus the newly industrialized countries held against the US as the consequence of unfair dumping on the US market. Among the NICs, Taiwan was particularly targeted, not only because it ranked as the 7th largest trading partner of the US26 and held the 3rd largest trade surplus against the US in 1985 but also because of the disproportional number of foreign exchange reserves Taiwan possessed compared to other NICs. To address the trade deficit problem, the US government requested Taiwan to launch unilateral trade liberalization, including measures ranging from tariff concessions, non-tariff trade barrier removal, and the enforcement of unconventional trade issues such as intelligence protection.

In response to the growing pressure from the US, the Taiwanese government appointed a “Special Taskforce of Sino-American Trade” (中美貿易專案小組) by interdepartmental ministers under the lead of the Council for Economic Planning and Development in 1983, to further augment public procurement from the US and encourage investment in the US as the major means to address trade requests from the US (Chen 2001).27 Despite administrative measures taken under advice from the Special Taskforce, the asymmetrical bargaining power Taiwan held against the US unavoidably resulted in its defeat in almost every round of trade negotiation. In 1984, the US-Taiwan Rice Agreement initiated by the US to limit Taiwan’s rice export to the global market was signed. Under the constant threat of Section 301 and its subsequent amendments, the Taiwanese government terminated its long-existing state-monopolized tobacco and alcohol system for foreign import in 1986, followed by opening of the domestic market for import of sensitive agricultural products and liberalization of financial markets for foreign investment in 1988. These came along with multiple waves of drastic tariff modification launched by the Taiwanese government—both through legislation and administrative decree—with sizable tariff concessions being granted to US imports.

The extent to which trade liberalization was launched in Taiwan during the 1980s seems to reflect the transforming nature of US hegemony, where addressing trade and budget deficit loomed as the major concern for US’s foreign policy rationale (Corbridge & Agnew 1991; Gill 1993; Agnew &

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26 During the 1980s, Taiwan was the second largest trading partner of the US in East Asia, next to Japan.
In the trade arena, expansion of the market-access regime put East Asian countries, including Japan and NICs, at the center of the storm. Given the great amount of trade surplus Japan and NICs accumulated against the US, the excessive means the US deployed to address this issue led to a considerable amount of literature concluding that trade liberalization in NICs was primarily a result of the “aggressive unilateralism” imposed by the US in the name of “reciprocity” and “fair trade” (Haggard & Cheng 1989; Baldwin et al. 1995; Chen & Liu 1997; Huang 2009).

While portraying a general trend of US hegemonic expansion via market-access regime in East Asia, some scholars have pointed out the different responses by South Korea and Taiwan. South Korea took a more protectionist stance and was more reluctant to accommodate the US compared to Taiwan (Haggard & Cheng 1989). In Taiwan’s case, the total tariff cut and market opening throughout the 1980s was much greater in scale and scope compared to either the number of items the US requested for tariff concession or the number granted by the Taiwanese government (see Figures 3.1 and 3.2). Spontaneous trade liberalization along with Taiwan's active pursuit of international free trade since the late 1980s renders a far more complex picture of what is generally suggested in the conceptualization of Pax Americana in East Asia. As such, an overall account of the ubiquity of the US power in world trade arrangements and the monolithic effect it generated across different geographical contexts may not be able to explain discrepant receptions and responses among the NICs. Reducing Taiwan’s early trade liberalization to a single exogenous factor risks obscuring rather than revealing what drove the development at large.

In order to capture the sources of discrepant responses among NIC countries, a number of scholars have adopted a state-centered approach by looking at the fundamental role each state played in shaping the trade regime and foreign economic policies in the face of external geopolitical and geoeconomic forces (Baldwin et al. 1995; Dent 2003). Scholarship of this kind puts an emphasis on state autonomy in setting the foreign economic agenda and its capacity for policy implementation. However, overemphasizing state autonomy or the persistent bureaucratic or institutional structuring that underpins state actions, rather than situating the state in the evolving social and political dynamics, can hardly avoid the criticism of the territorial trap and state-centricism that has mired international relations scholarship for long (Agnew & Corbridge 1995).
Nonetheless, a number of scholars began to look from “inside-out” for an alternative explanation to conventional hegemony theory or a state-centered approach in accounting for Taiwan’s fervent pursuit of trade liberalization. Similar to the literature on the liberalization of the domestic economy, the political democratization of the 1980s is commonly ascribed by this scholarship as the internal drive for trade liberalization in Taiwan and beyond (Chen 2001; Mai & Shih 2001; Milner & Kubota 2005). Analysis largely attributes trade liberalization to the expansion of political representation of interest groups and their lobbying power in policy-making as a result of democratization. Yet simply denoting the impact of democratization to the rising influence of interest groups and the decline of state autonomy in policy setting provides a rather functionalist view of the restructuring of state-society relationship, leaving the question of modes of intersubjective reasoning, moral credibility, and struggle for political legitimacy among a variety of historically rooted social relations underlying trade policies untouched.

Viewed in a different light, the following sections illustrate trade and economic neoliberalization in Taiwan as a cumulative process that transformed from a locally initiated unilateral project to a fervent pursuit of bilateral and multilateral free trade at multiple historical conjunctures. With careful attention paid to the tendency to move from crisis to crisis and the legitimacy problem of the state, I examine the articulation between a paradigm shift in governance, rising populism, and changing nationalist politics. Against the backdrop of political democratization, I present the ways in which the trade liberalization agenda developed to form free-trade hegemony in Taiwan.
<table>
<thead>
<tr>
<th>Year</th>
<th>Requested by the US</th>
<th>Granted by Taiwan</th>
<th>Total Items of Tariff Reduction in Taiwan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>339</td>
<td>339</td>
<td>983</td>
</tr>
<tr>
<td>1979</td>
<td>-</td>
<td>-</td>
<td>432</td>
</tr>
<tr>
<td>1980</td>
<td>-</td>
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<td>4,000</td>
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<td>49</td>
<td>28</td>
<td>498</td>
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<td>1982</td>
<td>-</td>
<td>-</td>
<td>1200</td>
</tr>
<tr>
<td>1983</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>109</td>
<td>59</td>
<td>280</td>
</tr>
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<td>1985</td>
<td>174</td>
<td>112</td>
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</tr>
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<td>1986</td>
<td>71</td>
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</tr>
<tr>
<td>1987</td>
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<td>1699</td>
</tr>
<tr>
<td>1987 (April)</td>
<td>267</td>
<td>239</td>
<td>862 (April)</td>
</tr>
<tr>
<td>1987 (August)</td>
<td>332 (May)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>174</td>
<td>51</td>
<td>3575</td>
</tr>
<tr>
<td>1989</td>
<td>558</td>
<td>366</td>
<td>4840</td>
</tr>
</tbody>
</table>

Figure 3.1 Number of Items Granted Tariff Reduction in R.O.C., 1978-89

Figure 3.2 Annual Nominal and Effective Tariff Rates in Taiwan
III. A Paradigm Shift and the Populist Origin of Trade Liberalization

As shown in Figures 3.1 and 3.2, the 1980s in Taiwan not only witnessed multiple waves of significant tariff reduction but also experienced a stable drop of the average tariff rate. As explained in the previous section, the scale and scope of such trade liberalization should not be attributed solely to US pressure. However, when looking at the internal impetus for trade liberalization, it would be equally incorrect to ascribe this liberalizing trend either to a single policy rationale or to a particular agent or to one underlying ideology.

The following section seeks to illuminate the intersection of multiple economic, political and social forces that have contributed to Taiwan’s persistent pursuit of trade liberalization. Specifically, it involves a paradigm shift within the governing regime that sought to reverse the centrality of tariff and exportism in reviving a “national economy” that had been in crisis since the early 1980s and to address the increasing populist attacks on the legitimacy of tariff protection for cultivating “national industries” in the name of consumers’ rights.

Paradigm Shift in Tariff Policy and Exportism

The launch of trade liberalization and tariff reduction in Taiwan in the 1980s characterizes a significant paradigm shift within the governing regime in the broader context of economic reform and industrial restructuring (Chu 2001). This reform was aimed at stimulating the slowing-down of Taiwan’s export-driven economy. Based on labor-intensive light manufacturing industries, such an economy experienced the first long-term decline in growth rate since the 1960s (see Figure 3.3, with the sudden drop during the oil crisis in 1974 as an exception). Besides introducing high-tech industries, as manifested in the establishment of the Hsin-Chu Science Park in 1979, such top-down economic reform was largely centered on the agenda of tariff and trade, for they served as keys to reshaping the contour of the “national economy.” This tariff and trade centered reform indicated a paradigm shift encompassing a whole set of ideational and institutional changes, which are embodied in two arenas: the re-engineering of a tariff-based fiscal regime and the reorientation of exportism.
Since KMT retreated to Taiwan from mainland China, tariff policy has been central to almost every aspect of the state apparatus. It is the key domain where the state expressed its sovereignty on custom and border control (Lee 2009); it functioned as the fundamental mechanism of cultivating national industries (Sun 1982; Liu et al. 1988); moreover, it is the epitome of the operation of the entire “authoritarian fiscal regime” formed in the context of the Cold War (T. Wu 2003, 2004). However, the 1980s marked a consistent decline of the importance of tariffs to the state policy at large. Specifically, given that custom duties had served as one of the major sources for state-level revenue, the overall reduction of the tariff rate would impact the state’s total tax revenue hard. Figure 3.4 shows a steady decline of the ratio of tariffs to national total tax revenue—from one-third in the early 1980s to 16.2% in 1990 and further down to 10.4% at the turn of 2000. By the time Taiwan joined the WTO in 2002, the tariff ratio had already dropped to 8.8%.

Figure 3.3 Economic Growth Rate in Taiwan, 1960-1990
Data source: Direct-General of Budget, Accounting, and Statistics, Executive Yuan, ROC (Taiwan)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total National Tax</th>
<th>Total Custom Duties</th>
<th>Tariff/Total State Revenue (%)</th>
</tr>
</thead>
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</tr>
<tr>
<td>Year</td>
<td>Import</td>
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</tr>
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<td>981,609,508</td>
<td>85,900,543</td>
<td>8.8</td>
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Why, then, would the Taiwanese government launch massive tariff cuts and have to deal with the revenue loss? Such a drop in customs-duty ratio in the state-level revenue was an element of a tariff reform scheme that was part of a broader fiscal reform launched in the late 1970s and early 1980s. Proposed by the governing elites, this full-scale reform targeted modernization of the custom and tariff system and covered a wide range of policies from the employment of a complex tariff schedule to the abandonment of the export-tax rebate system. 28 Most importantly, it shouldered the task of re-engineering the tariff policy rationale from “fiscal responsibility” to “economic purpose.” In such policy reorientation, the role of tariffs was no longer viewed as the key source for revenue collection but as a tool serving the need for further economic development. The perceived benefits of tariff reform were manifold. Economically, by mitigating the tariff burden of the industrialists, specifically that of the cost of machinery, raw material and intermediate goods, it was hoped to encourage investment, enhance industrial competitiveness in exportation, and instigate industrial upgrading (Chen & Liu 1997). Fiscally, the loss of state revenue would be compensated for by the revenue restructuring, which gave more credibility to direct tax (e.g. income tax) than indirect tax (e.g. tariff). Socially, the burgeoning smuggling

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problem could be curbed by mitigating the huge price gap between goods sold on international and on domestic markets.\textsuperscript{29}

The economic-oriented tariff-reform scheme, although first driven by the developmentalist mindset in the early 1980s, was gradually dovetailed with liberal reformists’ appeal for trade liberalization by the mid-1980s, when the guiding principle for economic development changed gears to embrace “internationalization, liberalization, and institutionalization” (see discussion in Chapter 2). From the liberal reformists’ perspective, the new phase of economic development in Taiwan could only be achieved by discarding protectionism and by respecting market mechanism\textsuperscript{30} (Kao 1984; Wang 1984), and therefore the ultimate goal of tariffs should focus on trade-enhancement rather than industrial protection or revenue collection.\textsuperscript{31} Moreover, the symbolic meaning of tariff to the national economy was also undergoing transformation. Relying on indirect taxation—tariffs, for instance—as the major source of state revenue was widely despised as a symbol of underdevelopment and backwardness (Wen 1985).\textsuperscript{32} For instance, the liberal economist Lin Chuan (林全), who later served as Minister of Finance from 2002 to 2006 and Prime Minister from 2016 to 2017 in Taiwan, advocated for the tariff reduction scheme by arguing that a tariff was a symbol of backwardness, for only countries incapable of enforcing a modern taxation system and fetishizing the effectiveness of protection to industrial development would maintain a heavy tariff system (Lin 1986). It was under the binary framing of fiscal-reform-modernization versus tariff-protection-backwardness that the trade liberalization agenda advanced. As a consequence, “tariff” gradually lost both its material and symbolic importance in the development of the “national economy.”

Moreover, the massive scale of tariff reduction marked a notable ideological reconstruction of exportism—a paradigm underpinning Taiwan’s economic development from the 1960s. At the


\textsuperscript{31} Upholding the Shifting focus of Tariff Policy (1984, Jul 19). Economic Daily, 02.

turn of the 1980s, exportism still functioned as the dominant ideology guiding trade liberalization in Taiwan. The Minister of Economic Bureau Chao Yao-Tung’s openly denounced the large-scale market liberalization proposed by liberal reformists and the Central Bank, where he prioritized investment promotion and deregulation of raw materials import as opposed to opening domestic market to consumer goods as the means to tackle skyrocketing foreign reserves. While the early stage of tariff reduction was driven by the rationale for instigating further export expansion, the subsequent waves of tariff cuts launched in the mid to late1980s presented a distinct emphasis on import. Such a paradigm shift was upheld by both the economic bureaucrats, who viewed import enhancement as a strategic move to address trade surplus to the US, and the liberal economists, who believed in market logic and the principle of trade balance. The latter favored a total increase in trade over mere growth in export and deplored mercantilism as the major obstacle to the development of international trade regime (Hsia 1987). Arguing for the equal importance of import and export to the prosperity of the national economy, a number of pro-market legislators also endorsed the policy change, pushing the government to “carry out” its own policy guideline in pursuit of liberalization and internationalization.

Such a conceptual transformation was accompanied by emerging consumerism, where import of consumer goods is no longer viewed as a loss of national wealth but as a total enhancement of national welfare. Surprisingly, advocacy for consumers’ rights was found not only in a number of legislators’ requests for tariff cuts and market opening for a variety of consumer goods from paper to medicine but also in the political and economic elites’ commentaries on the discriminatory tariff system. For instance, Deputy Minister of the Council for Economic Planning and Development (CEPD), Sun Chen (孫震), explicitly remarked in the Customs Tariff Commission under the Ministry of Finance that the current tariff system favored producers at the expense of consumers’ right and that the tariff policy should be reoriented to promote imports for the general

public to enjoy high-quality goods with less cost as the ultimate goal of economic growth.\(^{37}\) This conceptual reorientation subsequently materialized in the overarching re-categorization of import items, with a number of previously identified “luxury” goods—apples, cosmetics, and chocolate, for instance—being redefined as “daily commodities” that enjoyed further tariff cuts.\(^{38}\) In 1987, the import growth rate exceeded that of export for the first time, leading to a common social commentary describing Taiwan as a “paradise for imports.”\(^{39}\)

The convoluted forces of economic liberalism and consumerism were markedly manifest in the policy briefing made by the well-known developmentalist technocrat Chao Yao-Tung (趙耀東) in the Parliament at a later time, who used to prioritize export as the prime goal for economic development while serving as the Minister of Economic Affairs.\(^{40}\) In that briefing, Chao contended, Exportism is a die-hard habit for both the government and the private sector in Taiwan, which eventually led to the over-accumulation of foreign exchange reserve without improving people's wellbeing. Therefore, our trade policies from now on should uphold the correct idea that the ultimate goal of export expansion is to enhance our import capability. We should accordingly implement further trade liberalization, actively remove import barriers and expand imports at full-scale.\(^{41}\)

**Popular Contestation over the Legitimacy of Tariff Protection**

Another justification for the Taiwanese government to sustain a heavy import-tariff scheme was to encourage industrial development. Such a scheme included protecting infant industries like textiles in the 1960s and color TV in the 1970s and cultivating strategic industries such as high tech companies from the 1980s (Chen 2001). Targeting certain industries enabled the state to guide industrial goal setting, provide administrative assistance, enforce self-production rates and grant tax deductions on machinery imports. At the same time, the state introduced market logic to instigate competition and avoid over-protection (Shive 1984)—a principle later conceptualized as

\(^{40}\) Chao Yao-Tung’s widely known motto in his tenure of Minister of Economic Affairs was “All for the economy; all for export” (一切為經濟，一切為出口).
“state enhancing” or “liberalization plus” by the developmental state literature (Weiss 1999; Dent 2003). Despite gradual liberalization of tariffs and market protection guided by the new principle, the effectiveness and legitimacy of the industrial plan premised on tariff protection continued to be challenged by pro-market economists, political representatives and popular critique. Thus tariff protection unavoidably became a major site of political struggle throughout the 1980s. It is where I turn to the cases of videocassette recorders and automobiles—the two most attacked industries during the 1980s—to further elucidate the intricate interaction between the state’s liberalizing industrial strategy and populist appeal for trade liberalization.

The videocassette recorder (VCR), considered as a type of precision instrument with the potential to contribute to technological upgrading, was designated as one of 169 strategic industrial products by the Taiwanese government in 1981. To cultivate this infant industry, the Taiwanese government first banned importation of home appliances from competing countries such as Japan and South Korea while implementing an annual increase in self-production to secure its domestic market share. Unfortunately, the domestic home appliance manufacturers took advantage of the protectionist policy by jointly increasing the selling price of VCRs. They were harshly criticized by Chao Yao-Tung, who then asked for a collective price adjustment among the domestic manufacturers. However, because the government had no policy in place to control the conduct of private firms and because of structural constraints on domestic manufacturers’ capacity to improve their economies of scale, Chao’s mandate did not yield any substantial outcome. VCR smuggling on the black market continued and intensified as a consequence. Facing mounting popular criticism over the government’s inability to address the unfair circumstances and the significant disadvantage it had brought to consumers, the government soon announced a three-year liberalization schedule with an annual import tariff increase for VCR to replace import restrictions

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43 Key domestic home appliance manufacturers, including Sampo and Tatung, only agreed to lower 5% of its selling price after several rounds of negotiation with the Ministry of Economic Affairs.
as a way to instigate competitiveness while at the same time buy more time for the necessary industrial adjustments.\textsuperscript{45}

This matter of expediency, however, did not win legitimacy in the face of the growing influence of popular consumerism—another form taken by the formation of popular society since the mid-1980s. The advent of the consumer rights movement, along with the government’s subsequent passage of the Consumer Protection Act in 1984, was characteristic of the social atmosphere at the time. By the end of 1984, the Consumers’ Foundation had initiated a boycott against domestic home-appliance producers for the extravagant profits they extracted from their market monopoly and successfully forced companies including Sony Taiwan Ltd. to lower the selling price of VCR by 10.89%. It is against this backdrop that the opposition voices in the Parliament refused to pass the bill to raise tariffs for VCR imports and pushed the government to agree upon total import liberalization for VCRs within three years’ time.\textsuperscript{46}

Nonetheless, the struggle between the state and popular consumerism did not simply stop there. During the total lifting of import restrictions in 1986, popular resentment was further exacerbated by the high tariff protection the VCR manufacturers continued to enjoy (50% tariff rate) despite its failure to achieve the mandated self-production rate, not to mention being able to compete with Japanese or Korean products in international markets.\textsuperscript{47} The government was then accused of favoring privileged groups under the disguise of “market liberalization.”\textsuperscript{48} Disparaging the


\textsuperscript{47} It was reported that the self-production rate of VCRs in Taiwan, despite granting four years of tariff protection, only reached thirty percent by 1986, with very little export due to its uncompetitive price on the international market. By comparison South Korea, which inaugurated its VCR industry almost at the same time as Taiwan, achieved great success in the export market worldwide with selling prices at only half of those produced by Taiwanese manufacturers.

government for failing both its promise for strategic industrial development and people’s anticipation for addressing consumers’ rights, a number of legislators concluded that tariff protection was futile, pushing the government to enforce an annual tariff cut on VCR imports in the parliament, with the nominal tariff rate dropping from 50% to 25% by the year 1989.49

Meanwhile, cultivating the automotive industry through high tariff protection became another target of both liberal criticism and populist attack. Since the 1950s, Taiwan had imposed a high tariff on automobile imports as a way to cultivate car manufacturing as a “national industry.” Yet the thirty-year market protection only resulted in inward-looking domestic manufacturers focusing on car assembly with imported mechanics rather than investing in whole-car manufacturing for export. The Ministry of Economic Affairs initiated the “Big-Automotive Plant Project” at the turn of the 1980s as a response—a plan aiming at introducing foreign automotive industrial capital (General Motors from the US and Toyota Motor Corporation from Japan) while at the same time stimulating inter-firm competitiveness, industrial upgrading and business mergers through direct state intervention (Chang & Wu 1997). However, it did not take long for such a carefully crafted two-hand strategy to lose ground. The subsequent failure to execute the General Motors’ investment plan in 1982 and Toyota’s investment plan in 1984 marked a significant threshold in Taiwan’s automotive development history, after which market-led industrial development superseded the developmentalist policy rationale (Chang & Wu 1997).

The mid 1980s was a time when protectionism remaining in the governments’ trade and tariff policy was severely challenged by the rising influence of liberal economists, where a number of renowned scholars from policy think tanks openly confronted the government’s protectionist rationale, arguing for market liberalization via tariff reduction as the only effective way to improve competitiveness of domestic industries (Hsing 1986). The liberal economists’ critique over protectionism further gained a foothold after the joint price increase of cars manufactured by domestic companies in 198650—a move claimed to reflect the rise of production costs caused by


50 In 1986, there was a sudden price increase of nearly 10% launched by Yu-long and Ford Liu Ho Motor Company, two of the biggest auto companies in Taiwan.
importing auto parts from Japan due to the sudden Japanese currency appreciation. This incident was soon criticized as exposing the persistent dependence of Taiwan’s auto industry on Japan even after multiple benevolent measures were granted by the government to encourage domestic whole-vehicle production.\(^5\) Comparing Taiwan’s sluggish automotive industrial development to the advancement achieved by South Korea, a number of legislators severely accused domestic automotive manufacturers of profiteering from their market monopoly without fulfilling their mission to become a national industry; substantial tariff reductions on automotive imports were therefore called for as a means to address their frustrations with the domestic car manufacturers.\(^5\)

The criticism over the effectiveness of tariff protection for industrial development further gained political momentum with intensification of the democratization movement. Similar to the populist appeal to deregulate foreign exchange controls in light of the lifting of martial law in 1987, the appeal for discarding tariff protection for the auto industry also utilized the discursive coupling of “political democratization—economic liberalization” as its source of moral justification. The anti-state populist discourse equated tariff protection on designated industries with “autocratic state tyranny” and the termination of martial law with “normalizing a distorted economic system.” The abolishment of martial law would also materialize in the breakdown of the market monopoly—especially for the privileged auto industry that had enjoyed persistent tariff protection (65% in 1986 and 55% in 1987) in contrast to the significant tariff cuts among other imported goods throughout the years.\(^5\)

The heated debate between legislators on the extent of tariff reduction for imported automobiles from late 1987 to early 1988 symbolized a crossroad in Taiwan's automotive industrial development,\(^5\) where total abolishment of the auto industry in Taiwan as a bargaining chip in the

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US-Taiwan trade negotiation was even proposed in the Parliament.\textsuperscript{55} The growing opposition to sustaining tariff protection resulted in a substantial drop of tariffs on imported automobiles (from 55\% to 42.5\%) in 1989 and an official promise to lower the tariff to 30\% by 1991. In 1991, the government further announced that no more automotive industrial plans would be proposed in the future, marking Taiwan’s termination of automobiles as a “national industry.”\textsuperscript{56}

Thus, despite the considerable concessions to tariff cuts and deregulation of market entry made by the Taiwanese government at the US request, Taiwan’s early trade liberalization in the 1980s was far from a mere accommodation to external pressure. A closer look reveals that Taiwan’s forced market liberalization was paralleled by a spontaneous liberalizing thrust driven by the interconnected social and political forces associated with the crisis of the exportist accumulation regime, the relative decline of state autonomy, and the rise of \textit{minjian} society (民間社會) along with the intensification of the democratization movement. The resulting legitimacy crisis of the state first entailed a top-down paradigm shift of tariff reform, rebalancing the export-import regime and introducing market-oriented industrial restructuring. The policy shift was then aided by the growing presence of consumerism and populism attacking inability of the state to materialize the development goals it set forth as well as questioning the moral underpinning of the state-privileged market monopoly—all of which served as conjunctural forces to advocate for tariff cuts and market liberalization. As a consequence, although characterized as “gradual and persistent” in much of the literature, Taiwan’s pursuit of trade liberalization was rather an outcome of ceaseless contestation, negotiation, and realignment between the aforementioned forces.

\textbf{IV. The Bilateral Trade Agreement Between the US and ROC (Taiwan)}

In the story of trade liberalization in Taiwan, the previous section presents an alternative account of the popular narrative of US oppression as the sole cause of the changes. However, the neoliberal-


\textsuperscript{56} Cheng (2006) points out that the automotive industry in Taiwan did not simply dismantle due to the withdrawal of the tariff protection scheme. Instead, the auto-parts industry in Taiwan continued to boom in the global market as an alternative industrial model, although the state played a much smaller role in its industrial development.
neoconservative turn of US hegemony under the second Reagan administration (Corbridge & Agnew 1991; Agnew & Corbridge 1995; Glassman 2005; Harvey 2005), coupled with its focus on addressing its trade deficit through bilateral measures (Baldwin 1984; Baucus 1989, Pearson & Riedel 1990; Destler 1991; Haggard 1997), did entail a set of intricate interactions between US geoeconomic maneuvers and the ways in which the existing trade liberalization agenda evolved in Taiwan. On the Taiwan side, such a dynamic is deeply grounded in the restructuring of the ruling bloc, which also reshaped the ways in which “trade liberalization” was conceived of in relation to the national economy by political and economic elites in Taiwan. In that, the trade liberalization agenda was neither confined to debates over the effectiveness of tariff cuts and the degree of market opening in the name of industrial development nor to strategic bargaining with the US—all of which were deemed residuals of protectionism underpinned by the government’s backward approach to the national economy (Hsing 1986). Rather, the liberalization agenda expanded to a deeper scheme with a focus on the institutional lock of free trade arrangements beyond the national scale.

**The US-Taiwan Bilateral Free Trade Agenda**

As discussed in the preceding sections, the enactment of the Tariff and Trade Act of 1984 in the US marked a fundamental transformation of its trade regime from multilateralism to bilateralism, a way to pursue trade liberalization in the face of the slow progress made by GATT. As to its corresponding foreign economic policy deployment, besides the emphasis put on trade-deficit-relief measures targeting Japan and East Asian NICs, this trade law also indicated an expansion of the scope of bilateral free-trade agreements (FTAs). With the modification of the fast track authority granted to the Congress in Trade Act of 1974, the 1984 Act further enhanced Congressional influence on the negotiating processes, paving ways for further bilateral free-trade talks to follow suit (Sim 1989, Koh 1992). Under the authorization of Tariff and Trade Act of 1984, the US concluded its very first comprehensive bilateral free-trade agreement with Israel in 1985, with the US-Canada FTA following suit in 1988.

Against this backdrop, the governing elites in Taiwan turned to see hope in the 1984 Act which signaled a change in the trade regime of the US. The Taiwanese government started to exploit such transforming geoeconomic dynamics, advocating for deeper and more institutionally embedded
trade liberalization as the ultimate way to address the intensified US-Taiwan trade friction. This policy move well reflected in the sudden change in strategy advised by the “Special Taskforce on Sino-American Trade”\textsuperscript{57} (中美貿易專案小組) from designing ad-hoc unilateral liberalization policy measures to pursuing a more institutionalized US-Taiwan bilateral free-trade agreement in 1985.\textsuperscript{58} In the annual Sino-American trade talk held in 1987, the Taskforce officially proposed signing a ROC-US free-trade agreement as its prime issue for negotiation.

The Taiwanese government’s decision to pursue a bilateral free-trade agreement with the US was formed with full support of business and industrial leaders, who gradually played a crucial role in the state decision making procedure since the 1980s as a result of the “backward legitimization” of the KMT regime (see discussion in Chapter 2). It was evident in the overt support of this campaign by Koo Chen-Fu (辜振甫),\textsuperscript{59} who was not only a member of the Economic Reform Committee summoned in 1985, but also served as the Chairman of the ROC-USA Economic Council (中美經濟合作策進會). Established in 1977 as a non-governmental organization by a number of Taiwanese industrial and commercial elites, the ROC-USA Economic Council provided an important platform to facilitate trade and investment from both the US and Taiwan sides. The Council’s annual business convention, held from 1978, attracted seven hundred to more than one thousand participants per year, demonstrating the influential role it played in US-Taiwan trade affairs. Given the strong business ties between the US and Taiwan, these trade- and export-oriented industrialists held a strong preference for expanding US commodity import and investment in Taiwan rather than for limiting Taiwanese exports to the US.\textsuperscript{60} As the issue of the US-Taiwan trade deficit became acute in 1987 (see discussion in the proceeding section), these business elites further advocated for opening the highly controlled service sector and securities market for US investment, looking for a new model of the US-Taiwan trade relationship in place of unilateral

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{57} The Special Taskforce on Sino-American Trade was established in 1984 under the supervision of the Executive Yuan to tackle the rising US-Taiwan trade frictions.
\item \textsuperscript{58} Signing up (Sino-US) Free Trade Agreement (1985, May 5). \textit{United Daily News}, 01.
\end{itemize}
\end{footnotesize}
The involvement of the businessmen also indicates the gradual consolidation of the transnational industrial and commercial elites, who prioritized more flexible trade and investment access and therefore whose interests were more aligned with the liberal reformists’ appeals for free market and export-import balance.

Moreover, such a proposal was a construct of the transnational power bloc across the Pacific, for it was not only backed by economic elites in Taiwan but also overtly supported by a number of American business leaders, politicians, and policy consultants. For instance, William D. Eberle, Vice Chairman of the United State Council of the International Chamber of Commerce (ICC), openly recommended Taiwanese authority to approach the US Congress for the ROC-US FTA, after which the Ministry of Economic Affairs voluntarily proposed such a scheme to the US Senators who visited Taiwan in August 1985. The US conservative think tank, Heritage Foundation, which served as the crucial protagonist of the US-Israel Free Trade Agreement, also played an important role in supporting such trade talks. In 1986, the Heritage Foundation, together with the Taiwanese think tank Taipei: Asia and World Institute, held a ROC-US Free Trade Zone Conference in Taiwan, where Senator Malcolm Wallop, Congressman Bob Livingston, President of the Heritage Foundation Edwin Feulner, and prior US National Security Advisor Richard V. Allen served as key participants from the US, along with many other high-ranking economic officers from the Taiwan side. Richard Allen also openly commented that the ROC-US Free Trade Agreement should be viewed as an extension of the Taiwan Relations Act and therefore was logically and historically necessary for improving the US-Taiwan relationship. In 1987, the general manager of Chinatrust Investment Cooperation, Jeffrey Koo (also the cousin of Koo Chen-fu), proposed the US-ROC Free Trade Agreement to the Secretary of the US Treasury James A. Baker during their meeting on Taiwan’s currency issue.

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The Conference held by the think tanks, together with the ceaseless lobbying from the Taiwanese government and business leaders, provide a vivid demonstration that the bilateral free-trade scheme embodied the converging geopolitical and geoeconomic interest between the conservative party in the US and the Taiwanese ruling class characteristic of the greater influence of the business leaders. The bilateral trade agreement with the US was proposed in Taiwan as a preemptive strategy to replace the ad hoc unilateral trade liberalization measures accommodating US requests. After all, Taiwan’s fervent pursuit of bilateral trade liberalization had contributed to the international trade analysts and observers’ conclusion that Taiwan was more prone to sign a free-trade agreement with the US than South Korea (Haggard & Cheng 1989; Schott 1989; Kim 1992).

**The Stumbled Bilateral Trade Talk**

The materialization of such an emerging transnational historical bloc, however, was curbed by various constraints both from domestic and international arenas. First of all, there was a significant discrepancy between the US and Taiwanese authorities in terms of the anticipated areas for trade liberalization: while the Taiwanese government hoped to restrict the deal to commodity trade—securing US market access for Taiwanese industrial products by opening up its domestic market to US products in exchange, the US trade policy agenda since the mid-1980s had shifted its focus to unconventional trade areas including investment, finance, and insurance (Haggard 1989). The discrepant expectations, along with incompatible interests between US and Taiwanese textile, steel and machinery manufacturers was widely acknowledged as one of the major causes for the US authority to be reluctant to hold bilateral trade talks with Taiwan.65

Advocacy for the US-ROC free-trade agreement did not enjoy full support from the domestic political environment in Taiwan either. Concern that the market opening to US agricultural products would bring harm to the domestic agricultural sector still loomed large in public opinion, especially after the large-scale farmers’ movement 66 against further agricultural market

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66 The Farmers Movement that took place on May 20, 1988 marks not only the biggest farmers’ movement in the post-war era in Taiwan, but the first social movement after the abolishment of the martial law. This movement ended up with 130 protesters being arrested.
liberalization was negotiated in the Sino-American trade talks in 1988. In Parliament, although a number of KMT legislators endorsed the government’s geo-economic initiative to sign a bilateral free-trade agreement as the ultimate means to resolve the entangled trade conflict between US and Taiwan, concerns for its detrimental impact on the agricultural sector was brought up from time to time. Strong doubts about the chance of success for the bilateral trade agreement were also expressed by the legislator from the opposition party DPP, contending that the government’s fervent campaign in spite of the nonchalant attitude of the US was illustrative of its lack of understanding of the geo-economic and geopolitical maneuvers that the US was deploying against Taiwan.

Lastly, the Taiwanese think tanks also presented ambivalent views towards such a government campaign. Opinions bifurcated even among researchers from the official think tank, Chung-Hua Institution of Economic Research, which hosted most of the renowned liberal economists of the time. Although there were a number of researchers who saw the US-Taiwan bilateral free-trade agreement as the most desirable solution for Taiwan and encouraged the entire society to pursue it relentlessly (Wang 1987; Chang 1988), some researchers considered the proposal merely wishful thinking for the Taiwanese government, given the fact that Taiwan’s domestic economic environment was still characterized by regulations and restrictions, especially in the financial services sector. The illustrious liberal economists Chiang and Lu (1989) went further; they doubted the practicality and desirability of the US-ROC Free-trade Agreement from both sides, warning against false hopes from the Taiwan side given the trivial gains the US could expect from the deal.

As for the US side, although a number of Republican politicians and conservative think tanks kept pushing forward such a trade deal, the US administration continued to respond with a passive tone.

Although it rejected such a proposal in the name of insurmountable technical issues (Schott 1989), the geopolitical considerations of Taiwan’s sensitive status in the US-China relationship at the time rendered as its undertone. Therefore, despite the overt support from the Republican Party platform and ceaseless parliament lobbying conducted by the Taiwanese government in the following years, little progress was achieved. It was not until 1992 that the Bush government resumed talks on the prospect of forming a bilateral trade agreement with Taiwan, followed by the drafting of the Taiwan-US Trade and Investment Framework Agreement (TIFA) in 1994, which served as the official platform for both sides to conduct high-level negotiations on trade and economic affairs. This development was hailed as significant progress for the US-Taiwan economic relationship by the Taiwanese government, where the Minister of Economic Affairs Chiang Pin-Kung (江丙坤) commented with a delighted tone that Taiwan would no longer have difficulty speaking for its own interest when facing unfavorable treatment by the US.  

The restructuring of post-war US hegemony into an international market-access regime, along with the transforming maneuver of its trade policies, did open a new trajectory for the trade liberalization agenda to develop in Taiwan. For various supporters across the Pacific, the US-Taiwan bilateral Free Trade Agreement not only manifested hope for an institutional fix of the long-existing trade conflicts between the two states but also hinted at a closer geopolitical alliance—similar to the one between the US and Israel. However, from the mid- to late-1980s, this campaign was still largely constrained to a top-down initiative primarily driven by the transnational political and economic elites. However, such advocacy was futile for several reasons: discrepant economic interests and expectations from the bilateral trade deal between the US and Taiwan authorities, polarized evaluation of the practicality and desirability of pursuing bilateral free-trade relationship among Taiwanese scholars and politicians, and concerns the US held over

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Taiwan’s intricate position in its geopolitical manipulations balancing between its One China Policy and the Taiwan Relation Act since 1979.

Although the conclusion of TIFA in 1994 had rekindled the Taiwanese government’s hope to carry out the geoeconomic scheme of solving trade frictions and strengthening its geopolitical relationship with the US via bilateral platform, the comparatively sparse media coverage and scant legislator interpellation by the time of its enforcement indicate a general decrease of the political interest in the issue of US-Taiwan bilateral free-trade talks. Nonetheless, this should not be taken as the subsiding of a general pursuit of trade liberalization in Taiwan. Quite the contrary, it hints at the widespread embrace of a more profound multilateral trade regime in the Taiwanese society at the turn of the 1990s. This is where the chapter now turns to shine its light.

V. Currency Dispute and the Nationalist Embracement of Free Trade Regime

**NTD Currency Appreciation and Advocacy for Market Liberalization**

Since the 1980s, unilateral trade liberalization has reached a comparatively high consensus between the state and society in Taiwan—stemming from the paradigm shift when the government sought tax reform and economic restructuring while rising populism attacked tariff protection as a form of state tyranny. The consensus was less unified for bilateral free-trade advocacy between the US and Taiwan, where it was largely constrained to the governing political and business elites. It is not until the end of 1986 when the US began to utilize currency appreciation as a tool to push Taiwan to further open its market that the free-trade agenda began to gain popularity in Taiwanese society.

In 1986, the US started using currency appreciation as its key tactic forcing East Asian NICs to address their trade surplus with the US. Taiwan, with its excessive foreign reserves at the time, became the US’s second largest target at currency appreciation next to Japan. However, the Central Bank’s decision to launch NTD currency appreciation in a relatively short period of time both as a way to appease the US and to solve the structural problem brought on by long-implemented foreign-exchange controls severely threatened the survival of the numerous SMEs, leading to an
acceleration of populist attacks on both the state’s foreign-exchange policy control and the restrictions on outward investment. Meanwhile, such a populist appeal turned to cast on policies regarding trade liberalization. Regaining populism’s political momentum, the recurring trade liberalization agenda now turned to push domestic-market opening at a greater scale.

First of all, liberal economists, who had incessantly advocated for the principle of market economy and its benefit for Taiwan’s economic restructuring regardless of the pressure from the US (Wang 1985; Hsia 1986; Sun 1988), were joined by the strategic liberalists who drew on nationalism in their arguments. These scholars proposed that to fight US protectionism and to avoid the detrimental impact NTD appreciation might bring to SMEs and export-oriented manufacturing industries as a whole, accelerating the speed for total liberalization to restore the true logic of a market economy was the only correct path (Du 1987; Hou 1989; Hou et al. 1989). The pressure for market opening revealed itself in a more acute manner in the Parliament, where a great number of KMT and non-KMT legislators worked together to condemn the “inappropriate policy conduct” of the Central Bank, requesting the government to actively open the domestic market and launch further tariff reductions as a way to bargain with the US on the currency issue.75 As the Parliament interpellation shows, it became a widely accepted notion that, in order to prevent the SME-based national economy from collapsing in the face of NTD currency appreciation, sacrificing Taiwan’s domestic market to US imports was imperative. Some of the legislators went even further to propose that only through embracing total trade liberalization, like Hong Kong and Singapore, could the pressure from the US be ultimately eased.76

Mediated by the currency issue, the populist appeal challenging the legitimacy of state’s foreign economic policies and its moral responsibility to take care of the SMEs articulated with the free-trade agenda in the name of protecting the national economy. It is an ironic outcome that can only be understood in the context of the intricate interactions between the exacerbated crisis of the accumulation regime based on export-oriented, privately-run and SME-driven economy and the

intensified political discontent against the state that used to be known for its acclaimed success in guiding economic development in Taiwan.

**GATT: From “For the Sake of the People” to “In the Name of the Nation”**

The currency dispute that took place in 1987 had also reshaped the ways in which the nature of US hegemony was perceived in the popular discourse. In addition to condemning the immoral nature of the Taiwanese state’s policy decisions, populist pressure also evoked nationalist resentment against the imperious conduct of the US. In the Parliament, a number of legislators began to resort to nationalist discourse in questioning the hypocrisy of the US—asking Taiwan to remove its market-entry barriers while exercising trade protectionism on its own goods. Some even drew on the notion of “unequal treaty”—which has haunted modern Chinese history since the late 19th century—to characterize the nature of concessions made by the Taiwanese government to the US, arguing that Taiwan had become an “economic colony” under the US.\(^{77}\) A later decision to open state-monopolized businesses including tobacco, wine, finance and insurance to foreign importation and investment while retaining restrictions for the Taiwanese nationals to do business in these areas also caused the legislators to condemn the administration for “granting the US ‘ultra-favored-nation treatment’” (超國民待遇) and “allowing foreigners to set fires while prohibiting its own people from lighting a lamp.”\(^{78}\) The moral ground of pursuing unilateral trade liberalization as a way to tackle US pressure was therefore challenged by nationalist discourses.

Interestingly enough, these nationalist discourses did not turn to advocating for wider protectionism against the US request for market opening but quickly articulated with the campaign for joining the multilateral free-trade regime—GATT. From mid-1987 to early 1988, dozens of legislators from different political parties requested that the government deliberately consider “returning GATT”—the international trade platform from which the ROC government voluntarily withdrew right after its retreat to Taiwan in 1950—as an institutional way of solving the severe

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trade conflicts between Taiwan and the US. Putting on a nationalist coat to fight inferiority and subordination, it was hoped that through the platform of an international trade organization, the unequal bilateral relationship between Taiwan and the US could be brought to an end, and the long-existing conditions for Taiwan to “fulfill its obligation without enjoying any rights” in the international trade arena could be resolved. Rejoining GATT was therefore conceived as a panacea which could guarantee “ultimate peace” regarding Taiwan’s international trade affairs. Endorsed by the majority of the legislators, the government immediately summoned a special task force under the Administrative Yuan to take charge of joining GATT.

Besides serving as a geoeconomic strategy to pursue “national interest” as opposed to US hegemony, the popularity of the campaign for “returning to GATT” in Taiwan should be understood in the context of the changing modality of nationalist politics on the island from the late 1980s. Although the nationalist aspirations split between the pro-unification camp guided by Chinese nationalism and the pro-independence camp promoting Taiwanese nationalism, the indigenization of the KMT regime served to put off the internal controversy. Moreover, what stood against the widening gap in national identity between pro-independence and pro-unification camps was the converging idea that ROC/Taiwan was a truly democratic country with national pride and therefore deserved international recognition—the dominant political rhetoric at the time. Advocacies for “returning to international society” and “improving Taiwan’s international status” were accordingly championed by both the KMT and the opposition party DPP—despite having discrepant national imaginaries and contradictory aspirations of future sovereignty arrangements. As such, “proactive diplomacy” became the popular slogan that flooded the social commentary. It was with the outward-turning nationalism that campaigns such as “Return to

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80 It took more than ten years for Taiwan to join GATT/WTO in 2002, majorly because of the pressure from China to join the organization prior to Taiwan.
81 Scholars vividly pointed out that democratization helped improve ROC's international reputation, strengthened citizens' faith, and paved the way for Taiwan to return to international society. See: Democratization Will Help Taiwan to Return to International Society (1989, Jan 12). Central Daily News, 02.
International Criminal Police Organization,” “Return to International Labor Organization” and even “Return to International Boxing Association” galvanized the entire Taiwanese society.

Moreover, diplomatic setbacks during the 1970s had also contributed to the replacement of sovereignty-based nationalist discourse with that of economic success, which served as the alternative narrative that reconstituted Taiwanese identity (Harrison 2006). Against this backdrop, the economy-focused nationalist discourse soon bridged with the collective outward-turn nationalism of 1987, where “returning GATT” was deemed emblematic of “returning to international society.” The business tycoon Koo Chen-Fu (辜振甫), for instance, openly remarked that Taiwan should utilize its economic strength to return to the international arena as a way to break through its diplomatic isolation.\textsuperscript{83} Scholars also endorsed the idea that Taiwan’s embrace of true free trade manifested a vivid contrast to that of mainland China, where market liberalization was still highly paced by the state.\textsuperscript{84} As in the Parliament, a number of legislators from different parties came together to advocate returning GATT as a way to mitigate the impacts from the impending diplomatic relationship the Vatican and South Korea were about to establish with PRC.\textsuperscript{85} Although disagreeing with the “official name” Taiwan should use to join GATT, legislators from the opposition party believed that accession to GATT would reaffirm Taiwan’s sovereignty and would help demonstrate to the world that the One-China scheme should merely be considered as a future tense, not as a current condition.\textsuperscript{86}

At the turn of the 1990s, the desire of political and business elites to “lock-in” a free-market economy by participating in the international free-trade regime, the appeal from the populace to utilize total liberalization as the bargaining chip against the US’s pressure on NTD currency appreciation, together with the nationalist aspiration of rejoining international economic organizations to enhance Taiwan’s diplomatic status, had ultimately contributed to the conjunctural embracing of free-trade hegemony in Taiwan. The ascendancy of such hegemony was particularly evident in the struggle over further market opening for agricultural products in


\textsuperscript{84} The World Economic and Trade Platform Will Broaden for Taiwan if Joining the International Trade Organization (1988, Feb 15). Central Daily News, 03.


Taiwan, where “national interest” and “farmers’ interest” were put on opposite ends of the spectrum. Against the fervent farmers’ movement in 1988 and the Council of Agriculture’s subsequent decision to suspend granting import permission to foreign beef importation, legislators and economic officers took turns condemning the Council and farmers’ irrational conduct. They claimed that it undermined Taiwan’s previous efforts toward trade liberalization and violated the free-trade principle from GATT, cautioning that it would hinder Taiwan’s chance of returning to international organizations.\(^{87}\) Political pressure and moral persuasion finally forced the Council of Agriculture to compromise, stating that it would fully cooperate with the nation’s interest as a whole by reviewing the existing limitation for agricultural importation.\(^{88}\)

**Concluding Remarks**

Taiwan’s persistent drive for trade liberalization since the 1980s unravels a far more complicated story than what is often portrayed as neoliberal hegemony underpinned by a global market-access regime. This story hardly fits in any of the reductionist accounts that rely on external pressure or internal forces as the sole source of explanation. What is more, it was not led by coherent logic nor evolved along the unchanging institutional landscape. Rather, it materialized cumulatively where long-existing ideological and material forces articulated with one another at multiple historical conjunctures. Also the changing nature of US hegemony, along with the rise of its protectionist trade regime in the mid-1980s, contributed to the development of issues around foreign exchange, currency, and trade in Taiwan. Articulated with the domestic political forces of democratization and external dynamics of US hegemony, trade liberalization in Taiwan had become a recurrent yet constantly evolving agenda for various forces and agencies to appropriate and struggle over.


Populism—as co-constitutive of the state’s legitimacy crisis—played many roles in Taiwan’s recurrent trade liberalization agenda. At the early trade liberalization phase, populism was embodied in the consumerist accusation of economic discrimination, ambivalently echoing the governing paradigm shift that sought to introduce market forces for economic restructuring and rebalance the export-import dynamic. It then undertook the opposition movements’ attack on party-state capitalists sustained by privilege and market monopoly, cracking the already mired developmentalist dream of cultivating national industry. Facing US pressure to appreciate NTD currency, populist appeal began to ask for total market liberalization as a means to keep the SME-based “national economy” from collapsing. Articulating with the rising outward-turn nationalist pursuit of Taiwan’s sovereignty after democratization, the populist force turned to endorse the international free-trade regime. Although it was not until 2002 that Taiwan was finally granted WTO membership, these dynamics eventually contributed to the consolidation of free-trade hegemony in Taiwan. Thus, Taiwan’s subjectivity was intrinsically ingrained in—and consolidated by—the ceaseless pursuit of trade liberalization.
Chapter 4

Re-articulating the Nation-People Nexus in the Outward Economy I: Populist Authoritarianism and Neoliberal Regionalism

I. Introduction

The previous two chapters tackled the intrinsic yet largely overlooked connection between populism and early trade liberalization in Taiwan since the mid-1980s. Extensive economic restructuring along with ceaseless political upheaval had contributed to the early and spontaneous trade and economic liberalization. Specifically, the subject formation of the “people” and the struggles exercised in its name had become the crucial site mediating exogenous geoeconomic forces derived from US protectionism and the government’s policy response. Its impact on Taiwan’s trade policy reorientation is pervasive in scale and scope: from requesting liberalization of foreign exchange control, loosening outward investment regulations, decriminalization of trade with mainland China, to demanding tariff reduction and opening domestic market.

However, the 1990s witnessed a fundamental shift in the geopolitical-economic environment facing Taiwan. Neoliberal regionalism emerged worldwide by the end of the Cold War, which came in tandem with the rising influence of China in the global economic restructuring. Given the rocketing outward investment from Taiwan to China and the closer cross-Strait economic relationship, the convoluted geopolitical and geoeconomic dynamics across the Strait gradually replaced US protectionism to be the core concern in Taiwan’s trade policy formation. To what extent and at what pace should the cross-Strait economic liberalization be implemented has thus been subject to severe political struggle on the island. In accounting for how Taiwan’s trade and economic liberalization evolved in such changing geoeconomic-geopolitical dynamics, scholars from various disciplines began to look at emerging nationalist politics within Taiwanese society as the major source of explanation. Different aspects of nationalism—how it formed, what it upheld and in what ways it drove economic behaviors—has thus become the field for various scholarly interventions.
The surging academic interest in nationalism and its implications to the state’s geoeconomic maneuvers, however, entails further question about its relations with the process of capital restructuring at large in Taiwan. Also, it is equally valid to ask whether populist forces challenging the legitimacy of the state and its trade and foreign economic policies totally gave way to nationalist politics through the 1990s. Or were they incorporated into a new mechanism of state governance through which a unique set of trade policies and liberalization rationale was formed? What was the relationship between “nation” and “people” in such a new form of state governance? And lastly, how did these dynamics reshape the contour of trade and economic liberalization and contribute to the rise of neoliberal agenda?

To address the questions above, this chapter will proceed in three sections: The first section reviews the literature tackling the dynamics between nationalism, economic globalization, and neoliberalism. In doing so, it foregrounds the nation-people nexus in rethinking such dynamics for the nation-state caught up in postcolonial conditions. The second section conveys a critical review of the prevailing types of scholarship tackling the aforementioned themes in Taiwan’s context ranging from development state studies, international relations, political science, to international political economy. By comparing and contrasting these approaches, the analytical merit of the notion “populist authoritarianism” will be highlighted. Engaging with such an analytical framework, the third section examines the neoliberal regionalist project—Asia Pacific Regional Operation Center (APROC)—launched by the Taiwanese government during the 1990s as the case in point. While revealing the key role neoliberalism played in the formation and consolidation of populist authoritarianism, I also seek to signal the potential drawbacks when abusing such a concept, through which a more dialectical investigation of the struggles for hegemony is proposed.

II. Theoretical Recalibration: Nationalism, Populism, and Neoliberalism

*When Nationalism Meets Neoliberal Globalization*

To date, research on neoliberalism and economic globalization has primarily focused on state-economy relations as its core subject of analysis. Where market restructuring, institutional reform, governmentality, and free market ideology are concerned, the notion of state has been at the center
of the theoretical inquiry. Conceptual frameworks such as de/reterritorialization, rescaling and graduated sovereignty capture ways in which states across the globe adopt and adapt to the variegated impulses of neoliberalism. Comparatively, the idea of “nation” and the role of “nationalism” in such dynamic has drawn much less attention, partly because nationalism was often deemed as a cultural phenomenon unrelated to the function of political economy in the division of labor of academia (Hellina & Pickel 2005). Nonetheless, there is a small but growing body of literature taking interdisciplinary approaches to the relationship between nationalism and neoliberal globalization. It is thus proposed that nation—both as a symbolic system and a social structure—cannot be understood in separation from or contradiction to the international or global (Hellina & Pickel 2005, p. 8-10). Just as the state is reconstructed in the global economy, so is the nation.

Among the literature examining the relationship between nationalism and global economy, much of it sees the two forces antithetical to each other, where the resurgence of nationalism is understood as a reaction to a gradually deterritorialized economy. Thus “economic nationalism” is seen as an expression of protectionism through which a particular policy restriction imposed on trade and economic liberalization is justified. So the state mobilizes narratives of national survival and national security in a top-down manner to launch more restrictive and sometimes authoritative trade and economic policies. At the same time, anti-globalization social movements also largely utilize nationalist discourses such as autonomy, community unity, and national dignity to fight the impacts of neoliberalism on the domestic economic arena (Sparke 1996, 2007; Worth 2002; Glassman 2004).

Recent inquiries into the relationship between nationalism and neoliberalism in the global economy present a much more complicated picture than mere protectionism. Many empirical studies have revealed how nationalism is variously mobilized to support, reinforce or reconstitute a neoliberal framework, sometimes with paradoxical implications that emphasize individual competitiveness as a way to glorify the nation (O’Toole 2003; Cho 2008; Hall 2004; Kangas 2013). Some theoretical analysis goes further to argue that there can be genuine compatibility between nationalism and neoliberalism in their inherent political natures, where the notion of “neoliberal nationalism” is forged to capture the double-logic of neoliberalism that upholds the
detrimental global economy in the name of “national competitiveness” in the capital accumulation project while at the same time taking on a protectionist stance for national sovereignty to resist harmonization of taxation, regulations, and social standards beyond the state scale (Harmes 2012).

Given that there is no inherent relationship between nationalism and economic protectionism, and constraining economic nationalism to any policy doctrine is analytically undesirable, how do we theorize the relation between nation and political economy? Some scholars propose “nationalizing mechanism” as the key to the question, a mechanism that ties together processes of economic change at global and national levels (Pickel 2003; Helleiner & Pickel 2005). Such a mechanism broadly encompasses “the political legitimation of states; the reproduction of a repertory of common epistemic and moral orders fundamental for the coordination of political and economic action; a constantly evolving national discourse; and national identities as processes of shared social representations, social practices, and forms of collective action” (Helleiner & Pickel 2005, p. 13). The context-specific nature of the nationalizing mechanism, the discursive structures of nationalism and their effects on particular trade and economic doctrine can only be apprehended in the historical and geographical intersections from which it arises.

**Rearticulating the Nation-People Nexus in the Global Economy**

Gramscian scholarship on hegemony provides an illuminating analytical framework with which to view the “nationalizing mechanism” in the global economy as context-specific and the issue of political legitimation as its core of interrogation. In that, indebted to historical materialism, the notion of hegemony denotes a social-economic order that is agreed upon by the ruler and the ruled, a political relation where leadership and consent are preferred over coercion. The political project of constructing the “national-popular” is key to either earn governing legitimacy or to struggle against an established social-economic order (Glassman 2009). Specifically, the ways in which the “nation” and the “people” are articulated is critical to such dynamics. For example, as demonstrated in Chapter 1, Gramscian approaches to Thatcherism by Stuart Hall and Bob Jessop et al.—despite their discrepant interpretation of Gramsci’s conception of hegemony and analytical emphasis—acknowledge the dynamics between the “nation” and the “people” as the key to
understanding the rise, consolidation and possible limitations of the neoliberal project taking place in the UK.

However, the ways in which “nation” and “people” articulate each other in the globalized economy can vary depending on the distinctive nationalist project derived from different state-society relationships in particular historical-geographic contexts. Such awareness is particularly pertinent to the societies caught in post-colonial conditions, where state formation and nation building are both rendered as ongoing processes. Much literature has revealed that the nationalist movement in the third world is propelled by advocacy for liberating the colonial subject not only from political oppression but economic exploitation. As a result, the dual process of nation-building and state formation is premised on the twin promises for economic liberation and equal citizenship among the “people”—the moral base upon which the governance of the postcolonial state is justified. These promises, however, are haunted by unresolvable tensions, for there is an intrinsic conflict between “people” evoked by civic nationalism as the bearer of universal rights and equality, and “people” as the governing subject of the state’s developmental project subjugated to the politics of governmentality (Chatterjee 2004). This unresolvable tension between nation-people and state-subject, as well as the corresponding struggles in the economic sphere, constitute the very essence of the “political society” driven by popular politics that prevails in the postcolonial world and beyond.

Such a relationship fraught with unresolvable tensions, as recent studies point out, is further complicated by economic globalization and the rise of neoliberalism, where nationalism, populism, and restructuring of the state’s accumulation regime form a very intricate set of interactions. As demonstrated in Gillian Hart’s (2008, 2013) analysis of the post-apartheid South African political economy, although the articulation of official nationalism and popular national liberation is the key to the establishment and consolidation of the ANC alliance, it was subsequently challenged by globalized mode of capital accumulation, resulting in contradictions between social aspirations to liberation and justice promised by nationalism and the new deployment of state-society relations. Such an unstable condition nonetheless opens up a space for political contestations and a potential counterforce to neoliberal hegemony. In a nutshell, interrogating the ways in which the nation-people nexus is (re)articulated in the state’s strategy of engaging in the global economy provides
a critical approach to focusing on the far more complicated dynamics of hegemonic struggles with neoliberalism.

III. Nationalism and Trade Politics in Taiwan: A Critical Review

The division of labor between studies on nationalism and political economy in the world academia (Helleiner & Pickel 2005, p. 7) is also reflected in Taiwan. While the experience of Taiwan’s economic development used to be primarily conceived as a study of political economy with little attention paid to the cultural dimension, the issue of nationalism was approached as an ethnicity-driven cultural phenomenon independent of economic forces or conditions. However, in light of the complex nature of the cross-Strait trade conflict in the 1990s, integrated approaches are increasingly employed to tackle the intrinsic interactions between economic forces and nationalist contestations. These studies widely draw on the scholarship of developmental state studies, geopolitics and security studies in IR, and neo-Gramscian hegemony theory from IPE. The following sections will critically review the existing literature; a more pertinent analytical framework will then be proposed.

Economic Nationalism and East Asian Developmental State

One approach to the relationship between nationalism and economic development in Taiwan can be found in studies of the development state (DS) influenced by the general culture-turn in academia. Working on the post-War contest, this scholarship endeavors to foreground culture and ideology in the DS literature dominated by studies in political economy, arguing that nationalism plays a crucial, rather than a derivative role in Taiwan’s economic development. This approach is well demonstrated in East-Asian historian Meredith Woo-Cumings (1999, 2005) and Taiwanese economist Chu Wan-wen’s (2009, 2011) work, where the notion of “economic nationalism” serves as the analytical locus. Focusing on the East Asian Developmental States (EADS), their research collectively portrays concerns for state security and aspiration for national unification under the Cold War as the major drivers for the KMT regime to pursue ceaseless economic development in Taiwan. While Woo-Cumings ascribes national survival as the “binding agent” of social mobilization for economic production, Chu contends that bureaucratic nationalism thriving for the
salvation of the nation played a crucial role in guiding Taiwan’s postwar development path. In other words, it is the coordination of bureaucratic capacity, Chinese nationalism, and external conditions that contributed to the phenomenal economic achievement in postwar Taiwan (p. 54).

Research addressing similar issues continues to thrive more recently. K. Chang’s (2013) research on the formation of techno-nationalism in Taiwan since the 1960s portrays the continuation and extension of early-stage modern Chinese nationalism underpinned by the aspiration of “saving the country with science” (科學救國) and the wide-spread endorsement of bureaucratic rationalism among social elites after the KMT re-established its regime in Taiwan. Supported by US-aid programs and KMT’s authoritarian regime, these Chinese nationalist bureaucrats were able to establish techno-nationalism underpinned by a tripartite project between national restoration, economic development and technological progress in Taiwan. Hsu Jinn-yuh’s (2017) research on the initiation of the semiconductor industry in the 1970s in Taiwan also identifies the resurgence of Chinese nationalism against the backdrop of the Baodiao Movement (保釣運動)—defending Diaoyu Island against Japanese acquisition. This movement served as the major driver for patriotic overseas intellectuals—most of whom were trained in science and technology—to return to Taiwan to serve its motherland.

Despite wide use of the notion of economic nationalism in accounting for the extraordinary economic success in postwar Taiwan, the extent the idea captures the experiences and praxis among ordinary Taiwanese people is doubtful. First of all, although Chinese nationalism did propel the intellectuals and governing elites to develop the national industry for the sake of national survival, whether such nationalist aspirations equally galvanized the populace and motivated their participation in the development of “national economy” was highly questionable. Such equivocation is clear in the nature of Taiwan’s distinct postwar social-economic structures premised on a dual economic system with antagonist tensions yet close connection between state and private capital. In such a dual system, the domestic economic sphere was monopolized by a small number of large-scale state-owned enterprises or private companies maintaining close ties to the state, while the overseas export market was left to the numerous SMEs loosely incorporated in the development project of the state. The design of such a dual system primarily served to secure clientelism and reproduction of the party-state regime, where SMEs were largely excluded from

Such a dual economic system unavoidably carried profound social and political implications in the prevailing ethnic tensions: Due to the fact that economic opportunities and personnel to a great extent followed the ethnic divide, there had been prevailing sentiment and distrust against the mainlander’s ruling class among the Hoklo Taiwanese (Wang 2008). The ethnic-based sentiment was further exacerbated by the experience of political oppression and discrimination against local cultures and languages in the name of restoring official Chinese nationalism in Taiwan, contributing to the phenomenon of “social interaction with political segregation” characteristic of the entire post-war Taiwanese society (Wu 2002). As a result, SME-dominated economic activities in the private sphere, although incorporated into the dual system as the major factor of the export-oriented accumulation regime which achieved substantial economic growth, can hardly be ascribed to conduct driven by Chinese nationalism.

Moreover, depicting the bureaucratic pragmatism-underpinned modern Chinese nationalism, K. Chang’s (2013) research provides a critical examination of its ideological effects in governing the social-economic realm in postwar Taiwan. Instead of fetishizing the “binding effect” of Chinese nationalism in mobilizing society for pursuit of economic development, the adoption of scientific rationalism in KMT’s official nationalism worked to “neutralize and depoliticize” social-economic relationships, which serves to justify sustaining authority and excluding local society. Economic nationalism upheld by the techno-bureaucrats under the KMT functions more as a mechanism of governmentality in the Foucauldian sense, rather than the mutual consent shared by the entire society. The bustling private economic sector in Taiwan is, therefore, a result of state governance maintained through distinction, discrimination, and depoliticization, rather than a demonstration of economic nationalism.

These researches constitute a poignant reminder of the potential risk of unconditionally transplanting the notion of “economic nationalism” to Taiwan’s context, where “nationalism” can be attributed to either the functioning of a top-down passive revolution or a radical transformation of political and economic orders. Despite the effort of bringing in the “cultural aspect” to political-
economy dominated research, without placing official Chinese nationalism in the particular state-societal relations and critically interrogating the “nationalizing mechanism” (Pickel 2003; Helleiner & Pickel 2005), it is not only unable to eschew the critique of idealism but risks overemphasizing the “binding role” nationalism played in mobilizing society and its ideological effect on Taiwan’s economic development experience.

Moreover, such an analytical bias does not explain the dynamics between Taiwan’s nationalist politics and trade and economic liberalization in the globalized era. Presuming an intimate coalition between state and society in the economic arena premised on Chinese nationalism, rather than confronting the undercurrent of potential tensions and contradictions, studies of this kind make it difficult to explain why the populist appeal quickly turned to align with the opposition movement in contesting the official construction of “national economy” and its policy response to addressing the challenges faced by the accumulation regime in the 1980s (see Chapter 2 and 3). Moreover, essentializing Chinese nationalism as an ideological motif of national survival would risk ignoring the indeterminate relationship between neoliberal impulses and Chinese nationalist discourses, which will be further illuminated in the third section. Only by taking a critical stance in examining the governing effects of official nationalism and the struggles in its name can we avoid bypassing the “political moment” of nationalist politics, reducing the rise of Taiwanese nationalism to a threat to the “prospering national economy” established by Chinese nationalists, or even re-affirming authoritarianism by condemning democratization and its impact to the efficacy of the developmental state.

**National Identity Contestation and Geoeconomic Policies**

Another area of study dealing extensively with nationalism and foreign economic policies in Taiwan comes from the disciplines of IR and broader political science. The late 1980s in Taiwan witnessed a thrust toward trade and economic liberalization along with deregulation of foreign exchange controls and capital outflow. Specifically, the ensuing decriminalization of trade with mainland China has contributed to the exponential growth of cross-Strait trade and investment. Within a decade, China has become the single largest destination of Taiwanese capital investment. Nonetheless, what came with the booming cross-Strait economic fever was rising political tension between the two, where the 1996 Taiwan Strait missile crisis manifests the most remarkable
incident. By the end of 1996, President Li Deng-hui officially proposed to curb the over-heated cross-Strait economic relations. It is against the evolving cross-Strait political-economic dynamics that the IR literature began to foreground the issue of nationalism in the cross-Strait geopolitical economy.

Literature of this kind largely portrays nationalist struggles in Taiwan as a form of identity politics, where Taiwanese nationalism and Chinese nationalism entail respective geoeconomic strategies against mainland China. Sharing the belief that economic integration would eventually foster political integration, Taiwanese nationalists called for cool-down of linkages with China in fear of its potential threat to national security, while Chinese nationalist urged further liberalization across the Strait. Among a great number of studies, Shyaru Lin’s (2016) work provides a detailed analysis of the dynamic intersection between economic ideologies and nationalist aspirations among a range of governing elites from politicians, policymakers and transnational business leaders. Some other scholars tackle the issue of identity in the cross-Strait economic relationship from the bottom-up, arguing that the ethnicity identity plays a crucial role in determining a Taiwanese citizen’s perception towards the issue of cross-Strait economic integration regardless of their degree of involvement in cross-Strait business affairs (Keng, et al. 2006; Keng & Schubert 2010).

Conceiving identity politics as the defining element for cross-Strait geoeconomic relations, yet another line of scholarship approaches this issue from an alternative epistemological tradition. Inspired by critical geopolitics based on post-structuralism, studies of this kind view foreign trade policies as a means of constructing Self/Other in the international arena. By constructing (and exaggerating) China as a pernicious enemy threatening Taiwan’s economic security, it is argued, the Taiwanese national identity can thus be formed. Such discursive logic, however, often does not reflect the material reality on the ground. It is therefore the logic of state identity (re)production that drives Taiwan’s protectionist cross-Strait trade and economic policies (C. Chen 2010).

Together, this family of scholarship trenchantly illustrates the intensified dynamics between nationalist politics and trade and economic policies in Taiwan since the 1990s. Despite different intellectual traditions the aforementioned studies draw upon, they all accentuate “nationalism” as a form of identity politics, through which cross-Strait geoeconomic dynamics is explained. The
complicated articulation between discourse and materiality is therefore undertheorized. Moreover, they share an implicit assumption that Taiwanese nationalism, be it the cause or result of cross-Strait geoeconomic dynamics, is inherently associated with economic protectionism. In other words, either the more delicate analysis of national identities among the governing elites or a post-structuralist view of identity as a state construction would return to a dichotomous narrative that links trade and economic liberalization with Chinese nationalism and economic protectionism with Taiwanese nationalism.

**The Nation-People Nexus and the Rise of Populist Authoritarianism**

International political economy (IPE) serves as another type of scholarship that accentuates changing state-society relations in the 1990s as the key to understanding the intrinsic dynamic between nationalism and foreign economic policies in Taiwan. Interrogating the state-society relationship in the democratization era, these IPE studies underline the broader geopolitical and geoeconomic dynamics and their implications to the restructuring of the nation-state since the 1980s. Nationalism is conceived as a political project that came along with state reform against the backdrop of political democratization and economic liberalization. Moreover, examining the dynamics of hegemonic struggles, the subject formation of the “nation-people” naturally draws their analytical attention.

Research as such first exemplified in Shiau Chyuan-Jeng’s (1996, 2004) work. As Shiau posits, the convoluted political and economic forces from the international and domestic arenas, including the resurgence of US protectionism, the rise of East Asian regionalism, China’s economic reform, and Taiwan’s democratization process jointly presented a fundamental challenge not only to the sustenance of the KMT regime but also to the wholeness of Taiwan’s political-economic community. It is against the backdrop that Shiau returns to the notion of economic nationalism and advocates for the reconstruction of the national state grounded in civil society and in pursuit of the “national economy” truly representing the interest of the people.
Tackling the state restructuring process since the 1990s, a number of critical scholars reject the widespread self-congratulatory social critique embracing the non-violent democratization experience achieved in Taiwan as a “silent revolution” and the victory of the people. Instead, they maintain that the political project launched by the Taiwanese state since the 1990s manifests the rise of “populist authoritarianism.” Wang and Chian (1995) propose that the dual process of nation-state reconstructing led by the indigenized KMT regime incorporated indigenous political forces and the capitalist class in its power operation, while evoking Taiwanese nationalism and resorting to “peoplehood” as its source of justification. Political scientists Fu and Chu (1996) also present similar observations in their studies of the rise of populist authoritarianism backed by the popular embrace of electoralism: After democratization, Taiwanese society generally conceived of the direct popular vote as the cure for all; yet at the same time, it maintained strong skepticism against political pluralism and liberalism. As a consequence, the realization of real democratic reform was effectively curbed in the nation-state reconstruction process.

Although foregrounding the articulation of the nation-people nexus in the state hegemonic project, criticism gives limited weight to the material dimensions in its analysis on the rise of populist authoritarianism. As such, Jessop’s critique of ideologism inherent in Hall’s take of Gramscian hegemony theory seems to apply (see discussion in Chapter 1). In the later literature dealing with the ideological-material dynamics of hegemonic restructuring, Wang Jenn-huan (2007) utilizes the case of the ICT industry and its spatial restructuring in the globalization era to explain the “de-coupling” phenomenon between the state accumulation strategy and the state political project. Wang’s conclusion turns out to echo much of the dichotomous understanding that prevailed in IR scholarship, which predominantly ascribes economic protectionism to the rise of Taiwanese nationalism that worked against the ICT industry’s business strategy to re-embed its production network in China. Ultimately, the Taiwanese state failed to appropriate the trend of economic globalization as a result of the nationalist/populist project overruling the “glocal state” strategy.

However, by conflating Taiwanese nationalism with economic protectionism, Wang’s analysis inevitably overlooks the variegated territorial logic of Taiwanese nationalism, including different

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89 Many of these critical scholars were associated with a radical academic camp using “Taiwan: A Radical Quarterly in Social Studies” as a platform of knowledge exchange.
initiatives of economic deterritorialization (See the proceeding chapters for further elaboration). Moreover, although drawing on the same notion of “national populist project,” Wang’s analysis seems to conflict with the approach demonstrated in his earlier work on “populist authoritarianism” in the 1990s, where the hegemonic struggles and their articulation with the nationalist project and populist forces were scrutinized in a more dynamic way instead of assuming stability between them. Together, the contingent articulation of the people, the nation, and the deterritorialized economy remain under-exploration. To fully exploit the analytical utility of the notion “populist authoritarianism” in understanding the dynamics between nation-building, state-construction and trade and economic policies launched in Taiwan in the 1990s, the following section will interrogate the neoliberal regionalist project APROC proposed by the Taiwanese state as a case in point. It not only seeks to disentangle its ideological underpinning but also sheds light on the undercurrents that worked to challenge such a hegemonic formation.

IV. Reconstructing the Nation-state through Neoliberal Regionalism

The “Greater China Economic Circle”

Economic reform in China since 1979 had not only generated profound influence on Taiwan’s economy but also invoked a variety of geoeconomic imaginaries in Taiwan that were under constant reconstruction. First, post-reform mainland China was constructed as an “intimate Other” to Taiwan. Although a series of major diplomatic defeats in the 1970s had generated a severe legitimacy crisis for the KMT regime, communist China’s “conformity” to market economy was extensively drawn on by the KMT as a proof of the supremacy of market capitalism over its communist counterpart in the 1980s. Still, the Taiwanese government propaganda conceived market socialism launched in mainland China as an experience doomed to fail and the development experience of Taiwan as the ultimate role model for mainland China’s economic and political reform. It, therefore, reaffirmed Taiwan, the “free China,” as the touchstone to “unite China under three principles of the people” (三民主義統一中國)—the very first article of ROC’s Constitution drafted by its founding father, Sun Yat-sen. In other words, facing a legitimacy

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crisis, the timely market reform launched on mainland China provided the mired KMT a solid justification to sustain its governance in Taiwan while, at the same time, suppressing the emergent pro-independence movement of the 1980s.

The geoeconomic imaginary of China as a follower of Taiwan’s market economy soon got refashioned as a trend of outward investment surging after foreign exchange control deregulation in 1987. The “doomed socialist market reform” imaginary suddenly transformed into a tempting market for investment in the popular imaginary. Besides the populist appeal for decriminalization of cross-Strait economic activities (see Chapter 2), Chinese nationalist hopes for “recovering mainland China through capital investment” and “reunification by trade” also surfaced from within the KMT regime. Openly endorsing such advocacy, a number of KMT legislators and party leaders urged the state to transcend its fear of communism and remodel its mainland policy guided by the “Three Nos” principle, arguing that investing in China was not only for the sake of national reunification, but a humanist act devoted to saving the Chinese mainlanders from economic hardship.92

Despite the burgeoning advocacy for “unification by trade” (以經促統) from within the pro-unification camp in 1988, such a proposal was by no means accepted as the party line. Instead, it was quickly suppressed by the party establishment. Given the undesirable geopolitical and geoeconomic conditions for the sustenance of the party-state, the “truly national unification agenda” had ironically become an unspoken taboo for the regime claiming to pursue unification under Chinese nationalism. Fearing that the realization of such a proposal would bring annexation of the regime itself, the KMT-led government had no choice but to firmly assert its Chinese orthodoxy on the one hand while discrediting any radical advocacy for Chinese national unification on the other (Tang 2013). No wonder twenty-five KMT legislators of the time opposed the proposal of lending capital to PRC, as they strongly contended that rather than achieving peaceful reunification, capital outflow to mainland China would only help bolster the strength of Taiwan’s own enemy.93


However, aspirations for greater cross-Strait economic integration did not just vanish into the air. On the contrary, it quickly regained momentum and transformed into a geoeconomic proposal with less radical geopolitical undertones—the Greater Chinese Economic Circle (大中華經濟圈). This plan was first initiated by a number of Hong Kong business elites and intellectuals against the backdrops of foreseeable reunification in 1997, the rising trend of regional integration after the end of Cold War in 1991, and the spatial reconfiguration of the manufacturing industrial network in East Asian due to global economic restructuring. This regionalist proposal subsequently drew attention from the business class and social and political elites in Taiwan. Many started to advocate for the idea of “economic China” by constructing a greater Chinese market, arguing that cross-Strait economic collaboration would not only help mitigate geopolitical antagonism but also lay the material foundation for the future political arrangement of unification.\(^94\) Such an integrationist proposal resonates well with the dualistic construction of “geopolitics of fear/geoeconomics of hope” coined by Sparke (2007), for it represents a groundless hope of solving geopolitical tensions through the insertion of the free-market model.

However, the ethnic ties underpinning the business network of the “Greater China” may be over-exaggerated, for it in effect consists of a number of people subject to different citizenships and sovereign arrangements (Cartier 2001). This argument vividly reflects in the mixed responses the Greater Chinese Economic Circle received in Taiwan: While a number of scholars from the government thinktank recognized that there were comparative advantages for the two economic entities, they doubted the practicality of establishing more institutionalized arrangements and genuine collaboration across the Strait given the persistent political antagonism from both sides (Kao 1991; J. Wang 1992). Legislators from different parties also expressed associated apprehensions of various kinds. It was not surprising to see DPP legislators arguing about the potential sovereignty infringement brought by the free flow of goods, people and capital the greater Chinese market would bring.\(^95\) It was more surprising, however, to see pro-unification legislators expressing similar concerns over the negative impact the disproportional economic scales between


Taiwan and the mainland China would bring if economic integration was pursued without mutual political trust. The New Party, which was formed by pro-unification radicals as a breakaway from the KMT, even went further warning that the establishment of the Greater China Economic Zone would only help Beijing to recover Taiwan, not vice versa.\(^96\)

The most severe opposition arose from the sovereignty dilemma facing the KMT after democratization. The abolishment of the Temporary Provisions Effective During the Period of National Mobilization for Suppression of the Communist Rebellion in 1991 marks the official termination of ROC’s Cold War mobilization premised on the “One China Policy.” Instead, the hope of seeking mutual recognition based on the divided sovereignty model—an arrangement similar to that of North and South Korea—appeared. However, the unilateral termination of Cold War antagonism from the Taiwan side met with international suppression from Beijing that derogated the Taiwanese government to a mere local authority and rejected any possible alternative sovereignty arrangement such as federalism (C. Wang 2004). Facing the irresolvable tension between the growing appeal for cross-Strait economic integrationism from Taiwan and the intensified sovereignty suppression from Beijing, even Premier of the Executive Yuan Hao Bo-chun, the leader of the Chinese nationalist front seeking ultimate unification, clearly refuted the Greater China common market proposal, maintaining that Taiwan’s situation was not comparable to that of German or Korea.\(^97\) After all, as Cartier (2001) trenchantly points out, without corresponding institutional support, the Greater China Economic Circle remained merely a regional representation.

**Asia-Pacific Regional Operation Center (APROC)**

Although the KMT regime turned down the Greater China Economic Circle proposal, it by no means implied dissolution of neoliberal regionalism in Taiwan. On the contrary, in the early 1990s, regionalist advocacy reemerged as the major trade and economic policy guidance for the Taiwanese government, which was later embodied in the advancement of the master plan “Asia-Pacific Regional Operation Center (APROC).” Officially proposed by the Council for Economic


Planning and Development (CEPD) in 1993, the APROC targeted full-scale trade and economic liberalization as its overarching goal. The establishment of six “functional centers” was accordingly proposed as the sub-plan of APROC—financial, telecommunication, aviation, shipping and logistic, media and manufacture centers.

A closer look of the detailed implementation plans for APROC further revealed the neoliberal nature of such a policy initiative. Upholding the overarching principle of “competition policies come first; industrial plans come second (競爭政策為主，產業政策為輔),”98 the government actively engaged itself in liberalizing laws and regulations of various kinds from total liberalization for foreign direct investment (FDI), deregulation of trade, to further tax cuts as a way to attract internationally operated corporations to establish their East Asian regional hubs in Taiwan. Among all the “functional centers” designated in the APROC, it was the financial center that drew the most attention, for it was considered the “highly restricted economic area that held a lot of potential for liberalization” (CEPD 1998, p. 26). Guided by the principle of “complete freedom for extraterritorial operations, progressive liberalization for domestic operations,” the ultimate goal for the APROC project was to turn Taiwan into an international financial center for the operation of the international stock market, forward market, insurance market, OBU, etc.

With the goal of turning Taiwan into the “paradise for FDI” through restructuring Taiwan’s economic environment and great emphasis put on deregulation of the capital market, the APROC project manifests a real neoliberal turn of the trade and economic liberalization agenda in Taiwan. It, therefore, marks a significant change in the ideological underpinning of the state’s policy formation. As the Chair of the APROC Coordination and Service Center and one of the key initiators, Liu Shau-liang clearly compared APROC with previous liberalization measures in the media interview,

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\text{The prime spirit of APROC is internationalization and liberalization. However, the liberalization it conveys is different from the ones advocated in the past. Many of our previous [liberalization] policy measures were implemented in a gradual manner, with our past being our only benchmark. We now have to compete with foreign contestants—}
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98 Such a policy orientation was declared by Minister of CEPD, Hsu Li-Teh. See the Office of the President News (1995 Aug 21). https://www.president.gov.tw/NEWS/22567
In order to turn Taiwan into the hub guiding FDI to the booming Chinese market, Taiwan inevitably had to readjust its cross-Strait economic policies. Bottom-up populist appeal served as the initial drive toward deregulation and decriminalization of cross-Strait trade interactions (see Chapter 2); it subsequently triggered a series of top-down policy responses underpinned by refashioning of cross-Strait geoeconomic imaginaries. When the Direct General of the Bureau of Foreign Trade Vincent Siew (蕭萬長)—a wholehearted supporter of economic liberalism—was promoted to Minister of Economic Affairs at the end of 1991, he vowed to “prosper Taiwan; combine with the mainland; keep pace with the world” (壯大台灣，結合大陸，同步天下)—a geoeconomic maneuver aiming at inserting Taiwan in the cross-Strait economic relationship as a way to participate in the world economy. When interviewed by the Voice of America around the same time, President Li Deng-Hui also proposed the idea of “mainland as hinterland” (大陸腹地論), stating that Taiwan’s economy could no longer constrain itself to the small island but had to utilize mainland China as its hinterland for expansion.\(^{100}\) Once proposed, the “mainland as hinterland” propaganda began to provide the discursive foundation for the Taiwanese government’s policy shift to a more liberalized attitude towards trade and investment to mainland China. The proposal of the APROC project at a later time can thus be seen as the materialization of such a geoeconomic maneuver.

Moreover, the entanglement between the APROC project and the cross-Strait trade and economic policies cannot be understood apart from a series of internal struggles within KMT between the mainstream (indigenization) faction and the non-mainstream (nationalist united front) faction, as well as their realignment with the neoliberal proponents. The years after the Temporary Provisions Effective During the Period of National Mobilization for Suppression of the Communist Rebellion was terminated in 1991 witnessed intensified power struggles within the KMT. Such an internal


rift not just split along ethnic lines, where the mainstream faction was dominantly led by Taiwanese politicians and the non-mainstream faction consisted of mainlanders and their descendants. It also marked a significant rupture in the development path for Taiwan.

Within two years, the leader of the non-mainstream faction Hao Bo-chun (郝伯村), a former General, was forced to step down from the position of Premier for the Executive Yuan in 1993, followed by a substantial replacement of high-ranking official’s personnel by ethnic Taiwanese elites in the state apparatus. Hao’s developmental-style project, the Six-year National Development Plan, was subsequently terminated after Lien Chan took his place. As a descendant of a wealthy Taiwanese elite family, Lien Chan was known for his close relationship with various Taiwanese capitalists. Vincent Siew, known as a financial bureaucrat for his long involvement in the GATT negotiation and APEC affairs, also ascended from the position of Minister of Economic Affairs to Minister of CEPD in 1993, and then took the position of Minister of Mainland Affairs Council in 1994. Later becoming the most fervent advocates for APROC, Lien and Siew’s promotion not only indicated a new phase for state-business alliance in propelling neoliberalization in the domestic arena (G. Hsu 1999, T. Chang 2008), but also signified a turn to more neoliberal inclined trade and regional policies, especially with regard to cross-Strait economic affairs.

From the “Greater China Economic Circle”—an unfruitful regionalist advocacy—to APROC—an official trade and economic project launched by the Taiwanese state—the transformation shows how neoliberal initiatives tapped into the intricate evolution of the Chinese nationalist politics in Taiwan and its associated power struggles within KMT. The cross-strait economic integration agenda found its precursor in Cold War-style anti-communist geopolitical-economic maneuvers along with PRC’s market reform. By the end of the Cold War, the neoliberal initiative re-embodied in the proposal for the Greater China Economic Circle underpinned by Chinese integrationism. While the internal political struggles within KMT intensified, the neoliberals re-allied with the mainstream faction of the party, a faction consisted of ethnic Taiwanese ruling elites that won legitimacy through indigenizing itself. Collaborating with the new state apparatus controlled by the mainstream faction, it soon proposed a neoliberal regionalist project APROC with “Taiwan first” and “mainland as hinterland” as its discursive deployment. The ideological underpinning and its way of legitimizing such a rising hegemony will be further debunked in the following section.
V. APROC and Populist Authoritarianism

Following its introduction in 1993 and completion of the executive plans in 1994, the government propaganda of the APROC project peaked from the end of 1995 through 1996. However, in addition to being an economic paradigm, such a neoliberal project had profound political implications for the reconstruction of the nation-state of Taiwan in the 1990s—an aspect that received relatively scant attention in the existing literature.

As much of the critical scholarship poignantly points out in the analysis of the rise of the populist authoritarian state in Taiwan, the year 1993 had marked reconstruction of a neo-conservative state for the KMT. Such a state not only initiated various nation-building projects prioritizing Taiwanese identity but also resorted directly to people’s consent as its major source of legitimacy. The year 1993 was also the time when the APROC project was introduced. What is more, the year 1996 not only marked the peak of APROC propaganda but also held the first presidential election with universal suffrage in Taiwan. These “coincidences” invoke the following questions: What are the intrinsic relationships between the nation-building/state-(re)constructing project launched in the 1990s and trade and economic liberalization in Taiwan? How did the dynamic between political reform and trade liberalization exclude/evoke particular subject positions? Specifically, what role did APROC play in such nation-building/state-reconstructing processes? Analyzing the government propaganda and commentaries from the social elites, as well as legislators’ interpellation on APROC, the following section seeks to debunk the discursive underpinning of such a neoliberal regionalist project. By unraveling the ways in which the notions of state, people, and nation are articulated with the project, its social and political implications are further illuminated.

Constructing the “Open and Competitive” New State

The emergence of APROC as the locus of the populist authoritarian project is inherently associated with the issue of state identity reconstruction along with the ongoing democratization and the resulting indigenization of the ROC regime in Taiwan. In 1996, the ROC in Taiwan for the first
time held presidential election through universal suffrage. This remarkable transformation in the electoral system was a direct result of the abolishment of the “Temporary Provisions Effective During the Period of National Mobilization for Suppression of the Communist Rebellion” and restoration of constitutional democracy in 1991 after four decades of martial law following KMT’s retreat to Taiwan. However, universal suffrage for the presidential election did not just mark a populist transformation of the authoritarian regime (Wang & Chian 1995); it also entailed the reconstruction of state identity in two senses. First, it manifests an official redefinition of the claimed effective sovereignty boundary of the Taiwanese state from “the entire China” to “ROC in Taiwan.” Second, it contributes to the boundary shift of the “imagined community” from the “Chinese nation” as a whole towards a more locally-oriented “Taiwanese identity.”

It is against the backdrop that the APROC project was endowed with not only the goal of institutional reform but the mission of state identity reconstruction. Gearing towards the presidential election, the KMT designated the year of 1996 as “the acting year for APROC.” Overwhelming propaganda was put into place. Thus, APROC was deemed as a transformative project for the state, and its success or failure was equated with the future of Taiwan as a whole. In KMT’s presidential election campaign, APROC was largely drawn by the presidential and vice presidential candidates as a game-changing opportunity for Taiwan because the state would be reborn if the project could make it through.101 Public media also played an important role in popularizing such a message. By the end of 1995, a series of editorials titled “Return to Economy, Feel for Taiwan (回歸經濟 · 疼息台灣)” was launched in a pro-government newspaper, introducing the APROC project to the public by interviewing a number of chief policy makers, politicians, scholars and business leaders on their prospects for the project. Discourses delineating APROC as a “self-help project” and a “Révolution tranquille” also prevailed in a variety of media houses.102 Given the extensive propaganda launched at the time, it is not difficult to come to the conclusion that the launch of the APROC project, the reconstitution of the state, and the consolidation of KMT as a populist authoritarian regime, all convoluted into one entity.

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Moreover, such a state-identity reform project is neoliberal in nature. Extensively drawing on Singapore as a model, politicians utilized the “hub” metaphor in constructing Taiwan as an “open island country” as opposed to an “enclosed country.” The notion of “openness” not only denotes welcoming inward FDI but also encourages outward investment. As Vice President Lien Chan further indicated, the goal of APROC was to “release the vitality of the private sector through deregulating government control.” In that, the so-called releasing private sector’s vitality specifically referred to reversing the negative policy attitude against outward investment in relation to the national economy. Echoing such propaganda, social commentary also called for a more open attitude among the general public toward capital outflow, stating that APROC seeks to transform the meaning of the ever-deplorable outward investment of the domestic enterprises into a positive activity that would help Taiwan find a way out and build up new competitive advantage.

**Invoking the “People” in the APROC Project**

What is more, state reconstruction embodied in the APROC project was accomplished through evoking the subject position of “the people.” Different from the first wave of liberalization back in the 1980s, where deregulation measures were underpinned by the consent between the ruling elites and popular appeals (see Chapter 2), the neoliberalization policy initiatives launched in the 1990s, as materialized in APROC, is a pure top-down scheme that resorts to popular support for its legitimization. As the 1996 presidential election approached, the KMT regime began to dispatch its policy initiators to participate in the live political talk shows to directly communicate with the public about the policy itself. Using call-in shows as its platform to reach out to the public, this was the first time in Taiwan that trade and economic policy-makers directly resorted to “people’s support” for its legitimization.

By doing more than just channeling government propaganda, the media played a hyperactive role in mobilizing “the people.” The series report appearing on the Economic Daily endowed the people with responsibility for pushing the government to pursue such a “trans-century” project.

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Daily News collaborated with TVBS station and National Chung Hsing University to hold a series of live talk shows titled “APROC—Taiwan’s Way Out,” where a number of legislators, public officers, business representatives, and ordinary citizens were invited to express their opinions about the APROC project. A quiz contest with prizes named “Popular Support for Developing Taiwan into APROC” was even held to draw attention from the public and to win endorsement. Thus the notion of “people” flooded into the government rhetoric, where APROC was pitched as a “people-oriented” project that worked in line with “the will of the people.”

A quotation from one of Vice President Lien Chan’s public speeches may suffice to demonstrate how the notion of “the people” was abused in the government rhetoric:

\[\textit{As a development project concerning life-and-death of the people, APROC has already burgeoned in the mind of the general public. The consensus and strength it drew have surpassed what we could have imagined. As a result, it has arisen as a peaceful and rational economic reform movement with full public participation and overall social mobilization.}\]

The ceaseless governmental propaganda and new forms of media campaign were all designed to evoke “people” from top-down, turning APROC into a “popular movement” by entrusting people with the responsibility of national reform after democratization. The notion of “the people” also manifests the second trait: While carrying the responsibility of the states’ liberalization project, they also have to be responsible for self-transformation. As Lien Chan proclaimed at the turn of 1996, the promotion of the APROC project was not only a competition with space and time but also a battle with one’s old self, a pursuit of self-transcendence through competition. Deputy Minister of CEPD, Schive Chi, also stated that the essence of APROC is for self-reform—to endorse a more open-minded and ready-for-challenge mentality.

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Constructing Dual National Identity

While serving as the engine for the state reconstruction processes, APROC is also part of the nation-building project launched by the state in the 1990s. Under President Li Deng-hui, the mainstream faction of KMT began to embrace Taiwanese identity as part of its indigenizing strategy. Critical scholars have identified various initiatives launched by the state in strengthening Taiwanese consciousness and the sense of community, including advocating for “returning to the UN” and a series of educational reforms re-centering Taiwan’s history and geography as opposed to that from China (Wang & Chian 1995). The propaganda of joining GATT is also part of the broader trend (See Chapter 3). Prioritizing the centricity of Taiwan in the regional economy, APROC can be easily conceived as part of the nation-building project. However, conflating the promotion of APROC with Taiwanese nationalism would risk missing the complicated dynamics of nationalist politics evoked in the APROC project and its profound implications to the future trade and economic liberalization agenda.

However, far from the hardcore “pro-independent and de-Sinicized Taiwanese nationalism,” the official nationalist ideology promoted by the populist authoritarian regime in the 1990s is a dual-identity model, meaning to identify oneself as both Taiwanese and Chinese. Even during the time when the official new Taiwan nation-building initiative peaked in the mid-1990s, President Li Deng-hui still reasserted that both Taiwanese and mainland Chinese were Chinese descendants who shared the same Chinese culture and fate in his official response to the President of PRC Jiang Zemin’s 1995 “Eight-Point Proposition”\textsuperscript{112} aimed to consolidate the united-front work. In his 1996 inauguration speech titled “Managing Great Taiwan; Developing New China” (經營大臺灣，建立新中原), Li Deng-hui clearly re-located the identity of Taiwan in the broader sense of a Chinese national imaginary. Together, they demonstrate that the official nationalist discourse promoted by the indigenized KMT regime by no means resorted to an exclusionary Taiwanese identity as opposed to Chinese identity on the official level. Rather, what the regime in effect promoted was a dual identification of its people as “both Taiwanese and Chinese.”

\textsuperscript{112} PRC President Jiang’s “Eight-Point Proposition”: http://www.china-embassy.org/eng/zt/twwt/t36736.htm
The dual identity model—promoting Taiwanese consciousness on the one hand, embracing “same race, same culture” between Taiwan and mainland China on the other received fervent support from the neoliberal intellectuals and social elites. It was accordingly drawn on to justify why Taiwan was destined to become the hub of the region, for “it bears the orthodox Chinese culture and spirit while at the same time devotes itself to modernization. The hybrid culture between the traditional and the modern thus endorses Taiwan as the leader in the region.”\(^{113}\) Schive Chi, one of the initiators of APROC, also repeatedly commented on different occasions that “same race and same culture, therefore same custom and same tradition” is the foundation for developing cross-Strait economic relations. Another chief trade policymaker Yeh Wan-an also stated that “people from across the Strait collaborate together to welcome a century for Chinese people.” In other words, the premise of APROC lies in the “same race, same culture” conditions across the Strait, and the ultimate goal for APROC should be for the prosperity of the Chinese nation as a whole.

However, it is worth noticing that although the discourse of “same race, same culture” prevailed in the geoeconomic reasoning of APROC, the relationship between Taiwan and the mainland was usually positioned unequally. The experience in international markets, the modern way of management, the quality of human resources, and conformity to international business rules in Taiwan were constantly drawn on by Taiwanese social elites to justify the superiority of Taiwan over mainland China when it comes to economic leadership. Such an intimate yet uneven positioning between Taiwan and mainland China also served to underline the importance of Taiwan in mediating global capital to China, for only the Chinese culture-bearing Taiwanese can help foreigners navigate China’s business environment fraught with hidden rules.

From the discourse of “mainland as hinterland” in the early 1990s, to “manage great Taiwan, develop new China” by 1996, the Taiwanese government constantly portrayed a geoeconomic imaginary with Taiwan as the business hub expanding its territory to the hinterland of the Chinese market. Such an expansionist geoeconomic imaginary is underpinned by the dual identity of “both Taiwanese and Chinese,” as well as the uneven deployment of the two. It is utilized to justify both the outward investment from Taiwan to the mainland and Taiwan’s role of guiding foreign

investment to the mainland because they are both nothing more than the natural conduct enabled by inherent Chinese genes and culture.

**Depoliticization of the Economy and Consolidation of Populist Authoritarianism**

Utilizing both the discourses of “Taiwan first” and “same race, same culture,” the dual identity model presented itself as common ground for the governing elites from different political camps. What’s worth further scrutinizing, though, are the social and political implications of the convolution of neoliberal regionalism with the dual-identity strategy. These lead to the consolidation of populist authoritarianism in Taiwan: the consolidation of the ideologies of “the separation of political and economic spheres” and “economic logic should transcend political dispute.”

After all, APROC was presented as a “depoliticized” project that transcended any political disputes within the island, where “over-politicization” was toned as an unfavorable element of Taiwan by the ruling class. The “political” here is meant in at least two senses: one is the dissolution of the old social order and the ensuing political chaos after democratization; the other is the overheated nationalist dispute straddling the pro-unification and pro-independence camps. First of all, among the pro-government news media, Taiwan was constantly portrayed as a crippled place paralyzed by numerous illness brought on by democratization from ceaseless social disputes, malfunctioning party politics, unruly populism, and short-sighted people lacking the motivation of global competition.  

Such a critical condition could only be redeemed by the prescription of the regionalist self-help proposal materialized in APROC—because it endorsed economic liberalization free of political intervention. Rhetoric such as “Return to Economy,” “Let Economy Lead Politics,” “Remove Political Dust” and “Escape from Political Pitfalls” extensively appeared in the newspaper editorials. It is therefore easy to conceive how neoliberal advocates profited from such rhetoric and promoted APROC as a “counter-political” engine.

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APROC is a depoliticized project in a second sense because trade and economic affairs can and should transcend the emerging nationalist dispute and associated party politics on the island. Thus, the dual-identity strategy was claimed to carve out a middle ground for people who upheld different nationalist aspirations and therefore could set aside the ideological dispute between pro-independence and pro-unification camps. Foregrounding the logic of economics while blurring the nationalist and sovereignty disputes, it was argued that APROC manifested the cultural and ideological “commanding height” occupied by the KMT over its political component. The discursive effect of such a formula became so sweeping that even the DPP presidential candidate could not refuse to endorse the APROC project at the first stage of its campaign. Similarly, the Taipei City Mayor Chen Shui-bian (陳水扁), who later became Taiwan’s first non-KMT president in 2000, also showed his full support for the APROC project.

This section attempts to debunk the complicated role APROC played in the consolidation of the populist authoritarian regime led by KMT after democratization. As a neoliberal project, APROC was born out of the evolving internal struggles within KMT in the face of its multiple legitimacy crises initiated in the 1970s and then intensified through the 1980s, where the so-called “mainstream faction” formed by indigenizing force began to collaborate with ethnic Taiwanese politicians and big capitalists, who were the loyal proponents of neoliberal regionalism. Such a project yielded profound implications for the ensuing nation-building/state-reconstruction processes: When the state stumbled over sustaining economic restructuring, and the society struggled with hectic party politics and nationalist disputes, the neoliberal project, APROC, presented itself as politically transcendental by evoking “the people,” resorting to dual national identity, and monopolizing the interpretation of democratization experiences. It is through popularization of the ideology “separating economy from politics” that neoliberal regionalism helped consolidate the newly-born populist authoritarian regime.

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Neoliberalism as an Unfulfilled Hegemonic Project

Although serving the hegemonic reconstruction project with deliberate discursive strategies, the APROC project by no means completely fulfilled its role. The state called for a re-evaluation of the project right after the 1996 Taiwan Strait Missile Crisis, and the fast-changing geoeconomic strategies initiated by the state further stole the media spotlight (See Chapter 5 for further illustration). Nowadays, APROC is largely deemed as an unfulfilled project, despite the deeper influence it might have brought to the course of Taiwan’s neoliberalization in the long run. Yet much of the existing scholarly work approaches the issue from a more or less statist viewpoint. The analysis either comes from the geopolitical perspective—condemning the state’s conservative cross-Strait policies—or utilizes the developmental state framework—attributing the “failure” to administrative inefficiency and intra-governmental frictions that hindered state capacity. In a different light, a Gramscian approach seeks to explore how neoliberal regionalism failed to serve as a hegemonic project. Thus, a critical assessment of the potential and constraints of deploying populist authoritarianism in making sense of Taiwan’s case will be seminal.

Recent days have witnessed an emerging scholarly effort to re-engage with the established account of “populist authoritarianism” in analyzing the social-political dynamics of the 1990s in Taiwan, where re-examination of the far more dynamic state-people relationships is foregrounded. Utilizing the case study of the popular community empowerment projects promoted by the state back in the 1990s, Hsieh and Wei (2009) question the Leviathan conception of power implied in the notion of populist authoritarianism—which assumed an empty and encompassing power exercise of the state disregarding the existing social relations—and refused to view the people as merely a subject position passively evoked by the state. Huang and Tsay (2015) also present a critical re-evaluation of the negative connotations of populism inherent in the theoretical conception of “populist authoritarianism,” arguing that a top-down invocation of the people by the state ignores the social foundation of populism in Taiwan—the antagonistic dynamics between the people and the state emerging from the anti-authoritarian democratization movement. In other

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120 The Taiwan Strait missile crisis was a geopolitical incident evoked by the implementation of the first universal suffrage for the presidential election held in 1996, with the PRC launching a series of missile tests across the Taiwan Strait to demonstrate its disapproval against Taiwan’s institutional move away from the One-China policy. As a result, President Li Deng-Hui declared a re-evaluation of the APROC project, which used to be based on the mainland China as its economic “hinterland.”
words, the nation-building/state reconstruction project based on populist authoritarianism may not be as omnipresent and monolithic as what is claimed by some critical intellectuals.

As such, understanding how the nation-state-building project embodied in and through APROC was conceived and contested by different social forces is key to generating a more dynamic and multi-dimensional picture of the hegemonic struggles of the time. The APROC project from the very beginning was a top-down economic liberalization scheme designed mainly by neoliberal economists and their comrade bureaucrats and politicians, although later it turned to people’s support and participation for its policy legitimacy. Such a neoliberal agenda, however, was far from achieving hegemony across various social and economic strata. First, although being the target of the project, many Taiwanese transnational corporations, Formosa Petro and Acer Group, for instance, were lukewarm to such an ambitious yet unrealistic strategy; the General Manager of BenQ Corporation also condemned the APROC project for putting too much emphasis on attracting international business instead of helping Taiwan-based companies to further internationalize their businesses.

Moreover, on top of the disinterest from the Taiwanese transnational corporations, there was a general perception that SMEs had been marginalized in the APROC project. With its emphasis on transnational corporations and the corresponding deregulation measures, the unraveling neoliberal nature of the APROC project eventually led a number of legislators to question the potential impacts it would bring to the survival of the SMEs. The skepticism of SMEs towards the APROC project, coupled by the popular perception that such a project only mattered for big business, renders a difficult articulation between the project and the subject it sought to mobilize—the nation-people. As the DPP sensed the aloofness and insecurity prevailed in the society, it turned to align with the SMEs and amended its stance towards APROC accordingly. As the 1995 legislative election and 1996 presidential election approached, the DPP started to advocate for “constructing Taiwan as a new paradise for SMEs” in its core economic proposal for the election campaign—a stark contrast to APROC’s emphasis on transnational corporations. Organizing SME summits across the country, DPP politicians declared that APROC could not solve the problem of

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SMEs’ survival or prevent their subsequent exodus. Many DPP politicians and affiliated scholars further denounced APROC as a political scam that aimed at wangling votes from the middle class.

Thus, the regionalist APROC project, although endowed with the mission of reconstructing a new nation-people-state relationship by promoting a deterritorialized national economy in the 1990s, failed to reach a hegemonic status. Its neoliberal nature not only drew limited interest from the Taiwanese transnational industrialists but marginalized SMEs while paradoxically seeking support from “the people.” However, given the convoluted notions of “the people” and SMEs that emerged in the populist movement, the politicization of SME’s survival, and the moral weight it carried, the SMEs were not entirely excluded from the hegemonic restructuring project of the state. On the contrary, they were actively incorporated in another deterritorialized economic project of the state focusing on outward investment. This is where the next Chapter turns.

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Chapter 5

Rearticulating the Nation-People Nexus in the Outward Economy II: Geopolitical-economy and the Neoliberal Excursion

I. Introduction

The 1990s marked a significant era for Taiwan’s early economic de-territorialization. Besides the top-down policy initiative, the APROC project, the deterritorializing force also came from below. As a result of political democratization — economic liberalization, deregulation of foreign exchange control in 1987 triggered massive capital outflow from the island. It was predominantly driven by SMEs’ outward investment in sought of cost-reduction in the face of growing competition in the international export market. Such a developing trend was further fueled by China’s market reform since the early 1980s, where its cheap labor provision had turned itself into a “promise land” for numerous overseas Taiwanese entrepreneurs (Taishang).124 Before the Taiwanese government officially permitted outward investment to mainland China in 1992, many had already conducted investment across the Straight via irregular channels.125

The unprecedented scale and scope of capital outflow soon evoked concerns for economic security.126 However, instead of curbing this trend indiscriminately, the state took an active role either in facilitating or directing the overseas adventure of its domestic capital. In addition to establishing overseas EPZs in developing countries since the late 1980s, the state initiated two waves of Southward Policy in 1994 and 1998 respectively. The major goal was not only to encourage outward investment at large, but also to redirect the destination of investment away from China to Southeast Asia.

124 The term “Taishang” (台商) denotes Taiwanese entrepreneurs or companies conducting business overseas.
125 Much of the Taiwanese investment to mainland China prior to deregulation was conducted via Hong Kong or through personal money smuggling.
126 According to Tien (1994), the amount of Taiwanese investment from 1987 to 1993 approved by the PRC government amounted to US$11.1 billion, accounting for the third largest FDI originating in China. On Taiwan’s side, although the amount approved by the Investment Commission, MOEA, fell far short of the actual amount, Mainland China still topped all the destinations for Taiwan’s outward investment.
The convoluted relationship between the upsurge of Taiwan’s outward FDI and the role of the state has drawn excessive research interest. Critical approaches straddle between neo-Marxist scholarship and critical geopolitics from International Politics (IR): While the former conceptualizes the state-assisted outward investment endorsed by a nation-building project as a practice of imperialist expansion, the latter denotes the nature of such foreign economic policies to state identity construction through invoking geoeconomic fears of China. However, both approaches tend to assume an inherently cohesive relationship between the processes of nation-state reconstructing and capital internationalization, rather than viewing it as a site of struggles and contradictions that shape and are shaped by constantly evolving social, political and economic processes within and across state boundaries. This is pertinent given that the nation-state in Taiwan, as well as the social relations of production it embedded in, was undergoing drastic transformation during the 1990s. A more dialectical and contextualized analysis is therefore needed.

Following the discussion of the existing literature, I will draw on neo-Gramscian International Political Economy (IPE) to provide an alternative account. Instead of attributing a coherent relationship between capital, nation, and state, this approach locates the Taiwanese state’s geoeconomic maneuvers in the dynamics of hegemonic struggles through the 1990s. The series of foreign economic policies proposed by the Taiwanese state—from the “Southward Policy” (1994), to the interval inward-looking “Go Slow, be Patient” initiative (1996), and the proposal for the second wave “Southward Policy” (1998)—will be examined as layered historical processes and sites for situational struggles through which the state reconstituted its hegemony. Specific attention will be paid to the intrinsic dynamic between economic deterritorialization and the consolidation of populist authoritarianism, the evolving party-state-business relationship, and the formation of a new historical bloc as a result. I will demonstrate how the evolution of the state’s geoeconomic maneuvers is dialectically intertwined with the restructuring of the domestic social relations of production, a process that eventually drove neoliberalization at home and abroad.
II. Theorizing Overseas Investment and the Restructuring of the Nation-state

The First Route: Taiwan as Sub-empire

Taiwan’s outward investment in the late 1980s has come under severe criticism from scholars. Concerned about the expansionist tendency of Taiwan’s capital in the latest restructuring of capitalist globalization and the fundamental involvement of the state in such processes, neo-Marxists utilize the term “sub-empire” to describe such practice. Accordingly, this theoretical framework houses two distinct scholarly approaches: political economy and cultural studies, each of which holds different analytical niches.

Focusing on the nature of capital accumulation at the global scale and the role Taiwan played in it, critical political economists conceived Taiwan’s post-war economic development as premised on technological dependence on the core countries from the West while gradually conducting labor extraction in the less developed countries to lower its production cost, which in turn marked it a “semi-periphery empire” (Nee 2002). In such conceptualization, the hegemonic formation of the state and overseas capital expansion are co-constitutive in nature. This theoretical framing also resonates with David Harvey’s (2003) work on new imperialism, especially his seminal notion of “spatial fix.” In that, overseas capital investment is viewed as a strategy to temporarily resolve crisis tendencies inherent in the cycle of capital accumulation and the consequential class conflict through spatial expansion beyond the geographical boundary from which it originates, both literally and metaphorically.

Cultural studies approach the phenomenon of overseas capital investment by foregrounding its ideological underpinning. Such an approach is trenchantly demonstrated in Chen Kwan-hsing’s (1994, 2010) critique of the Japanese empire-like regional vision of Taiwan that came along with its overseas capital expansion and yet in effect depended on US imperialism for its economic development—a structure dubbed “sub-empire.” Using the popularity of Southward Policy as an example, Chen argues that such a policy embodies a hegemonic project of a trinity complex: nation-building, state (re)making, and empire-forming. Further, rising Taiwanese nationalism is criticized to construct China as the Other on the one hand, and cover up internal
class/gender/sexuality/ethnicity struggles on the other, all manifest a desire for a postcolonial subject to transcend its inferiority by moving from the “margin” to the “core.”

The “imperialist” framing of Taiwan’s outward investment in the 1990s, however, raised a number of questions from its empirical rigor to theoretical desirability. First, although acknowledging the exploitative conduct of Taiwan’s outward FDI, many political economists defy the idea that Taiwan’s outward FDI is expansionist in nature, coining the term “defensive FDI” to capture the “forced migration” of SME-led capital flight (Chen & Yang 1999; Sun et al. 2010). Moreover, the role of the state in such capital outflow is not as effective as assumed in the imperialist framework. In the international arena, given the relatively insignificant role Taiwan played in the receiving countries’ economy and its poor diplomatic status in international politics, to what extent the Taiwanese state was able to bargain with the receiving countries regarding labor, land acquisition and trade policies on behalf of its home enterprises, to intervene in their domestic political dynamics, or even to play a role in the associated class struggles is highly questionable. In addition, these dynamics were subject to broader international power politics where Taiwan plays a restricted role (Wang 1995; Chu 1995; Wang 1997; Chen 2002; H. Chen 2005).

On the national level, the evolving nature of domestic political and economic dynamics and their implications for state’s foreign economic policies in Taiwan also avoid critical scrutiny, resulting in a rather reductionist account of the relationship between state and capital in the imperialist framework. Although some economic sectors show evidence of state-aided globalization, the notion of a unitary “Taiwanese capital” guided by the state in pursuit of global expansion, as presented in the imperialist framework, does not seem empirically plausible. Rather, the state held discrepant attitudes towards who, what, where, when and whether or not to conduct capital outmigration against the backdrop of the intensified restructuring of the domestic political economy in Taiwan during the 1990s, demonstrating complex policy rationales regarding outward investment rather than an indifferent embracing of its global/regional expansion.

Moreover, while cultural analysis trenchantly cautions the affinity between right-wing expansionism and Taiwanese nationalism, it wants a critical examination of the articulation between ideology and materiality. Without serious scrutiny of its discursive practice and discursive
effect, in what sense and to what extent the expansionist Taiwanese national identity constructed by the political and cultural elites served to mobilize outward investment conducted by various economic agencies remains questionable. Similarly, under what circumstance was this hegemony challenged by the post-authoritarian society and in what form such challenges take is under-explored. All the questions presented above beg for more concrete analysis of the actually existing political processes and social dynamics, rather than assuming an intrinsic and overarching relationship between the nation-state and its capital outmigration.

**The Second Route: Geopolitics and State Identity Construction**

Another prevailing approach addressing the relationship between Taiwan’s capital outflow and the nature of the nation-state comes from geopolitics scholarship in the IR discipline and political science more broadly. Rather than assuming seamless collaboration between state and capital, or viewing the state merely as the tool serving the need of capital accumulation at the international scale, studies of this kind highlight the geopolitical rationale of the state in its foreign economic policies that cannot be subsumed under mere economic logic. As such, attentions are paid to the ostensibly irrational, situational and sometimes provisional geoeconomic maneuvers. For example, geopolitical concerns such as state security and sovereignty endowed from Cold War antagonism continue to play the determining role guiding Taiwan’s foreign economic policies, where the “foreign aid” programs from the early stages of the Cold War find their counterparts in Li Deng-hui’s “economic and trade diplomacy” initiative in the post-Cold War era (Chen 2002). Li’s Southward Policy—a policy initiative seeking to redirect Taiwanese overseas investment from China to Southeast Asia to avoid over-dependence on the Chinese economy—simply represents the latest attempt of the Taiwanese state to reposition itself in the changing post-Cold War world as a way to ensure national survival in the face of China’s growing influence in the region (Lee 1994; Hsiao 1997; Yen 1998; S. Lin 2001; Soong 2006).

Indebted to the geoeconomic scholarship emerged in the post-Cold War era, this body of scholarly work is marked by the statement that traditional geopolitical goals are no longer achieved by territorial expansion and direct rule but by wielding economic means at the extra-territorial scale (Luttwak 1990). Its emphasis on state survival and sovereign integrity as the fundamental ideology for the state’s foreign economic policies also echoes the criticism that imperialism scholarship’s
take on the “state” is largely “instrumental,” neglecting the crucial role “statehood” plays in shaping geoeconomic policies (Kim & Gray 2016). A number of empirical studies seem to confirm the strategic collaboration—rather than fundamental co-constitution of state and capital internationalization because state, from time to time, embraces economically irrational decisions in its foreign economic policies by using the prism of national security and diplomatic concerns (Dent 2003b; Wang 2007; Ericson & Chen 2007; Mercille 2008; Scott 2008; Kim & Gray 2016).

Meanwhile, grounded in post-structuralist ontology drawing especially on Campbell’s (1992) critical security studies, geopolitics scholarship tackles “statehood” in relation to the foreign economic policies in a different light. It accentuates identity politics and subject formation, contending the mutually constitutive relationship between state identity and foreign economic policies. In such a conceptualization, foreign economic policies are not merely the outcome of a given state agency in pursuit of material interest; rather, they constitute the state subject by demarcating the Self and Other in the economic arena. Through constructing China as a threat to Taiwan’s economic security, it is argued, the national identity of “Taiwan” can thus be formed against China as the pernicious enemy (C. Chen 2010).

Although underpinned by distinct ontologies and epistemologies, a critical approach to geoeconomics might share common problems with classical geopolitics: In addition to the general critique that they both neglect the dialectical interaction between ideational and material processes in shaping the state’s geoeconomic maneuvers, their methodologies are also problematic. Focusing predominantly on the policy discourse of bureaucrats and political elites without further interrogating how these discourses are perceived and acted upon in the wider social, political and economic context, both of them are plagued by implicit state-centrism (despite the fact that the latter claims to deconstruct the “state”) in making sense of state’s foreign economic policies (Mercille 2008; Müller & Reuber 2008). Moreover, “state” manifests a totalizing idea—be it an agency or a construct—in both approaches, rather than a contested ground of ideas, class relations, institutional arrangement, and so forth. State identity construction is therefore better understood as a highly contested and unstable terrain, depending on the ways in which it is constituted in and through the global economy (Varadarajan 2004).
The Third Route: Neo-Gramscian International Political Economy (IPE)

In spite of their contribution, imperialism and geopolitics scholarships present a shared problem in their ways of analysis: They both assume a stable and cohesive relationship between processes of nation-state restructuring and capital internationalization, be it restricting or enabling, rather than viewing it as a site full of struggles and contradictions that shape and are shaped by constantly evolving social and political processes within and across state boundaries.

In this regard, neo-Gramscian scholarship on hegemony provides an alternative approach to the study of nation-state and capital internationalization—a research field with various interpretation and adaptation of Gramsci that can be traced back to Robert Cox’s work in IPE and Bob Jessop’s theorization in sociology (Overbeek 2002). Bearing the danger of over-simplifying such an exuberant and diverse scholarship, it suffices to say that state occupies the core of analysis, with attention paid to the state form coming into being at particular historical and geographical conjunctures, as well as the historical bloc that underpins it. While focusing on “state,” it also emphasizes the dynamics between international and domestic forces. Especially given that social relations of production stretch across state boundaries, social change and historical transformation are grasped by heeding the politics of struggle at multiple sites and scales.

Epistemologically, it highlights non-deterministic dialectical relationships between materiality, discourse, and institution; its epistemological eclecticism also implies methodological pluralism. Research focus thus ranges from capital fractions and political articulation of class interests (Glassman 1999; Overbeek 2004), discourses and imaginaries that seek to define sites and subject of economic activities (Peet 2002; Jessop & Sum 2006), to broader and more historically rooted civil consciousness that works to harmonize social relations and practices (Worth 2008, 2011).

Following the intellectual map of neo-Gramscian scholarship, my analysis seeks to shed light on the co-constitutive relations between the deterritorializing national economy and the restructuring of hegemony in Taiwan through the 1990s by focusing on the dynamics below: First, it attends to the fractured capital forces driving economic deterritorialization and the varied ways in which they are incorporated in the state hegemony project. Second, contextualizing the Taiwanese state in the post-democratization political economy, it illustrates the rise of populist authoritarianism and its
changing ways of consolidating legitimacy against the restructuring of party-state capitalism. Third, it underlies historical conjunctures and their influences on the state’s geoeconomic maneuvers, which include long-term structural forces and short-term incidents. Forth, it stresses contingent and sometimes paradoxical articulation between material forces and discourses; it also foregrounds the role geopolitical-geoeconomic reasoning plays in shaping, mediating and negotiating various forms of struggles in/against the state hegemonic project.

Applying the aforementioned toolkit, my analysis seeks to illustrate a dialectical relationship between domestic political-economic restructuring and different waves of foreign economic policy initiatives (See Figure 5.1). I also explicate how populist authoritarianism and economic liberalization intertwined through the practice and invocation of “deterritorialized national economy” at different historical conjunctures. I will argue, economic deterritorialization in the 1990s is not simply the outcome of hegemonic restructuring of the nation-state after democratization; it also serves as the material and discursive sources by which the Taiwanese state reconstituted its hegemony.
Figure 5.1  Dynamics between Domestic Political-economic Restructuring and Foreign Economic and Trade Policy Orientation in the 1990s

- Deconstruct party-state capitalism
- Liberalization of state-monopolized economic arena
- Rise of big business conglomerates
- Rise of financial industry
- Enter real estate and service industries
- Outward investment of big manufacturing companies
- Land deregulation and real estate market liberalization

<table>
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<tr>
<th>Domestic Political economy</th>
<th>Foreign trade and investment</th>
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<td>Populist appeal for economic liberalization</td>
<td>Late 1980s</td>
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- **De-regulation of foreign exchange control**: 1987
- **Overseas investment of party-state capital**: 1991
- **Exodus of SME capital**: 1994
- **1st wave Southbound Policy**: 1996 (1st half)
- **2nd wave Southbound policy**: 1997
- **Termination of state-led SME overseas investment**: 1996 (2nd half)
- **“Go-slow, be patient”**: 1998

![Diagram of dynamics between domestic political-economic restructuring and foreign economic and trade policy orientation in the 1990s](image-url)
III. The First Wave Southward Policy and the Constitution of Populist Authoritarianism

The following analysis starts with locating the first-wave Southward policy in the genealogy of the state’s foreign economic policies and illustrates the context from which Southeast Asia surfaced as the crucial site of geopolitical-geoeconomic maneuvers for Taiwan. It will then address the importance of such a policy initiative to the state hegemonic restructuring from three aspects: its reshaping of the territorial imaginary of the national economy, its embracement of market ideology, and the subsequent re-articulation of the party-state leadership. A discussion of the contestation over the Southward Policy and the challenge it presents to the hegemonic project will conclude this section.

Placing the Southward Policy in the Genealogy of the State’s Geoeconomic Strategies

As an outcome of political democratization and economic liberalization, foreign exchange deregulation in 1987 not only triggered extensive capital outflow from the private sector but also evoked fundamental reappraisal of the role of outward investment in Taiwan’s geopolitical maneuvering. In the very next year, the state initiated a brand-new diplomatic paradigm called “pragmatic diplomacy” (務實外交)—a maneuver aimed at strengthening diplomacy by enhancing economic and trade relations with developing countries—a paradigm also known as “economic and trade diplomacy” (經貿外交). The “Overseas Economic Cooperation Fund (OECF)” was accordingly established under the supervision of the Ministry of Economic Affairs as the primary institution in charge of Taiwan’s overseas donor projects. With a proposed NTD$30 billion budget, it functioned as a platform to provide economic assistance to developing countries maintaining a friendly diplomatic relationship with Taiwan. Specifically, government-assisted overseas industrial-zone development was deployed as the major mechanism for the state to simultaneously channel developmental loans to the receiving countries, provide overseas investment credit, and facilitate overseas investment in Taiwan’s traditional industries that were seeking cheaper labor supplies (Xie 1996; Lin 1999; Nee 2002).

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128 Although OECF facilitated overseas industrial-zone development projects spotted across Eastern Europe, Asia, and Central America, it was Central America that drew much of the attention, for this region housed
The establishment of OEDF, along with its ambitious overseas EPZ development plans, manifested converging diplomatic and economic rationales in the state’s foreign policy, where geopolitical-economic logic convoluted with domestic policy concerns over the SME survival predicament. However, many of these overseas initiatives quickly became the target of political contestation in Taiwan. The overall failure of these projects, partly due to the unstable domestic political environment of the developing countries, brought more debt than benefits to the state. As a result, such a geoeconomic maneuver was not only harshly reproached by the legislators in parliament for its efficacy of solving domestic economic problems but also ridiculed as a symbol of “cash-for-friendship diplomacy (金錢外交)”.

The term itself is a vivid illustration of the inability of the Taiwanese state to effectively mesh its domestic economic policies with its geopolitical initiatives, raising questions about the realization of such a transnational hegemonic project. Facing ceaseless criticism, the Taiwanese government decided to undertake institutional reform in 1994 seeking to return guidance of foreign aid projects to the diplomatic profession. In 1996, the International Cooperation and Development Fund (ICDF) was officially established under Ministry of Foreign Affairs to replace OEDF, marking the end for the Ministry of Economic Affairs’ oversight of state donor projects.

Although the institutional reform might easily be read as an overpowering of geopolitical concern over geoeconomic logic, it nonetheless signaled a transformation, rather than diminishing, of the state’s geoeconomic strategy. Specifically, the emerging regionalism across the world from the early 1990s—especially the establishment of ASEAN Free Trade Areas declared by the ASEAN member states in 1992—triggered another wave of geoeconomic initiatives in Taiwan, against which the Southward Policy was formed. Without official ASEAN membership, the Taiwanese

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129 "Directions for subsidizing private sectors to conduct business trips and investments in Central and South American countries" was proposed in 1990.
government commenced a unilateral foreign economic policy, “the Action Plan to Strengthen Economic and Trade Ties with Southeast Asia” (加強對東南亞地區經貿工作綱領) in 1994 as a response, aiming at participating in the regional economic integration against the backdrop of diplomatic constraints. Before being dissolved, the OEDF had begun to shift its project emphasis from Central America to Southeast Asia for “overseas economic cooperation,” including establishing an overseas industrial zone in Batam, Indonesia in 1991 and an international industrial zone in Subic Bay, the Philippines in 1993. By the year 1996, the percentage of the development loans to the Asian Pacific region had equated to that of Central America, South America and Caribbean regions combined (Wang 2003).

Taiwan’s geoeconomic maneuvers in the region were further bolstered by the “informal diplomacy” carried out by transnational political and business elites (Chen 2002). Amidst the turn of 1994, President Li Deng-hui, Vice President Lien Chan and Chair of the Council for Economic Planning and Development Siew Wan-chang subsequently paid “personal visits” to the Philippines, Indonesia and Singapore, meeting with prominent politicians and business elites—later known as “holiday diplomacy” (渡假外交). Their subsequent declaration encouraging Taiwanese business to invest in the Southeast Asian countries marked an inauguration of the “Southward Policy,” with the earlier proposed “Action Plan to Strengthen Economic and Trade Ties with Southeast Asia” serving as its implementation guide. Besides embracing the emerging economic integration in the region, the government propaganda also emphasized its role in balancing the over-concentration of Taiwan’s outward investment to China and its potential impact on Taiwan’s economic security. All of a sudden, Southeast Asia surfaced as the crucial site of geopolitical-geoeconomic maneuvers for Taiwan. Investing in Southeast Asia was constructed as a desirable “geoeconomic hope” (Sparke 2007) that could enhance Taiwan’s geopolitical security and solve Taiwan’s economic problems at the same time.

Articulating an Outward National Economy

The Southward Policy, as soon as being initiated, was embroiled in political contentions. While many saw it as having no difference from the previous “cash-for-friendship diplomacy” and questioned its efficacy in generating real economic benefit to Taiwan, others considered it merely an economically irrational policy move working against the “market logic-abiding” Westward
trend (investing in China) and was therefore doomed to fail. Its advocates, on the contrary, not only rejected framing “southward vs. westward” as a zero-sum game but emphasized the strategic nature of the Southward Policy, arguing that it embodied Taiwan’s geoeconomic and geopolitical repositioning in the regional order and international politics that would eventually enhance the country’s wellbeing (Lee 2003).

The overloaded geopolitical and geoeconomic discourses in the contentions over the Southward Policy has contributed to relatively less attention paid to its impact on the restructuring of social relations of production and reconstruction of state hegemony. The Economic Minister Jiang Bing-kun stated clearly during the legislative interpellation that the Southward Policy aimed not just to divert outward investment away from China; the more important goal was to facilitate successful overseas investment of domestic companies in general. Perhaps the most significant discursive effect of the Southward Policy is the reshaping of the economic imaginary, which marked a fundamental transformation in the perception of outward investment in relation to the national economy as a whole. According to Minister of Economic Affair’s first policy brief on the Southward Policy in Parliament:

*Overseas investment is the destined path for our domestic companies to pursue international division of labor. Besides rooting in Taiwan, their overseas branching, widespread deployment, and gradual expansion have to be encouraged. Exploiting overseas resources such as cheap labor, raw material and market access as a way to cultivate transnational corporations will be the major development path in the future. As such, the government should actively collaborate with private enterprises to create another economic miracle for Taiwan.*

With a less expansionist tone, Vice Minister of Economic Affairs also stated in the joint session of diplomacy and economic committees in Parliament:

*When an economic entity matures, the land and labor cost would rise accordingly, causing the loss of competitive niche for traditional industries. As a result, outward-reaching is a company’s “normal and inevitable” way to go…… The major purpose for the government to facilitate domestic companies to invest in Southeast Asia lies in creating an encouraging*

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environment of outbound investment for the companies through providing necessary assistance and support to sustain their international competitiveness.\textsuperscript{133}

As the official attitude changed from passive permission to active endorsement, it implied that the government had abandoned the idea that outward investment was nothing more than a “necessary evil,” for it would ultimately hollow out the foundation of the national economy.

Nonetheless, the genealogy of state-assisted outward investment previously discussed shows that the Southward Policy is by no means the first attempt for the state to facilitate outward investment for domestic companies. It was the economic restructuring in the 1980s that drove the state to assist its sunset industries to migrate overseas as a way to deter the crisis in capital accumulation. The nature of the crisis did not change much turning into the 1990s; however, it was interpreted in a totally opposite way. With the inauguration of the Southward Policy, the state started to embrace the meaning of outward investment to the national economy in a positive tone. Such an interpretation first “normalizes” the existing outbound investment activities of the companies, followed by the tone-setting for overseas investment as a destined path to sustain Taiwan’s international competitiveness, materialize its economic internationalization, expand the nation’s economic power, and ultimately to resume Taiwan’s economic miracle. Overseas investment—although a direct consequence of the painstaking economic restructuring in the 1980s—was contradictorily interpreted as the cure in the proposal of the Southward Policy. Outbound investment of the sunset industries and SMEs were automatically represented as an opportunity to pursue industrial upgrading and to transform into big TNCs, not as a manifestation of the “crisis” to the national economy as a whole.

Another political implication of the Southward Policy is the repositioning of SMEs in such a deterritorialized national economic scheme. Targeting SMEs, the Southward Policy was crafted to respond to the challenge that the survival crisis of massive numbers of SME’s had brought to the governing legitimacy of the state. The Southward Policy demonstrated at least two novel mechanisms for the government to assist outbound investment activities of SMEs: crediting and organizational service. In the previous era, the government’s financial assistance for private

companies’ outward investment was poured into big traditional manufacturing enterprises with SMEs receiving little to no help. Under the Southward Policy, the SME Development Fund was for the first time put to use for their export loans, overseas investment loans, and overseas construction loans. Meanwhile, several private SME overseas development companies were established through a trust fund provided by the state (創業育成信託投資專戶). They were designed to serve as the major platform facilitating Taiwanese SMEs to invest overseas through holding investment briefings and organizing business tours. By incorporating SMEs into the Southward Policy, the state sought to regain its moral legitimacy by demonstrating the will to solving SMEs’ crisis.

**Embracing Market Ideology in the Outbound Economy**

Although the Southward Policy manifests an attempt by the state to articulate the increasingly deterritorialized national economy discursively and materially, this policy initiative is somewhat difficult to fit into the generalized developmentalist story, which suggests that the state effectively appropriated market liberalization to guide its domestic enterprises’ global expansion (Weiss 1997; Thurbon & Weiss 2006). Rather, such a hegemonic project in Taiwan is built uneasily on the ideology of market economy: While the Taiwanese state actively declared its support for private sectors’ outward investment, it constantly highlighted the autonomy and proactive agency of the companies. Market logic is therefore prioritized over the role of the state in such a foreign economic policy.

Upholding the logic of the market economy manifests in the positioning of the Southward Policy in relation to the state’s overall industrial planning. Market logic was reaffirmed in multiple official responses to the concerns raised in the legislative interpellation about the role of the government, both from KMT and DPP legislators. Facing questions about whether the government had fully evaluated the industrial association between Southeast Asian countries and Taiwan, and whether it could explicitly indicate which kinds of industries were encouraged to move to this region, the Minister of Economic Affairs stated:

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134 The state-owned Export-import Bank of ROC (中國輸出入銀行) served as the major creditor for overseas investment in the early years of Taiwanese sunset industries.

135 Many of these SME development companies are KMT party enterprises or under indirect KMT control. Its political implications will be discussed in a later section.
The government is only responsible for providing assistance, while the companies have full discretion by themselves. We will organize investment tours; however, we will not intervene in the companies’ decisions. It is simply because, under the market economy, it is unfavorable for the government to do so on behalf of companies.

The Administrative Yuan, supervisor of Ministry of Economic Affairs, provided with a repetitive answer:

*We will provide invest information from the destiny countries for the companies to evaluate whether they should conduct outward investment and to where. What the government ought to do is to create* an investment-friendly environment for the companies to optimize their own decisions.

Finally, such a position was confirmed by the Council for Economic Planning and Development, the highest government body in charge of the overall economic restructuring procedure of Taiwan:

*The ultimate guide for government planning is the market economy itself, which means even without the state, the outcome would be the same. However, the government can indeed play a certain role to divert trade and investment concentration…… To put it simply, following market forces to create an investment-friendly environment for the domestic companies to expand their business activities abroad is the guidance [for the Southward Policy].*

The statements from different government bodies in charge of Taiwan’s economic development path reaffirmed the supremacy of market logic in guiding Taiwan’s foreign economic policies. The role of the state was confined to creating a favorable overseas investment environment and removing investment obstacles, mainly through the arrangement of a bilateral agreement for the promotion and protection of investment and avoidance of double taxation with destination countries. Even the state-sponsored SME’s overseas development companies proved to yield insignificant results.\(^{136}\)

\(^{136}\) Although the government claimed to learn from Japan's experience of forming collective outward investment platforms for SMEs, the only two SME Development Companies established with state assistance were revealed to yield extremely limited results, with only eight SMEs receiving financial aid in three years of time. See Establishing SME Development Bank: Learning from Japan's Successful Experience. (1995, Jun 12). *Economic Daily*, 13.
Such a “market-logic-based” deterritorialized national economy with minimum support from the state denotes a very particular form of agency, where the overseas businessmen were invoked as highly mobile and self-motivated economic subjects venturing in the overseas market economy in search of self-interest. Thus, instead of evoking a unified and collective social-political-economic entity with shared commonwealth (a premise of economic nationalism), the deterritorialized national economy promoted through the Southward Policy produced an agglomeration constituted of highly individualized economic subjects.

**Constructing the “Party-state Leadership” in the Outward Economy**

Rendering the state as independent to the market force of the deterritorialized economy, however, can also misguide the very nature of the “state” formed in the particular historical context and the associated mechanism of securing its hegemony. Especially in Taiwan’s case, the boundaries between state, market and society can be porous, for the post-democratization state itself embodied multiple forms of capital participating in the deterritorialized economy. In that, the state leadership was fostered by forming a new dynamic of a party-state-business coalition as its material base, which is contradictorily articulated with the ideology of economic liberalization and residue of authoritarianism.

First, it should be highlighted that the upsurge of outward investment after democratization was not only driven by bottom-up forces led by SMEs, but also top-down forces led by state and party capitals. Populist appeal for economic liberalization since the late 1980s not only tore down the decades-long foreign exchange control in Taiwan, but also targeted liberalization of perennial state monopoly or oligopoly of the domestic market in a number of key economic realms.\(^{137}\) Thus, de-nationalization\(^{138}\) of state-owned enterprises (SoEs) and marketization of government-franchised business soared to the top of such appeal. Since the year 1987, the time when Taiwan was

\(^{137}\) By the year 1987, there were still more than forty-two kinds of business under state franchise, where their markets were monopolized or oligopolized.

\(^{138}\) Here I distinguish the “de-nationalization” form of the popular term “privatization” for the following reasons. First, in Chinese, “privatization” is translated into “私有化”, which does not equate to the term “民营化”; the latter is used in such appeal rather than the former. Second, while employing the term “privatization” in its English translation, the advocating scholars identified multiple means to pursue this goal, where privatization of state ownership is only one of them. Third, it is argued that what really drove the advocators is their anti-KMT-party-state sentiment, not their belief in the free market. It appeared in the drastic waning for the privatization appeal after DPP took power in 2000.
democratized, the denationalization schedule became the recurrent focus of legislative interpellation. Yet increasing populist pressure for liberalization and marketization was met with the state’s embrace rather than resistance, with a gradually intensified SoE liberalization schedule implemented from the top. One of the unexpected consequences, however, is the expansion of KMT party-owned enterprises (PoEs) and the restructuring of the party-state-business relationship in post-authoritarian Taiwan. The resulting rent-seeking crony capitalism, deepening corporationalization and KMT’s expanding business landscape, as well as indirect control of the party-state over “privatized” SoEs through favoritism, were distinct features of Taiwan’s neoliberalization experience. Such observations are widely shared by both scholars who upheld the liberal economic regime and those who opposed it (Hsu 1997; T. Huang 2004; Li 2008; Chang 2008; Yang & Fan 2011).

Specifically, it is noted that the implication of KMT’s PoE expansion to the national economy of Taiwan in the 1990s was far from something negligible. From late 1980s to mid-1990s, the business scale and scope for KMT's PoEs experienced a drastic hike that subsequently drew extensive media attention. A cover story from the Far Eastern Economic Review (Baum 1994) coined the term “the money machine” to describe the rise of KMT’s corporate empire, with investment in more than a hundred companies and annual operating income close to US$155 million—all making it the richest political party in the non-Communist world. A report from Financial Times also forged the notion of “KMT Inc.” to illustrate its unprecedented commercial fiefdom. According to a survey done by China Credit Information Service Ltd. in 2002, KMT’s corporate group had become the sixth biggest business group in Taiwan by 1994, not to mention those under indirect control of KMT-affiliated companies through favoritist personnel. Up to 1999,

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139 During the course of SoE liberalization, the business scope of many SoEs was first expanded before it was privatized; a large number of their assets and shareholding were then sold to either KMT PoEs or pro-KMT business groups, many of which had KMT-party-appointed executives and party members on the board. Through the aforementioned means, the privatized (and denationalized) enterprises were put under direct or indirect control of KMT and its business network while avoiding supervision of parliament.

140 Taiwan’s ruling party in a smart move to polish its image: Kuomintang’s plan to transfer control of its business empire may yet prove to be a profitable investment (2000, Jan 19). Financial Times, Retrieved from https://search.proquest.com/docview/248918805?accountid=14229
KMT’s corporate group still ranked 8th, and its pre-tax profit ranked third among all the business groups in Taiwan.\(^{141}\)

As the indirect result of economic liberalization, the expansion of KMT’s business terrain is intrinsically associated with the state’s hegemonic project underpinned by a deterritorialized national economy. Their initial participation in the outward investment in Vietnam is emblematic of early internationalization of KMT’s PoEs. As soon as Vietnam launched economic reform in 1989, the KMT's PoE “Central Trading & Development Corporation” (中央貿易開發公司) began to heavily invest in Vietnam—a country still under U.S. embargo and eagerly in search of alternative source of FDI. With credit loans from the Overseas Economic Cooperation Fund, its investment in Vietnam ranged from agricultural development, a number of EPZs, power plant construction, to large-scale town-development projects.\(^{142}\) The outbound investment of KMT’s PoEs was prior to the reorientation of the state’s official policy towards outward FDI. These overseas activities carried out by KMT’s PoEs, although not incorporated in the official plan, were later acknowledged by the state as the crucial driving force for the Southward Policy.\(^{143}\)

The Southward Policy, once initiated, marked a closer and more overt collaboration between the state’s foreign economic policies and overseas expansion of KMT business groups. Right before the Southward Policy was proposed, KMT established a Business Management Committee in order to completely transform itself into a business-driven entity.\(^{144}\) After the initiation of the Southward Policy, the Chief Executive of the Committee went hand in hand with President Li Deng-hui and a number of government officials for a business trip to Indonesia, after which an investment budget of US$ 600 million was proposed in collaboration with Taiwan’s SoEs to invest in Indonesia’s resources and petrol industries. Many big corporations followed suit to join the investment projects. Indonesia later manifested the new destiny of PoEs, and the total amount of Taiwan’s FDI in Indonesia became comparable to that of Japanese. Nevertheless, KMT’s overseas


\(^{142}\) The most famous KMT’s investment project is the biggest real estate development project “Phú Mỹ Hưng” in Ho Chi Ming city, which accounted for 3,300 hectares.

\(^{143}\) Legislative Yuan Gazette (1995), Vol. 84, No. 16, p. 269.

\(^{144}\) KMT established the Business Management Committee, with estimated 95 companies and one hundred billion in assets. See KMT Established PoE Business Management Committee. (1993, April 1, 4). United Daily News, 04.
investment contour stretched well beyond Indonesia to the Philippines. In mid-1994, it further established a holding company “A.P.H. Syndicate” in Singapore as its hub to expand investment in the region in the name of “collaborating with the Southward Policy.”

Besides KMT’s PoEs, SoEs also played an active role participating in the trend of outward investment. Along with the domestic pressure for privatization and denationalization, the SoEs were also faced with potential challenges of market liberalization when joining GATT became a consensus for the governing regime. In order to increase business efficiency and competitiveness, the resource-intensive SoEs including China Steel Corporation, Taiwan Power Company, and China Petroleum Corporation launched preliminary overseas investment plans in 1992 as a way to lower their production cost. The first wave of SoE’s outward investment of the resource-intensive industries was soon followed by Taiwan Sugar Corporation, Taiyen Co. (Taiwan Salt) and Taiwan Fertilizer Corporation’s overseas investment plans, which sought to diversify their traditional business terrains to tackle the pressure from the forthcoming international competition once their previously monopolized domestic market was liberalized. By the time the Southward Policy was inaugurated, SoEs’ overseas investment had already become predominant. After the inauguration, many more projects were correspondingly proposed by a variety of SoEs in the name of “policy coordination.”

The detailed discussion on the outward investment of different capital fractions in Taiwan is almost self-revealing: although all resulted from the impulse of economic liberalization, overseas investment conducted by SoEs, KMT PoEs and SMEs from the private sector may be driven by distinct political and economic motives, with no necessary industrial linkages or convoluted interests among them. However, the initiation of the Southward Policy manifests a mechanism for the state to articulate a totalizing and unified vision of an “expansionist national economy”—a policy discourse obscuring the differences, contradictions, and conflicts within such a project.

The proposed projects include China Petroleum Corporation’s oil refinery project in Vietnam and oil sands mining in Syncrude, Canada; Taiwan Sugar Corporation’s hog industry investment in Vietnam and Australia, and a sugar refinery plant development in Medan, Indonesia; Taiwan Fertilizer Corporation's investment in Vietnam; China Steel Corporation's service industry provision in Malaysia; Taiyen (Taiwan Salt) Corporation's multiple investment plans in Indonesia, etc.
More importantly, such a construction yielded significant results in the reconstitution of the state hegemony premised on market economy, where SoEs and PoEs were portrayed as the pioneers of the state’s foreign economic policies, and their overseas investment projects became the crucial investment indicators for private sectors. Narratives such as “SoEs and PoEs take the lead for an overseas adventure,” “the state takes the initiative” and “PoEs are in full collaboration with the state’s foreign economic and trade policies” prevailed in the media. It is through constructing such a “leadership” of the party-state in a highly risky global economy that the potential conflict over the role the state played in the outward national economy was strategically alleviated. One of the statements appeared on the news report vividly illustrates how moral legitimacy was imprinted in KMT’s PoEs’ overseas capital adventure—almost in a self-congratulatory tone:

*KMT’s PoEs from now own will build a closer relationship with state policies, where the most significant instance lies in their relationship with the state’s diplomatic policies. While domestic private companies knew little about the investment environment in Vietnam, KMT’s PoEs’ had already run the biggest Taiwanese business in that country; while the private sector had no confidence in Russia’s economy after its dismantlement, KMT’s PoEs had landed for timber and cement importation business; while private companies were intimidated by the anti-Chinese resentment burgeoning in most Southeast Asian countries, KMT took the lead with no hesitation, building connections with key politicians and corporate CEOs in countries such as Indonesia and Singapore through numerous business visits.*

Thus, the democratization history in Taiwan seemed to take a paradoxical turn. Advocacy for economic liberalization originated from the populist challenge against the long-standing post-War authoritarian regime. Unexpectedly, its target of SoEs’ denationalization and privatization entailed a top-down strategy for economic deterritorialization. Ironically, the post-authoritarian party-state regime managed to transform itself into a daring pioneer by constructing the leadership and gaining moral legitimacy in the gradually deterritorialized economy. This is the pivotal political implication the Southward Policy yields: a mechanism that articulated the populist authoritarian regime and the market-logic-oriented outward national economy.

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**Questioning the Southward Policy; Challenging the State Legitimacy**

However, the reconstitution of state hegemony through articulating deterritorialized national economy was never a smooth process without political contestations, for the intrinsic contradictions between state, market and the party can never be easily eliminated. First, the overwhelming emphasis on the “market logic” in the foreign economic policies did not spontaneously translate into converging consensus between the state and SMEs regarding the role the state should play in the overseas market. Quite the opposite: The market logic-oriented policy contrasted sharply with the surviving predicament of the SMEs, revealing deepening contradiction between the state and some capital factions of the economic society.

Such contradiction surfaced when legislators from different parties questioned that Southward Policy, premised on the market logic, would exclusively benefit big corporations that were already at the stage of global expansion, leaving SMEs’ outmigration with little protection or support. When the economic committee from the Parliament visited Southeast Asia a year after to supervise the policy implementation, it condemned such a policy “remained mere lip service without any concrete actions” and “benefited big corporate while disregarding the survival of SMEs.”\(^\text{147}\) It is apparent that for the populist authoritarian regime, the SMEs’ survival had become the crucial site for the political struggles over the Southward Policy and foreign economic policies in general. Yet the struggles revolved around the moral responsibility of the state to take care of the livelihood of the “people” and the ideology of “the market logic” the state imposed on the SMEs.

The political ambivalence was further complicated when the Taiwanese state itself gradually embodied multiple forms of capital participating in the global market as a result of economic democratization, where the presumed common interest shared by the party-state-society in the deterritorialized national economy became another crucial site of struggles in the party politics. Instead of questioning the discursive effects of the market economy in the project itself, the opposition party DPP questioned the motive of the party-state led outward economy. Accusations such as KMT’s investment in Vietnam’s agricultural production being in competition with Taiwanese farmers in the export market surged as early as in 1992. By the time when the

Southward Policy was proposed, DPP launched a massive attack, questioning whether Southward Policy was mainly designed to assist overseas expansion of KMT’s PoEs, or even served as a means for SoEs and PoEs to channel national wealth overseas for their own sake. Moreover, not only the corruptive incidences involved in the state-sponsored KMT’s overseas investment were revealed as the proof of the sustenance of peril party-state capitalism, but the notion of “shared interest” between the PoEs and the private sector was heavily criticized as nothing but an illusion.

As a result, under the seemingly widely agreed hegemony of “deterritorialized national economy,” as established in the Southward Policy, lay profound distrust of party-state capitalism and undercurrent political contestation. It demonstrates how the boiling political struggles shaped and conditioned the ways in which counter-hegemony challenges took place. However, given the relatively stable hegemonic construct in Taiwan, the struggles still remained as a tempest in the teapot, presenting only a symbolic struggle between the party in power and its opponent.

IV. Deterritorialized National Economy Reconsidered

The Southward Policy, with limited achievement in “diversifying outward investment” and the maturity of the first phase of the three-year “Action Plan to Strengthen Economic and Trade Ties with Southeast Asia,” gradually became a passing fad after its initiation. In 1996, the proposal “Go Slow, Be Patient” called by President Li Deng-hui instead took the spotlight. Targeted at curbing the overheated investment trend to mainland China, especially that of big corporations, this new proposal was generally deemed as a next geoeconomic maneuver out of the very same concern for economic security against China. However, the geoeconomic strategic transformation from the Southward Policy to the “Go Slow, Be Patient” initiative represented more than a consistent logic

150 According to the discourses from the politicians of the opposition party, when the overseas investment went well, the PoEs and SoEs were accused of “going against the interest of the people by taking the initiative”; when the business went down, they were accused of dragging private sectors to cope with the aftermath of their own failure.
of state-making; it, in fact, entailed various kinds of social, political and economic struggles revolving around the notion of “deterritorialized national economy,” and contingent articulation between geopolitical discourses and the restructuring of social relations of production.

“Go Slow, Be Patient” and Re-orientation of the Deterritorialized National Economy

Although the making of the deterritorialized national economy—both discursively and materially—became central to the state’s hegemony reconstitution project in the 1990s, it nevertheless raised various doubts. The most persistent critique came from the economists, who were concerned with the problem of “industrial hollowing out” and its potential impact on industrial upgrading brought by excessive capital outflow without corresponding domestic investment (Hsing 1993; Sun 1993; Wang 1994; Chen 1995; Chung 1996).

However, it was the geopolitical reasoning about “China’s threat” that put a real check on the foreign economic rationale of the state. President Li Deng-hui’s call for an overall re-estimation of the investment in China, along with a later proposal of “Go Slow, Be Patient,” marked a significant shift in the outward-oriented national economic agenda. Following the SMEs’ ceaseless outmigration to China, the upstream industries actively proposed a number of large-scale investment projects on the mainland in the 1990s (Wang 1997). The meeting between the Chair of Formosa Petrol, Wang Yung-ching, and PRC’s General Secretary Jiang Zemin on the resumed investment project in Fujian in 1995 and a business tour summoned by the President of the Chinese National Federation of Industries, Kao Chin-yuan, to China despite opposition from the Taiwanese government in 1996, both touched a nerve of the state. The growing pressure from the big manufactures arose in vivid contrast against the fueled cross-Strait geopolitical tensions led by China’s missile test aimed at deterring Taiwan’s first general presidential election in 1996. Both incidents ended up with the state’s request to pace their investment projects in China—the policy initiative known as “Go Slow, Be Patient.”

Due to concerns for the political implications of the growing economic dependence on China, the “Go Slow, Be Patient” advocacy is commonly viewed by scholars of international relations as proof for the continuation, rather than discrepancy, of the Taiwanese state’s geo-economic maneuver against the Chinese regime. For instance, Wei Min (2002, p. 206) contends, “compared
to cross-Strait policies in the 80s and early 90s, ‘Go Slow, Be Patient” policy only presents minor differences without a major change in the overall policy orientation. The biggest difference is to construct an antagonism for the Cross-Strait relationship and among the Taiwanese people against the transforming cross-Strait political dynamics.”

However, approaching the “Go Slow, Be Patient” policy initiative exclusively from the viewpoint of the cross-Strait relationship or state identity politics may lead to over-emphasis on the unchanging nature of the geopolitical and geoeconomic rationale of the Taiwanese state. Specifically, the urge to “Go Slow, Be Patient” did not come with another state policy initiative to divert outward investment to somewhere else—just like Southeast Asia in the Southward Policy. Instead, what followed the restriction of big companies’ westward investment was a total re-evaluation of the state’s endorsement of the deterritorialized national economy and the subsequent reorientation of its foreign economic policies in general, including narrowing the scope of the existing Southward Policy and encouraging inward investment of domestic corporations.

First, echoing the nationalist advocacy of “Rooting in Taiwan”, the “Go Slow, Be Patient” policy initiative began to reexamine the leading role it endowed to the SoEs in the outward economy, contributing to the sudden withdrawal of SoEs’s ambitious overseas expansion plans. At the turn of 1996, a number of SoEs, including Taiwan Sugar Corporation, Taiyen (Taiwan Salt) Corporation, Taiwan Fertilizer Corporation, and Taiwan Power Corporation were still proposing large-scale overseas investment projects of various kind, claiming to lead the second wave of private sector's outward investment.151 Right after the Southward Policy was initiated, however, Minister of Economic Affairs Wang Chi-gang summoned a debriefing for the SoEs, contending that the SoEs’ current overseas investments tended to be overly excessive and difficult to supervise; instead, SoEs should now focus on strengthening domestic investment and improving business efficiency as the way to tackle future challenges from market liberalization.152 In a later meeting with the business representatives, Wang continued to indicate that SoEs should play an exemplary role for private companies to “root in Taiwan,” with a declaration of total suspension of SoEs’

overseas investment projects. Such a change also implies potential dismantling of the leadership of the party-state regime in guiding a deterritorialized national economy.

Moreover, the “Go Slow, Be Patient” initiative triggered a fundamental re-evaluation of outward investment and industrial internationalization policies in general. Discursively, both southward and westward capital flows were pitched as the cause for hollowing out Taiwan’s industrial base, while official discourse towards the outward investment turned from “encouragement” and “facilitation” to “moderate yet non-active support” with “limited assistance.” Such a transformation in policy orientation also appeared in the tremendous cut for the budget of overseas industrial-zone development from the National Development Fund, including termination of overseas industrial-zone development loans granted for the Southward Policy. Change in discourse and material support eventually came with institutional restructuring. As soon as the International Cooperation and Development Fund was established in place of the Overseas Economic Development Fund, the administrative body of the states’ overseas investment and loans shifted from Ministry of Economic Affairs to Ministry of Foreign Affairs. Accordingly, all the financial and technological support devoted to the Southward Policy were revoked.

Given that the Southward Policy was advocated as a policy designed to tackle the crisis of SMEs’ survival by facilitating their outward migration, the suspension of the existing financial and institutional support, although very little in nature, indicated a fundamental change in the foreign economic policies and their social embeddedness, where SMEs were no longer targeted. The fact that SME’s no longer occupied the crucial subject position in Taiwan’s national economic vision

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156 Such a major shift in foreign economic policies immediately resulted in the loans withdrawn from the ongoing and proposed development projects across the Philippines and Indonesia, causing ample discontent for the private companies who had made the investment plans to “travel south” with the state.
also demonstrates a changing source of government legitimacy, both discursively and materially. It is where the following section turns.

**The “Invest Taiwan” Movement and the Advancement of Neoliberalism**

The “Go Slow, Be Patient” policy was proposed amidst the intensified domestic contestation over the course of SoE privatization. Although starting at a relatively slow pace, de-nationalization of SoEs accelerated through the mid-1990s guided by the liberalization goal of the APROC project. However, the fragmented measures taken by respective government agencies, lack of accountability and bypassing public supervision had largely resulted in undue “privatization” that benefited only a few favored corporations. The consequential corruption and profiteering had ultimately fueled resentment from society, condemning the current privatization measures to be just a new form of the decades-old party-state crony capitalism. The struggles against such development from both SoE labor unions and the populace peaked from 1995 to the 1996 presidential election, with social critique prevailing in the media and multiple demonstrations mobilized in the name of “anti-plutocracy” (反金權政治) and “anti-business conglomeratization” (反財團化). Accordingly, SoEs’ overseas expansion in light of their questionable privatization process also faced critical scrutiny.

For a moment, social turmoil brought hope for change in the evolving course of the political economy in Taiwan from the late 1980s. Persistent concerns for industrial hollowing-out from think tanks and developmental bureaucrats, opposition against crony capitalism and conglomeratization from society, along with the geoeconomic maneuver “Go Slow, Be Patient,”

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157 China Steel Corporation, China Petroleum & Chemical Corporations, China Insurance Corporation, and BES Engineering Corporation are the first ones among the SoEs which went through de-nationalization or privatization.


all together seemed to create a historical conjuncture between populist authoritarianism and
deterritorialized economy, to reflect on its underlying social relations of production, as well as to
propose alternative imaginaries of the national economy. However, at this historical conjuncture,
such an inward-looking trend paradoxically fueled domestic neoliberalization and entrenched
state-business collusion and conglomeratization, all materialized in the advocacy of the “Invest
Taiwan Movement” (投資台灣運動).

First, the advocacy for “Rooting in Taiwan” was spontaneously associated with the appeal for
improving the domestic investment environment, where the "deteriorating domestic investment
environment" was blamed for the stagnation of economic growth. So the neoliberal advocates from
the ruling class took the opportunity to propel the APROC project, claiming that instead of
encouraging outward investment, liberalizing the domestic economy to boost Taiwan’s
competitiveness is the “right way to go (正途).”¹⁶¹ It is against this backdrop that neoliberal
regionalism returned to the center of the state’s economic and trade policy. (see Chapter 4 for a
detailed discussion)

In a contradictory fashion, right after the call for “Go Slow, Be Patient,” the Ministry of Economic
Affairs subsequently proposed the “Invest Taiwan Movement” to encourage internationalized
companies to “root in Taiwan.” Contrary to the industrialists eager to expand their business
territory to mainland China and who were therefore labeled traitors to the country, those who were
willing to slow down their overseas expansion pace and increase investment in Taiwan were
acclaimed for their love for the country and the homeland. Under such political atmosphere, a
number of domestic big corporations, including Formosa Petrol, the Far Eastern Group, Yulong
Group, Wei Chuan Food Corporation, China Rebar Group and China Steel Corporation offered
their support to the government’s “Invest Taiwan Movement” and collectively promised an
amount of one hundred billion NTD investment projects in the domestic market in the coming two
years. All of a sudden, the long-existing frictions between the state and the business groups seemed
to disappear from the air.

¹⁶¹ The Government Will No Longer Encourage Outward Investment; Primary Task Changed to Encouraging
Policy Transformation: Attracting Western FDI in Place of Southward Policy. (1996, Aug 27). Economic
Daily, 01.
The campaigns of “Root in Taiwan” and “Invest Taiwan,” with their inward-looking policy rationales, seemed to challenge the fatalistic pursuit of outward investment and open up a space for alternative proposals of national economic development. However, such nationalist-prone, developmentalist-infused advocacies were ironically designed to legitimize the exchange of political and economic interest in the ruling class—the material reward for their loyalty. The reciprocal exchange between the state and corporations in the name of economic security was not uncommon in Taiwanese society in the 1990s. The case for the construction of the petrochemical industrial park Sixth Naphtha Cracking Plant at Yunlin County in 1994 was particularly iconic, where the controversial permission was granted to the Formosa Petrol as a trade-off for its suspension of a large-scale investment plan to China—despite casting serious doubt for its polluting nature and severe local protests (Shieh & Ho 2011; Tu et al. 2014). The exchange out of geoeconomic concerns, as shown in the “Go Slow, Be Patient” policy initiative, however, differed from the case of petrochemical industry in a crucial aspect: While the earlier exchange sought to retaining traditional manufacturing industries to “root in Taiwan”, the “Invest Taiwan” initiative launched after 1996 largely focused on land deregulation—rezoning of industrial plants—to facilitate corporations’ business diversification and reinvestment.

In the 1990s, the discourse of the “deteriorating investment environment” in Taiwan evolved around the issues of soaring labor cost, difficulties in land acquisition, and anti-development social atmosphere due to rising environmental consciousness. Among all the concerns, the issue of land acquisition was singled out by the government as the biggest investment obstacle that ultimately drove Taiwanese companies’ outmigration.162 The stimulus package brought to the table by the government in 1994 was focused on rezoning agricultural and industrial land to “industrial and commercial integrated land” as the means of “clearing the obstacles for investment.” After the 1996 presidential election, Li further pushed through the land revitalization agenda, urging administrative sectors to auction large-scale public-owned land to meet the development needs of the private sector.163 The “Invest Taiwan” campaign initiated in September 1996 further fueled

162 In the early 1990s, the government had introduced low-skilled migrant workers in infrastructure and manufacturing industries in response to the enterprises’ complaints about soaring labor cost.

such development, for a number of traditional manufacturing corporations previously planning to invest in China rekindled their interest in Taiwan’s domestic commercial real estate market through cheaper and easier land acquisition.\textsuperscript{164,165}

Furthermore, deriving from the re-evaluation of the outward-oriented economic policies, the land revitalization policy initiative, in turn, helped speed up internationalization of Taiwan’s commercial real-estate market and created a new platform for the collaboration between private business corporations, SoEs, PoEs, and foreign investment companies. Along with the “Invest Taiwan Movement”, the Taiwanese state lifted the three-decades-long restrictions against FDI’s participation in domestic commercial real estate investment, development and operation. Once deregulated, the ensuing domestic investment projects on commercial mall development carried out by the collaboration between domestic corporations, FDI and PoEs had become the formula. The most iconic case is the Living Mall development project in eastern Taipei – the first permitted case with Core Pacific Group, China Development Co. (KMT’s PoE), Central Investment Co (KMT’s PoE) and Singaporean FDI as the core investors.

The rise and fall of the Southward Policy, followed by the initiation of the “Invest Taiwan Movement,” reveals a significant process of social re-embeddedness of foreign economic policies in Taiwan during the early to mid-1990s. In the first wave of the Southward Policy, party-state capitalism’s overseas expansion and SME’s outmigration for survival are articulated in the discursive practice of a market-logic-oriented outward national economy. Populist appeal and SMEs, therefore, served as the source of state legitimacy. However, the waning of the Southward Policy, along with the “Go Slow, Be Patient” Initiative demonstrate a shift from SMEs to big corporations as the major concern for Taiwan’s geoeconomic maneuvers. Land deregulation and privatization in the name of “Invest Taiwan” as the trade-off further strengthened the collusion

\textsuperscript{164} For example, the Uni-President Enterprises Corporation suspended its power plant investment plan in China and turned to launch an NTD two billion investment plan in mall development on their industrial land in southern Taiwan.

between the state, the party in power and big corporations through which domestic neoliberalization was further entrenched.

V. The Second Wave Southbound Policy and Overseas Neoliberal Ventures

As the 1997 financial crisis intensified in the region, the Taiwanese state’s inward-looking economic policy orientation began to alter. The campaign for the second wave of Southward Policy emerged among the ruling class. This section seeks to explicate that such a geoeconomic maneuver once again embodied the fast changing dynamism of state hegemonic restructuring underpinned by reconfiguration of the social relations of production—with financial industry playing a more active role in shaping the state’s geoeconomic agenda. The contestation over the developing trend reveals the ongoing struggles over financial (neo)liberalization that carried on to the 21st century.

Asian financial crisis and the call for the second wave Southward Policy

Due to conservative regulation over FDI in Taiwan’s financial market and a large amount of foreign reserve over debts, Taiwan was left nearly intact compared to South Korea and Southeastern Asian countries in the storm. As the financial crisis began to cease, high-ranking officers and political figures from Vice President Lien Chan, Prime Minister Siew Wan-chang, Chair of the Council for Economic Planning and Development Chiang Bin-kung, to CEO of the Central Bank Hsu Yuan-dong, along with business tycoons such as CEO of Uni-President Enterprises Corporation Kao Ching-yuan, Chairman of Chinese National Association of Industry and Commerce Ku Cheng-fu and President of KMT’s Business Management Committee Liu Tai-ying paid respective visit to countries across Southeast Asia. Upon their return, all started to rave about investing in Southeast Asian at this particular time as a “lifetime opportunity” (千載難逢的機會) to “snatch the market share” (搶灘); some even joked, “Other countries’ crisis is our chance.” With the Vice President’s declaration to rekindle the second wave of Southward Policy, such a

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waning geo-economic discourse all of a sudden returned to the spotlight in both the domestic and international media.

Different from its precursor, the second wave Southward Policy aimed at facilitating the growing domestic corporations to expand their business territory to Southeast Asia through merging and acquisition. This marks a significant change to the rationale underpinning Taiwan’s foreign economic policies—neither the survival outmigration for SMEs nor global deployment of big manufacturing companies remained the core concern for the state; instead, commercial and financial industries’ overseas expansion drove the latest wave of the state’s geo-economic maneuver. This change clearly reflects in the corresponding institutional rearrangement of the state to guide the outward economy—with Ministry of Economic Affairs supervising the first wave Southward Policy, Ministry of Foreign Affairs in charge of foreign development loans, now the Ministry of Finance, Central Bank and Council for Economic Planning and Development leading the way.\(^{167}\)

Arguably, the increasing focus on the financial market in Taiwan’s deterritorialized economy was intrinsically associated with domestic financial liberalization progress in the 1990s. Compared to ineffective liberalization processes launched in other areas, financial liberalization pushed swiftly through banking and insurance to stocks and bonds business without major obstacles.\(^{168}\) Consequently, it did not take too long for over-competition and saturation of the domestic market to take place (Yu & Wang 2005). Markedly, such newly emerged financial markets in Taiwan were predominantly occupied by top corporations with traditional manufacturing backgrounds, which eagerly sought business diversification in the face of a drastic drop in their operating profit.

It is also noted that similar to the SoEs privatization experience in Taiwan, financial liberalization was characterized by favoritism. As a result, it not only paved the way for conglomererization of the


\(^{168}\) The major steps of financial liberalization started with lifting the restrictions for the establishment of private commercial banks in 1990, after which, sixteen banks were formed in 1992; security-dealing business was liberalized in 1994; real estate securitization and derivative financial products were deregulated in 1996.
financial market but also contributed to the strengthening of state-corporate collusion (P. Lin 2001; S.; Chu & Hung 2002; Yu & Wang 2005).

The advancement of financial liberalization and the rapid growth of financial market within the national boundary gradually formed a stark contrast to its rudimentary level of financial internationalization: Domestic markets still remained highly restricted to foreign financial capital, while domestic banks were encouraged to set up overseas branches mainly to serve Taishang’s financial need in operating transnational production networks. Nonetheless, the initiation of the APROC project in 1994, specifically the enactment of “Guidelines for the Financial Center for the APROC Program” in 1996, signaled the transforming role of financial capital in the deterritorializing of the national economy, where the state sought to liberalize domestic financial regulations to attract international venture capital. The Asian financial crisis in 1997, paradoxically, turned the longing of cross-border capital flows inside out. The state began to promote overseas capital expansion with zest—a policy move rationalized by geoeconomic-geopolitical discourses revolving around the role of Taiwan in regional economic security. During the 1997 APEC summit, the Taiwanese government zealously expressed its willingness to participate in international financial aid to Asian countries in need, including establishing an Asian regional fund (which eventually failed); the Central Bank was endowed with the role of “financial diplomacy” to enhance relationship with Southeast Asian countries through collaboration with their financial institutions;¹⁶⁹ discourses such as “Taiwan’s financial industry should no longer be absent from the road to Asia’s economic recovery” also appeared in the media.¹⁷⁰

Nonetheless, state promotion of overseas capital expansion manifested a platform to further consolidate the state-business relationship. Along with advocacy for rekindling the Southward Policy, Li Deng-hui—President qua KMT chair—declared in the meeting with KMT Business Management Committee that “from now on, KMT’s PoEs will closely collaborate with private companies to enlarge our influence in the international investment arena as a way to improve our


status in the international economy.” This declaration was accompanied by a “Southeast Asia investment tour” conducted by the Chair of the KMT Business Management Committee, which was fervently welcomed by Southeast Asian countries short of capital due to the financial crisis (You 1998). With the initiation from the Economic Development Council, the core company of KMT’s business empire the China Development Co. invited more than twenty domestic big corporations to form the "ASEAN Investment Holding Company” (東南亞投資公司) as the main agency to execute outward investment projects, with half of which consist of financial and securities companies. With a proposed fund of three billion US dollars, this holding company aimed at laying heavy investment in Southeast Asia’s devastated stock market and acquiring shareholdings for local banks caught in financial distress. Due to the heavy involvement of KMT’s PoEs in pushing the policy, the CEO of KMT’s Business Management Committee, Liu Tai-ying was even dubbed “the master” behind the Southward Policy by the media.

**Controversies over the second wave Southward Policy**

Despite the fervent promotion of the second wave Southward Policy by high-ranked government officials, business tycoons and KMT party leaders—a historic bloc in the making it did not necessarily guarantee hegemonic status. Within the government, the second wave Southward advocacy was faced with relatively conservative responses from the Ministry of Finance and Ministry of Economic Affairs. The discrepant policy attitudes among different governmental agencies were vividly manifested in the friction between the Council for Economic Planning and Development and Ministry of Finance on the issue of financial deregulation to serve the policy initiative. Against the Council’s push for deregulating the upper limit of financial companies’ overseas re-investment to incorporate more participants in the ASEAN Investment Holding Company, Ministry of Finance firmly stated that given the highly risky nature of overseas financial investment, unless the second wave Southward Policy was officially designated as a “significant

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national investment plan,” it would not endorse the initiative at the expense of people’s interest. Similarly, while Vice President Lien Chan was advocating for resuming the Southward Policy, the Ministry of Economic Affairs was busy advising Taishang to cautiously re-evaluate their investment plan in this region; it further called for a check to the expansionist tendency of Southward Policy when anti-Chinese social upheavals intensified across Southeast Asian countries during the year of 1998.

Moreover, a number of scholars from think tanks and business tycoons, especially those from traditional manufacturing industries and high-tech industries—Formosa Petro and Inventec Corporation for instance—showed general concerns for its lack of a substantial industrial plan in the second wave Southward initiative. Many contended that instead of promoting overseas expansion on a whim, the state should prioritize domestic industrial restructuring and conduct a thorough evaluation of the real capability of domestic companies to pursue overseas merging and acquisition. In the parliament, a number of legislators also raised questions about the desirability of promoting the second wave Southward Policy right after the Asian financial crisis and once again urged the government to focus on the domestic investment environment and industrial restructuring issues, rather than encouraging companies to expand through uncertain markets.

Although facing various challenges from different government sectors, think tanks and business world, the social and political discontent the second wave Southward Policy evoked was relatively limited in scope. Because it mainly focused on mobilizing big corporations and particular industries, conflicts and disagreement were largely contained inside the ruling class. However, it was the growing social and political upheaval in many Southeast Asian countries and the consequential impacts on Taishang who had already made an investment in the region that ignited


heated criticism against the second wave Southward Policy in the parliament. Legislators from both KMT and DPP ceaselessly requested the government to halt the Southward Policy throughout 1998. Although Malaysia, Thailand, the Philippines, and Singapore were the countries targeted by the second wave Southward Policy advocates, it was the outbreak of the Cambodian civil war by the end of 1997 and the intensified anti-Chinese sentiment in Indonesia that were largely used by legislators to denounce the outward investment policy that had put Taishang at risk and therefore questioned the legitimacy of the government pushing through the second wave Southward policy.

The mismatch between political discontent and the real policy content indicates that the transforming social embeddedness of geoeconomic strategies and the corresponding source of governing legitimacy of the state largely went unnoticed. While the “Southward Policy” continued to be conceived as the symbol of state leadership guiding Taishang’s overseas investment, the policy initiative, in reality, reflected the realigning material interest between the neoliberal factions within the state, the internationalizing KMT PoEs and the corporations traveling into the financial business. Ironically, the overwhelming concerns for the “highly risky” overseas market were then used by such an alliance to urge the low risk-bearing SMEs to hand their money to more “professional” investment holding companies when pursuing overseas investment. As such, the notions surrounding “risk,” “opportunity,” “market economy” and “professional investment companies” formed a discursive assembly that paradoxically worked to legitimize the overseas financial expansion of the emerging historical bloc.

Against the backdrop of the growing political instability in Southeast Asia and the conservative stance a number of government sectors took against it, the second wave Southward Policy seemed to fade into the backstage of the state’s foreign economic policy discourse. Despite its failure to forge the second wave Southward Policy as a hegemonic project, the ASEAN Investment Holding Company, along with its biggest shareholder—KMT’s China Development Trust—still continued its overseas financial expansion. By the end of 1999, the Asean Investment Holding Company successfully acquired 15.71% stock of Thailand’s biggest financial group TISCO and 18% stock of Indonesia’s second largest corporation, Lippo Securities, while the China Development Trust

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178 Such a statement was made clear by the Chair of the Council for Economic Planning and Development when responding to legislative interpellation. See Legislative Yuan Gazette (1998). Vol. 87, No. 9, pp. 416-417.
continued to expand its deployment in the region, including acquiring 11% stock of South Korea’s E*Mirae Securities. In 2001, China Development Trust first transformed into China Development Industrial Bank and then into China Development Financial Holdings—a giant business entity consisting of industrial bank, commercial bank, securities, life insurance company, and asset management company. As the biggest financial holding company accounting for nearly 10% of Taiwan’s financial market share with NTD one trillion financial assets (thirty-three billion USD), it also decided to strengthen its business territory to the greater China region after KMT lost the presidential election in 2000. After all, the Southward Policy initiatives might have waxed or altered, yet the new historical bloc continued to expand in the region without resorting to geoeconomic reasoning.

Concluding Remarks

From the initiation of the Southward Policy, the declaration of “Go Slow, Be Patient” and the call for “Invest Taiwan Movement,” to the advocacy for the second wave Southward Policy, Taiwan’s geoeconomic maneuvers in the 1990s seem to be ephemeral. Such a transitory course to the hegemonic reconstruction of Taiwan’s post-authoritarian state, it reveals a dialectical relationship between Taiwan’s geoeconomic maneuver and domestic political-economic restructuring—a convoluted and layered process difficult to grasp by assuming an overarching ideological or material structure.

First of all, political democratization and economic liberalization propelled by populist and opposition movements in the late 1980s had formed the material, institutional and ideological structures for the outward economy to unfold: on the one hand, the consequential foreign-exchange deregulation prompted bottom-up deterritorialization led by private sectors’ capital outflow; on the other, appeals for marketization and denationalization indirectly triggered top-down deterritorialization led by PoEs and SoEs’s overseas investment. Proposed against this backdrop, the first wave Southward Policy worked to articulate the two drives through embracing a party-

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state-led, market logic-based deterritorialized economy, which in turn served to assure the legitimacy of the populist authoritarian state.

However, 1996 onwards marked a temporary reversal of the economic deterritorialization process. In the name of economic security and love for Taiwan, the state not only proposed "Go Slow, Be Patient" to curb large-scale investment projects to China but also put a halt to overall outward-oriented foreign economic policies in the hope of increasing domestic investment. Ironically, such a nationalist invocation fueled further business conglomeratization through land deregulation co-constitutive of the domestic economic liberalization process characterized by favoritism. Nationalist aspirations and security discourses surrounding the “economic strength of the nation” were thus exploited to legitimize the advancement of the neoliberal agenda and strengthening the state-party-business coalition at home.

The 1997 Asian financial crisis once again provided a historical conjuncture for the state to launch the second wave Southward Policy. Yet different from its precursor, it was mainly driven by the emerging historical bloc consist of the party-state-business coalition. This coalition, first concretized through domestic liberalization and then bolstered by domestic financial liberalization, began to pursue overseas financial expansion. Such a transformation in Taiwan’s foreign economic policy rationale indicates a process of social dis-embeddedness of geoeconomic maneuvering, where facilitating financial capital’s global (or regional) excursion, rather than assisting national industrial capital’s social re-embeddedness through global deployment (e.g. South Korean’s case), gradually became its kernel concern. Eventually, it contributed to the “internationalization of the state” (Glassman 1999), manifesting growing convolutions between the neoliberal agenda and deterritorialization of the national economy in Taiwan.

Taiwan’s case also yields potential theoretical contributions. First, it demonstrates the centrality of contextualizing “state form including its internal capital fractions and its association with social relations of production—in understanding the course of globalization and neoliberalization. As neo-Gramscian scholarship’s shared axiom elucidates, the state embodies a set of social relations of production that are embedded in particular historical and geographical context. Caught in the Cold War geopolitical framework, the state form of Taiwan had been premised on “party-state
capitalism” as its ideological and material base; institutional design between the market, state and society followed suit. After democratization, such a structure took on the form of populist authoritarianism as its governing mechanism, yet with crony capitalism as its material base. Such a construct eventually drove a dialectical relationship between internal neoliberalization and external neoliberal expansion. Locating Taiwan’s particular state form and its hegemonic reconstruction in its history-geography, a more rooted account different from the functionalist explication of the “neoliberal turn” of the developmental states can thus be perceived. Broader implications may also be found for authoritarian states which experienced dialectical transformation of political democratization and economic liberalization when entering the globalized era.

Second, it illustrates the crucial place “detrerritorialized national economy” occupies in Taiwan’s hegemonic transformation. Directly or indirectly, the early stages of deterritorialization of the national economy manifest the material outcome of political and economic liberalization that targeted dismantling party-state capitalism. Although presenting a potential threat to the “national economy” as a whole and evoking subsequent conflict among capital fractions, the deterritorialized economy was subsequently used to reconstitute the party-state-business relationship by embracing the ideology of “market economy,” constructing Taishang as a mobile yet individualized geoeconomic subject and forming the leadership of the party-state in such an outbound economy. Thus, its complicated mechanism speaks to the literature on internationalization of the peripheral state in relation to the formation of transnational hegemony, where the questions of state legitimacy and mechanism of dominance in the global economy have been constantly debated and revisited.

Last but not least, Taiwan’s case echoes the call for methodological eclecticism by heeding the discursive practice of geopolitics and geoeconomics in relation to the deterritorialized national economy as well as the struggles surrounding it (Sparke 2000, 2007)—a potential way of bridging critical geopolitics’ discursive analysis with the notion of the “geoeconomic social” coined by Cowen and Smith (2009). In the perplexing cross-Strait geopolitical and geoeconomic context—especially the paradoxical development between the more independent-inclined national and state identity construction and its deepening economic dependence with mainland China—most debates about the nature of Taiwan’s foreign economic and trade policies are mainly framed through
antithetical propositions—“Southward vs. Westward,” “anti-market logic vs. pro-market logic,” “diplomacy-oriented vs. economy-oriented,” “loyal to Taiwan vs. national traitor.” The prevailing conception demonstrates how such construction (or deconstruction) may mask contingent articulation of geopolitical/geoeconomic discourses (state security and national aspiration for instance) with social and material forces, especially their role in mediating and reshaping the forms of struggles among the evolving social relations of production. Only by heeding these contingent processes, can the intrinsic ways in which neoliberal agendas in Taiwan advanced through the dialectical interactions between domestic and geopolitical struggles be accounted for.
Chapter 6
Contesting Financial Nationalism(s) in the Globalization Era

I. Introduction

The presidential election of 2000 marked a threshold in Taiwan’s post-War political history. Since the implementation of universal suffrage for the presidency in 1996, the opposition party DPP stepped to the Presidential Office for the first time. The DPP’s victory also put an end to KMT’s over-fifty-year control of the state apparatus in Taiwan since 1949. Moreover, President Chen Shui-bian’s re-election for the presidency in 2004 amounts to an eight-year-long governance by the DPP. The decade witnessed a fundamental change in the political landscape marked by a severe restructuring of external influences as well as intensification of internal political struggles. Together these posed a fundamental challenge to the state-market-society relationship forged under the populist authoritarian regime in the 1990s.

As soon as DPP came to power in the central government, Chen Shui-bian launched a novel geoeconomic strategy—“Cultivating Taiwan while Reaching out to the World” (深耕台灣，佈局全球). Such a strategy had ambitions to turn Taiwan into a high-tech-driven Silicon Island while promoting trade and economic liberalization. Under this overarching guideline, the government proposed “Proactive Liberalization, Effective Management” (積極開放，有效管理) as the principle for cross-Strait economic affairs. A wide range of deregulation and liberalization of previously imposed restrictions on cross-Strait economic activities followed suit. Ever since then, Taiwan’s trade and economic relationship with China has grown not only exponentially, but also unsymmetrically. In 2003, China became the largest trading partner with Taiwan, surpassing the US and Japan. However, the liberalization atmosphere did not continue long in Chen’s second presidency. In response to China’s enactment of the anti-session law in 2005, the DPP regime twisted its cross-Strait trade and economic principle from “Proactive Liberalization, Effective Management” to “Proactive Management, Effective Liberalization” (積極管理，有效開放), rendering a perplexing cross-Strait relationship of “growing economic integration against intensified geopolitical tensions.”
So far, much research has been done to account for the DPP’s cross-Strait economic policy transformation. State theory approaches this issue by looking at the intrinsic contradictions between the political project of nation-building and the “glocalization” accumulation strategy of the state, arguing that the triumph of the former over the latter led to the policy transformation of the DDP regime (Wang 2007). Political science explains the issue from the micro-politics level, noting that it is the nature of the DPP regime—a minority government—that sought to accommodate various political interests as a way to secure its legitimacy, rather than resorting to nationalist politics, that served as the key determinant of its cross-Strait economic policy dynamics (Lin 2016). Geopolitics scholarship further emphasizes the role of Beijing’s “united front campaign” in reconfiguring interest groups within Taiwan, where Taishang, with their growing business interest in mainland China, served as the major agency to push for cross-Strait economic liberalization (Mengin 2015).

These approaches, although providing insightful understanding of the cross-Strait geopolitical economy under the DPP regime, pose a common problem: they view trade and economic policy transformation as a dependent variable of geopolitical factors—including national identity struggles, state security concerns, and sovereignty disputes. It also tends to subsume trade and economic liberalization under cross-Strait economic relations, as if the former is determined by the latter. Such a “cross-Strait” dominated analytical framework may risk ignoring the fact that neoliberalization of Taiwan’s trade and economic policies was inherited from a long historical trajectory and co-evolved with the cross-Strait economic policies. Although many times cross-Strait analysis and neoliberalism seem to be two sides of a coin, their relationship is more contingent than concrete. Moreover, research prioritizing cross-Strait relations usually focuses on the high-profile controversies over cross-border technology, flow of people and goods, as well as the transportation arrangements that facilitate them. On the contrary, cross-border capital flow is often treated as a subsidiary issue that escaped critical examination. However, my previous chapters demonstrate the de/re-regulation of capital flows across the border has been at the core of the making of the national economy since the 1980s. Therefore, the ideologies, discourses, institutions and practices surrounding it deserve more critical scrutiny.
Thus, my analysis will situate the DPP’s cross-Strait economic policies in the longitude of Taiwan’s trade and economic liberalization courses. Specifically, I will deploy the notion of “financial nationalism” to explicate its latest phase and to capture the fundamental change in the relationship between “capital” and the “national economy.” As a sub-concept of “economic nationalism,” financial nationalism commonly denotes the utilization of financial means to achieve domestic political and economic goals (Johnson & Barnes 2015), where the protectionist stance the state takes against financial liberalization imposed by the supranational organizations are largely used as the case in point. However, as Chapter 4 has pointed out, rather than ascribing a particular set of policies, economic nationalism is better understood as a nationalist project that may embrace distinct economic policies (Helleiner & Pickel 2005). Similarly, I propose that financial nationalism should be conceived as a context-specific nationalist project that articulates different notions of national economy accentuating financialized capital. Financial nationalism represents the means through which such form of capital is regulated as well as the ideology, discourses, desires and fears that enable or condition it. Utilizing such a conceptual framework, this chapter demonstrates the possibility of bridging the studies on the cross-Strait economic policies under Chen’s regime and research on trade and economic neoliberalization in a productive way.

The analysis begins with a critical interrogation of the globalization strategy proposed by the government right after DPP came to power in 2000. It unravels how such a strategy, with its discursive malleability, created a common ground to endorse liberalization policies against polarized party politics, growing frictions between administrative departments, and a widening legislative-administrative power divide. Specifically, it explicates how this strategy worked to recalibrate the relationship between cross-Strait economic affairs and Taiwan’s national economy, as embodied in the promotion of the “Proactive Liberalization, Effective Management” guideline, under which a wide range of cross-Strait trade and economic deregulation was implemented.

The second and third sections tackle the rise of two parallel forms of financial nationalism and their distinct relationships with the globalization strategy: the protectionist financial nationalism emphasizing control over cross-border capital flows, and neoliberal financial nationalism promoting financial deregulation. The second section illustrates the revival of protectionist
financial nationalism—an ideology underpinning the KMT regime until the 1990s—as embodied in the growing populist discontent over Taishang’s “capital flight” and the subsequent appeal for “capital repatriation.” Specifically, it highlights how the prevalence of protectionist financial nationalism was utilized to legitimize liberalization of cross-Strait economic affairs. The third section traces the emerging and development of neoliberal financial nationalism—from advocacy for financial internationalization with state intervention to a neoliberal agenda focusing on competitiveness and deregulation. I will explicate how such an advocacy began to challenge protectionist financial nationalism through ideational reframing and institutional reform.

The fourth section highlights the increasing entanglement of the two financial nationalist agendas by investigating political struggles over Taishang’s financing needs. It also depicts the gradual accommodation of Taishang’s financing needs in financial policy to demonstrate the winning trend of neoliberal financial nationalism over protectionism. The last section will briefly explain how such a trend was curtailed by the intensified geopolitical-geoeconomic tensions across the Strait during the second presidency of Chen Shui-bian. The ongoing advocacy for financial liberalization, however, continued to reconfigure its social alliances, which eventually contributed to the precipitate finance-focused cross-Strait economic liberalization right after the KMT resumed power in 2008.

II. Globalization Strategy under the DPP Regime

The Birth of Minority Government in a Non-hegemonic Era

The triumph of DPP in the 2000 presidential election is commonly regarded as an “anticipated accident.” On the one hand, the entrenched corruption of the Li Deng-hui government—an outcome of KMT’s power re-consolidated through crony capitalism in the post-authoritarian era—had aroused numerous social criticisms and a widespread desire for a refreshing political environment. On the other, the internal friction of KMT, with a highly renowned political figure James Soong, ex-Governor of the “Taiwan Province” insisting on running for the presidency as

180 The government of Taiwan Province, a symbol of the One China Policy under the Cold War, was defunctioned following the implementation of universal suffrage for presidential election in 1996.
an independent candidate against the party nominee, Lien Chan, further split KMT’s constituency. The external pressure for new politics, along with the internal split of KMT, resulted in DPP’s victory in the election by a small margin (Chen gained 39.3% of the total vote against Soong’s 36.8%, with KMT’s candidate Lien Chan the third).

Although gaining power in the central government, DPP had not yet won majority support from the general public. The result for the parliamentary election held the year after demonstrated their position, with DPP holding 87 seats as opposed to the 114 seats the pan-blue camp seized—a camp now consisting of KMT, the New Party established by the ex-KMT members promoting radical unification, and the newly established People First Party led by James Soong. Thus, the structure of party politics in the post-authoritarian era in Taiwan remained largely unchanged. Meanwhile, emerging from a populist grassroots background, the DPP’s relationship with business groups was not as close as it used to be under the party-state-business coalition established by the KMT. In order to gain governing legitimacy in light of being a minority government, President Chen Shui-bian declared the formation of a coalition cabinet with participation of officials from different party affiliations, business elites, renowned academics, and even labor unions. By doing so, he hoped to create a common ground for a “button-up” consensus of policy implementation. The birth of the minority government, the introduction of pluralist politics, and the gradual disassociation of the party-state-capital alliance, all manifesting Taiwan’s democratic transformation from populist-authoritarian to a truly post-authoritarian era (Ho 2003; Hsiao 2004; Wang 2008; Wu 2008).

However, the political transformation was doomed to be ridden with governing crises of various kinds—many of which were generated within the ruling class. Not only disagreements among different administrative departments in the state apparatus were commonplace, but contradictions between administrative and legislative power also became standard, not to mention prevailing antagonism among party coalitions. Against such backdrop, the relationship between the state and business groups evolved from clientelism and corporatism in the previous era to pluralism, with each of the aforementioned tensions serving as the pivots for interest groups to intervene in policy formation. In response, the DPP regime sought to “green” business groups as a way to forge political support, although largely through non-institutional measures such as individual rewards and pork-barrel politics (T. Huang 2004; Chien 2008; Huang 2013).
Meanwhile, Taiwan’s internal political shuffling was embroiled in the fast-changing geoeconomic dynamics of the late 1990s. The resumed talks between the two semi-official organizations—Strait Exchange Foundation (Taiwan) and Association for Relations across the Taiwan Strait (PRC)—in 1998 marked the first easing of cross-Strait tensions since the 1996 missile crisis. The unfolding geopolitics was coupled by changing geoeconomic events: the confirmation of China and Taiwan’s successive accession to WTO in 1999, where China’s WTO accession in particular projected further liberalization of its domestic market and a more open business environment for FDI. Accordingly, business groups appealed for an amendment to the “Go Slow, No Haste” policy guideline launched by the Taiwanese government in 1996. Pressures escalated along with the heated presidential election campaign by the end of 1999. As a result of the evolving geopolitical and geoeconomic dynamics, not only President Li Deng-hui reversed to promise revision of the existing cross-Strait trade and economic policies, all presidential candidates, whatever their party affiliations, went further to compete with one another for their commitment to liberalization policies. Given the similarity of cross-Strait trade and economic policies proposed by candidates across the parties, the business groups had already foreseen significant changes in the policies ahead no matter which party would come in power.

However, the orchestrated commitments made by all the presidential candidates did not spontaneously translate into a consensus for cross-Strait economic affairs among the elites post-election. Quite the contrary, the election was more like lifting the lid of a boiling pot. Within DPP, although Chen Shui-bian’s victory signaled the winning position of the liberalizing faction—be it the “Westward Expansionism” promoted by ex-party leader Shu Shin-liang (許信良) or the modified version of “Westward with enhanced base” (強本西進) advocated by Chen Shui-

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181 Following China’s WTO accession timeline confirmed in 1999 after a fifteen-year-long negotiation, Taiwan’s ceaseless pursuit of GATT/WTO membership from the late 1980s (see discussion in Chapter 3) was finally settled. The two were scheduled to officially join WTO on December 31st, 2001 and January 1st, 2002 respectively, with China acquiring its membership one day prior to Taiwan.

182 In 1999, the open statement made by Kao Ching-Yuen – Chairman of the Uni-President Enterprises Corporation, Chairman of the Chinese National Federation of Industries, as well as KMT’s Central Standing Committee member – about his plan to visit high-ranking officers in Beijing to seek further economic collaboration after being discouraged by the “Go Slow” policy is seen as the most indicative case in point.

bian, himself a loyal supporter of trade and economic liberalization ever since he started his political career as a legislator—there has been a constant tug-of-war between protectionist factions and the liberalizing factions. Meanwhile, the entrenched intra-party antagonism also led to another partition of KMT after the election, where the former President Li Deng-hui left KMT to establish his own party, Taiwan Solidarity Union (TSU). Although belonging to the “pan-green coalition” for sharing a pro-independent stance with DPP, TSU took an ultra-nationalist and firmly protectionist position towards the cross-Strait issues compared to DPP, and became the crucial force working strategically with the national security department, the Mainland Affairs Council and the protectionist faction within DPP to counter liberalizing appeals of various kinds. Overall, what the DPP regime faced was a bumpy start to secure its legitimacy within the ruling class.

**Globalization Strategy and Its Governing Effect**

Facing a crisis in governance, the DPP regime had to search for common ground among the ruling elites to move the state apparatus. It was against this backdrop that the “globalization” strategy was proposed to tackle highly polarized political forces. Similar to the globalization project initiated by Kim Young-Sam in South Korea in the 1990s, the globalization strategy promoted by DPP served as a sophisticated governing mechanism for a post-authoritarian weak state to tackle cultural, economic and political challenges all at once (Kim 2000; Huang 2005). However, the two agendas differ in their economic connotations. The globalization agenda in South Korea embodied paradoxical desires between the populist appeal for decentralization of Chaebols’ monopoly of the “national economy” and the nationalist pursuit of global competitiveness (Gills & Gills 1999); in Taiwan’s case, the globalization agenda represents a pure top-down, elites-initiated, security-focused and competitiveness-driven project.

 Nonetheless, with its discursive malleability, globalization served as a floating signifier able to articulate paradoxical economic imaginaries endorsed by different political camps in Taiwan. First of all, in the official discourse, globalization was intrinsically articulated with the notion of “economic security.” While Chen Shui-bian was running for the presidency, the “economic security development strategy” had already been proposed in his campaign white paper. The notion of “development” was deployed to replace risk and consolidate security, where economic liberalization and internalization were viewed as the premise for development and security. It was
argued that only through enhancing Taiwan’s economic competitiveness and deepening Taiwan’s integration to the global economy—measures ranging from encouraging FDI to internationalizing Taiwan’s capital market—that Beijing’s united front strategy could be contained through economic means (Tung 2000; Fu 2000). As soon as Chen attained the presidency, the strategy of “Cultivating Taiwan while Reaching out to the World” was proposed. The inauguration of the “Global Logistic Center” project followed suit.\(^\text{184}\) Thus, globalization emerged as the key geoeconomic strategy of Chen’s regime in achieving both economic growth and state security.

By articulating the notion of economic security, the globalization agenda created a grey area in the government body haunted by polarized views of the role cross-Strait economics played in Taiwan’s national economy. For Chen Po-chih, Minister of the Council of Economic Planning and Development, globalization denoted strengthening Taiwan’s knowledge-based economy and its global competitiveness as a way to avoid “mainlandization.”\(^\text{185}\) For others, such a strategy was premised on liberalization of cross-Strait economic activities: Taiwanese entrepreneurs’ (Taishang) business deployment on mainland China would promote division of labor across the Strait, facilitate Taiwan’s industrial upgrading, and sustain Taiwan’s market niche in the global economy. Such a “globalization through China” strategy, in turn, could ultimately help Taiwan avoid “mainlandization.” It was the popularization of such reciprocal thinking between economic globalization and security that the strategy enjoyed support from both economic and national security departments. Minister of Economic Affairs, Lin Hsin-I, proposed a “new thinking of national defense economics” in a press conference, arguing that internationalization of Taiwan’s economy could best guard Taiwan’s security, and its success hinged upon Taishang’s global deployment via effective utilization of the Chinese market. Thus, the government had to actively assist Taishang’s businesses in mainland China.\(^\text{186}\) Similar logic also manifested in the Minister of Mainland Affairs Council, Tsai Ying-wen’s remark on China as the steppingstone for Taiwan’s successful economic restructuring: “considering the urgent need of the Taiwanese enterprises to

\(^{184}\) The “Global Logistic Center” project was first initiated by the Council for Economic Development and Planning prior to the 2000 presidential election as an extension of the APROC project. Nevertheless, the ensuing DPP regime continued to endorse such a liberalization-focused project as its trade and economic policy guideline.


pursue global competitiveness, the government should incorporate cross-Strait trade and economy into its globalization strategy instead of slowing its investment to China under the ‘Go Slow, No Haste’ principle.”

Besides strategically bringing together developmentalist, liberal and protectionist factions within the government, the globalization agenda also won widespread support from scholars and politicians taking functionalist or integrationist stances—although what was being highlighted was the notion of integration, rather than security. For the functionalist, security—or cross-Strait peace—can only be fulfilled by cross-Strait economic integration in the global economy. Globalization was believed to transcend the zero-sum game of the cross-Strait Cold War antagonism, make politics in the service of economy, and render war undesirable for both parties across the Strait (Yen 2001; C. Tsai 2005). KMT’s vice-chairman Siew Wan-chang’s proposal for building a “cross-Strait common market” was illustrative. Moreover, based on the European model, the integrationists purported that globalization would not only passively reduce conflicts through economic integration, but also mitigate the ideological chasm across the Strait, provide material and institutional grounds for further political integration, and ultimately facilitate a supranational institutional arrangement to overcome the sovereignty dilemma (Chang 2000, 2003; Chu 2008; Hsu & Chang 2012; Shen 2002).

As a “consensus” across administrative departments, parties, and social elites with different political orientations, the globalization strategy generated complex discursive effects that worked to re-align polarized political forces by articulating varied geoeconomic imaginaries. This effect on governance was vividly embodied in the overall embracing of Taiwan’s accession to WTO in Jan 1st, 2002, a day after China’s accession. For the protectionist camp, the essence of WTO lay in the multilateral, institutionalized framework it provided to “normalize” cross-Strait economic relations. Such a rationale well demonstrated in the Minister of Mainland Affairs Council, Tsai Ying-wen’s proclamation that WTO accession could help reduce uncertainty in economic interactions and policy formation, provide Taiwan—a smaller economic entity—institutional

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188 Siew Wan-chang established the Cross-Strait Common Market Foundation in March 2001: https://www.crossstrait.org/
protection over cross-Strait economic negotiations, and set guidelines for future cross-Strait bilateral agreements.\textsuperscript{189} Meanwhile, China and Taiwan’s successive WTO accession was celebrated by the integrationist or pro-unification camp for creating a material and institutional ground for cross-Strait integration. For instance, Siew Wan-chang called WTO accession the milestone for cross-Strait relations because it would strengthen economic collaboration across the Strait in the global market.\textsuperscript{190} Some even went further to suggest that liberalization of the Chinese economy under the WTO framework would eventually trigger political reform and democratization in China, through which the institutional and ideological chasm across the Strait could be bridged (Do 2000).

The fact that WTO was projected with varied geopolitical and geoeconomic desires demonstrates the discursive malleability of globalization and its efficacy in articulating opposition political forces that split the newly elected governing regime. By presenting globalization as a political “consensus”, the issue of cross-Strait economic liberalization was redefined.

\textit{Proactive Liberalization, Effective Management: Taiwan’s Cross-Strait Economic Policies under the Globalization Strategy}

After all, the globalization agenda is not just a discursive construction articulating varied geopolitical and geoeconomic desires and imaginaries. Rather, it yielded material effects and entailed a fundamental change in cross-Strait trade and economic policy orientation. As a minority government, the DPP regime summoned the national Economic Development Commission in July 2001 as a platform for politicians, bureaucrats, business groups and social representatives to achieve consensus building on five major areas: industry, employment, investment, finance, and cross-Strait trade and economic relations. In his opening remark, Chen Shui-bian declared “Cultivating Taiwan While Reaching out to the World” as the new geoeconomic strategy, under which the “Go Slow, No Haste” guideline for cross-Strait trade and economic policies from the

\textsuperscript{189}http://www.mac.gov.tw/News_Content.aspx?n=AE7D888EFB4A10BA&sms=7BBB02645A537D41&s=8CC035ADC383899D.
\textsuperscript{190}Taiwan Has a Robust Economy; Mainland China Provides Taishang the Market. (2001, Nov 23). \textit{United Evening News}, 13.
previous regime was officially replaced by “Proactive Liberalization, Effective Management.”

After a month-long discussion, the Economic Development Commission reached as many as three hundred and twenty-two policy consensuses. In that, the underlying messages of “liberalization,” “deregulation” and “opening” ran through the entire program. It is also due to Chen Shui-bian’s promise that his administration would implement all the policies agreed on by the Commission, that an atmosphere of “great reconciliation” between parties, administrative and legislative power, and state-business relations prevailed over the entire society (Wu 2001).

In the Commission, the panel on cross-Strait trade and economic affairs drew most media spotlight and social attention. Co-chaired by the Strait Exchange Foundation, the Mainland Affairs Council and the Council for Economic Planning and Development, the panel tackled a variety of issues from three links (direct postal communication, direct commerce, direct transportation) to deregulating Chinese visitors to Taiwan, establishing mechanisms to facilitate cross-Strait financial exchange, to encouraging Chinese investment in real estate and service industries. On top of Chen Shui-bian’s earlier declaration “Cultivating Taiwan While Reaching out to the World”, the conclusion reached by the cross-Strait trade and economic panel and its subsequent implementation represented a turning point in Taiwan’s cross-Strait economic policy. Direct investment to China was finally approved, the ceiling of fifty million USD for China-bound investment per project was lifted, the ceiling of the ratio for China-bound investment to the company’s net worth was increased from 20% to 40%,, and previously prohibited key industries—information technology (IT) manufacturing and upstream petrol industries—were allowed to launch investment in mainland China.

Although the cross-Strait trade and economic affairs were extensively liberalized under the globalization strategy, they nevertheless evoked internal controversy over a number of sensitive issues, where cross-Strait direct flights and China-bound investment for hi-tech industry represented two of the most controversial cases. First, while the opening of cross-Strait direct

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http://www.president.gov.tw/Page/294/34806/%E7%B8%BD%E7%B5%B1%E5%BA%9C%E6%96%B0%E8%B1%9E%E7%A8%BF-%E7%B6%93%E7%99%BC%E6%9C%83
192 Data source: Council for Mainland Affairs.
flights drew widespread support from society and among legislators from all parties, and was deemed least threatening or even beneficial to Taiwan’s economy by the government, it failed to materialize due to irresolvable sovereignty concerns from the Taiwanese government. Second, cross-border technology flow—especially that of the ICT industries—manifested another controversy. Hi-tech industry, from its development in the 1980s, had been conceived of as the key to national economic security considering its potential value to defense technology, its innovation spill-over effects, and the industrial clusters it created. Therefore, its investment in China was highly regulated. However, following the IT industries’ (notebook manufacturing held the highest output value in the sector) China-bound migration via Hong Kong before Taiwanese government officially approved it (Kao 2001), the more technologically sophisticated IC industry also began to launch clandestine investment in China at the turn of the 21st century, creating a huge pressure of competition for the remaining IC companies in Taiwan. As a result, the two major Taiwanese semiconductor companies began to advocate for liberalizing IC industry’s investment in China in order to maintain its global competitiveness. Although the business representatives and the Ministry of Economic Affairs pushed hard in the Economic Development Commission, it still encountered severe resistance both from a number of governmental departments, including the Mainland Affairs Council, Council of Labor Affairs and the Central Bank, and from TSU, its associated think tanks and social groups. The great controversy eventually caused a deferral of decision-making (Lin 2016). Despite the remaining doubts, the Administrative Yuan finally declared deregulation of semiconductor's investment in China in March 2002 under the companies’ promise to retain their R&D section and sustain their investment scale in Taiwan.

The unresolvable sovereignty conflict between the two regimes across the Strait, especially the firm stance Beijing took, deterred the Taiwanese government from pursuing this liberalization agenda. Under the “One China Principle,” Beijing insisted the nature of such an air route as a “domestic” one and therefore declined any possible alternative arrangement that could avoid addressing sovereignty issues. Beijing’s refusal of utilizing previously established semi-official platforms and only allowing business representatives to negotiate this matter—an escalated strategy to “de-statize Taiwan” and discredit the DPP regime—left the Taiwanese government with no choice but to curb the agenda (Tsai 2004; Kao 2004; Chou & Li 2006). The unfruitful result of cross-Strait direct flight deregulation was subsequently criticized by the opposition party as a symbol for DPP's "irrational nationalist and ideology-driven" nature acting at the expense of the economic well-being of the society.
III. Restaging Protectionist Financial Nationalism under “Effective Management”

Cross-Strait economic liberalization under a globalization framework is not only associated with border crossing practices of goods, people and technology, but also about capital flow. Compared to the former, however, the latter had not received as much critical analysis, partly because it was largely viewed as a derivative issue of the former, partly because it did not evoke as many political contentions. Nevertheless, as was explained in Chapter 2, controlling capital outflow has been one of the primary governing agendas of the post-War state in Taiwan, for it was intrinsically associated with financial stability, state security and national wealth. This rationale only began to alter when the state turned to promote deterritorialized economy in the 1990s, where capital outflow was encouraged (except to China) to mitigate an internal accumulation crisis and to reconsolidate hegemony in the post-authoritarian era. The protectionist disposition towards capital outflows, however, did not simply dissolve. Rather, it resurfaced to the core of geoeconomic maneuvering of the DPP regime. The following section aims to explore the social, economic and political contexts from which this protectionist ideology re-emerged as well as its unexpected policy effects. This includes its deployment as leverage to endorse cross-Strait trade and economic liberalization, and its subsequent institutional design that opened a door to further financial neoliberalization.

“Profiteering in China, Leaving Debt to Taiwan”: Populist Appeal for Capital Repatriation

As was discussed in the previous chapter, the 1990s witnessed an abrupt shift by the Taiwanese state to encourage outward investment. However, such a paradigm shift proved to be controversial. In light of the mounting capital outflow, especially to mainland China, vexation of “profiteering in China, leaving debt to Taiwan” (錢進大陸，債留台灣) surged in popular discourse, accusing Taishang’s excessive investment in China of hollowing out Taiwan’s economy. Although whether, in what sense, and to whom Taiwan’s business expansion in China generated positive or negative impacts on Taiwan’s economy are still highly debated in academia, such populist-driven narratives, along with its request for tightening up control over Taishang’s investment in mainland China, can
hardly be attributed to an ungrounded discursive construction or mere political manipulation. Rather, the surge and popularization of such a discourse found its roots in multiple contexts.

The material contexts from which the narrative of “profiteering in China, leaving debt to Taiwan” arose from Taiwan’s sluggish economic performance at the turn of the 21st century due to multiple causes: economic downturns at the global scale, financial distress of Taiwanese enterprises indirectly impacted by the Asian financial crisis of 1998 onwards, ceaseless capital and industrial outmigration, and the prevailing practice of credit over-expansion and excess loans under crony capitalism, all of which contributed to malfunction of domestic financial institutions plagued by a general deterioration of asset qualities (Chung & Chen 2001; Y. Wu 2003; Wu 2008). As a result, the nationwide non-performing loans ratio for domestic banks skyrocketed from 4.88% in 1999 to 11.26% in 2001 and 8.85% in 2002—a dire situation similar to South Korea’s right before the burst of the financial crisis. 194 Such entrenched systematic problems facing Taiwan drew subsequent media and scholarly attention, cautioning of the possibility for a domestic financial crisis to take place in Taiwan (Hsu 2001; Montgomery 2003; Liao 2004).

This systematic crisis further came in the public eye after a series scandals involving embezzlement of corporate assets and fraudulent insolvency cases were exposed at the turn of the century, where Taiwanese corporations’ questionable conduct across the Strait rose to the center of the storm. From 2000 to 2003, a number of domestically well-known Taiwanese manufacturing and technology companies—including Tuntex Group, Hua-Eng Copper and Iron Industrial, A-Trend Technology, Kingtel Telecommunication Corp. and PEWC Group—launched massive layoffs, claimed bankruptcy and requested government bailouts, while at the same time expanding their investments in China clandestinely. With the diversification of Taishang’s business operation in China, the list was joined by real estate and retail companies such as Hong Xi Group, Pacific Construction Co., and Rebar Group. All of a sudden, the media was flooded by sensational stories about how these black-hearted Taishang expanded their business and enjoyed an extravagant lifestyle in China, disregarding of all the shambles they caused in Taiwan; some even absconded

194 Source: Central Bank of the Republic of China, Taiwan. Data retrieved from:
to China for good to avoid legal liabilities.\textsuperscript{195} These high-profile cases subsequently evoked massive social discontent and widespread circulation of the criticism “profiteering in China, leaving debt to Taiwan.” The widespread public denouncement also led legislators from different parties to conduct ceaseless interpellation as a response, calling on the investigating department to take action.\textsuperscript{196}

These disputes associated with \textit{Taishang}’s cross-Strait investment practices were also indicative of a general problem facing Taiwan’s capital market. Although it is difficult to track and prove how much of the non-performing loans of domestic banks were associated with cross-Strait investment, it was reported that civil disputes caused by \textit{Taishang}’s clandestine channeling of funds to China multiplied four times between July and September 2001 compared to the year before;\textsuperscript{197} The Chinese Arbitration Association also estimated that the non-performing debt \textit{Taishang} brought to Taiwan’s domestic banks had reached at least 100 billion NTD dollars. Since the Central Bank confirmed that the loans totaled 104.5 billion NTD dollars, very little of the loans \textit{Taishang} borrowed from the domestic banks were paid off. The issue was further escalated by \textit{Taishang}’s disproportional investment in China in comparison to capital remitted back to Taiwan. Given that the listed companies had only repatriated 1.18\% of their investment in China back to Taiwan, the Central Bank openly complained that \textit{Taishang}’s business expansion in China made through irregular money channeling was at the cost of increasing risks of Taiwanese people and causing Taiwan’s marginalization in the global economy.\textsuperscript{198} The Control Yuan, the supreme investigatory agency that monitors government accountability, went further and filed a formal correction for the inactiveness of the Administrative Yuan against the mainland China’s “magnet

\begin{itemize}
\item\textsuperscript{195} For instance, the magazine “\textit{Business Today}” (今周刊) published a great number of reports on such sensational stories during the years of 2001 and 2003. The most high profile cases include the CEOs of the Tuntex Group and China Rebar Co., both of which used to be among the biggest business conglomerates in Taiwan.
\item\textsuperscript{197} Judges in Disbelieve: Mainland as Debt Haven; Disputing Cases Soared This Year. (2001, Oct 20). \textit{United Evening News}, 05.
\end{itemize}
effect” to Taiwanese capital and its inability to solve the rampant problem of Taishang “leaving debt to Taiwan.”

The high-profile cases of Taishang’s misconduct, the deteriorating domestic financial environment, and the disproportional capital flight against repatriated profit together laid the ground for the popularization of the “profiteering in China, leaving debt to Taiwan” narrative—both from the bottom-up social denouncement and top-down governmental condemnation. The vibe of protectionist financial nationalism—an agenda to tightening regulation of capital outflows for the sake of Taiwan’s national economy—revived in consequence, followed by the re-emerging appeal for Taishang to “root in Taiwan.” Although parallel to the discourse that appeared in the “Invest Taiwan” propaganda in 1996, such a reviving appeal for Taiwanese enterprises to “root in Taiwan” entailed a very different perception of the deterritorialized economic activities in relation to the national economy. The abstract form of “capital” became an end itself, where capital repatriation in financial form was emphasized over the return of industrial capital as an instrument to boost the economy. As a result, building a system to attract capital back to Taiwan was fervently promoted. It was argued that Taishang’s outward investment would not necessarily “hollow out” Taiwan’s economy as long as a sound “capital repatriation” mechanism was developed, for people’s purchasing power would be accordingly enhanced and the impact globalization brought to social and economic wellbeing could be mitigated. Under the framework of globalization, the local embeddedness of industry was no longer prioritized in the policy discourse—or at least not as much as it used to be. Instead, repatriating profit or paying tax in Taiwan was acclaimed as the way for Taishang to maintain the economic connection to its homeland country, to show national loyalty, and to guarantee Taiwan’s economic security.

Such a changing rationale can also be found in the shift of policy guidelines. Witnessing Taishang’s prospering hi-tech manufacturing industry in China, the Mainland Affairs Council reaffirmed the policy guideline of profit repatriation instead of obstructing Taishang’s global

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deployment proposed by the Ministry of Administration, marking an initial turn of the governing rationale. During the ensuing Economic Development Commission, contrary to the heated debate and pending decision on the deregulation of the semiconductor manufacturer’s investment to China, attracting capital repatriation turned out to be a consensus shared by all. As a result, bolstering a mechanism for capital repatriation was designated as the major target for “effective management” while launching “proactive liberalization.” The prevalence of the appeal for “capital repatriation” was soon tactically appropriated by the regime to pacify doubts about its extensive liberalizing course toward cross-Strait economic affairs; even President Chen Shui-bian openly stated that the system design for capital repatriation for *Taishang* would serve as an effective leverage to overcome resistance against deregulating semi-conductor companies’ investment in China.

**Financial Liberalization in the Name of “Capital Repatriation”**

The unfolding history seems to repeat itself: While the nationalist appeal for “invest in Taiwan” turned to entrench internal neoliberalization in the mid-1990s, the appeal for capital repatriation underpinned by protectionist financial nationalism was soon manipulated to cultivate financial neoliberalization. First of all, it was argued that the major reason why *Taishang* were unwilling to repatriate their profit back to Taiwan was due to the strict control over capital outflow for investment in China and the difficulty it caused to reutilize the repatriated capital. Against this backdrop, neoliberal economists and business groups purported that financial liberalization was the only cure to the problem. For instance, Wea Chi-lin, a globalist economist who also served as the Administrative Deputy Secretary-General for the DPP government, stated that in order to resist China’s magnet effect to Taiwan’s capital and to attract *Taishang* to deposit their money in Taiwan, the country should completely turn itself into an island of free economy based on the model of Cayman Islands or Virgin Islands, where money is allowed to cross borders freely, and tax burdens

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203 According to government regulation, once *Taishang's* overseas profit was remitted to Taiwan, it was subsequently subject to the 40% ceiling of the company’s net worth ratio by law for China-bound investment, where re-utilizing this money for further investment in China became extremely difficult.
are waived for corresponding financial activities.\textsuperscript{204} This idea of forging Taiwan into a tax haven drew widespread support from the capitalist class and their political representatives.\textsuperscript{205} Many echoed the proposal of making Taiwan a tax haven, arguing that as long as the Taiwanese government liberalized restrictions imposed on cross-border capital flows, the problem of capital lingering overseas could be solved with ease.

Paradoxically, it was because capital repatriation was foregrounded in the financial nationalist agenda underpinned by protectionism that the promotion of financial and fiscal liberalization as the mechanism to encourage Taishang to repatriate their profit became a desirable policy agenda. Accordingly, the government deployed the mechanism of “offshore banking unit (OBU),” a mechanism aimed at liberalizing cross-Strait capital flows via virtual offshore financial services in the hope of facilitating Taishang’s capital repatriation while at the same time maintaining a firewall between internal and external financial market regulations. In effect, the OBU system was introduced to Taiwan as early as in 1982. However, given that direct financial interaction with mainland China was strictly prohibited by law, transactions with financial institutions on mainland China were excluded from OBU services. It was not until conformity to WTO rules and the Economic and Development Commission in 2001 confirmed the globalization strategy that cross-Strait capital remittance via OBU service was permitted, marking the initial step of liberalizing formal cross-Strait financial interactions.

Moreover, although underpinned by protectionist financial nationalism, the appeal for capital repatriation spurred another round of neoliberalization—tax relief. Tax breaks have long been utilized by the Taiwanese government as the key instrument to attract FDI and encourage industrial upgrading. Such a mechanism finds its concomitance in the latest policy rationale on trade: In the Economic Development Commission held in 2001, “providing tax breaks” had been purported as an incentive to encourage Taishang’s capital repatriation. Ever since then, the six major business

\textsuperscript{204} Liu, I-De (2001). Great Taiwan as Another Cayman Island; Resisting China’s Capital Sucking [大台灣開曼 島 抵擋中國吸金力]. \textit{Business Today}, 250, p. 28.

\textsuperscript{205} Similar arguments can be found in the statements of the following political and economic elites: Chiang Pin-kung, former Minister of Economic Affairs and Chair of the Council for Economic Planning and Development under Li Deng-hui’s regime, Ku lien-sung, entrepreneur from the renowned Ku family business group as well as founder of Chinatrust Banking Corporation, Huang Mao-hsiung, CEO of TECO Group and Chair of The Chinese National Association of Industry and Commerce, along with many others,
groups in Taiwan formed a collective association for lobbying to push through the tax relief agenda in the fiscal reform proposal, arguing that one of the key concerns for Taishang to repatriate their profits back to Taiwan was the additional tax burden it might cause; therefore, waiving Taishang’s overseas enterprise income tax would provide crucial incentive for their profit remittance. As a response, in May 2002, the Administrative Yuan proposed to incorporate China-focused Taishang into the tax preference scheme designed to attract multinational companies by waiving enterprise income tax. However, such an indiscriminate tax relief proposal was rejected by the fiscal reform committee, which contended that taxation did not present the major obstacle for Taishang to remit their overseas profit back to Taiwan.

Nonetheless, the sudden drop of economic performance as a result of the outburst of SARS in spring 2003 contributed to further push for capital repatriation in the hope of instigating economic growth. Besides the land-value incremental tax cut provided by Ministry of Economic Affairs as a means to attract Taishang’s return-home investment, a number of legislators across different parties in the Finance Committee worked hand in hand with big business corporations and financial and accounting industry representatives to advocate for lowering inheritance tax, claiming that inheritance tax was the “box office flop” of attracting Taishang sending money back home.\(^{206}\) Although the proposal for general tax break for Taishang was rejected by the Ministry of Finance out of concern for tax-base erosion and widening tax inequality, the Ministry of Economic Affairs continued to promote tax breaks for Taishang by incorporating the establishment of holding companies into the taxation preference scheme under the Statute for Upgrading Industry; heated departmental contestation between Ministry of Finance and Economic Affairs followed suit.

After all, the years between 2002 and 2004 witnessed intensified pressure from business groups, economic bureaucrats and political representatives to push for tax breaks for Taishang in the name of stimulating capital repatriation. These agendas ranged from lowering land value incremental tax, incorporating Taishang in the taxation preference scheme under the Statute for Upgrading Industry, to expanding tax relief for Taishang to set up holding companies in Taiwan. Despite limited progress as a result of severe resistance from the Ministry of Finance in the face of the

\(^{206}\) This includes Taiwan Solidarity Union, a minority party which used to taking an ultra-protectionist position towards cross-Strait trade and economic affairs.
already deteriorating fiscal environment\textsuperscript{207} (Lien 2013), the drive for financial neoliberalization continued to advance in another arena. It is where the next section turns.

\textbf{IV. The Emergence and Transformation of Neoliberal Financial Nationalism}

\textit{Internationalization of Financial Market}

While protectionist financial nationalism prevailed in the social and political arena, an opposition form of financial nationalism was also on the rise: advocacy for financial internationalization and liberalization. The regime’s endorsement of financial liberalization can be traced back to President Chen Shui-bian’s early speech in July 2001, which set up a series of overarching policy goals for the years to come. As a loyal supporter of trade and economic liberalization, Chen proclaimed that the government should get rid of the role of “governor” and minimize its regulation of financial markets; its primary goal should, therefore, lie in promoting internationalization and liberalization of Taiwan’s capital market, turning Taiwan into an asset management hub in Asia, and welcoming foreign holding companies to list on Taiwan’s stock market. Chen’s vision later concretized in the “White Paper for Capital Market Development in Taiwan” drafted by the Taiwan Stock Exchange, marking an official policy initiative to forge Taiwan into an Asian assets-management hub and global financing center (Chen 2004).

However, advocacy for financial internationalization and liberalization had to fight two major ideational battles: confronting the widespread concern for “capital drain,” and redefining finance as an “industry.” First, in light of economic stagnation, many financial and economic scholars thought that the fundamental problem facing Taiwan’s economy was capital superabundance, rather than capital shortage. Specifically, it was pointed out that there had been detrimental structural imbalances in Taiwan’s financial markets, where the developing trend of FDI reduction and the decrease in internal investment rate came along with the problem of excessive saving and idle capital. Indeed, the excessive saving rate in Taiwan escalated since 2000 and reached 9.19%\textsuperscript{207}

\textsuperscript{207} Taiwan’s total tax revenue as a percentage of GDP continued to fall from 17.7\% in 1995 to the record low of 11.7\% in 2003 and remained below 14\% to date. Such a number was far less than OECD countries (around 35\% in average) and accounted only half of that for South Korea during the same period.
in 2003, ranking second in the world;\textsuperscript{208} meanwhile, overseas financing for Taiwanese enterprises grew steadily and eventually surpassed domestic financing in 2002. All the phenomena signaled a dysfunctional domestic financial market, where a great amount of capital could not be put to use for productive economic activities. Scholars also warned against the foreseeable economic bubble in Taiwan as the market saw idle capital rushing into the real estate sector.\textsuperscript{209}

Although financial market dysfunctionality could be tackled by multiple measures to strengthen ties between capital supply and industrial development, the notion of “capital superabundance” was quickly utilized by many financial tycoons to justify the development of a financial industry in Taiwan, arguing that finance should be viewed as an “industry” by itself, rather than a tool assisting other forms of industrial development. Such an advocacy largely drew on the following reasoning: industrial outmigration and losing competitiveness in global manufacturing has been an irreversible fate for Taiwan, but Taiwan possesses ample capital supply and excessive foreign currency reserves, therefore, pursuing the financial industry is the desirable—and only possible—way for Taiwan to pursue successful economic restructuring. For instance, Liu Shau-liang, one of the major initiators for the APROC project, said that Taiwan’s economic restructuring strategy after WTO accession should turn from viewing “industry as root, finance as leaves” to “finance as root, industry as leaves.”\textsuperscript{210} Tu Ying-tzyong, chairman of Citigroup Global Markets Taiwan Ltd. urged the government to cultivate the financial industry as a means to boost the employment rate. Schive Chi, Deputy Minister of the Council of Economic Planning and Development in Li Deng-hui’s regime, even went further to contend that the discourse of “leaving debt to Taiwan” was a malicious political fabrication, for lending money to foreign investors and making profit by collecting debt was intrinsic to the operation of a world financial center.

The influence of “cultivating financial industry” on the government’s economic development course loomed large in a series of new policy implementations aimed at financial internationalization in 2003. During the APEC Finance Ministers’ Meeting in 2003, Lin Chuan, Minister of Finance, announced that building Taiwan into an “Asian financing center” (亞太籌資

\textsuperscript{208} Data source: Director General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. (Taiwan).
中心) was the government’s next goal, signaling the centrality of finance in Taiwan’s economic development strategy. In August 2003, the Ministry of Finance, accompanied by twelve major domestic financial institutions and seven hi-tech companies, launched a business tour in the United States. Meeting a number of internationally operated financial groups, insurance companies, and securities dealers, the Taiwanese government was hoping to attract foreign investment in Taiwan’s capital market. As Lin Chuan clearly put it, the major goal of this trip was to showcase Taiwan’s determination for capital market internationalization, to raise Taiwan’s financial status in the world, and to introduce future financial derivatives.\textsuperscript{211} In the same year, with the removal of limits imposed on foreign investment in Taiwan’s stock market, including those on institutional and individual investors, Taiwan’s stock market was completely liberalized (Lin & Li 2007).

**The Financial Supervisory Commission and the Second-wave Financial Reform**

The growing advocacy for financial internationalization and liberalization, however, overlapped with the building pressure of a domestic financial crisis at the turn of the 21\textsuperscript{st} century. Therefore, the financial policies under Chen’s first presidency were largely focused on dealing with the structural problems in the domestic financial markets inherited from the previous regime. In 2002, the DPP government established a cross-departmental financial reform task force to resolve the vicious circle of over-competition, a low return of assets, high rate of non-performing loans, and credit contractions of the domestic banks. The state’s attempt to tackle bad debts was known as the “first-wave financial reform” (一次金改).

However, the second presidency of Chen Shui-bian quickly shifted its policy focus from re-establishing financial order to promoting efficiency and international competitiveness of domestic financial institutions, where the relatively small scale of banks was conceived as their major weakness in global competition. In expanding the business scale of domestic financial institutions, the state applied a heavy hand in bank consolidation, along with deregulation of related financial restrictions (Lin 2008). In September 2004, the Council for Economic Planning and Development for the first time held the “National Service Industry Development Conference,” through which a

series of policy goals for financial internationalization were proposed. They included cultivating one to three regionally operated financial groups representing Taiwan’s financial influence in Asia, increasing foreign shareholding ratio of Taiwan’s stock exchange assets from 18.8% to 25%, bumping the value of financial service industry to GDP ratio from 11.5% to 13%, and doubling the capital raised from Taiwan by foreign companies from NTD 175 million to 250 million by the year of 2008.

Such a financial nationalist scheme also entailed a new call for institutional reform. Being a minority, the DPP government’s financial reform measures continued to be challenged by legislative power, leading to a barely satisfactory outcome of the first-wave financial reform (Huang & Ouyang 2012). As a result, as soon as Chen Shui-bian was elected for his second presidency, he started to launch the second-wave financial reform, with the newly established Financial Supervisory Commission (FSC) as the independent institution in charge—a commission designed to be under direct control of Administrative Yuan to circumvent legislative power and internal conflict between different departments. Although named as a “supervisory commission,” FSC self-identified as a facilitator of the financial industry, with guaranteeing effective mechanisms for competition and encouraging financial innovation as its major goals. As the Chairman of FSC Kong Jaw-Sheng put it,

*The value of the service industry consists of 68% GDP in Taiwan, and the flagship industry of the service industry is finance. In the past, our country did not treat finance as an industry itself. Rather, it was merely utilized as an instrument to pursue manufacturing and commercial development. This is the first time in history that we turn finance into a real industry, boosting its competitiveness and combining industrial resources accordingly.*

Surprisingly, the narrative of the statement was nearly identical with the advocacy made by financiers in the early 2000s, demonstrating the converging agenda between the industry and the government. As such, the FSC took on the job of promoting financial liberalization and capital market internationalization. It fervently embarked on a variety of related policy promotions from inheritance tax cuts, marketization of insurance rates, to the internationalization of the Taiwanese financial groups.

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stock market. Discursively, it also chanted for “financial democracy,” declaring that the government should no longer insist on control and regulation, but respect market mechanisms.\textsuperscript{213}

From the initial declaration of pursuing financial internationalization and liberalization at the early stage of Chen Shui-bian’s first presidency, the promotion of the Asian Financing Center by the Ministry of Finance in 2003, to the second-wave financial reform and the establishment of FSC in Chen’s second presidency, this history reveals a gradually evolving path of neoliberal financial nationalism. Such evolution began by challenging the long existing yet refashioned idea of capital control and fear for capital drain, followed by a state-assisted developmentalist model of cultivating Taiwan’s capital markets and financial industry through liberalization and internationalization. As the agenda advanced, it turned to pursue financial deregulation and liberalization as its ultimate goal—a truly neoliberal financial nationalism was on the rise.

V. Repositioning \textit{Taishang} in the Financial Nationalist Agenda

Although neoliberal financial nationalism made good progress under Chen’s regime, this evolving process was doomed to tangle with the robust protectionist financial nationalism. This section tackles the multiple historical factors that contributed to the entanglement of the two seemingly parallel forms of financial nationalism. Specifically, the regime’s pursuit of financial internalization, coupled by the changing nature of \textit{Taishang}’s investment in China, as well as China’s structural problem of overinvestment, all resulted in the growing convolution of the two forms of financial nationalism, from which \textit{Taishang}—especially their financing needs—emerged at the core of the political struggles. Both the changing nature of the OBU (indirect financing) and the push for \textit{Taishang}’s listing on Taiwan’s stock market (direct financing) led to further changes in the agenda of neoliberal financial nationalism.

Staging Taishang at the Core of the Financing War

As discussed in the previous sections, protectionist financial nationalism and neoliberal financial nationalism embrace distinct relations between capital flow and national economy; the ways in which they view the role Taishang played in such dynamics also seemed incommensurable. The “Asian Financing Center” project launched in 2003, however, triggered the preliminary intersection between the two. According to the Ministry of Finance, the initial design for the Asian Financing Center was to promote “internationalization” of Taiwan’s capital market via cultivating investment banks. Therefore, attracting participation of global financial investors in Taiwan’s financial markets was the ultimate goal for the Taiwanese state, and Taishang played little role in such an agenda. However, along with its inauguration, a discussion over whether and how Taishang could contribute to such a project surged, opening up the opportunity to reposition Taishang—previously blamed for causing capital drain from Taiwan—in such a finance-driven national economic agenda.

As the proponents claimed, despite its abundant capital resources, it was difficult for Taiwan to compete with Singapore and Hong Kong for international financial services in a short period of time. Therefore, the success of Asian Financing Center project was premised upon whether the Chinese market could be effectively incorporated in the project. A number of financiers from both domestic and foreign holding companies, along with their associated political representatives and scholars, began to advocate in the media for prioritizing Taishang’s return-home listing and cross-Strait investment deregulation. They argued that only by turning Taiwan into Taishang’s primary financing market, could Taiwan serve as the conduit for international financial capital to participate in China’s highly regulated capital market (Kang 2003).²¹⁴

The idea received positive responses from several top-ranking government officials, including the Secretary-general to the President, who said that the advantages of liberalizing Taishang’s return-home listing would outweigh the disadvantages it might bring, but it nevertheless evoked intense controversy: The developmentalist faction of the neoliberal financial nationalists feared that

incorporating *Taishang* indiscriminately into the Asian Financing Center would only provide them with cheap capital without substantially enhancing innovation of Taiwan’s financial service and its global competitiveness. The protectionist financial nationalists were concerned about the potential disorder in the domestic stock market given the lack of cooperation from Beijing for cross-Strait financial supervision. Both called for the government to “rein in at the brink of the precipice” as a result.\(^{215}\) Although the Minister of Finance attempted to propose a compromised version with conditional approval of *Taishang*’s return-home listing, it still encountered strong opposition in the Parliament, contributing to the deferral of concrete policy decisions.

Yet given the centrality of the issue of *Taishang* in Taiwan’s electoral politics, the deadlocked debate saw another light as the 2004 presidential election approached. The DPP administration began to take a stronger position. The President made multiple campaign promises to launch desirable measures for *Taishang*, including expanding the scope of “mini-link.” Premier of the Administrative Yuan also proposed a policy amendment to cater to *Taishang*’s financing needs, including lowering the threshold for rootless *Taishang* to set up an “operation department” as a way to be eligible to list on Taiwan’s stock market, followed by raising the limit for these companies’ China-bound investment to net worth ratio from 40% to 60%. In the 2004 Chinese New Year’s press conference, Minister of Mainland Affair Council, Tsai Ying-wen, also emphasized cooperation between financial services and economic activities in future cross-Strait trade and economic relations. Along with enhancing cross-Strait financial supervision, the economic fruits Taiwanese enterprises harvested in China were expected to benefit Taiwan’s capital market development.\(^{216}\) Such a statement, although without concrete policy promises, demonstrated a general acknowledgment among state officials—even from the most defensive and cautious department—of *Taishang*’s financing issues as unavoidable parts of enhancing Taiwan’s capital market and strengthening its financial industry.

Besides the internal drive for pursuing capital market development and catering to *Taishang* as an interest group for the presidential election, the gradual accommodation of *Taishang*’s financing


needs in the neoliberal financial nationalist agenda was equally driven by external factors. *Taishang*’s business transformation in mainland China, as well as the “Macroeconomic Adjustment” (宏觀調控) implemented by Beijing to curb its overheated economy, represented the two most crucial structural forces. First, due to large-scale cross-Strait trade and economic liberalization and WTO accession at the turn of the 21st century, *Taishang*’s investment in China grew both in scale and scope. The total amount of their investment continued to increase, and their business landscape began to expand from export-oriented manufacturing to domestic market-oriented service industries on the mainland. Commerce, logistics, construction, real estate, medical industry, and education became *Taishang*’s new investment targets (Kao 2004). As a result, the domestication of the market on mainland China became another significant aspect of *Taishang*’s localization phenomenon following localization of manufacturing’s supply chains, including procurement, R&D, and managerial personnel localization (Yang & Hsia 2004; H. Wang 2004; Chung-hua Institute for Economic Research 2006). What is more, while *Taishang*’s early investment in China was made either from personal funds through irregular channels, loans from Taiwanese banks, or overseas financing, their reliance on Chinese financial institutions began to grow in 2001. By 2004, *Taishang*’s financing from China’s domestic capital market had accounted for one-third of their investment (Hsia 2004; C. Huang 2004). As such, *Taishang*’s evolving financing activities present yet another aspect of localization apart from the supply chain and market localization.

Ultimately, the full-scale localization of *Taishang* on mainland China contributed to its susceptibility to China’s internal economic policies rather than that of Taiwan’s. Such a phenomenon vividly manifests in the profound influence of China’s two-year Macroeconomic Adjustment measures placed in 2004 on *Taishang*’s business operations in China. In light of the growing economic bubble caused by overinvestment, the Chinese government launched Macroeconomic Adjustment in 2004, aimed at curbing the outputs of domestic steel, cement, and construction industries. By the end of 2004, the premier of China, Wen Jia-bao, further expanded the scale of Macroeconomic Adjustment, where contractionary monetary and fiscal policy measures, including credit contraction of financial institutions, were mandated as the fundamental means to put a lid on the overheated real estate and commercial industries. It was under such a policy framework that *Taishang*’s business operations were faced with unprecedented impact (Kan
2004. Domestic financing became difficult to access, forcing impacted Taishang to look for alternative financing methods. Specifically, domestic market-oriented Taishang were hit the hardest, whereas export-oriented big electronic manufacturing companies, Foxconn for instance, were largely unaffected. Due to their internationalized fundraising and the export-oriented nature of their business, they continued to grow in spite of intensification of the Macroeconomic Adjustment policy.217

However, the intensification of China’s Macroeconomic Adjustment by the end of 2004 onward did cause a wave of business close downs for Taishang. According to a news report, by the Chinese New Year in 2005, the number of businesses withdrawn from China surged 20% compared to the year before.218 Such a retreat is demonstrated in the sudden decline in the total amount and number of cases of China-bound investment approved by the Investment Committee of the Ministry of Economic Affairs. The year 2005 witnessed a decline of 13.5% in investment in China—the first-ever downturn after the DPP came into power.219 As a result, many Taishang turned to their homeland—Taiwan—for temporary relief. It is against this backdrop that Taishang’s financing need was further entangled with the evolution of neoliberal financial nationalism. The policy agenda targeting both indirect and direct financing for Taishang, as shown in the expansion of OBU services and the escalated advocacy for Taishang’s return-home listing, are cases in point.

**OBU: From Cross-Strait Remittance to Crediting Business**

As is explicated in section II, in 2001, the Taiwanese government sought to utilize OBU as a mechanism to facilitate Taishang’s cross-border fund dispatch. However, such an institutional design was largely underpinned by the logic of “attracting capital repatriation” while maintaining a firewall between domestic and external financial markets. Therefore, credit business to Taishang was primarily excluded from OBU services. Nonetheless, in August 2002, the Ministry of Finance approved a plan for OBU to provide loan and credit to Taishang—a deregulation policy driven by

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219 Source: Investment Commission, Ministry of Economic Affairs. [https://www.moeaic.gov.tw/business_category.view?lang=ch&seq=3](https://www.moeaic.gov.tw/business_category.view?lang=ch&seq=3) Given the fact that many SMEs had invested in mainland China via irregular channels without reporting to the Investment Commission, the real recession can be more severe than the official statistics.
the belief that as long as the credit amount was topped and the virtual wall between OBU and DBU (direct banking unit) was maintained, it would provide incentives for capital repatriation while making the existing cross-Strait crediting practices more governable. However, such a policy move took place against the backdrop of prevailing protectionist financial nationalism and evoked polarized political reaction as a result. The Taiwan Solidarity Union, along with pro-independent scholarly groups and social media, collectively deplored the government’s decision, condemning the gradual financial liberalization course it initiated to be a practice of “chronic suicide.” On the contrary, the advocates complained about the triviality this conservative policy move might achieve, for Taishang had already largely utilized their assets in Taiwan for domestic loans and channeled them out without the assistance of OBU.

The advocates’ argument proved to be plausible. Although OBU’s crediting services were liberalized in the mid-2002, it eventually proved to be far from successful. Strict restrictions and limitations made the crediting function exist in name only, with zero credit granted to Taishang through OBU. However, the launch of Asian Financing Center project in mid-2003 and the imminence of the 2004 presidential election brought change to such a deadlocked situation. By the end of 2003, the Central Bank, Ministry of Finance and Mainland Affairs Council reached an agreement to further deregulate the scope of OBU crediting services, removing the regulation that required Taishang to hold an equivalent amount of capital in their account with OBU as their line of credit request. As a result, OBU’s crediting business was finally put to work.

Taishang’s soaring financing need as a result of China’s Macroeconomic Adjustment served as another drive for transforming OBU from a completely sealed offshore market to a mixed one connected to the domestic capital market. In response to their growing financing need, in April 2004, the Central Bank for the first time approved Taishang’s subsidiaries in China to use their parent company’s assets in Taiwan as collateral securities to acquire loans via OBU. To further

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assist Taishang’s fund procurement, in August 2004, the government allowed Taishang to connect their OBU account and their foreign-exchange account in DBU as a way to remit their foreign currency deposit directly to China. In November, OBU crediting services were further liberalized by FSC, allowing loans acquired via OBU to be used on long-term investments, not just short-term trade. A series of policy amendment to accommodate Taishang’s financing needs during 2004 gradually blurred the line between domestic and offshore financial markets, which in turn contributed to the upsurge of OBU’s crediting business in mid-2004. It was estimated that offshore crediting increased more than USD 5.4 billion in 2004 and was accordingly praised as a timely help for Taishang.222

IPO: Taishang’s Return-home Listing

The changing regulations of the offshore financial market in Taiwan during 2003 and 2004 demonstrates how Taiwan’s financial liberalization was propelled jointly by internal and external forces, which resulted in the restaging of Taishang’s financing needs to the core of the neoliberal nationalist agenda. Yet the appeal for financial deregulation not only manifested in gradual deregulation of OBU—a form of indirect financing—but it also generated pressure for liberalization of direct financing for Taishang in Taiwan’s capital markets.

As indicated previously, assessment of the Asian Financing Center project was divided on the issue of approving Taishang’s return-home listing—especially for those who had not retained a base in Taiwan and only grew into business conglomerates through their operations in China. However, the year of 2004 witnessed a breakthrough for such a dilemma. After Chen Shui-bian secured his second term of presidency, the proposal for liberalizing cross-strait financial regulations precipitated. The newly established Financial Supervisory Commission decided to establish an “international board” (國際板) parallel to Taiwan’s domestic stock exchange as one of its goals for 2005. The board had a very peculiar institutional design aimed at creating a virtual offshore stock exchange to avoid the 40%-of-net-worth ceiling on China-bound investment imposed on companies listed in Taiwan. Such a policy initiative took place concomitantly with the

intensification of the Macroeconomic Adjustment in China. Due to Taishang’s growing difficulty in financing, the appeal for deregulating Taishang’s return-home listing was no longer limited to financiers and governing elites but was lobbied through representative politics in the Parliament. Led mostly by KMT legislators, the appeal urged the administration to deregulate the limits that had stopped Taishang from participating in Taiwan’s capital market and had resulted in Taiwan’s decreasing competitiveness in international financial markets.223

Besides echoing the existing policy agenda for developing Taiwan’s capital markets, such an appeal began to appropriate two longstanding political drives to compete with economic protectionism for its legitimacy: one is nationalism, the other populism. First, the appeal resorted to the nationalist anxiety of losing final control over its already deterritorialized economy: It was argued that once Taiwan kept turning down Taishang demand for listing on the exchange, they would have no choice but to turn to somewhere else, cutting off their final ties with the homeland and becoming completely “foreign.” Such a concern emerged against the backdrop of the changing regional economic dynamics, where Hong Kong all of a sudden became the alternative destination for Taishang listing after Beijing concluded CEPA224 with Hong Kong in 2004. Aimed at instigating Hong Kong-to-mainland cross-border investment and fostering regional integration as a way to save Hong Kong’s dilapidated economy after the outburst of SARS in mid-2003, the inauguration of CEPA did provoke a surge of Taishang’s listing in Hong Kong’s stock exchange.225 Moreover, as a number of renowned Taishang—including Foxconn and Want Want Group—successfully listed overseas in Hong Kong or Singapore in 2005, it aroused great social uneasiness in Taiwan. The FSC took the opportunity to further push for Taishang’s return-home listing, calling for the government not to downgrade Taishang’s home company to a “branch” and let the Hong Kong stock exchange become the “international board” for Taiwan.226

224 CEPA, Closer Economic Partnership Arrangement, was a WTO plus free trade agreement signed between Beijing and Hong Kong in June 2003 in order to boost Hong Kong’s devastated economy after SARS.
225 In 2004, there were only eleven Taishang listed in Hong Kong. The number grew tremendously to more than forty in 2005, demonstrating a vivid contrast to the number of Taiwanese companies listing in Taiwan’s stock exchange in the same year, seventeen.
The nationalist anxiety about Taishang’s renouncement of Taiwanese nationality was further magnified by the fear of Taishang being completely absorbed by Beijing, both economically and politically (Keng & Lin 2005). Hit hard by the Macroeconomic Adjustment, Taishang not only turned to the Taiwanese government but also resorted to the Chinese government for help. Responding to the petition of the Taishang associations, the Taiwan Affairs Office in PRC and the China Development Bank signed a memo in September 2005, promising qualified Taishang loans equivalent to thirty billion RMB to tackle their urgent financing need. The Taiwan Affairs Office went further to offer assistance for Taishang to list in China’s stock market. Beijing’s benevolent attentiveness to Taishang’s financing shortages—although some fell short of expectation at a later time—soon evoked geopolitical concerns for Taiwan. Fears of Beijing manipulating Taishang’s financing needs as the latest United Front Campaign strategy soared (Wu 2005; Hsiao 2006). By mobilizing nationalist sentiment, the agenda for Taishang’s return-home listing drew wider political support, with some DPP legislators endorsing the agenda under the rhetoric of “preventing Taiwanese enterprises from becoming Chinese ones.”

The other strategy used to advocate for Taishang’s return-home listing is through trumpeting popular participation in the finance-driven economy, where Taiwanese people were targeted as profit-driven individuals for the stock market. First, it was argued that Taishang’s participation in Taiwan’s capital market would help boost the performance of the stock exchange and ultimately benefit Taiwanese society as a whole. The interest of Taiwanese people as stock-exchange investors, therefore, converged with Taishang’s financing needs. Accordingly, the narrative of “sharing the fruit of Taishang’s economic achievement” was extensively drawn in the Parliament interpellation and scholarly discourse, where legislators from opposition parties (pan-blue) stated that as long as half-rooted or rootless Taishang were allowed to list on Taiwan’s stock market, they would not only foster the Asian Financing Center project but also benefit the Taiwanese populace in the form of stock dividends.

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227 For instance, the DPP legislator Hung Chi-chang supported Taishang’s return-home listing during multiple legislative interpellations. See Legislative Yuan Gazette (2004). Vol. 93, No. 11, pp. 21-22, 116-117.

The prevalence and effectiveness of such a populist discourse, in effect, was rooted in the extremely peculiar shareholder structure of Taiwan’s stock market. Taiwan’s stock exchange has the highest percentage of individual shareholders compared to all the other Asian countries. Individual shareholders consisted of 97.8% of the total stock market value in the late 1980s and 80% in the 1990s, and the number remained between 70% and 80% from 2000 onwards, compared to 20% to 35% in South Korea. Such a peculiar stock-exchange structure resulted from the ways in which the state tackled the great amount of idle capital flooded in the society due to unfulfilled industrial upgrading and insufficient domestic investment since the late 1980s. Against this backdrop, the KMT-led government began to encourage the populace to put their money in the stock market as a way to mitigate the problem. Participating in the stock market soon became a national fad, in which the populace was turned into individual investors chasing profits from short-term transactions in the volatile stock market. Such a phenomenon nevertheless generated political connotations in the ways in which the authoritarian populist regime was governed: convergence of the interests of the mass investors, the listed corporations and the party-run businesses by the mechanism of the stock exchange were thus labeled “financial populism” by scholars (Lu 2000; Hsu 2002).

Given the persistence of such peculiar social phenomenon, the performance of the stock market continued to play a crucial role in securing governing legitimacy for both KMT and DPP regimes, where “boosting the stock market” was unavoidably perceived as one of the major policy goals (Lu 2000; Huang & Ouyang 2012). The research done by McKinsey & Company for the FSC regarding the International Board also highlighted that given the special shareholder structure of Taiwan’s stock exchange, securing participation of individual shareholders was the premise upon which the International Board could succeed, despite the fact that such a mechanism was originally designed to separate onshore and offshore stock markets. It is against this backdrop that the appeal for Taishang’s return-home listing resorted to populist force, and making the International Board an alternative market for Taiwanese investors was viewed as the ultimate goal for FSC. After all, by mobilizing nationalist fears and populist aspirations, advocacy for cross-Strait financial deregulation—especially for accommodating Taishang’s financing needs from the domestic capital market—became competitive with protectionist financial nationalism, with neoliberal financial nationalism gradually taking an upper hand.
VI. Intensified Geopolitical-geoeconomic Struggles; Uncertain Future for Cross-Strait Financial and Economic Liberalization

“Proactive Management, Effective Liberalization”

Although cross-Strait economic liberalization made substantial advancement under the DPP regime, its re-election in 2004 evoked unexpected geopolitical-geoeconomic dynamics that brought uncertainty to this trend. In the 2000 presidential election, the unexpected victory of Chen Shui-bian received a lukewarm reaction from Beijing, which believed that KMT would resume power in a short time (Zhao 2003). However, the re-election of Chen Shui-bian in 2004 rang the alarm for Beijing—a warning signal for the persistent advancement of pro-independent force led by DPP in Taiwan. In response, Beijing substantially changed its strategies from a “wait-and-see” attitude to a more proactive and preemptive stance. It started to launch diplomatic measures to claim sovereignty over Taiwan in the international community, including persuading a number of countries to acknowledge Taiwan as merely a “province” of China and embarked on legalization of united front policies against Taiwan (M. Chen 2005; G. Tsai 2005; Yang 2005; Cho 2009). In March 2005, PRC passed the anti-session law, denoting the cross-Strait issue to be a purely “domestic” affair, and therefore legitimizing the use of “non-peaceful measure” (a.k.a. the military) to eradicate “separatist” pro-independence forces on the island when necessary. In responding to PRC’s intensified geopolitical maneuvering, in February 2006, President Chen Shui-bian abrogated the Guidelines for National Unification passed in the National Unification Council under Li Deng-hui, signifying that cross-Strait unification no longer served as the ultimate goal for Taiwan.

Nevertheless, Beijing’s geopolitical manipulations at the international level were coupled with sophisticated adjustments in its geoeconomic maneuvers at the cross-Strait level. Building a party-to-party mechanism (CCP-to-KMT) to exclude the DPP from participating in cross-Strait affairs on the one hand and to “de-statize” the Taiwanese government on the other were the main tactics for Beijing to deal with Taiwan issue (Beckershoff 2014a, 2014b). Specifically, mobilizing Taishang as the substitute agency to negotiate cross-Strait economic affairs served as the key strategy in the latest United Front campaign. The subjugation of Taishang to cross-Strait
geopolitical struggles is nothing new, given that selective tax inspection had been widely utilized by Beijing to control Taishang’s public speech under Chen Shui-bian’s first presidency (Mengin 2015). After Chen was elected for the second term, Beijing went further and announced that the “green enterprises” were not welcome to make money on the mainland. A series of targeted tax inspections, credit contractions, and suspensions of investment project approvals were launched against Taiwanese corporations known for their Taiwanese identity or pro-DPP position. Chi Mei Corporation—one of the world’s leading suppliers of plastic and rubber materials with heavy investment in China while maintaining a strong Taiwanese identity—suffered a plummet in its stock price as a consequence, and its CEO had to openly demonstrate the enterprise’s conformity to the “One China Policy” and anti-Taiwanese independence stance on the media to get out of it.229

The fierce geopolitical frictions also generated profound impact on Taiwan’s cross-Strait trade and economic policies. In the 2006 New Year’s Presidential Speech, Chen Shui-bian declared a reversal in the government’s cross-Strait trade and economic guideline from “proactive liberalization, effective management” to “proactive management, effective liberalization,” contending that cross-Strait policies were not made to serve individual Taishang’s business interests, and Taiwan should never lock up its economic fate in China.230 Chen’s contention was generally interpreted as a clear signal for Taiwan’s cross-Strait economic policy to change to a more conservative end.

However, unlike the widely supported “proactive opening, effective management” policy guideline proposed in 2001, this new cross-Strait economic agenda was never endorsed by the governing elites as a whole. Apart from opposition parties’ battling against tightening up of cross-Strait economic liberalization, a number of DPP legislators began to publicly criticize Chen’s “proactive management” guideline. Such an open confrontation partly resulted from the DPP’s great defeat in local elections held at the end of 2005, which presented both a challenge to Chen’s


230 See the Presidential Gazette No.6667 published on Jan 4, 2006. (http://www.president.gov.tw/Page/294/37254/%E4%B8%AD%E8%BF%AF%E6%B0%91%E5%9C%8B%E4%B9%9D%E5%8D%81%E4%BA%94%E5%B9%B4%E5%85%83%E6%97%A6%E3%80%80%E7%B8%BD%E7%B5%B1%E7%A5%9D%E8%A9%9E-%E7%A9%8D%E6%A5%B5%E7%AE%A1%E7%90%86)
leadership within the party and a potential crisis in governing legitimacy for the nation. As a result, the DPP’s intra-party struggles intensified, with the pro-liberalization faction in the DPP promoting active liberalization of cross-Strait economic affairs as “the right way to go.”

Although President Chen’s declaration of “proactive management” was largely interpreted as a conservative turn in cross-Strait economic policies, and therefore condemned by its opponents as an exercise in isolationism and “economic white terror,” the reality might not live up to the discourse itself. In effect, despite its claim to reinforce supervision of China-bound investment, there had been few policy measures left for the state to effectively control its deterritorialized economy. Unlike the former KMT regime capable of directing capital outflows by forming a “market-driven” historical bloc consisting of state-owned enterprises, party-owned enterprises and private capital in the 1990s, the DPP regime had few policy tools to avoid total localization of Taishang in China. The fact that the state was unable to harness Taishang’s outward investment is demonstrated in many of the research findings. The cross-Strait economic relations did not show any sign of contraction after declaration of the “Proactive Management” policy guideline (Wang 2007; Wu 2014). As the empirical data shows, in Chen’s second presidency, the degree of trade dependence of Taiwan on China continued to increase, and the China-bound investment approved by the Investment Supervision Council, as well as its ratio to Taiwan’s total outbound investment, grew annually. It was also popular for Taishang to finance via alternative channels as a way to avoid government sanction (Kang 2006; Lin 2006). Thus, rather than yielding real policy change, the reorientation of the cross-Strait economic policy guideline from “Proactive Liberalization, Effective Management” to “Proactive Management, Effective Liberalization” rendered itself more of a political discourse—the one drawn by Chen Shui-bian to secure his approval rate by flirting with the deep-green faction after being caught in multiple political crises (Yang 2006).

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233 Taiwan’s trade dependence on China increased rapidly from 14.6% in 2001 to 27% in 2007.
Moreover, the hypothesis that the policy reorientation was more lip service than a true will of the state found further evidence in the policy implementation of the newly reformed cabinet. After the great defeat in the 2005 local elections, Chen Shui-bian called upon cabinet reform to pacify political critics. Surprisingly, the new administration led by Premier Su Tseng-chang took a more liberal position regarding cross-Strait economic policies compared to the previous administration. Su’s administration expanded the applied scope of the three-mini link, facilitated approval for semiconductor manufacturers’ investment projects in China, and deregulated the RMB currency-exchange business in Taiwan. Such an accelerated pace of cross-Strait economic liberalization as opposed to Chen’s declaration to tighten up control was mocked by both its supporters and opponents as “Su’s revisionism.”

**Lurking Financial Liberalization**

Nonetheless, the top-down proposal for cross-Strait economic liberalization from Su’s administration aroused severe political opposition, especially given the escalating cross-Strait geopolitical tensions and pro-independence camp’s furious responses. The Economic Development and Sustainability Commission summoned in July 2006—a consensus-building platform parallel to the Economic Development Commission held in 2001—exposed the growing controversy among political elites. Besides the continuous debate on semiconductor manufacturers’ investment in China, the issue of cross-Strait capital flow surged to the core of the contention. Although Premier Su Tseng-chang and the FSC, along with a number of economic officials touted a set of financial liberalization measures from flexible deregulation of the investment ceiling for *Taishang* to the establishment of the “International Board” for Taiwan’s stock exchange, these proposals continued to be resisted by their opponents. Within the commission, apart from the Mainland Affairs Council’s disagreement, the Taiwan Solidarity Union and the protectionist faction of the DPP continued to boycott the liberalization agendas; Outside the commission, Li Deng-hui, the ex-President now serving as the Chairman of Taiwan Solidarity Union, openly condemned the government for being “kidnapped” by the corporations, whereas scholars associated with the Taiwan Solidarity Union collectively warned against “corporatization” of the government as a consequence of its hard push for financial liberalization.  

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backdrop of intensified struggle among the political elites that neither the lifting of the China-bound investment ceiling for Taishang nor the establishment of International Board reached consensus in the Economic Development and Sustainability Commission.

However, the defeat of the proposal to finance Taishang did not imply ceasing pursuit for cross-Strait financial liberalization. The battle carried on to the issue of approving Taiwanese financial institutions’ expansion to China. Anticipating China to open its financial market to foreign institutions by the end of 2006, the advocacy for deregulating China-bound investment for Taiwanese banks escalated. Prior to changing the law and to help Taiwanese banks move westward, the FSC had already approved Taiwanese insurance companies to allow their branches in China to purchase shares of Chinese banks in October 2006. In the Parliament, an attempt was made to amend the Regulations Governing the Relations between the People of the Taiwan Area and the People of the Mainland China Area (兩岸人民關係條例), where an amended draft was proposed to remove the financial industry from the “under restriction” category, which would allow Taiwanese banks to invest in China without supervision of the Mainland Affairs Council or approval from the Investment Supervision Council. However, this amended draft was soon suspended due to firm opposition from the Mainland Affairs Council. Meanwhile, the administration’s effort to liberalize Taiwan’s capital market persisted. In the 2007 New Year’s press conference, the FSC restated that promoting liberalization of four major financial regulations to be its top working agenda for the year to come: Encouraging Taishang which had been listed on Hong Kong’s stock exchange for a second listing in Taiwan via TDR (Taiwan Depository Receipts), approving overseas registered companies for IPO (Initial Public Offer) listing in Taiwan, loosening the China-bound investment ceiling for Taiwanese companies, and raising the percentage of funds foreign companies in Taiwan’s stock market were allowed to invest in China—all of which were designed to facilitate cross-border capital flows from Taiwan to China.

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235 The chairman of the Bankers Association contended that Taiwanese banks should not be restricted to compete on the island; instead, they should be allowed to expand overseas following Taishang’s business territory. The chairman of Central Trust of China (ROC) even threatened that delaying Taiwanese banks’ westward investment would exacerbate Taiwan’s economic deterioration, and eventually make it easier for China to conquer Taiwan.
Although the achievements of cross-Strait financial deregulation varied under Chen’s second presidency, the interest groups supporting such an agenda—including the pan-blue political camp, pro-liberalization faction from DPP, the Taishang associations, financial and stock exchange industries, as well as the indirectly mobilized popular stock investors—had already formed a loose yet vocal alliance, pressing for further deregulation (Tsai 2010). In the ensuing campaign for president in late 2007, candidates from both parties competed for cross-Strait economic and financial liberalization. While the DPP candidate Hsieh Chang-ting promised to loosen the China-bound investment ceiling, approve Taiwanese banks to launch business in China, and allow Chinese banks to set up business representative office in Taiwan, the KMT candidate Ma Ying-jeou satirically welcomed DPP’s policy follow-up, claiming himself as the true embracer of cross-Strait trade and economic liberalization. Thus, the social and political atmosphere touting cross-Strait economic deregulation manifested a déjà vu of the widespread support to amend the “Go Slow, No Haste” policy initiative during the 2000 presidential election.

In the Parliamentary election held in Jan 2008—two months prior to the presidential election—KMT swept more than 70% of the seats. Although it might have resulted from a general disapproval of the DPP regime embroiled in a series of corruption scandals (See Chapter 7 for further discussion), it still indicated a triumph of the liberalizing forces. Before the presidential election, the new Parliament had already begun to tackle a number of law amendments for deregulation, stimulating a sharp gain in financial stock value as a result. Such a social and political dynamic laid the ground for Ma Ying-jeou’s regime to launch extensive financial and economic liberalization without encountering major obstacles. The discursive underpinning, as well as the political turmoil it evoked, will be unpacked in the proceeding chapter.

**Concluding Remarks**

The coevolution of Taiwan’s political democratization and trade and economic liberalization had gone through a long journey with different phases. It began with the agenda of tariff cuts embraced by both populists based on consumer right and the developmentalist bureaucrats in seeking industrial upgrading during the 1980s; exchange currency deregulation driven by populist appeal
during the democratization period of late 1980s and early 1990s; the pursuit of an expansionist, de-territorialized national economy forged by the populist authoritarian state led by KMT both as a result of and a cause for (neo)liberalization throughout the 1990s, and reached the era that witnessed a rise of neoliberal financial nationalism promoted by an emerging historical alliance against the backdrop of non-hegemonic DPP regime.

The globalization agenda, with its discursive malleability, did enable the DPP regime—a minority government characteristic of pluralist politics—to strategically articulate highly polarized political forces. The “Proactive Liberalization, Effective Management” guideline under the globalization framework proved to be effective in moving cross-Strait economic liberalization forward on many fronts. Such a strategy, however, further entailed two parallel forms of financial nationalism: On the one hand, the revived protectionist financial nationalism and its appeal for Taishang’s “capital repatriation” was paradoxically targeted by the government as the goal for “effective management,” which was in turn utilized as the political leverage to pacify recalcitrant opponents while advancing financial liberalization; On the other, the neoliberal financial nationalism originated from the APROC project reconstituted in the “Asian Financing Center” project, yet it did not take long to evolve from a state-led developmental strategy in pursuit of Taiwan’s capital market internationalization to a more deregulation-focused neoliberal agenda.

The internal thrust for the pursuit of financial-driven economic upgrading, coupled with the external forces of Taishang’s localization in China and China’s Macroeconomic Adjustment, all contributed to the historical conjecture to reposition Taishang in the finance-focused national economic agenda. The tangle of neoliberal financial nationalism with Taishang’s need for financing appeared not only in the deregulation of indirect financing, with the gradual deregulation of OBU’s institutional design as a demonstration, but also in the ceaseless pursuit for liberalization of direct financing, with Taishang’s return-home listing as its ultimate goal. Although the latter did not make a breakthrough due to intensified geopolitical conflicts since 2005, the struggle over cross-Strait financial liberalization carried on to the appeal for deregulation of financial industry’s China-bound investment. Eventually, a loose yet vocal alliance chanting cross-Strait financial and economic liberalization was formed, which paved the way for swift and extensive liberalization under Ma Ying-jeou’s ensuing regime.
Last but not least, the roles played by “nationalism” and “populism”—two of the major notions running through my research project—in the trade and economic liberalization of this period need further clarification. While most of the existing literature considers the DPP regime led by Chen Shui-bian populist and nationalist in nature and draws on its manipulation of the two in accounting for the rationale underpinning the regime’s cross-Strait trade and economic agenda, it unavoidably encountered great analytical restrictions. First, as Lin (2016) trenchantly points out, nationalist identity politics was no longer the prime issue of contestation because Taiwanese national identity had stabilized under the DPP. Moreover, given that politicians from both pan-blue and pan-green camps might support cross-Strait trade and economic liberalization, the nationalist orientation and attitude towards the cross-Strait trade and economic policies no longer presented a corresponding relationship.

The aforementioned observation was refashioned in my analysis of what it means to be “nationalist.” Rather than a form of identity politics straddled between “Taiwanese vs. Chinese” or “pro-independence vs. pro-unification,” nationalism is more about a set of national economic imaginaries and their underlying discursive structures that ascribe particular meanings to a constellation of material forces. The articulation of nationalist discourses, institutions and material forces, however, is contingent upon particular historical conjunctures. Meanwhile, the “people” did make sporadic appearances in the struggles over of trade and economic liberalization during this period. However, “the people” was more of a subject position called upon by top-down forces to justify particular geoeconomic agendas and was quickly appropriated by the official politics without representing an autonomous force intervening in the trade and economic policy orientation of the state.

Taking on this analytical thread, the next chapter will begin by revisiting the evolving dynamics between formal politics and populist politics when moving into the post-2008 era, where extensive liberalization was launched after the KMT resumed power. I will debunk the recurrent patterns through which the “people” and “nation” were invoked to legitimize a neoliberal-inclined cross-Strait economic liberalization path under Ma Ying-jeou’s regime. I will then depict the ways in which the “people” make a presence and even mobilized to act at different “neoliberalizing
moments and occasions.” The chapter will conclude on a discussion of how such highly scattered and diversified political forces began to converge as the “nation-people” seeking popular sovereignty and surprisingly find a way to re-intervene in the course of trade and economic policy formation, as manifested in the Sunflower Movement in 2014.
Chapter 7
When Neoliberalism Meets Cross-Strait Geopolitical Economy:
Advances, Disturbances, and Contentions

I. Introduction

The year 2008 marks a distinct moment in Taiwan’s political economy. In January, the KMT swept the legislative election by gaining eighty-one seats out of a hundred and thirteen; in March, KMT’s candidate Ma Ying-jeou won the presidential election with more than 58% of the popular vote, both signifying KMT’s total resumption of power after having lost control of the state apparatus for the first time in fifty years in 2000. What follows the political re-shuffling is the advancement of cross-Strait trade and economic liberalization. The newly elected KMT regime, achieving rapprochement with CCP in Beijing, expeditiously initiated policies including approving cross-Strait direct flights, deregulating Taiwanese companies’ investment ceilings to mainland China, facilitating Chinese capital investment in Taiwan, signing cross-Strait financial MOUs, implementing the cross-Strait Economic Cooperation Framework Agreement (ECFA), and finalizing Cross-Strait Service Trade Pact negotiations after its re-election in 2012. Within a short period of time, cross-Strait trade and economic liberalization had reached an unprecedented pace and degree. In the name of “cross-Strait collaboration,” Cold War antagonism seems to have completely passed into historical oblivion.

With a number of liberalization measures put into place, the newly developed cross-Strait geopolitical-geoeconomic dynamics elicited varied scholarly interpretations. Some see neoliberalism as the major cause for cross-Strait trade and economic liberalization; others view China’s geopolitical maneuvers, namely, “achieving unification through economic means,” as the fundamental drive behind it (Wu 2017). Scholars working on neoliberalism point to the working of market forces—as seen in the expansion of cross-Strait economic connections led by Taishang’s business deployment and its gradual disarticulation from Taiwan’s economy—and present the cross-Strait Service Agreement as the latest example of neoliberal hegemony (Tsai 2012; Huang & Sun 2015). Those who favor China’s geopolitics emphasize the “China factors” that have significantly impacted Taiwan’s politics, economics, social and cultural norms by cultivating
cross-Strait capital-class and local collaborative networks as Beijing’s political agents in Taiwan. Thus, cross-Strait trade and economic policies in effect serve China’s geopolitical purpose, often in the guise of market-conforming neoliberalism (Wu 2017).

These two approaches also bifurcate in the ways in which they interpret the nature of the associated social struggles. Apart from the research dominated by issues of democracy, civil society and the forms of social mobilization (Tsai & Chen 2015; Ho 2017), the existing studies polarize between the interpretations of “anti-free trade” and “anti-China.” While the former see the Sunflower Movement as the social reaction to the deteriorating labor condition and worsening income inequality brought by globalization and neoliberalism (Huang 2014; Lin & Hu 2011; Lin 2015), the latter conceive it as the social reaction to the “China factor” or the counter-movement against China’s geopolitical infiltration in Taiwan’s civil society and democratic way of life (Wu 2017).

Although the neoliberal and the geopolitical accounts seem to diverge in their interpretation of cross-Strait trade liberalization, they nonetheless present remarkable similarity in their conception of neoliberalism as the belief and pursuit of the market economy under globalization and the triumph of market forces over state regulation. As such, although the neoliberalism-focused account trenchantly diagnosed the structural forces and institutional change towards marketization, by highlighting Taishang’s over-embeddedness and their growing dependence on the Chinese market as well as their subjugation to Beijing’s will as its consequence, it inevitably led to the conclusion that geopolitics was gradually replacing neoliberalism in setting up Taiwan’s economic liberalization agendas (Lee & Lin 2017). A simplistic analytical dichotomy between “internal neoliberalism” and “external geopolitical-economy” was thus formed, preventing a more nuanced inquiry into the dynamics between the two. Similarly, the scholarship drawing predominantly on geopolitics in explicating cross-Strait trade liberalization risks overlooking the historical formation

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236 Yet there is another camp of scholars highlighting the importance of the “China factor” in social mobilization, but with opposite normative evaluation. They argue that it was the long existing anti-China sentiment embedded in the Taiwanese society which served as the real drive of social contestation, which often uncritically drew on or was even intentionally disguised by the progressive rhetoric of anti-free trade and anti-globalization (Chao 2014; Chu 2015).
of neoliberalization in Taiwan, the intricate role of the state in such development, and its contingent articulation with geopolitical dynamics.

As such, a critical examination of the articulation between neoliberalism and geopolitical economy—especially the discursive constructions that render certain liberalization policy desirable at a particular moment—provides an alternative approach. This entails seeing neoliberalism as a constantly evolving political project that seeks to displace and delay contradictions and crises embedded in a particular capital accumulation regime through the articulation of conjunctural geopolitical and geoeconomic dynamics, material and ideological, as well as taking positions to propel respective deregulation agendas.

Continuing to draw on conjunctural analysis of neoliberalism in Taiwan, this final chapter traces the divergent forces that drove the Ma administration’s pursuit of cross-Strait economic liberalization, their contingent articulation with the evolving geopolitical-economic dynamics marked as “the rise of China,” their discursive reasoning, as well as their respective contribution to neoliberalization. I will specifically foreground the roles nationalism and populist politics play in facilitating these agendas and in mediating the particular forms of corresponding social contentions. The first section comprises a conjunctural analysis of the consolidation of the neoliberal regime when KMT resumed power in 2008. The second section illustrates a number of trade and economic liberalization agendas put into force by locating them at the intersections of Taiwan’s long-term neoliberalization forces and temporary trends; their discursive strategies of gaining social support and thus legitimacy will be critically examined. The third section exposes the controversies and social disputes invoked by these agendas and discusses the disturbances they caused to the liberalization policies. The last section will focus on the controversies revolving around the cross-Strait Service Trade Agreement and explain the Sunflower Movement and its implications for the course of neoliberalization.

II. Constructing the Neoliberal Regime

Geopolitics has always been the popular interpretation of the rush to cross-Strait economic integration in 2008. It was not only attributed to Beijing’s strategy of “reunification by economic
means,” but also to the newly elected Ma regime’s political inclination in common with Beijing to pursue ultimate cross-Strait unification. While the KMT-CCP rapprochement and their subsequent formation of the cross-Strait hegemonic bloc were often translated into the major drive for cross-Strait economic liberalization, it cannot be limited to the KMT-CCP geopolitical maneuver alone. I will argue, the pursuit of wider cross-Strait economic liberalization under Ma’s administration should be understood as a conjunctural articulation of long-term neoliberal advocacies, mid-term KMT-CCP alliance formation, and temporary domestic political upheaval in Taiwan.

**Cross-Strait Hegemonic Construction: United Front Strategy and Taiwan’s Democratic Impasse**

As depicted in Chapter 6, DPP’s re-election in 2004 fundamentally transformed Beijing’s Taiwan policy. Besides enacting the “Anti-session Law” in 2006, the Chinese Communist Party (CCP) refashioned its “United Front Strategy” by realigning with KMT and initiating a party-to-party platform to negotiate cross-Strait affairs since 2005. Convening an annual “KMT-CCP Forum,” this platform established an extensive network of actors—from businessmen, scholars, civic groups to Taiwanese legislators. This platform, in the name of facilitating cross-Strait economic collaboration, carried out a number of material concessions from China to Taiwan. It included assisting Taiwanese agricultural products’ market entry to the mainland through the mechanism of contract-farming, facilitating mainland Chinese tourists to Taiwan to boost Taiwan’s tourist economy, and granting exclusive permission for Taiwanese medical institutions’ investment in the mainland. Just within a couple of years, an extensive local cooperative network from agriculture, tourism, education, medical care to the entertainment industry and religious groups was formed with their interest linked to China’s business (Rowen 2016; Wong 2016; Wu 2017).

The breakthrough of PRC’s novel United Front strategy yields multiple geopolitical implications. Resting on the multi-party competition system in democratized Taiwan, it marginalized the DDP in the cross-Strait negotiations and therefore delegitimized the DPP regime (Yu 2009). Second, by carrying out negotiations on a party-to-party platform, it denationalized cross-Strait relations and turned them into domestic affairs. Third, it exacerbated privatization of cross-Strait negotiations that had been put into force by establishment of the semi-official platform between the Strait Exchange Foundation (SEF, Taiwan) and the Association for Relations Across the Taiwan Straits
(ARATS, China) in the 1990s. As this platform was unilaterally paralyzed by Beijing, businessmen flocked to the KMT-CCP platform, where they could bypass state supervision and exercise a more direct influence on the agenda-setting of cross-Strait affairs (Mengin 2015). The extent to which the KMT-CCP platform was able to mobilize social support of various kinds attracted much scholarly attention, and a conceptual framework of “cross-Strait hegemony” was proposed to capture such dynamics and to explain KMT’s total victory in the 2008 presidential election (Beckershoff 2014a).

If the alliance of KMT and CCP ever reached the status of hegemony, it by no means resulted from geopolitical maneuvers alone. The troubled politics in Taiwan during the DPP regime has served as another key to KMT’s resumption of power. Although the 2000 presidential election yielded the first party change in Taiwan’s post-authoritarian history and therefore was widely conceived as the demonstration of successful democratization, it entailed a highly controversial political environment rather than hegemony. Despite a booming civil society, the unsettling representative politics—marred by polarization of the ruling class, party antagonisms, and entrenched plutocracy—had led to dissatisfaction and frustration in society, as well as declining faith in democratic institutions. Many scholars described the situation as a “democratic impasse” (Chu 2004b; Chien 2008; Huang 2011; Lin 2007; Sheng & Huang 2006; Yu & Hsiao 2007; ). With the deeply entrenched distrust in representational politics, any struggles over state policy orientations were easily dismissed as ungrounded party antagonism.

Society’s losing faith in democracy was further worsened by the eruption of a series of corruption scandals from the first family in 2006. As Chen’s family was revealed to abuse power in the second-wave financial reform through bribery, along with Chen’s controversial usage of the Discretionary State Affairs Fund, the governing legitimacy of DPP was in crisis. The roaring social discontent quickly erupted into anger, leading to the first-ever anti-state populist movement since Taiwan’s democratization—the red shirt movement. With nearly a million people taking to the streets to express their disapproval of Chen’s regime and make their appeal to restore moral order in political life in August 2006, the movement was seen as the initiation of civil disobedience in contemporary Taiwanese society (Chen 2007).
Narrating the “Isolated Past”; Embracing the “Liberal Future”

The formation of the KMT-CCP alliance in partial replacement of state function coupled with the political crisis of the DPP regime, turned out to be the fertile soil cultivating neoliberalism. The previous chapters have illustrated ceaseless advocacy for trade and economic liberalization that waxed and waned along with varied historical conjunctures from the 1990s. This time, banking on evolving cross-Strait geopolitical dynamics and domestic political crises, the neoliberal initiative for market liberalization, especially with China, re-emerged. To obtain social support, it evoked the long-existing ideology of “politics-economics separationism” towards cross-Strait affairs (Y. Chen 2010; Beckershoff 2014b) and the rhetoric of anti-isolationism. Stemming from Jiang Ze-Min’s “Eight Points” statement in 1995 that guaranteed peaceful trade and cultural exchange despite political tensions across the Strait as Beijing’s principle for Taiwan policy, the ideology of “politics-economics separationism” had ever since then hailed by the society and politicians from different parties as serving Taiwan’s best interest (Huang 2012). Such an ideology proves to carry enduring influences. Declaring a cross-Strait policy shift from “Active Opening, Effective Management” to “Active Management, Effective Opening” in 2006, along with his advocacy for independence referendum, President Chen was accused of breaking the mainstream “politics-economics separation” principle and thus causing harm to Taiwan.

Moreover, although being more political rhetoric than real practice (see Chapter 6), Chen’s restrained cross-Strait economic policy was not only accused of being politically charged, but also isolationist in nature—resembling the “Go Slow, Be Patient” advocacy under Li Deng-hui in the 1990s. Despite the fact that Taiwan’s slowing economic performance in the recent decade was due to long-term neoliberal globalization (Lee & Lin 2017), Chen’s restrained cross-Strait economic policy rhetoric was taken as a fact and condemned to be the sole cause of Taiwan’s marginalization in the global economy, for Taiwanese companies lost their chance to utilize the Chinese market as a way to enhance their international competitiveness. Thus, the discourse of “isolationism” prevailed in the public perception of Chen’s regime, and any opinions questioning cross-Strait liberalization were marginalized without serious public debate as a result.237

237 For instance, the CEO of Taiwan Semiconductor Manufacturing Company Limited (TSMC) openly opposed the discourse of “marginalization” by arguing that Taiwan had never been at the “center” of the global economy. He also proposed that at the economic restructuring stage, the priority for Taiwanese
What is more, the narrative of Chen’s isolationism was promoted in contrast to KMT’s embrace of economic openness. The countless meetings between KMT and CCP top-ranked politicians on cross-Strait economic collaboration had enabled KMT to present itself as a party devoted to the economic well-being of the populace free from ideological burdens. Finally, the discourse of isolationism rendered any state intervention in the cross-Strait trade and economic relations to be “artificial” and “unnatural,” assuming that there pre-existed a “normal” cross-Strait economic abiding by the logic of the market economy (Hong 2011). The discourses of Chen’s “isolationism” and “cross-Strait economic and trade normalization” had been so powerful among the populace that even some factions within DPP openly opposed Chen’s isolationism and requested intra-party debate over its cross-Strait policy course. Chen’s regime, after all, was portrayed as an irrational and conservative one standing opposite to Taiwanese people as a whole.

The popularization of the discourse of “isolationism” would not miss out on input from the neoliberal bureaucrats active in the state apparatus since the 1990s, who continued to serve as policy consultants under Chen’s regime. Self-fashioned as the precursors to Taiwan’s economic liberalization, these ex-government officials advocated for the urgency of cross-Strait economic deregulation, sometimes with a fatalistic tone. Siew Wan-chang, ex-Premier and the key initiator of the APROC project, contended that Taiwan should abandon its isolationist mentality, learn from other Asian tigers’ pursuit of economic liberalization, and turn itself into a tax haven and a free trade island in order to avoid marginalization—although this proved to be nothing but an arbitrary interpretation of other Asian countries liberalization experiences. Schive Chi, ex-Deputy Minister of the Council for Economic Planning and Development, who had long been devoted to promoting Taiwan’s economic liberalization, described Taiwan’s situation as skydiving, cautioning that without opening the parachute of economic liberalization, Taiwan would not be able to survive its plunging economy. All of a sudden, “isolationism” was portrayed as the root of all evil for Taiwan’s political economy; only cross-Strait economic liberalization held the moral legitimacy of preventing Taiwan from degradation.

enterprises was a creative business model, rather than blindly pursuing cross-Strait economic liberalization (Yiang & Jiang 2006).
The formation of a cross-Strait historical bloc built by the KMT-CCP alliance, the long existing ideology of “politics-economics separationism,” the discourse of isolationism, and the negation of the DPP regime by the anti-corruption populist movement, all contributed to the temporary popularity of a neoliberal prescription to the political and economic impasse. According to a longitudinal survey done by the Mainland Affairs Council, ever since 2006, especially after the eruption of the anti-corruption movement, public opinion regarding the pace of cross-Strait exchange to be “too slow” had steadily surpassed that of being “too fast.” At the moment of the 2008 presidential election, the viewpoint of “too slow” had arisen to its record-high at 35.2%, and the gap between the two also reached its peak at 16% (Figure 7.1). The pursuit of “precipitating cross-Strait economic exchange” had enjoyed hegemony – even just temporarily.

Figure 7.1  Opinion Poll on the Pace of Cross-Strait Interactions
Source: Mainland Affairs Council, ROC (Taiwan).
III. Advancing Neoliberal Trade Agendas

As soon as resuming power, the newly elected KMT government started to fervently pursue cross-Strait economic liberalization. This section will lay out several important liberalization measures launched under Ma, including capital-market deregulation, financial liberalization, and cross-Strait trade liberalization. More importantly, I will demonstrate that although contributing to the deepening of neoliberalization as a result, these cross-Strait economic liberalization policies were by no means underpinned by a unitary neoliberal ideology. Instead, they were driven by different, sometimes contradictory, initiatives dealing with the long-existing accumulation crisis in Taiwan’s economy. These initiatives not only demonstrated structural-path dependency, but continued to draw on discursive mechanisms utilized by the previous neoliberal proposals to gain policy legitimacy. Specifically, I will highlight the key roles of nationalism and populism as discursive structures in various initiatives.

*Capital-Market Deregulation I: Introduction of Chinese Capital Investment*

One of the liberalization measures actively pursued by Ma administration was the unilateral deregulation of Taiwan’s capital market. This included deregulation of Chinese capital investment in Taiwan’s stock exchange and financial measures targeting Taishang’s return-home investment. Rather than a new policy agenda, their underlying logic was derived from financial nationalism under Chen’s regime, which aimed at developing Taiwan’s capital markets—an agenda gradually entwined with catering to Taishang’s financing needs (see Chapter 6). Although demonstrating significant path dependency, such unilateral capital market liberalization agendas were forwarded by an unexpected conjunctural force: the global financial crisis in 2008.

Facilitating cross-Strait capital flow had been one of Ma’s promises in his election campaign. However, deregulating Chinese production capital, meaning directing the money to invest in Taiwan’s infrastructural construction as a way to boost the economy, had been prioritized over the introduction of financial capital in the stock market. However, Ma’s relatively conservative attitude towards the stock market soon turned positive after his inauguration in May, when the social expectation for the post-rapprochement economic prospect was met with an unexpected plummet of the stock market in Taiwan as a result of the global financial crisis in 2008. The
beginning days of Ma’s presidency saw a continuous drop of Taiwanese stock index of nearly 50 percent. The externally-induced disaster soon became the target for legislative interpellation, questioning the new administration’s capability to tackle the dire situation. With pressure from legislators across different parties and eager to establish its legitimacy, the government immediately convened a cross-departmental cabinet meeting in June, with “stock market rescue” as its ultimate task.

The government’s orchestrated plot of “stock market rescue” was never something new to Taiwanese society. The peculiar stakeholder structure of Taiwan’s stock market, marked by the dominance of individual investors with rampant short-term speculation (see Chapter 6), had made stock market fluctuation a source of social crisis that could generate direct impact on the approval rate of the government. Thus, state intervention in the stock market whenever necessary was endorsed by popular support. In 1996 and 2000 respectively, the Taiwanese government initiated a NTD two hundred billion Stock Stabilization Fund and a NTD five hundred billion National Financial Stabilization Fund as a response to China’s military threats—the former due to implementation of universal suffrage in the presidential election, and the latter due to the first presidential victory of the pro-independent party DPP. These Stabilization Funds were aimed at providing temporary relief to Taiwan’s stock market when it was being impacted by significant (geopolitical) incidents and were used more than ten times (Tung 2002).

However, the peculiar stakeholder structure, as well as state intervention in the name of securing the interest of the mass populace, was gradually proven to be discourse rather than fact. As Cheng (2017) pointed out, the percentage of individual investors in Taiwanese stock market had declined persistently since 2000; in 2006, the percentage of domestic and foreign institutional investors, now accounted for 47% of the stakeholders and, for the first time, surpassed that of the individual investors. Such a transformation may well illustrate the change in the government response to the crisis in 2008. Different from the previous short-term intervention through injecting the Stabilization Fund, the promotion of deregulating capital markets in general and introducing Chinese capital to rescue Taiwanese stock market in particular, began to emerge in various newspaper and financial magazines, many of which were rallied by neoliberal officials and financial experts in the name of populism. Siew Wan-chang, now serving as the Vice President to
Ma Ying-jeou, proposed a grand liberalization remedy, declaring that in response to the economic distress, the government would sign financial MOUs with mainland China, liberalize Chinese capital to invest in Taiwan, deregulate overseas derivative financial products to issue in Taiwan, and loosen the ceiling capped at Taiwanese enterprises’ investment in China.\(^{238}\) Chen Tien-Jye, Minister of the Council for Economic Planning and Development, also proffered that the new government would humbly review its policies to meet the expectation of popular investors, echoing the Foreign Chamber of Commerce’s suggestion of total deregulation of Taiwan’s financial markets, including banking, insurance, securities, and private equity.\(^{239}\)

It did not take long for the high-ranking officials’ statement to appear in multiple policy measures. Five financial deregulation measures were put into practice by the FSC in June, including elimination of the ban on offshore funds containing Chinese capital to invest in Taiwan’s stock market. In July, the Administrative Yuan further passed a program to adequately liberalize Chinese capital to invest in Taiwan’s stock market and finally allowed China’s Qualified Domestic Institutional Investors (QDII) and listed companies to invest in April 2009. China Mobile Communications Corporation, the second largest Chinese company of the time, soon declared its plan to purchase 12% of shares of one of Taiwan’s biggest tele companies, Far EasTone, which subsequently caused Taiwan’s stock market to jump at a historically high rate for the past eighteen years.\(^{240}\) As such, the 2008 global financial crisis served as a perfect storm for neoliberals to advance capital market deregulation agendas, which banked on the populist history of Taiwan’s stock market to justify such a paradoxical policy move.

**Capital Market Deregulation II: Taishang and the Salmon Run Project**

Other important aspects of unilateral capital-market deregulation pursued by Ma administration were liberalization measures targeting Taishang’s cross-Strait financing and capital flows. Taishang’s relationship with Taiwan’s national economy, be it material or symbolic, had also been under polemic social and political dispute. The previous chapter delineates how the policy


\(^{240}\) The purchase plan failed to materialize in the end due to Taiwanese governments’ persistent refusal to open Type I Telecommunications Business for Chinese investment out of security concerns.
rationale of promoting Taishang’s return-home investment had gradually converged with the proposal of utilizing Taishang’s financing need to develop Taiwan’s capital market under the Chen’s regime’s promotion of financial nationalism. It also explains how such an agenda achieved little fulfillment due to the exacerbation of cross-Strait geopolitical tensions towards the end of Chen’s second presidency. The liberalization agenda targeting Taishang’s financing continued under Ma’s presidency, and yet again through mobilizing nationalist discourse to legitimize capital-market deregulation.

First, the 2008 global financial crisis not only served to liberalize Chinese capital investment in Taiwan’s stock market but also triggered deregulation of Taishang’s cross-Strait capital flow. It further exacerbated Taishang’s dwindling business on the mainland, causing another wave of SME Taishang’s business closure after the Chinese government launched Macroeconomic Adjustment measures in 2006 (see Chapter 6). The situation was soon appropriated by the business sector to appeal for the Taiwanese government to further deregulate cross-Strait capital flows in the name of “Taishang’s emergent financing need.” In June 2008, right as the government was busy in deregulating Chinese capital investment under the initiative of “saving the stock market,” the Chinese National Federation of Industries submitted its “2008 White Paper” to the president, urging the government to “gradually deregulate Chinese capital investment in Taiwan,” and “entirely remove China-bound investment caps, deregulate the over 1,000 items prohibited from investment, and allow global capital to freely move across the Strait.” The government immediately responded with a favorable solution. In August, the 40% cap for China-bound investment was raised to 60%; later in September, the investment cap for companies setting up regional operations centers in Taiwan was totally removed, with more than 600 Taiwanese companies expected to benefit. Accordingly, the decade-long dispute over the investment cap on Taishang’s China-bound investment finally ceased.

Yet the 2008 global financial crisis facilitated Taiwan’s capital-market deregulation for Taishang in a more profound way. Due to the unstable global financial environment, many of Taishang’s business plans to list in Hong Kong or Singapore’s stock market were derailed. Subsequently, the

Ma administration decided to attract these rootless Taishang for home-listing as a way to re-incorporate them into Taiwan’s economy—putting more emphasis on their contribution to developing Taiwan’s capital market than their productive activity. As such, after the temporary halt, the “International Board” targeting Taishang’s return home listing actively promoted under Chen’s regime came back to life. A number of measures were initiated accordingly since June 2008, including approving overseas-listed Taishang’s second listing by issuing Taiwanese Depository Receipts (TDR) in Taiwan, relaxing the restrictions imposed on foreign companies to conduct their first public listing (IPO), as well as deregulating the use of capital drawn from Taiwan.

The deregulation measures, once set in force, took Taishang’s return-home listing by storm. Specifically, TDR was preferred more than IPO because many of the large-scale Taishang had already listed in the overseas stock market and because TDR required much more lenient reviews regarding information disclosure than IPO. In 2009 and 2010 alone, twenty-three companies were newly listed in the TDR market, a leap compared to the five in the previous fourteen years. In this TDR frenzy, besides traditional electronic industry companies, the giant food manufacturing Taishang drew the greatest social attention. Many of them had originated from Taiwan as mere SMEs and grew into business conglomerates in China’s domestic market. The trend kicked off as the Want-Want Group—led by a local rice cracker manufacturer turned into Taiwan’s third-richest person thanks to his business expansion in China—first issued NTD thirteen billion of TDR in Taiwan in the beginning of 2009. It then peaked as Ting Hsin International Group—a small cooking oil factory grown into a business tycoon controlling more than 50% of China’s instant noodle market—issued another ten billion TDR by the end of 2009. These renowned Taishang’s return-home listing immediately invoked fervent stock purchasing among the investors and caused their stock prices to soar.

Although bearing the stamp of capital deregulation, TDR issued by Taishang were painted with a strong nationalist hue by the state, media, and Taishang collectively. While social critiques celebrated these Taishang as finally “reverting to their origin” (落葉歸根) and “returning home with silken robes” (衣錦還鄉), the government propaganda praised their return-home listing as “Salmon Run,” which not only brought their overseas profit back to Taiwan but also energized
Taiwan’s capital market. As to *Taishang* themselves, the CEO of Want-Want Group, Tsai Eng-Meng, proudly stated that his personal decision to issue TDR in Taiwan was totally driven by his “love for the homeland and support of the government,” promising that every penny drawn from the Taiwanese capital market would be spent on Taiwan. Out of his “love for Taiwan,” Tsai marched into Taiwan’s media industry and bought up one of the biggest Taiwanese multi-media companies, the China Times Media Group, with a sole proprietorship. Similarly, Ting-hsin International Group, under the Wei brothers, aggressively purchased 37% of Taiwan’s landmark Taipei 101 with NTD eighty billion, which made itself the biggest private stakeholder next to the Taipei City Government who held a 43% share. Insisting that their investment in Taipei 101 was a demonstration of their love for the homeland, the Wei brothers also blustered about their “unlimited” return-home investments in the future.

Mobilizing nationalism for capital-market deregulation, however, was not limited to attracting *Taishang’s* return-home investment; it also aimed at attracting capital lingering overseas back home. The newly elected government immediately reduced the business tax rate from 25% to 17% in 2008 and further reduced the inheritance and gift tax rate from 50% to 10% at once in 2009. Capital-market deregulation, assisted with inheritance and gift tax reduction, eventually contributed to reversing the direction of capital flow from eighteen consecutive years of net capital outflow to a sudden spike of net capital inflow. It was estimated that from the second half of 2008 to 2009, there had been more than one trillion NTD in capital repatriation. Such a sudden influx of capital was further applauded by news reports as “whale’s return” instead of “salmon run.”

After all, Taiwan’s acceleration of unilateral capital-market deregulation under Ma was facilitated by both long-term advocacy for neoliberal financial nationalism and the short-term pressure of the 2008 global financial crisis. These agendas capitalized on the populist history of Taiwan’s stock market to promote the introduction of Chinese capital investment, and resorted to economic nationalism in glorifying *Taishang’s* return-home participation in the capital market and justifying the inheritance tax cut for overseas capital repatriation.

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Cross-Strait Financial Liberalization I: Financial Westward

Apart from capital-market deregulation, cross-Strait financial liberalization entails another agenda: cultivating the financial industry. Due to the tremendous prospect it was expected to create, cross-Strait financial exchange was coined as “the fourth direct link” besides the three commonly talked-about links—direct postal service, direct commerce, and direct flights. The agenda of cultivating the financial industry through liberalization resembles varied policy initiatives in the past. First, it can be traced back to the neoliberal APROC project initiated in the mid-1990s to establish a regional financial center in Taiwan (see Chapter 4). Under Chen’s regime, it was the “Asian Pacific Financing and Asset Management Center” that epitomized the policy initiative (see Chapter 6). Right after KMT resumed power in 2008, the Ma administration, now with Siew Wan-chang as its Vice President, resumed the regional financial center project proposed by the past regimes.

Under this overarching policy guideline, the FSC announced the launch of “the third-wave financial reform,” with cross-Strait financial liberalization as its focus. Vice Chairman of the FSC, Lee Chih-Chu, was subsequently appointed to the Board of Directors of the semi-official Strait Exchange Foundation that had resumed its function under Ma’s regime, demonstrating cross-Strait financial affairs to be the new business focus for the Foundation. The eagerness for the newly elected Taiwanese government to pursue cross-Strait financial liberalization also directly reflected on the performance of financial stocks. Right after Ma declared victory in the presidential election in 2008, the financial index for TWSE soared to its highest point of the 2000s, a stark contrast to the overall poor performance of the stock market in Taiwan and elsewhere due to the global financial meltdown at the time. The Taiwanese government’s resolution to boost its financial industry by cross-Strait deregulation along with the widespread anticipation of strong financial performance was vividly captured in the term “financial westward” coined by media.²⁴³

It is worth noting that the advocacy for financial westward, although in the name of overseas expansion, resembled the ambivalent scenario of promoting manufacturing industry’s overseas investment in the 1990s, when a crisis in the existing mode of accumulation served as the major

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drive to its geographical outmigration. As many scholars have pointed out, Taiwan’s active pursuit of “financial westward” rose largely against the backdrop of financial deterioration, when liberalization of the banking industry in the 1990s had led to excessive bank numbers, cutthroat competition, and thin return on assets (ROA lower than 1%); a domestic financial crisis marked by over-lending and non-performing loans followed suit. The two attempts at financial reform under Chen administration also proved to be incomplete, to say the least (see Chapter 6). Even the Chairman of the FSC under Ma bluntly admitted that financial westward was proposed to solve the prolonged over-banking problem in Taiwan through the market mechanism. He also contended that once the mainland market was made available for Taiwan’s banks, the problem would be solved easily.244

However, different from unilateral deregulation of domestic capital markets, cross-Strait financial liberalization—be it Taiwanese banks setting up branches in the mainland, launching RMB currency business, or China’s QDII investing in Taiwan’s stock market—inevitably involves bilateral negotiation between the two authorities. Although both Taiwan and China’s banking sectors had been gradually liberalized to foreign investment under WTO rules, the operation of banks was still prohibited from each other’s territory due to geopolitical concerns. It was not until the 2008 global financial crisis that such restrictions were urged to change by the Taiwanese government, this time, in the name of cross-Strait financial collaboration. Although proven to generate only short-term influence on Taishang’s export business and to have limited impact on Taiwan’s financial order (Kuo 2009), the crisis was interpreted as the demonstration for the need of closer cross-Strait economic collaboration in general and financial collaboration in particular.245

Taiwan’s proposal soon received a positive response from China, where “cross-Strait collaboration to combat the international financial crisis” was widely embraced by the Chinese authority despite the fact that Taiwan played a minimal role in China’s policy adjustments for tackling the post-crisis recession. The Chairman of ARATS, Chen Yun-lin and the Director of Taiwan Affairs Office of the State Council PRC, Wang Yi, clearly expressed on different occasions the sense of

urgency for cross-Strait economic collaboration, calling for the cross-Strait “brotherhood” to collectively combat the financial crisis. In the fourth KMT-CCP Economic Forum on Cross-Strait Relations, the Chairman of the National Committee of Chinese People’s Political Consultative Conference, Jia Qinglin, once again stated that people from across the Strait should appropriate the financial crisis as a valuable historical opportunity to widen and deepen cross-Strait economic exchange and collaboration. For a moment, the promotion of cross-Strait collaboration in combating the financial crisis had surpassed its material drive and enjoyed extensive symbolic importance.

The all-out propaganda for cross-Strait collaboration to combat the financial crisis was quickly reflected in the incorporation of financial issues in the cross-Strait trade negotiations. For the first time in history, the presidents of the top ten Chinese banks, accompanying officials from the China Banking Regulatory Commission and China Insurance Regulatory Commission, joined the second SEF-ARATS meeting held in Taipei in November 2008, a symbol of China’s official endorsement of cross-Strait financial talks. After several rounds of negotiation, the Taiwanese and Chinese governments reached the consensus of signing a cross-Strait financial MOU, which was officially concluded in November 2009 and put into force starting January 2010. Just within the first year of its enforcement, six Taiwanese banks were approved to operate in mainland China, with another five on the waiting list. By the year 2012, there had been fifteen banks extending their business to China (including those setting up bank liaisons), accounting for nearly half of Taiwanese banks. Although the cross-Strait financial MOU only granted Taiwan the same market entrance enjoyed by foreign banks in China, it was nonetheless celebrated as a “breakthrough of the sixty-year financial exclusion” and stimulated market speculation in financial stocks.

Cross-Strait Financial Liberalization II: Offshore RMB Hub

Starting from 2012, Ma’s second presidency indicated a reorientation in its financial liberalization course from “promoting financial westward” to “developing finance with cross-Strait characteristics,” which targeted cross-Strait RMB business as one of its core tasks. Under this new

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247 General Chamber of Commerce, Republic of China: [http://198.55.121.69/cgi-bin/big5/k/37a2?q1=dp1&time=17:02:25&q27=20120425152255&q35=&q65=2006003&q22=5](http://198.55.121.69/cgi-bin/big5/k/37a2?q1=dp1&time=17:02:25&q27=20120425152255&q35=&q65=2006003&q22=5).
policy goal, FSC, along with Taiwan’s six financial business associations, subsequently promoted “building the Taiwanese people-oriented wealth management platform,” which included establishing a cross-Strait RMB clearing mechanism, liberalizing RMB business for Taiwanese banks, and turning Taiwan into the second global RMB offshore center following Hong Kong.

Such a policy reorientation is again intrinsically associated with China’s evolving geoeconomic tactics. The 2008 global crisis had affirmed China’s determination to alleviate its dependency on US currency in the global trade regime. Starting in 2009, the Chinese government began to promote RMB internationalization as its geoeconomic strategy, including promoting usage of RMB in place of USD with its major trading partners. China’s Twelfth Five-year Plan (2011-2015) further set up the goal of developing Hong Kong into the major offshore RMB center in the world (Cheung & Miao 2014; Lien 2014; Fu 2017; Shea 2017). It is against this backdrop that the Taiwanese government proposed to pursue RMB business and was welcomed by the Chinese government in return. In August 2012, the Central Bank of Taiwan and People’s Bank of China signed the cross-Strait currency clearing MOU; in Feb 2013, Taiwanese government liberalized RMB business for its DBU; Meanwhile, the Taipei branch of China Bank was designated by Beijing as an RMB clearing center.

Taiwan’s pursuit of establishing an offshore RMB center entailed subsequent reconstruction of the national economic vision. The development of the RMB market in Taiwan was promoted as a “triple-win” strategy between the Taiwanese financial industry, Taishang, and the Taiwanese people: While Taishang could reduce transaction costs by using RMB instead of USD to settle cross-Strait trades, Taiwanese people could save strong RMB as the new method for personal assets management. On top of that, Taiwanese banks could improve financial innovation by utilizing domestic RMB deposits to create RMB derivative financial products. In order to win moral legitimacy and to gain wider social support, FSC, along with financial interest groups, further drew on nationalist rhetoric, declaring that the ultimate goal of such policy was to retain Taiwanese people’s wealth in Taiwan while accumulating wealth worldwide via Taiwanese financial institutions’ international investment operations. Their justification could not be more

248 See FSC’s press release on July 1st, 2012: https://www.fsc.gov.tw/ch/home.jsp?id=96&parentpath=0,2&mcustomize=news_view.jsp&dataserno=2
aligned with the neoliberal discourse: financial innovation and its subsequent business expansion materialized through RMB currency market liberalization would ultimately create “well-paid” white collar jobs at home, so that the young Taiwanese generation would no longer have to drift overseas with Taishang or pursue careers elsewhere in Singapore or Hong Kong (Chou 2012).  

Given the populist and speculative nature of Taiwan’s financial markets, the strategy of resorting to mass participation in the currency market did successfully bolster RMB business in Taiwan. Ever since the deregulation of RMB business for domestic banking units (DBU) at the beginning of 2013, buying and saving RMB had surged as a popular fad among Taiwanese people due to its appreciation and high interest rate. In less than a year, the total RMB deposited in Taiwan had reached two hundred billion. As saving RMB continued to be a “national movement,” RMB soon became Taiwan’s second largest foreign currency deposit to USD, surpassing that of the Japanese Yen and the Euro. The frenzy also made Taiwan the second largest RMB capital pool next to Hong Kong, and the fourth-ranked RMB clearing center in the world after Hong Kong, Singapore and London.

As the total RMB deposits grew exponentially, deregulating RMB derivative financial products seemed to be nothing but a rational move. In the name of effective utilization of the RMB deposits and maintaining supply-demand balance, FSC initiated an RMB financial derivative—the Formosa Bond—to kick off deregulation of the cross-Strait bond market. Not only deemed as a solution to the prolonged problem of excessive idle capital—now in the form of RMB currency—the development of the offshore RMB bond market was also celebrated as a landmark for Taiwan’s RMB offshore business development by many economists. For instance, the chairman of Chung-Hua Institution for Economic Research, one of the major government think tanks, endorsed the Formosa bond by stating that it was promoted with good timing (China’s RMB

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internationalization), favorable climate (the special cross-Strait relationship), and harmonious human conditions (the collective will between the government and financial institutions).252

Lastly, the pursuit of an offshore RMB center in Ma’s second term demonstrates a gradual convergence of the two policy goals—developing financial markets by turning Taiwan’s idle capital into financial capital on the one hand, and boosting banking and security business by appropriating the booming RMB market on the other. Compared to the “financial westward” advocacy in Ma’s first presidency, these financial liberalization measures consist of more overt neoliberal traits as they manifest a later stage of financialization. Nonetheless, these liberalization measures also resort to populist support and nationalist discourse as their source of legitimation. While the establishment of the RMB offshore center mobilizes popular participation in the financial market, the initiation of the RMB derivative Formosa Bond draws on the nationalist discourse of “retaining money and jobs in Taiwan”—targeting the greatest fear haunting Taiwanese society since its economic deterritorialization from the 1990s.

**Trade Liberalization: ECFA and the “Open Door Initiative”**

Amidst the atmosphere of cross-Strait political rapprochement and economic collaboration, the Ma administration also actively pursued more extensive liberalization and deeper institutionalization of cross-Strait trade affairs besides cross-Strait financial liberalization. The advancement of such an agenda reflected in the evolution of the substantial contents negotiated in the sequence of SEF-ARATS meetings resumed since the KMT returned to power. While the first SEF-ARATS meeting held in Beijing in June 2008 mainly focused on the lingering issues such as arrangement of direct flights and approval of mainland tourists in Taiwan, the second meeting in Taipei featured a more thorough agenda of “cross-Strait trade and economic normalization,” with the necessity of signing a cross-Strait economic collaboration agreement being highlighted by both Chinese and Taiwanese representatives. On January 1st, 2009, President of PRC, Hu Jintao, further made an iconic remark on the thirtieth anniversary of the “Message to Compatriots in Taiwan” announced in 1979 under Deng’s regime, which signaled a central government-backed endeavor to sign such an agreement with Taiwan:

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We anticipate that cross-Strait economic normalization and institutionalization of cross-Strait economic collaboration will lay the material ground and serve as a strong economic motive for peaceful development across the Strait. To achieve this end, a comprehensive economic collaboration agreement shall be signed to enact an economic collaboration mechanism with cross-Strait characteristics as a way to carry out complementary and mutual benefits with an all-out effort. Developing a closer mechanism and procedure for cross-Strait economic collaboration will not only help improve Taiwan’s economic competitiveness, expand its space for development, and contribute to cross-Strait co-prosperity; it is also beneficial in exploring a potential path for the cross-Strait economy to collectively engage with the APEC institution.

Echoing Hu’s statement, in February 2009, Ma also announced the facilitation of a comprehensive cross-Strait trade and economic agreement as the mechanism to promote trade liberalization in goods and services, and to enhance investment protection. The idea exchange began in the third SEF-ARATS meeting in Nanjing in April 2009, and the official negotiation was launched in November 2009. With an all-out effort from both governments, the Economic Cooperation Framework Agreement (ECFA) was signed in June 1st, 2010, which only took a year and a half to conclude. The pace of signing such a trade deals was remarkable, especially when China had become the biggest trading partner to Taiwan in 2005.

However, given the comprehensive nature of ECFA, the extensive spheres it covered, and various kinds of stakeholders involved in Taiwan, subsequent social and political discontent was expected. In preempting political hurdles and winning social support on the Taiwan side, both governments agreed to draft an Early Harvest List, which granted preliminary tariff cuts to selected items and was designed to disproportionally favor Taiwan. Under the List, five hundred and thirty-nine items from Taiwan—including petrochemical products, mechanical parts, textile and agricultural products—began to receive gradual tariff concessions from China on January 1st, 2011, compared to two hundred and sixty-seven items China received from Taiwan. Given that the Early Harvest List only covered one-tenth of the items to be included, with the majority of the contents and

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procedures of tariff deduction left unsettled, the Cross-Strait Economic Cooperation Commission was subsequently formed by high-ranking officials from both sides as the platform to continue the trade negotiations.

With a limited scale of achievement and substantial contents left to be negotiated in the future trade talks, the significance of concluding ECFA lies more in its political effects than its economic ones, especially in terms of how it helped secure legitimacy for cross-Strait trade liberalization initiatives. Besides endorsement from the real beneficiaries of the Early Harvest List, the Taiwanese government resorted to complicated discursive strategies in order to gain general social support. First, other than drawing on the similar discourse of the propensity of free trade to enhance national competitiveness, the Taiwanese government went further and mobilized the society’s long-existing fear of being marginalized in the international political economy. As the ASEAN free-trade area was about to be established in 2012, with Taiwan continuing to be excluded for geopolitical reasons, ECFA was advertised by the Taiwanese government as the alternative route to join the newly formed free-trade club (Lin 2015). Chiang Pin-kung, the then fervent advocate for APROC and Financial Southward in the 1990s and now the newly appointed Chairman of SEF, argued on different occasions that if Taiwan did not sign a trade agreement similar to that of CEPA—the trade arrangement signed between Hong Kong and Beijing in 2004, Taiwan would ultimately be marginalized.254

Notably, the Ma administration’s propaganda for ECFA not only drew on geoeconomic hope and geopolitical fear at the national scale, but also by constructing neoliberal subjects at the individual level through discourse. From its outset, the Mainland Affairs Council (MAC) forged the propaganda “eh-ge-huat” (伫 攳) —a Taiwanese homonym of ECFA

denoting “prosper again”—to assure prosperity to the populace. This discursive strategy is aimed at instigating ECFA’s popularity among the ethnic Taiwanese groups, which demonstrated strong pro-DPP and anti-KMT political inclinations. Moreover, MAC created another Taiwanese slogan “Open the Door; We’ll Guard Our Home” (門打開，阮顧厝), pointing out that opening the market as a way to guard people’s right of survival could best “defend national sovereignty.” Such a semiotic strategy tactically replaced the morality enjoyed by “sovereignty” with “market.” In that, “cross-Strait market liberalization” was no longer the subject of nationalist struggles or an abstract domain where “national economic development” resided, but a prerequisite for people’s humble pursuit of economic wellbeing and survival through appropriating overseas opportunities. The role of the state was just to facilitate the market economy while safeguarding the homeland.

Specifically, compared to the mercantilist advocacy for outward investment in the 1990s, where Taishang was portrayed as a collective agency endowed with a crucial role in the national economy, the economic subject invoked in ECFA was a highly individualized, market-oriented and economically rational one, looking for opportunities that suited his or her own interest in the Chinese market made available for them. Thus, the popular story of Taiwanese SMEs “doing business across the world with just one suitcase” that underpinned Taiwan’s economic miracle from time to time appeared in the government’s and KMT’s narrative.

Unpacking the varied cross-Strait liberalization agendas promoted under the Ma administration, a strong inclination of path dependency was found to endure, both in terms of the material forces and the discursive modalities they drew on for justification. However, such development was also articulated with the emerging geopolitical and geoeconomic dynamics, which ultimately contributed to the deepening of neoliberalization in Taiwan. On the capital market deregulation initiative, the problem of unsuccessful industrial upgrading, the existence of idle capital and the development of financing markets as the solution still occupied the core of policy formation, and yet further deregulation measures were put into force by articulating the global financial crisis in 2008. On the financial liberalization initiative, over-competition and lack of international

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255 See Mainland Affair Council’s propaganda video: https://www.youtube.com/watch?v=2k-QhTAN7dY
256 For instance, in the public policy debate on ECFA between the ruling party KMT and the opposition party DPP held on April 25, 2010, Ma Ying-jeou, Chairman of KMT, utilized such a storytelling strategy to defend ECFA.
competitiveness still haunted the financial industry, and yet it appropriated China’s changing geoeconomic strategy after the financial crisis and mobilized neomercantilist discourse of Financial Westward and populist participation in the RMB business to solve the accumulation crisis in the financial industry. Finally, the comprehensive cross-Strait trade liberalization agenda was put forward by enticing Taiwan’s long-existing fear of marginalization, and the populist-inclined economic rationale subject emerged in the historical formation of the SME-led export-oriented economy while articulating with China’s pursuit of institutionalization of cross-Strait economic liberalization measures.

IV. Disturbance: When Neoliberalism Meets Geopolitical Struggles

Despite achieving substantial progress under Ma’s regime, the course of cross-Strait trade and economic liberalization was never without controversy. Specifically, social discontents multiplied as the cross-Strait-focused liberalization agendas were implemented in Ma’s second presidency. While attributing the controversies to the social reaction against the omnipresent effects of “China factor” seems to provide a simplistic explanation (Wu 2017), the nature of the disputes, as well as the implications it yielded to the proceeding course of neoliberalization, can be far more complicated and ambiguous. In this section, I will show how “China”—both as a self-evident market and as a gradually active political agency in setting up cross-Strait economic agendas—worked to expose the hidden ideological and material contradictions, as well as how it mediated and conditioned the ways in which these contradictions were conceived and contested. Their implications for neoliberalization will also be noted. Three frontiers of contestation will be discussed in detail: the ambivalent nature of ECFA, the paradoxical pursuit of cross-Strait financial liberalization, and the debates on the relations between Taishang and Taiwan’s national economy.

ECFA: An Uncanny Manifestation of “Free Trade”

Social anxiety and political discontent surrounding Ma’s cross-Strait policies emerged immediately after Ma’s presidential inauguration in 2008. The opposition party DPP, along with pro-independence civil groups, staged a series of rallies under the slogan of “protect Taiwan” and “guard state sovereignty” in August and October to demonstrate their disapproval of Ma’s cross-
Strait policy orientation. The second meeting between Chairmen of SEF and ARATS held in Taipei in November 2008 further intensified the dispute, with a number of student groups spontaneously joining the lines of demonstration. The dissipation of the protesting crowds by the police further led to hundreds of students camping at the Chiang Kai-Shek Memorial Hall after the incident, protesting against police violence, requesting true democracy and freedom of speech, and demanding revision of the Assembly and Parade Act. This student mobilization was later known as the “Wild Strawberry Movement.” Although the SEF-ARATS meeting agenda was on cross-Strait economic affairs, the focus of the series of early protests was predominantly political: issues of sovereignty, democracy and nationalism wrote large in their appeals, whereas economic issues were seldom addressed, not to mention the debate over the nature of cross-Strait economic liberalization and its geopolitical implications. This form of contestation paradoxically echoed the prevailing ideology of “separating economy from politics” embraced by its opponents, which challenged the political rationale of the state while not necessarily opposing closer economic relationship with China.

Nonetheless, along with the negotiation and conclusion of ECFA, the nature of the social controversy evolved, which challenged the long-existing separationist ideology between economy and politics. With China’s proposal of “achieving political unification through economic means” laid bare in the ECFA negotiation, the intricate interplay between geopolitics and geoeconomics was made overt to the Taiwanese people. The Taiwanese government’s attempt to present China as an abstract, neutral, and thus depoliticized market was met with China’s active engagement in agenda setting for its own purpose, which in turn influenced the ways in which the nature of ECFA was conceived and contested in the Taiwanese society. Is ECFA just another free-trade deal that aims to enhance the market economy? If not, is it more or less desirable than free trade? Questions as such were constantly debated in Taiwanese society, and the polarized opinions can be illustrated in the following table with four analytical positions:

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<tr>
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<th>Support ECFA</th>
<th>Disapprove ECFA</th>
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<tbody>
<tr>
<td>Endorse Free Trade</td>
<td>(A)</td>
<td>(B)</td>
</tr>
<tr>
<td>Oppose Free Trade</td>
<td>(C)</td>
<td>(D)</td>
</tr>
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First of all, the Taiwanese government, especially the authorities in charge of the economy, majorly take the position (A), which is to endorse both ECFA and free trade. Granting free trade the moral high ground, advocates argue that ECFA not only symbolizes “naturalization” of cross-Strait trade relations, but also helps consolidate the WTO free-trade regime Taiwan had long embraced. For instance, the Minister of Economics describes ECFA as a comprehensive trade deal with “three liberalization yolks”: liberalization of trade in goods, trade in service, and investment. Many pro-KMT scholars also emphasize the “economic nature” of ECFA, contending that such a pure trade and economic deal should not be disturbed by nationalist politics. Neoliberal economists echo the argument, purporting that only an open economy and market competition can instigate industrial innovation, so that traditional industries should no longer be shielded under state protection. Yet many other supporters take a more strategic approach, arguing that although it’s just a bilateral trade deal, ECFA ultimately serves as a strategy for Taiwan to participate in the East Asian regional free trade from which Taiwan was excluded. Given its strategic essence, Taiwan would not be able to survive without ECFA (Chen & Liu 2010).

The second position (B) embraces free trade and yet disapproves ECFA. This standpoint is largely taken by the pan-green camp, including scholars who attribute superiority to the logic of the market economy but with a nationalist twist. They argue, given that ECFA is only a free-trade deal in name and geopolitically distorted in nature, it would eventually do more harm than good to Taiwan. Within this camp, Chen Bo-Chi, the ex-Minister of the Council for Economic Planning and Development under Chen’s regime and Chiu Jiunn-Rong, who later became the Deputy Minister of the National Development Council under Tsai Ying-Wen, utilize the factor price equalization theory in classical economics to oppose ECFA. They argue that Taiwan should prioritize signing free-trade deals with technologically advanced countries—US and European countries for example—to achieve industrial upgrading and instigate wage increases; conducting free trade with countries with lower wage and technological level, China, for example, would only do the opposite. Moreover, many scholars employ colonial theory to justify their standpoint, contending that by distorting market mechanisms, ECFA would eventually create a semi-colonial condition for Taiwan, contributing to a unilateral exploitative condition not far from India under the British Empire. Thus, Taiwan’s domestic market would be flooded by made-in-China products, and its export capacity would dwindle due to being prohibited from trading freely with other countries.
Similarly, other pan-green economists warn about the “political consequence” of ECFA, for its ultimate goal is not to promote free trade, but to establish a Greater China Market through signing bilateral trade agreements similar to that of CEPA. This maneuver, they argue, would completely lock the Taiwanese economy into that of China’s, which would eventually deprive Taiwan of its economic sovereignty, impair market order, and destroy the universal value of democracy and justice in the free world.\footnote{257}

The third position (C), on the contrary, opposes free trade and yet endorses ECFA. People taking this position refuse to attribute moral supremacy to free trade, arguing that it is because ECFA is a “benefit-yielding scheme” granted by China, that it presents a more favorable trade deal to Taiwan. Within the government body, the Bureau of Foreign Trade and the Mainland Affairs Council were more aligned with this position. At the early stages of negotiation, the Director General of the Bureau of Foreign Trade delightfully stated that there was a tacit agreement between China and Taiwan that Taiwan would “take more but give less,” with the scope of market liberalization from Taiwan side much more limited compared to China’s market opening to Taiwan. This statement clearly resonated in the Director of Taiwan Affairs Office of the State Council, PRC, Wang Yi’s announcement of “eight measures benefiting Taiwan” on the first Strait Forum held in Fujian in May 2009. Many politicians and business groups endorse this standpoint, stating that with China’s ratification, ECFA will bring Taiwan a much more advantageous trading condition than WTO and even that of CEPA. Although the Mainland Affairs Council in Taiwan was reluctant to settle with the tone of “benefiting Taiwan”—for such a saying implies an inherent hierarchy between the two—it nonetheless acknowledged China’s grace for agreeing not to request further market liberalization for Chinese agricultural products and Chinese labor import “considering the particularity of cross-Strait relation” and “empathizing with Taiwan’s disadvantaged social groups.” As the Early Harvest List was finalized, the Taiwanese government propaganda turned to emphasizing the benefiting nature of ECFA to agricultural and underprivileged industries, including acknowledging the benefit of contract farming between

Taiwanese farmers and Chinese local governments.\textsuperscript{258,259} Enjoying moral superiority, ECFA therefore helped to gain substantial support from particular sectors of society.

Lastly, similar to position (C), position (D) denies free trade’s moral superiority but at the same time firmly opposes ECFA. It is argued that in the disguise of “yielding benefit,” ECFA is intrinsically a free-trade deal bearing all its typical problems, including social polarization and youth unemployment. For instance, as soon as the governments from both sides embarked on ECFA negotiation, three of the Taiwanese university student associations held a joint forum “ECFA: A Punishment to College Students” (ECFA 菇到大學生) and requested a public debate with the government officials—a vivid expression of anxiety about the potential impact such a trade deal would bring to the younger generation. The Taiwan Labor Front also warned that ECFA would eventually cause the “three-lows” phenomenon to Taiwan’s labor regime: low wage, low skills, and low working conditions.\textsuperscript{260} Pro-labor DPP legislator Lin Shu-Fen also asserted that ECFA was a disguised FTA, protesting that the Taiwanese government untruthfully advocated for the advantages of the Early Harvest List while downplaying the fact that it only deferred the market liberalization procedure and that the Taiwanese market would have to totally liberalize in ten years according to WTO rules. Citing Lin, ECFA is “the Viagra for the rich; the landslide for the poor.”\textsuperscript{261}

More importantly, China’s overt United Front Work in the negotiation of ECFA exposed the ambivalent attitudes towards free-trade long existing in the Taiwanese society and among political parties. To the KMT, promoting ECFA entailed an intrinsic dilemma: defining ECFA as a free-trade abiding deal (position A) encountered the growing social discontent about the impact of globalization and free trade that have brought to Taiwan (position D), while promoting ECFA as

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\item \textsuperscript{258} For instance, one of the propaganda video clip made by Mainland Affairs Council (\url{https://www.youtube.com/watch?v=y4fyTo5d42c}) featured tea planters in Taiwan, advertising how Taiwan's tea industry was both benefited from Chinese tourists' direct purchase and growing export to the Chinese market.
\item \textsuperscript{259} See Mainland Affairs Council's press release on November 25, 2011: \url{https://www.mac.gov.tw/News_Content.aspx?n=DED5DAB0D6C7BED6&sms=8E0A247A631E0960&s=1E53A54A5ED6E2A7}
\item \textsuperscript{260} Secretary-General of Taiwan Labor Front, Sun Yu-lien: Taiwan Will Follow Hong Kong to Become a “Three-low” Market. (2010, Mar 15). The Liberty Times: \url{http://news.ltn.com.tw/news/life/paper/379752}
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a “benefiting Taiwan” scheme granted by China (position C) could not eschew criticism of “economic colonialism” that highlighted the political consequence of pursuing the “Greater China Market” (position B). To the opposition party DPP, however, ECFA also revealed the highly polarized positions on trade liberalization within the party. While a number of opponents take either position B or position D to reject ECFA, they hold opposite viewpoints about the nature of free trade—those taking position B upheld the principle of free trade and yet those supporting position D deplored it. The ambivalence also manifested in the uncertain position taken by many DPP politicians, where they found themselves standing in between contradictory ideologies and material interests and therefore showed great reluctance to take sides. For instance, the ex-Premier under Chen’s regime, Hsieh Chang-ting, stated in an interview with BBC that he was not totally against ECFA—an agreement with free-trade characteristics—but suggested referendum as a way to solve the controversy given the profound influence it might have on Taiwan. Due to the varied—and often conflicting—standpoints the opposition camp took, the only common ground reached by them was to insist on thorough Parliament oversight over the negotiations and sign-up procedure for ECFA, an emphasis on democratic mechanisms and a belief that it would eventually deliver justice and assure security in the end.

To Taiwanese society, the convolution between geopolitics and free-trade also produced ambivalent geoeconomic subjects caught between nationalist politics and personal material interests. The Ma administration’s fervent promotion, coupled by its highly selective nature, inevitably brought the Early Harvest List to the forefront of the dispute over ECFA. Many controversies revolved around the motive for Beijing to yield benefit to Taiwan, whether the selected industries could really benefit from it, and if the beneficiaries would switch his or her national identity and political affiliation (Pang 2011). These controversies crystalized in the emblematic case of Xue Jia, a small village famous for milkfish farming. Located in coastal Tainan, a county showing persistent political support for the DPP and inclined to be pro-independence, the village was turned by official propaganda into a demonstration model of the benefit brought by ECFA through contract farming with China. Facing questions about their national loyalty, the

farmers from Xue Jia had to produce a saying that “Xue Jia folks sell our fish, not our dignity” (學甲人賣魚不賣身) to mitigate skepticism.

Despite generating great ambivalence, the social controversies revolving around ECFA entailed unprecedented proliferation of geopolitical and geoeconomic accounts to make sense of the cross-Strait trade deals. China’s “benefiting Taiwan” strategy in the cross-Strait trade deal fundamentally challenged the entrenched ideology of “separatism between politics and economy”—one of the major factors neoliberal agendas in Taiwan could push forward without serious public debate in the past. And yet it brought another dilemma to the table: the rivaling moral supremacy between free trade regime and a trade arrangement based on tributary system, as well as the moral ambivalence of the targeted groups for being taken care by a foreign state through preferable trade arrangement and yet being questioned about their national identity and loyalty. It is through this ambiguity that ECFA was successfully enacted despite the growing social controversies it aroused.

**Cross-Strait Financial Liberalization and Its Frictions**

As illustrated in section II, financial liberalization has achieved significant progress under the Ma administration. However, the pursuit of financial deregulation with China was never free from concerns over its potential impacts on sovereignty and security, especially given that financial stability has been the prime agenda of the Taiwanese state in the post-War era (Lin 2008). Nonetheless, concerns for financial security took multiple forms. As the cross-Strait financial liberalization agenda changed over time, evolving alliances formed accordingly between respective government authorities, financial institutions, and other industries, each of which struggling over the pace and scope of liberalization measures in the name of financial security.

The Taiwanese state’s general concern for financial security first appears in the conservative position it took towards granting market entrance for Chinese banks. Specifically, the advocacy for “cross-Strait financial collaboration” and “Financial Westward” initiated from the Taiwan side was in effect aiming at acquiring WTO plus status and benefits for Taiwanese financial institutions to enter the Chinese market, not vice versa. The expectation of “benefiting Taiwan” in the name of “financial liberalization,” however, soon faced a challenge at the end of 2008, as the China Banking Regulatory Commission began to actively request “reciprocal liberalization” for Chinese
banks to launch businesses in Taiwan. As such, Taiwanese domestic banks ostensibly expressed their apprehension about the Chinese financial industry’s “eastward” ambition. The Chairman of the Bankers Association of the Republic of China (Taiwan) repeatedly cautioned that because of Taiwan’s saturated financial market, Taiwanese domestic banks’ lack of competitiveness, and the disproportional business scale between banks from both sides, the pursuit of “reciprocal liberalization” in name only would eventually impair Taiwanese banks’ interests.\(^{263}\)

Concerning the potential impact on Taiwan’s financial market, the Taiwanese government also pre-emptively set up criteria for Chinese banks to invest in Taiwan as a way to control the amount of business. Even after a general agreement of market entry was reached after the signing of the financial MOU in late 2009, the FSC still announce an “OECD principle” in March 2010—a principle only allowing Chinese banks which had operated in OECD countries for two or five years to set up business liaison or branches in Taiwan.

However, concerns for financial security were not only associated with the market order. The strong interest in participating in Taiwan’s financial market showed by top-ranked Chinese banks—all of which were state-owned—further invoked political suspicion. Due to the entrenched overbanking phenomenon and the extremely low rate of Return On Asset (ROA) of Taiwanese banks—0.28% in 2008 compared to more than 1% across China, Hong Kong, and Singapore—Chinese banks’ interest in Taiwanese market seemed to present an anti-market logic and invoked unanswered questions about their real motive as a result. Thus, a mutual agreement between the Taiwanese financial industry and the state concerning both the market order and geo-economic security seemed to be formed to take a protectionist stance, which worked to restrain the scope and scale of Chinese banks’ eastward investment in Taiwan.

However, it did not take too long for the consensus between the Taiwanese state and the financial industry to breach. As Taiwanese banks turned to pursue business alliances with Chinese banks as their alternative Westward strategy, they began to actively advocate for cross-ownership via interlocking holdings with Chinese banks. Compared to Chinese banks’ business operations in

Taiwan, the cross-ownership between banks across the Strait invoked the even more sensitive question of whether Chinese banks would acquire ultimate control of Taiwan’s domestic financial institutions and inevitably aroused hostility from the Central Bank. In the financial MOU signed in 2009, Taiwanese government only agreed to allow Chinese banks’ business operations in Taiwan, and their purchase of Taiwanese domestic banks’ shares was put on hold. Despite state regulation, many top Taiwanese private banks kept negotiating with Chinese banks on their future plans for joint holdings and signed business MOU clandestinely—an open secret to the FSC.\textsuperscript{264} The Taiwanese government’s policy attitude was then criticized by financial interest groups as conservative and lacking vision, asking how could Taiwan request further financial market entrance into China while shutting our own door tight?\textsuperscript{265} Those doors still remained shut even after the conclusion of ECFA. It was not until January 2012 that Chinese capital investment in Taiwan’s financial industry was finally approved, yet with a limit set to 5% for individual Chinese bank’s shareholding of one domestic Taiwanese bank, and 10% for individual Taiwanese bank’s shares sold to China. Nonetheless, these restrictive measures were constantly challenged by the bank industry, causing the FSC to finally eliminate the OECD principle and lifted the bar from 10% to 20% in the name of pursuing closer business collaboration.

As the scale of cross-Strait financial liberalization expanded, domestic Taiwanese banks’ loans, investment and interbank borrowing with Chinese banks increased accordingly. The Taiwanese state’s concern for financial security was then shifting to the issue of Taiwan’s financial risk exposure to China. At the initial stage of cross-Strait financial liberalization, the Central Bank proposed to set the bar for Taiwanese banks’ overall risk exposure to China at 50% of its net worth.\textsuperscript{266} However, responding to strong lobbying from the Bankers Association, the administrative Yuan raised the bar to 100% in September 2011. The average of Taiwanese banks’ risk exposure rate to China climbed from 43% in 2012 to 69% in 2014 accordingly. Such a trend was accompanied by the tremendous growth in China’s claim on Taiwan’s domestic banks. In

\begin{itemize}
  \item \textsuperscript{266} The risk exposure rate to China for Taiwanese banks is defined as the ratio of the bank’s total investment in China to its net worth.
\end{itemize}
2013, China became the largest debtor for Taiwanese domestic banks, surpassing that of the US and Luxembourg (See Figure 7.3). The rising risk exposure to China, along with the unsecured loans provided by Taiwanese banks to Chinese enterprises as high as 72%, evoked great concern for the potential impact of the overall financial risk exposure to China from the opposition party and many scholars.

The administration’s pursuit of an offshore RMB center in 2012 further stirred great controversy over its impact on financial security. The unexpected popular participation in the RMB currency market after its liberalization in Taiwan first cast doubt on its sustainability. The resulting skyrocketing RMB deposits even led the pro-China and pro-business press to call it “zombie capital” and a “ticking bomb,” cautioning that the Taiwanese society should no longer devote itself to accumulating RMB. The legislators from the opposition parties were concerned about the

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excessive financialization of capital as the fundamental drive for Taiwanese people’s RMB fever and compared RMB deposits to opium, condemning that the RMB business enticed Taiwanese people with high interest rates in order to control Taiwan’s capital market, which would eventually cause Taiwan’s subjugation—like the fall of the Qing dynastic due to opium addiction.  

Moreover, the introduction of the Formosa Bond in 2013 in the name of solving the problem of excessive RMB deposit changed the nature of controversy to “RMB-ization of financial resources.” At its initiation, the Formosa bond did not generate significant social dispute. It was not until the FSC decided to remove the regulation barring Chinese financial institutions to issue Formosa Bonds in Taiwan that such a new RMB financial product turned into a political turmoil. With cooperation from both financial authorities across the Strait, the top-four Chinese state-owned banks swiftly issued Formosa Bonds in Taiwan in the name of “helping Taiwan to construct the bond market.” Accrued to NTD 6.7 billion within one year, the Chinese banks accounted for two-thirds of the total amount of issued Formosa Bonds and became the biggest players in the field.

Given that the capital amassed through Formosa Bonds by Chinese banks would be directly used at their own will, such a policy change inevitably aroused criticism both from the Parliament and the media. The prevailing accusations such as “RMB-ization of financial resources,” and “feeding the enemy” vividly exposed the connected nature between financial and manufacturing capital, as well as the latent conflict between the financial and manufacturing sectors in Taiwan. For instance, Terry Gou, CEO of Foxconn, openly denounced the Taiwanese government for providing Chinese banks with cheap capital, which could possibly be channeled to finance Chinese panel factories and LCD producers to compete with Taiwanese manufacturers. Gou went further and warned Taiwanese society for its short-sighted pursuit of RMB for short-term interest, disregarding the connection between finance and real trading activities. Gou’s comments neatly demonstrated contesting agendas between financial liberalization and state-sponsored manufacturing activities. Thus, productive capital had to draw on nationalist discourse to win moral superiority in its competition with financial capital. Against this backdrop, the parliament urged the FSC to impose “three principles” on issuing Formosa Bonds to protect the interest of Taiwanese people and

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Taishang: limiting the total amount issued, avoiding finance for Chinese industries competing against Taiwanese firms, and regulating its interest rate to prevent cutthroat competition. Such a dispute was temporarily settled as the FSC agreed to maintain NTD 10 billion as its maximum, limit purchases to institutional investors, and prioritize issuing bonds for Taiwanese enterprises rather than Chinese banks.

The controversy over cross-Strait financial liberalization revolved around the notion of financial security. Yet the forms it took evolved along with the fast-changing financialization agenda under the Ma administration—from the concern for market take-over by Chinese banks, fear of losing ownership of domestic banks, apprehension over the growing financial risk exposure to China, to fear of the “RMB-ization of financial resources.” Specifically, the pursuit of an offshore RMB center and the introduction of RMB derivatives created frictions between different capital factions, which revealed the increasing disconnection between financial capital and manufacturing capital. Thus, Cross-Strait financial liberalization became the key battleground for the ruling elites. As both the promoters and opponents largely drew on nationalist discourse (i.e. financial security and financial nationalism) to compete for legitimacy, they proved the centrality of nationalist politics in mediating and contesting financial neoliberalization in Taiwan.

From “Salmon Run” to “Shark Attack”: Contesting Taishang’s Role in Taiwan’s National Economy

Unilateral capital market deregulation in the name of attracting Taishang’s business repatriation, given the absence of direct negotiation with China and its resort to nationalism, used to be the least controversial among all the cross-Strait liberalization agendas promoted by Ma’s regime. However, in Ma’s second presidency, such liberalization measures turned into contentious social disputes. As a number of renowned Taishang began to invest in Taiwan’s non-conventional economic sectors such as media, telecommunication, and real estate industries, their motivation for cross-industrial business adventures, as well as their impacts on the political economy back home, aroused increasing social concerns. A series of disputes erupted, leading to a swift change in the popular discourse about the role of Taishang in Taiwan’s national economy.
The disputes revolving around Taishang were epitomized in the public campaign of anti-media monopoly and the populist accusation of the black-hearted Taishang during the years of 2012 and 2014. As the food conglomerate Want-Want Group purchased the China Times media group, its CEO Tsai Eng-ming’s vocal pro-Beijing position and the media’s ostensible suppression of opposition voices had already invoked controversies. Tsai’s business strategy of wooing Beijing by showing his loyalty in the media in exchange for securing the company’s share of China’s domestic market was then mocked as “selling rice crackers by means of newspapers.” Tsai’s further business venture to purchase a multiple cable television system operator inevitably instigated apprehension about its potential impact on freedom of speech if Tsai managed to control a great market share of both media production and distribution. A large-scale anti-media monopoly campaign targeting Want-Want Group was launched as a response, urging the National Communications Commission (NCC) to intervene in the impending business transaction. The year 2013 witnessed a series of serious food-safety crises caused by the iconic figure of the “Salmon-run Taishang,” the food business tycoon Ting-hsin International Group. Having sold tainted cooking oil on the Taiwanese market for years, its scandal aroused great social panic and anger. Ting-hsin Group was subsequently condemned by the public as “shame for Taiwan” and the leader of the “black-hearted Taishang.”

The social controversies invoked by Taishang’s return-home investment also entailed re-evaluation of the capital market liberalization policy under Ma’s first presidency. When first introduced, Taiwanese Depository Receipts (TDR) evoked a frenzy in the stock market, even though a number of business magazines had already revealed the speculative nature of TDRs. They warned investors of the overhyped TDR products, for many of them were traded at a premium rate from 20% to 70%. These unreasonable premiums and the relatively loose requirement for information disclosure to issue TDRs also raised questions on the role of the FSC in regulating such a newly introduced financial derivative market from the legislators. Unfortunately, it did not take long for the warnings to become a self-fulfilling prophecy. In 2012, many foreign companies issuing TDRs went bankruptcy, and their TDR ownership became worthless overnight. The

subsequent drop in sales also led to collective delisting of a number of companies as a result—a domino effect after Want-Want Group delisted itself in 2013.

Besides re-evoking criticism of financial speculation, the controversies surrounding *Taishang*’s return-home investment also generated mounting critiques of its impact on society in general. At the peak of the TDR frenzy in 2009, it was disclosed by a media report that a great portion of the money amassed through TDRs by *Taishang* was in effect channeled to finance their individual wealth accumulation and had little to do with the parent companies’ business operations. It was not until the eruption of a series of *Taishang* scandals in 2013 that the report was brought back to public attention. Ting-hsin International Group was revealed to profiteer from land and real estate speculation by utilizing its reputation to acquire 99% syndicated bank loans with only 1% self-funding to purchase a number of luxurious condos. Such speculative conduct was subsequently condemned by both the Central Bank and the Minister of Finance as “inappropriate” and not be encouraged. Ironically, due to their active participation in TDR and investment in Taiwan’s domestic market, a number of renowned *Taishang*, including Want-Want Group and Ting-Hsin International Group, used to be glorified as the model for the Salmon Run Project. As the social controversies erupted, the “Salmon Run” project was conversely mocked as “shark’s attack” in the public discourse. In order to pacify the outrageous social discontent, the Taiwanese government had to request Ting-hsin International Group to sell its shares of Taipei 101—the landmark of Taipei City—and order the Wei brothers to step down from the CEO position.

The popularity of the discourse of “shark’s attack” led to the fundamental deconstruction of the convoluted relationship between *Taishang* and Taiwan’s national economy in the popular imaginary. In the past, although *Taishang* were from time to time accused of hollowing out Taiwan’s economy and questioned for their personal national loyalty, they were nevertheless regarded as the indispensable resource for Taiwan’s economic development. The discourse of shark’s return, however, fundamentally reversed the narrative by representing *Taishang* as the cunning rent-seeker from across the Strait. Moreover, the economic deregulation measures formed

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to accommodate Taishang’s return-home investment—from tax breaks, deregulation of foreign workers’ policy, to capital market deregulation were conceived as the “poison” rather than “instigator” to Taiwan’s economy. The material consequences of the blaming-Taishang discourse was the suspension of the Salmon Run Project by the end of 2014, although neither Want-Want nor Ting-Hsin Group had officially participated in the project. Thus, the complicated relationship between Taishang and neoliberal initiatives seems to come to an end; economic liberalization policies can no longer easily resort to Taishang’s potential contribution as its justification.

V. Disruption: The Service Trade Pact and the Sunflower Movement

The previous section delineates the undercurrents of the cross-Strait economic liberalization policies implemented under the Ma administration and discusses how they mediated neoliberalization in Taiwan. This last section turns to address the social controversies associated with ECFA’s ensuing negotiations on the services industry in 2012 and the “Sunflower Movement” it evoked a year after its conclusion in 2013. Specifically, I will demonstrate how such a movement can be seen as a full manifestation of the competing logics discussed above. I will then utilize the notions of “the nation” and “the people” to highlight the populist nature of such a movement as well as its implications for Taiwan’s prolonged trade and economic liberalization.

The Service Trade Pact and Its Controversy

If ECFA produced bifurcated attitudes and ambiguous subjects towards free trade, the signing of the cross-Strait Service Trade Pact in 2013 proved to break such ambiguity. The existing positions can be analyzed around three synchronic forces: The first is Taiwanese government’s changing direction for cross-Strait trade negotiations as a result of China’s evolving national economic development plan; the second is the diminishing of China’s “benefiting Taiwan” initiative both in material and discursive terms; the third is the growing social distrust of Ma’s administration and the legitimacy crisis it evoked.

First, as ECFA’s negotiations on the cross-Strait economic cooperation forum continued in Jan 2011, the different expectations on the scale and scope of liberalization from both sides were
gradually revealed. Although the trade pact on traditional goods with its regulatory simplicity was expected to conclude quickly, the negotiations on sensitive items such as panels and agricultural products slowed down the process due to overt interest conflict. The difficulty in reaching a consensus had also been foreseen and described by the Chinese media as “the deepwater area.”\textsuperscript{273} A long negotiation process was therefore anticipated.

However, the pace and orientation of the trade talk altered all of a sudden. As China announced expanding the domestic market as one of its future development goals in the twelfth Five-Year-Plan in May 2011, Chiang Pin-kung, Chairman of the Strait Exchange Foundation (SEF), immediately stated that promoting cross-Strait services liberalization would be prioritized in its future agenda to appropriate the emerging market on mainland China. Such a prospect was echoed by many business groups and their associations, including the General Chamber of Commerce of the Republic of China (Taiwan), declaring that Taiwan’s service industry development experience would be the biggest driver for cross-Strait economic collaboration. After the Ministry of Commerce in China substantiated the planning guideline for developing the service industry in November 2011—a guideline aiming at transforming China from “the factory of the world” to “the market of the world”—the Ma administration began to officially promote cross-Strait service industry collaboration. Accordingly, its new goal of trade negotiations moved to prioritize acquiring China’s WTO plus commitment on service trade for Taiwan, including granting market access to Taiwanese e-business, tourism and accommodations, media, and finance similar to that of CEPA.

However, during the negotiation of the Cross-Strait Service Trade Pact, Taiwan’s anticipation of expanding the scale of benefit granted by China was countered by China’s request for Taiwan to fulfill its WTO commitment on service trade liberalization in return, for instance, by granting Chinese banks the same market access as other foreign banks. This standpoint was clearly confirmed in Chairman of the Taiwan Affairs Office of the State Council (PRC)’s statement that it was impossible for Beijing to keep yielding unilateral benefits to Taiwan.\textsuperscript{274} Pan-blue media also


echoed the statement, arguing that it was unrealistic to expect China to expand the scale of benefits granted in the Early Harvest List unlimitedly. With the “benefiting Taiwan” discourse having less room to maneuver (Position C), the Taiwanese government had to return to the classic reasoning of free trade (Position A) to persuade the people to feel good about pursuing such a trade pact for services. The propaganda began to emphasize that the nature of trade deals was “give and take,” and such a trade pact would eventually do more good than bad to Taiwan (利大於弊). Bureau of Foreign Trade, Taiwan External Trade Development Council and the General Chamber of Commerce also stated respectively that Taiwan’s SME-dominated service sector had suffered from market saturation and lack of international competitiveness due to the natural limit of the market size; therefore, Taiwan had to launch the third wave of SME revolution by appropriating the inexhaustible service market in China.275

Although resorting to the classic logic of individualized mercantilism which embraced the spirit of overseas business adventure, the propaganda was subsequently questioned by the domestic service industries. Many denounced the government for shedding its responsibility of guiding local SMEs “Westward” into China’s service market—an ultra-competitive market full of hidden rules, not to mention the strict state censorship barring cultural and media industries from entering the market freely. What is more, the optimistic anticipation for the economic contribution brought by the service trade pact to Taiwan was further challenged by the government think tank Chung-Hua Institution for Economic Research, which indicated a minimum increase of 0.025% to 0.034% in GDP and limited increase of twelve-thousand jobs in its research report.276 Even the stock market, known for its fluctuation to temporary market incentives, did not show a significant rise as the Cross-Strait Service Trade Pact was concluded in July 2013, signaling an overall lukewarm response from the market.

Moreover, highlighting the nature of free trade, the propaganda for the Cross-Strait Service Trade Pact inevitably confronted criticism of free trade of various kinds. The government admitted that a number of SME-dominated service industries, including printing and publishing, beauty and hairdressing, laundry, advertisement, warehousing, retailing and traditional Chinese medicine,

would be affected the most. However, it only incorporated these disadvantaged industries into the existing NTD 95.2 billion budget used to compensate for business lost due to trade liberalization as the countermeasure, let alone any substantial industrial upgrading plans. Unable to persuade society of the necessity of Westward and market liberalization with effective trade-enhancing and industrial-upgrading policies, it is not surprising that the signing of the Cross-Strait Service Trade Agreement was under severe social criticism.

Lastly, as pointed out in the preceding section, before the rise of controversies surrounding the Cross-Strait Service Trade Pact, there had been widespread social discontent about Ma’s economic liberalization policies. The moral critique of Taishang as cross-Strait rent seekers was followed by the disapproval of the financial deregulation initiatives such as TDRs and Formosa Bonds, which fed the rumor about Ma’s “real motive” pursuing cross-Strait economic liberalization. Specifically, by the time the Cross-Strait Service Trade Pact was signed in 2013, the social discontent and polarization of public opinions about the pace of cross-Strait exchange also peaked. Facing ceaseless criticism, however, the Ma administration still expedited the signing procedure and insisted on fast-track legislation afterward, allowing Parliament limited time for investigation and no right of content amendment. As a consequence, the filibuster in the Parliament was accompanied by multiple protests on the street, with dissident organizations forming an organic network of Democratic Front Against Cross-Strait Trade in Services Agreement and Cross-Strait Agreement Watch for wider social mobilization.

However, given that KMT consisted of the majority seats in the Parliament, both the endeavors from the opposition parties and civil society failed to prevent the Service Trade Pact from passing on March 17, 2014. At midnight of March 18, hundreds of mostly college students broke into the Parliament and began an occupation, protesting against the controversial passing of the Agreement by a questionable legal procedure. Later coined as the Sunflower Movement, the unexpected incident shook Taiwanese society to its core. During the twenty-four days of occupation, people besieged the area surrounding the Parliament, with thousands of speeches, public lectures, and activities organized on a 24-hour schedule. It resulted in numerous university professors canceling classes to encourage their students to participate in the “civil education on the street” and drew nearly half million people to the streets on March 30th to express their anxiety and anger towards
the government’s decision. The appeals involved in the movement, as well as their respective implications for the free trade agenda, will be the focus of the following section.

*The Sunflower Movement: One Movement with Heterogeneous Claims*

If the passing of ECFA in 2009 resulted from the ambiguous positions between upholding free trade and embracing China’s “benefiting Taiwan” initiative, the diminishing discursive effects of “benefiting Taiwan” in the negotiation of the cross-Strait services trade, along with its apparent preference of capital-intensive business conglomerates, unavoidably reduced the moral superiority and compressed the maneuvering space of position C. Conversely, we witnessed the expansion of the anti-cross-Strait free trade spectrum, with people and social groups embracing divergent and sometimes contradictory ideologies jumping onto the bandwagon of the movement.

Many economists resorted to the reasoning of Position B (embracing free trade and yet rejecting ECFA) to oppose the Cross-Strait Services Trade Agreement. As “reciprocity” was gradually replacing the unilateral benefit-granting discourse in the negotiations, their reasoning moved closer to that of “neoliberal nationalism.” While endorsing trade liberalization, they also emphasized the important role of the state in securing “national interest” in the free-trade negotiations, including strategical manipulation of signing sequence in the trade agreements. Moreover, some scholars highlighted the unique nature of the services trade that rendered the cross-Strait services trade deal particularly harmful. It was argued that although liberalization of services trade would generally induce new trade in theory, due to cultural similarity and language sameness between China and Taiwan, opening Taiwanese services market to Chinese investment would unavoidably lead to trade substitution instead of trade creation. After all, as they recognized the key role of the state in maneuvering free trade, their take on free trade was contingent and selective.

A related position emphasizing the geopolitical dimension of cross-Strait economic integration continued to grow in the anti-Cross Strait Service Trade Pact campaign. People taking this position contended that China’s push for a services trade pact presented a threat to Taiwan’s effective sovereignty and national security of various kinds, ranging from infringement of Taiwan’s

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277 Scholars taking this position mainly come from economics discipline, including Cheng (鄭秀玲), Chen Chi-Chung (陳吉仲), Chiou Jiunn-Rong’s (邱俊榮), Wang Tu-fa (王塗發), (施俊吉) among many others.
information security by investing in Taiwan’s telecommunication industry, tightening up freedom of speech by controlling Taiwan’s media industry, to financial take-over of the Chinese banks. The metaphor of “the Trojan horse” was widely circulated to infer the pernicious nature of this trade agreement, and it was believed that it was not the free trade itself but trading with a partner with unscrupulous geopolitical ambition that would ultimately engulf Taiwan. That position gained currency as they developed a counter-CEPA narrative by drawing on Hong Kong’s post-CEPA situation. The argument went like this: as a free-trade city, Hong Kong used to enjoy prosperity till their embrace of the Chinese market facilitated by CEPA, which led to tightening political control and widening economic polarization by design. Such a counter-narrative vividly manifested in the popular slogan of “Today Hong Kong, Tomorrow Taiwan” (今日香港，明日台灣)—a slogan widely utilized by dissidents from both societies to fight against the “China factor.”

Moreover, due to the waning of the “benefiting Taiwan” discourse, there was an increasing foothold of Position D (anti-free trade and anti-cross-Strait trade liberalization). Opponents taking this position saw no difference in nature between the Cross-Strait Service Trade Pact and any other trade agreements. Yet they argued for the specific vulnerability of Taiwan’s service industry to free-trade deals, for in the past decade the decrease in real wage of the services sector (5.86%) had been much severe than manufacturing sector (0.38%), indicating the already mired labor conditions of the service sector. Labor organizations, such as the Taiwan Labor Front, the first labor group established under martial law in 1984, the National Alliance of Workers Victimized by Plant Closure, an alliance formed during 1996 and 1998 by a number of self-help associations fighting against involuntary layoffs due to factory closings, and Solidarity, a new alliance constituted of ten industrial labor unions since 2007, were firm opponents of this trade deal, for they conceived the buzzing free-trade talks to be essentially a game of capitalists and condemned the “trickle-down phenomenon” to be nothing but a lie.278

Yet what makes this incident unique is its extensive mobilization of NGOs from different areas to participate in the movement. Environmental organizations such as Citizens of the Earth in Taiwan,  

Green Citizens’ Action Alliance and Taiwan Watch Institute were for the first time highly engaged in the anti-free trade movement. They joined the movement based on the belief that growth-driven economic policies, now embodied in the fervent pursuit of trade agreements with other economies, would only damage this treasurable piece of land that Taiwanese people dwell on. Organizations striving for land justice and rights to residency also joined the march, as they saw that deregulation of capital investment flowing from China to Taiwan’s real estate market would only exacerbate the already daunting housing problems fueled by real estate and land speculation. Gender associations also participated in the movement, not only to speak for the disadvantaged women in the services industry but to stand against state violence utilized to suppress the protesting crowds.

However, there were other social groups whose motivation of joining the movement ran deep in Taiwan’s history of nationalist struggles and had little to do with trade itself. The Alliance of Referendum for Taiwan, a radical pro-independence group that had been camping in front of the Legislative Yuan since the KMT came back to power in 2008, had made their anti-cross Strait economic integration sentiments known long before the movement took shape. The group saw the KMT as a co-conspirator with China, blaming the predicament facing Taiwan on KMT’s persistent semi-colonial regime and its false transplantation of Chinese nationalism in Taiwan. Facing the controversy over trade, they held the belief that “independence solves everything” (see Figure 7.4 and Figure 7.5) and was therefore largely conceived as an irrational faction of the movement.

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<th>Figure 7.4</th>
<th>Banners Advocating “Independence for Taiwan” at the front of the Legislative Yuan</th>
<th>Figure 7.5</th>
<th>“Overthrow the R.O.C. Colonial Regime; Terminate the 400-year External Domination”</th>
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<td>Source: the author</td>
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Meanwhile, there was yet another position directing the debate away from the entanglement of trade and geopolitics to procedural democracy itself. Condemning the “black box” operation through which the Cross-Strait Service Trade Agreement was formed and signed, this position distinguished itself from the aforementioned ones by arguing that it did not necessarily oppose deeper economic interaction with China, or free trade itself, but requested transparent policymaking and due legislative process to guarantee public supervision. The protestors mobilized by such a discourse were upset that the government carried out a highly selective consultation procedure and strictly controlled access to the public hearings as a means to avoid civil oversight throughout the policy-drafting processes and manipulated legislative procedures to eschew substantive review after its conclusion. People who held this position insisted that given the significant influence this trade deal would bring to Taiwan, it must abide by the examination-as-to-substance principle, where the articles could be amended by the Parliament when necessary.

**Popular Sovereignty: Articulating “the People” against Its Enemy**

With such a wide range of heterogeneous claims and sometimes contradictory ideologies, how would the Sunflower Movement hold together and generate such widespread political momentum? Specifically, how did it constitute a cohesive moral appeal to challenge the legitimacy of such a comprehensive trade deal? Laclau’s theory on populist reason may provide us with the analytical tool to expound the logic of articulation that underpins the ontological ground of the movement. The rise of popular sovereignty, and the two sides of its politics of naming—the people and its enemy—are the keys to our exploration.

Throughout the negotiation processes, there had been towering social discontent about the state’s hasty pursuit of the Cross-Strait Service Trade Pact. While under legislative interpellation, the Premier insisted that the Agreement was an administrative order where “the Parliament has no authority to make any amendment in the review process.” The statement further fueled the conspiracy theory that the firm stance Ma administration took was a manifestation of its yielding to Beijing’s pressure, which was to bypass Parliament procedure in Taiwan as a way to symbolically negate Taiwan’s state sovereignty. A widespread feeling of sovereignty in crisis

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279 See the declaration of Taiwan March (島國前進) towards the end of the movement.
emerged accordingly. Thus, it was believed by the people that Taiwan as an endangered country could only be rescued by the people itself, not the delegitimized government—a belief manifested in the popular slogan “Our Country, Ours to Save” (自己的國家自己救) throughout the movement. Specifically, in such a discourse, the notion of sovereignty—once regarded by pro-independence nationalists as what Taiwan had been lacking and therefore had to be sought in the form of international recognition—was replaced by that of popular sovereignty.

Resembling many of the populist upheavals taking places in the modern day, the resort to popular sovereignty in the movement hinged upon the evoking of “the people” as the ultimate source of state legitimacy. However, rather than a presupposition of the political community of a state, the constitution of the people entails contingent aggregation of heterogeneous elements in the particular historical conjuncture (Laclau 2006, p. 664). According to Laclau (2005), “the people”—a popular identity-turned-ontology of the political force—is constituted on three preconditions: 1) the existence of heterogeneous unfulfilled social demands that divide the society into two camps between the powerful and the rest; 2) the equivalent articulation of plural demands, and 3) the consolidation of a social totality through the construction of a popular identity which claims itself to be the whole.

The Sunflower Movement clearly demonstrates such a dynamic formulation. First, while dissatisfaction with the legal procedural of the trade deal loomed large in the movement, it was the resentment against the state failure in addressing widening economic inequality, accommodating young generation’s housing needs, protecting labor rights, and disregard of environmental issues, including its insistence on the construction of the fourth nuclear power plant in the recent years, that drew heterogeneous crowds to the streets. Moreover, throughout the Sunflower Movement, the political subject formation of “we the people” was consolidated by naming its enemy—the few privileged powerful. The changing popular discourse from the Cold-War-style fear-driven Othering of “China threat” to the conception of “cross-Strait political-economic alliance” (跨海峽政商聯盟) well manifests such transformation in identifying the enemy. Coined by Wu Jieh-min (2009), the notion of “cross-Strait political-economic alliance” sought to capture the complicated exchanges between political power and business interests across the Strait, identifying rent-seeking Taiwanese businessmen and politicians profiteering from the peculiar dynamics of the cross-Strait
geopolitical economy at the expense of the social, political and economic wellbeing of common Taiwanese people.

However, it is worth noticing that the forging of “cross-Strait political-economic alliance” manifests enduring populist traits from the beginning of cross-Strait economic liberalization under Ma’s regime. As early as November 2008 when the Chairman of Association for Relations Across the Taiwan Straits (China), Chen Yun-lin, first visited Taiwan, media had already Headlined “DPP besieged the city while business tycoons encircled Chen” (民進黨圍城，企業家圍陳) to capture the controversial dynamics——an early identification of the interest coalition between political and the economic elites across the Strait. The intensification of the controversies over cross-Strait economic collaboration in the following years further contributed to the popularization of the notion, which was cited repeatedly by many scholars, journalists, and activists on multiple occasions and in different contexts. During negotiations over Cross-Strait Service Trade Pact, a joint press release initiated by the Democratic Front Against Cross-Strait Trade in Service Agreement (反黑箱服貿民主陣線) on November 2013 clearly contrasted six major Taiwanese industrial and commercial associations, which now demonstrated heavy interest in expanding their business operation to China, against the majority of Taiwanese people, who were either workers or SME owners.

Moreover, this conceptualization contains multiple references to the renowned figures actively involved in building political-economic ties between China and Taiwan: Lien Chan, the ex-Vice President and ex-KMT chairman, was widely targeted for the key role he played in the power nexus formed between KMT and CCP in 2005—a party-to-party platform bypassing authorization of the Taiwanese state in negotiating cross-Strait affairs—and was believed to have massive indirect investments from banking to the medical industry in mainland China via Hong Kong; Sean Lien, son of Lien Chan, was being accused of being actively involved in Ting-Hsin International Group’s TDR scandal and many other cross-Strait financial speculative conduct while being nominated by KMT as the candidate running for the 2014 Taipei mayor election; the CEO of Foxconn, Terry Gou, whose manufacturing business expansion in China largely relied on approval

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281 https://dfactsa.wordpress.com/2013/11/
and assistance from different levels of governments in China and who had been vocal in his support for KMT in the presidential elections served as another iconic figure; Tsai Eng-ming, the Chairman of Want Want conglomerate which gained business success in China’s retail market, was accused of overtly conforming to Beijing’s political propaganda of the Tien’anmen Square massacre and infringing freedom of speech with his business expansion to Taiwan’s media industry.

The circulation of sensational stories, rumors and photos of these iconic figures greeting top-ranking Chinese officials as high as Xi Jinping in the public eye served to consolidate a general belief that a complicated network of people in power (權貴) was working against the wellbeing of “ordinary” Taiwanese people. As cross-Strait economic ties are becoming multi-faceted and multi-level, and many of these deal-making processes remain opaque, such stories were bound to become sensational scandals. It can then be argued that this kind of enlisting practice would continue to grow, inevitably causing the naming empirically partial and impossible to exhaust.282

Throughout the movement of the anti-Cross Strait Service Trade Agreement, reference to the cross-Strait political-economic alliance itself has become the practice of naming, serving to define who “the people” are and who they are not. Moreover, this naming performance, echoing Laclau’s (2005, p. 77) remark on popular identity formation, has to a large extent, gone beyond the logic of Self/Other demarcation organized by exclusionary and hierarchical ordering of difference—the logic pervasively infused in the Cold War era marked as “communist China vs. free China (Taiwan),” or in the exclusionary ethnic politics of “Taiwanese nationalism vs. Chinese nationalism.” Rather, it constitutes itself more as an internal frontier characterized by an antagonist demarcation between those who abused power and the populist appeal “which claims itself to be the whole” (p. 83).283 Thus, the real currency of the notion of “cross-Strait political-economic alliance” does not lie in its conceptual preciseness in a positive sense, but in its capacity for constituting equivalent chains for political mobilization.

282 Laclau (2005) provides us with an example of “oligarchy” as the oppositional sum of the unfulfilled social demands.

283 In offering such an argument, I do not contend that exclusionary identity politics has been extinct in the movement, nor do I suggest such a discriminating rhetoric should be tolerated.
Confronting the large-scale social movement justified by popular sovereignty and mobilized in the name of “the people,” the Parliament finally made a concession. The legislative decision of passing the Cross-Strait Service Trade Pact was nullified, and the president of the Parliament also agreed to work on enacting a law of Cross-Strait Agreement Supervisory Act before resuming review processes to ensure due public supervision of future agreements signed between governments across the Taiwan Strait. An era marked by accelerated cross-Strait economic integration through liberalization seemed to come to an end.

**Conclusion: Hegemonic Struggles and Neoliberalization in the Post-Sunflower Movement Era?**

Engaging the debate of whether “geopolitics” or “neoliberalism” serve as the fundamental driver for cross-Strait economic integration after KMT resumed power in 2008, this chapter seeks to illustrate how such a process was in effect an outcome of contingent articulation between long-existing structural forces and the emerging cross-Strait geopolitical and geoeconomic dynamics. Specifically, I identified the path dependency inclination of these initiatives, which entailed the accumulation crisis in the 1990s—sluggish industrial upgrading accompanied by idle capital and advocacy of financial nationalism in the early 2000s—developing financial industry and capital markets—as a way to address the problems. I also emphasized the recurrent discursive modalities they utilized to justify the policies and gain wider social support. The result is the reinforcement of neoliberal doctrine compounded with nationalist rhetoric and populist sentiments—from “Financial Westward” and “Salmon Run Project” to trade liberalization under the slogans “Open the Door; We’ll Guard Our Home” and “Prosper Again.”

However, nationalist discourse and populist politics not only propelled neoliberalist agendas, but also mediated the ways in which they were conceived and contested. China’s changing geoeconomic strategy in the world economy in general and towards Taiwan in particular played a key role in disturbing the existing neoliberal-nationalist-populist formula: The promotion of ECFA with “benefiting Taiwan” at the core of its propaganda created moral competition between liberal and tributary arrangement of trade and produced ambiguous geoeconomic subject positions as a
result; Pursuit of cross-Strait financial liberalization was constantly haunted by concerns for financial security, which generated different forms of internal struggles among the ruling elites followed by constant check on the pace and scope of liberalization; The “Shark’s attack” parody deconstructed the relation between Taishang and Taiwan’s national economy in the popular discourse and further turned down finance-focused neoliberal initiatives in the name of benefitting Taishang. Although disturbing the proceeding neoliberalization course as a result, none of these challenges resorted to clear and pure anti-neoliberal rationale. Instead, they were inevitably mediated by nationalist and populist discourses, which took a new form along with the evolving cross-Strait geopolitical economy.

Nevertheless, these social disturbances were in turn conditioned by the nationalist and populist politics they counted on and were prone to overlook the organic articulation between neoliberal initiatives and geopolitical forces, especially in regard to financialization. For instance, with its “witch hunting” inclination, social criticism largely attributed escalating real estate and capital market speculation to the questionable conduct of a number of iconic Taishang’s, while ignoring the institutional drivers from the inheritance tax cut to various capital deregulation measures that have contributed to the entrenchment of neoliberalization. As a result, even without mobilizing nationalist rhetoric for Taishang’s contribution to the national economy, the neoliberalists were still able to advance capital market liberalization by targeting IPOs of “overseas” enterprises’ in Taiwan’s stock market by providing tax avoidance and fewer requirement for information disclosure after the TDR controversy ceased. Such a policy was later proved to be an alternative channel for companies owned by Taiwanese, operated in China but registered in a tax haven to utilize loopholes in Taiwan’s capital market under the guise of “foreign companies.”284

Moreover, although the aspiration for cross-Strait financial liberalization was shut down due to the eruption of Sunflower Movement in the spring of 2014, the FSC soon turned to fervently advocating for the “financial import substitution” scheme in June 2014, which aimed to further expand financial service through a series of unilateral deregulation measures for domestic banks’ business operation in overseas bonds and derivative financial products. With a developmentalist

284 More than 80% of the “overseas” companies encouraged by the policy were proved to be operated by Taishang; more than 92% were running businesses in mainland China.
undertone, the “financial import substitution” scheme was celebrated by many as an industrial advancement, and finance as a whole was hailed as the growth engine for Taiwan’s services industry. As such, the issue of financial deregulation and financialization largely escaped serious criticism from this wave of social strife.

Although demonstrating many limitations, the series of contestations nonetheless contributed to fundamental politicization of the society and the rise of “the people” as a new form of the political subject, which continued to yield radical implications to the neoliberalization in the post-Sunflower Movement era. In July 2016, right after the DPP won the presidential election over KMT, the first ever large-scale labor strike from flight attendants took place in central Taipei. It served as a testimony to the unprecedented rise of labor consciousness and was subsequently coined as “the Sunflower Movement for labor rights” by media—a term that unravels the novel agglomeration of the populist element and labor movement in Taiwan. As the DPP regime turned to pursue deregulation of labor laws in 2017, more than ten thousand Taiwanese people took to the street to protest against the deteriorating labor conditions in Taiwan—a labor rights social movement now joined by civil groups of various kinds. These post-Sunflower Movement social contentions demonstrate that domestic economic issues, labor policies for instance, following trade and economic policies, have become the new battleground for neoliberalization, and the struggles between “the people” and the ruling class are expected to grow in the near future in Taiwan.
Chapter 8
Conclusion

How do we conceptualize trade and economic liberalization in Taiwan? How do we make sense of the politics and controversies surrounding various trade issues? What are the theoretical implications that we can draw from Taiwan’s experience? And how can telling Taiwan’s story inform other places in the world? Propelled by questions like this, I embarked on a research project tracing the three-decade course of trade and economic liberalization in Taiwan since the 1980s, unraveling convoluted empirical evidence along the way, from which I’ll propose some theoretical insights as the conclusion.

My research is focused on trade and trade disputes, but the issues it tackles are beyond the scope of trade. Trade, and the politics associated with it, turns out to be a strategic site to unpack the processes of hegemonic restructuring and neoliberalization in Taiwan. Utilizing Gramscian scholarship, my research reframes trade and economic liberalization as a contested terrain of “deterritorialization of the national economy.” With the input of critical geopolitics and postcolonial studies, my research also seeks to shed another light on the fertile studies drawing on classic geopolitics or neoliberalism as their major theoretical underpinnings in accounting for trade and economic liberalization.

My analysis of Taiwan’s experiences straddling three decades can be summarized in three scenarios. First, it is a story about the restructuring of state hegemony in relation to economic deterritorialization, where the latter renders both an outcome and a sustaining mechanism for the former. Second, the story is about the formation of the people and the reconfiguration of the nation by developing the national economy for a post-colonial, post-democratization society, where the “people” takes on multiple and constantly evolving forms in relation to the state’s maneuvers to reconstruct hegemony. Third, the story presents a contingent articulation of impulses for trade and economic liberalization with conjunctural forces, which is usually subsumed under the overarching theoretical framework of “neoliberalization.” The following sections provide further elaboration on how the empirical concreteness presented in these scenarios can yield profound theoretical implications.
Hegemonic Restructuring and Economic Deterritorialization

Studies on trade and economic liberalization in Taiwan seldom capture the complex role of space and territory, as if the issue is simply about border control or its deregulation. On the contrary, critical scholarship trenchantly points out that trade and economic liberalization represents the spatial dimension of capital expansion, which is intrinsic to the hegemonic restructuring of the nation-state in the global economy. Utilizing hegemony theory and critical geopolitics to reframe trade and economic liberalization, my research demonstrates that the territoriality of economic activities is pertinent to the hegemonic struggles in Taiwan from the 1980s to the present. However, the complexity revealed in my research refutes a simplified conceptualization of the relationship between state, capital, and nation in pursuing economic expansionism, as is presented in the imperialist theory. The ways in which the state articulates with different capital factions, as well as the mechanisms through which it formed leadership, is key to unpacking the dynamics of such a hegemonic project based on economic deterritorialization.

First, empirical studies showed that trade and economic liberalization in the late 1980s in Taiwan was a consequence of hegemonic restructuring that came along with political democratization. The subsequent economic deterritorialization was thus driven by multiple forces: the SME-led outward investment enabled by the deregulation of foreign exchange control, the overseas adventure of SoEs and PoEs after their marketization and privatization, and a neoliberal regional project focusing on deregulation and further liberalization. The state had to aptly articulate these diverse forces to secure its governing legitimacy. The key to such a hegemonic project was to reconstruct leadership and moral ground by promoting economic deterritorialization with state-party-business synergy, which in turn provided the material base for the newly born populist authoritarian regime. Another crucial mechanism was to “nationalize” the deterritorialized economy. In doing so, different nationalist politics were mobilized according to different accumulation strategies: from the dual national identity of Taiwanese and Chinese to evoking a new nation embracing openness and competition.

The unexpected regime change from KMT to DPP at the turn of 2000 led to a sudden dissipation of the hegemony built in the 1990s, but the challenge of dealing with a Taishang-led economic
deterritorialization continued to grow, especially on mainland China. In such a non-hegemonic era, nationalist politics dominated the controversies over trade and economic policies with China. Besides hi-tech industries’ westward impulse, the unceasing capital outflow was framed as another key security concern. Paradoxically, cultivating financial market became the means shared by both the protectionist and neoliberalist to tackle the problem. Yet such a strategy was proposed in the name of reterritorializing the overseas capital—as embodied in the appeal for capital repatriation. It is, therefore, an era marked by paradoxical articulation between nationalist politics and neoliberal initiatives.

When the KMT returned to power in 2008, another wave of economic deterritorialization swept Taiwan. Mobilizing the persisting ideology of “separating economics from politics” and constructing an isolated past, the KMT regime regained temporary hegemony through embracing cross-Strait-centered trade and economic deterritorialization. The imaginary of China as a vast market once again emerged at the core of the trade and economic liberalization scheme, but now focusing on deregulation of the financial market across the Strait. The Sunflower Movement after the passing of the Cross-Strait Service Trade Agreement represented a contingent counter-hegemonic force, and the ensuing era under the DPP seemed to mark an end to the centrality of economic deterritorialization in the hegemonic reconstructing project. The struggles now turned to focus on domestic issues such as stagnating wages and real estate speculation, many of which found their roots in the three-decade-long economic deterritorialization. Yet given the DPP’s pro-market stance, it is too early to tell what the outcome will be.

The multiple faces of the “people”

The story of hegemonic restructuring since the 1980s in Taiwan can also be told from the angle of the “people.” The birth of the people and the construction of a popular front have always been the essence of hegemonic struggles. However, my research conceptualizes the people as a subject position that is emerging, invoked, conjured, and constantly reconstructed through time. To demystify the phenomenon of the “people” in Taiwan’s hegemonic restructuring processes, I seek to identify the multiple forms it takes at different historical conjunctures, each of which presents a unique position in relation to the state.
As shown in my research, the people and associated politics played a crucial role in mediating the course of trade and economic liberalization. As the Taiwanese state experienced multiple legitimacy crises in both economic and political senses in the 1980s, the “people” emerged as a collective subject position from below. That “people” was relatively autonomous from and yet full of tension with the state. This bottom-up force is well illustrated by its advocates who drew on the notion of “popular society” to describe the burgeoning heterogeneous social movements that emerged in the 1980s (See Chapter 2). As to the economic arena, this force challenged the state-defined “national economy” and the path to achieving such development (See Chapter 3). The anonymous mass was manifested in the consumerism attacking tariff protection as well as in the contributors to the wealth of the nation that asserted the ultimate right to foreign reserves. Yet most importantly, it highly resonated with the densely populated SME sector, whose operation had been loosely incorporated into the dual economic system created by the KMT and yet largely left to self-sustain in the export market. The people embodied in the SMEs’ request for deregulation of foreign exchange and outward investment in the name of survival, therefore, presented a challenge to state hegemony, and their ostensible inclination of anti-state control was termed “market populism” or “economic populism” by Chao Gang (2009). However, it is also pertinent to recognize their conditional embracing of trade and economic liberalization for they, from time to time, called for the state to address their survival needs based on the moral obligation they imposed on the state.

In response to the challenges proposed by the popular society, the state transformed itself into a populist authoritarian regime in the 1990s, which deployed sophisticated maneuvers to incorporate “the people” in its hegemonic restructuring project. Key to such a project is to construct a subject position of the national-popular. On the one hand, the state elites invoked the “nation-people” as the bearer of the national economy to promote neoliberal regionalism, as was embodied in the APROC project; on the other hand, the state negotiated and further appropriated a bottom-up request for capital deregulation and populist appeals for SoE de-nationalization by proposing a state-endorsed outward investment regime, as manifested in the Southward policy (See Chapter 4 and 5). These two forces converged in the embracing of a deterritorialized national economy. So the people in the hegemonic project of forging a new nation-state after democratization was either an abstract construct or a social group passively invoked in the new historical bloc underpinned
by a deterritorialized national economy. However, as big corporations grew relative to the gradual diminishing of the SMEs in Taiwan’s economy towards the end of the 1990s, their influence on trade and economic liberalization began to show. Thus, the economic restructuring gradually rendered the state-people synergy in the export economy more rhetoric than reality.

The ensuing non-hegemonic era of the 2000s under the DPP’s rule encountered the accelerated economic deterritorialization led by Taishang and their growing economic and political influence on policy formation. Accordingly, the entire debate about trade and economic liberalization turned to focus on repositioning Taishang’s cross-Strait business practices in the national economy. Security concerns and nationalist politics led to the rise of Taishang as the major geoeconomic subject position against receding populist politics in trade and economic policies. Pursuing financial nationalism through capital deregulation—despite paradoxically mobilizing the populist appeal for capital repatriation—became the consensus among governing elites with different nationalist aspirations. “The people” was either marginalized in the struggles in the official politics or passively evoked as an economic subject in the projected stock market boom led by Taishang’s financing needs.

The return to power of the KMT led by Ma Ying-jeou in 2008 signaled once again an evolution of “the people.” To augment popular support for its neoliberal agenda that was focused on cross-Strait trade and economic liberalization, the KMT constructed the discourse of an “isolationist past” of the DPP and conjured the ready-made ideology of “separating economics from politics” in the 1990s. Although resonating with the earlier trend of market populism since the late 1980s, which itself was an outcome of political democratization, the people was conjured as a pure economic subject free from political intervention under the Ma administration. As such, the people invoked by the state in the cross-Strait trade economic liberalization scheme rendered more like individual neoliberal subjects than a collective national-popular—be it small entrepreneurs exploiting the vast business opportunity of mainland China or individual financial investors seeking profit in the emerging RMB currency market.

Nevertheless, the Sunflower Movement that erupted in 2014 demonstrated re-politicization of “the people.” Although criticism of Ma’s cross-Strait trade and economic policies never ceased, it was
Laclau’s sense of the people that brought a variety of discontents together as the Sunflower Movement to oppose the “cross-Strait political and economic alliance.” The slogan “Our country, ours to save” prevailed in the movement also vividly portrayed the rise of the nation-people based on a belief in popular sovereignty. Underpinned by popular sovereignty and fortified by a clear separation of collective peoplehood from the ruling class, the people formed a contingent counter-hegemonic force and temporarily carved out a political space in the elite-dominated trade and economic policy terrain. As a consequence, it not only slowed the accelerated pace of cross-Strait trade and economic liberalization but also paused the ceaseless pursuit of a deterritorialized national economy from the 1980s.

**From economic liberalization to neoliberalization: A conjunctural analysis**

Finally, my research seeks to contribute to the literature on neoliberalism empirically, methodologically, and epistemologically. It is now common that the concept of neoliberalism refers to a variety of empirical phenomena, and the study of it requires contextualization—to put neoliberalism in its space and time. Taiwan’s experience with neoliberalization ranges from deregulation of cross-border capital flows, embracing free trade, marketization of state-owned enterprises, privatization of public assets, and financialization. Some of them are limited to the domestic arena, while others are associated with loosening border controls. However, these phenomena are either framed collectively as an overall trend toward neoliberalization or interrogated individually as if they followed independent logic. While focusing mainly on trade issues, my research demonstrates a dialectical relationship between external and internal forces of economic liberalization. This point manifests in my analysis of the 1990s, when the push for marketization of SoEs and PoEs triggered their outward expansion and their adventure into international financial markets, and in the 2000s when the liberalization of cross-Strait capital flow included fervent advocacy for deregulation of Taiwan’s internal capital markets.

Another contribution manifests in the effectiveness of conjectural analysis as the method on neoliberalism. One of the difficulties studying neoliberalism lies in its definition and periodization. As Taiwan’s case has shown, the blurred distinction between economic liberalization and neoliberalization, especially regarding the issue of trade, became difficult to demarcate chronologically. Can all the pursuits of trade liberalization be conceived as neoliberalism? If not,
is there a particular moment that economic liberalization turned neoliberal? Acknowledging the intrinsic difficulty of defining neoliberalism and periodizing neoliberalization, I turn to conjunctural analysis. Equipped with a Gramscian understanding of crisis and conjunctures, I demonstrate how neoliberal initiatives tap into the very moments of crisis that favor economic liberalization as a solution—many of which are not even economically driven at the first place. It also unraveled how neoliberalism was able to appropriate the existing forms of populist politics and nationalist discourses to reshape the agenda to its own interest. Contingent articulation with varied political dynamics and geopolitical-geoeconomic forces can, therefore, be found at every turn toward neoliberalization. The internal anti-party-state-capitalism resentment and intra-party factions, external forces such as the rise of post-Cold War regionalism, the indigenization of Taishang’s business in mainland China, the changing gears of China’s economic development from exportism to domestic market-driven growth, and China’s evolving geoeconomic strategy towards Taiwan all contributed to the course of neoliberalization on the island.

Lastly, Taiwan’s experience of trade and economic liberalization helps reveal the blind spot of utilizing neoliberalism as an analytical framework. It is because the majority of the existing literature does not take into consideration other social forces that predate neoliberalism (i.e. racial and ethnic conflicts as a legacy of postcolonialism) and because most of it does not treat seriously the question of epistemology when studying the phenomena called “neoliberalism” or “neoliberalization.” In my analysis of Taiwan’s case, many of the policy initiatives that are identified as “neoliberal” are in effect not named, recognized, promoted, or contested using this particular term. Even policy initiatives propelled by economic protectionism can end up with neoliberal outcomes. By interrogating these paradoxical articulations, I propose that neoliberalism in Taiwan is not a coherent ideology or a strong discourse that generates plausible governing effects but a weak discourse able to articulate with different political forces and projects, disguise its intentions under nationalist aspirations and populist sentiments, and ultimately makes itself unidentifiable and unspeakable. As a consequence, neoliberalism conditions and constrains the public debate in its name. In Taiwan’s highly contested and volatile hegemonic restructuring, neoliberalism emerged, lurked, and advanced without being named. This argument resonates well with Barnett’s (2010, pp. 88-89) poignant contention,
What remains unclear is why, if neoliberalism never appears in pure form, and when it does appear it is always compounded with other projects and processes, the outcome of any neoliberal ideational project should continue to be called “neoliberalization.” What is it that makes the hybrid forms through which these specific ideologies make themselves felt always liable to be named “neoliberal,” if this is only one of their components? The one ‘generic’ feature that high-level abstractions of neoliberalism do not specify is the parasitical force which gives neoliberalism an asymmetrical energy in shaping the corrosive trajectories of future capitalist development in its own image. For critics, it is this parasitical and corrosive force, implied but never specified, that is the source of what is wrong with neoliberalism.

After all, my research on Taiwan’s trade and economic liberalization proved to be more than a case study on Taiwan. Rather, it demonstrated a scholarly endeavor that is deeply grounded in historical particularity and yet indicative of broader theorization. Indebted to Gramsci’s insights of spatial historicism (Kipfer 2013), my research unpacked the convoluted ways in which hegemonic restructuring is propelled by, articulated with, and realized through deterritorialized economy in the globalizing world. Moreover, the attention paid to the dynamics between nation-state reconstruction and the changing social relations of production, especially the formation and contestation of the subject position of the “people” in such processes, provides a nuanced reading of the dialectical nature of the hegemonic restructuring project. I also demonstrate the methodological effectiveness of conjunctural analysis, which not only challenges the categorical and determinist account of a particular accumulation regime and its crisis-prone tendency, but also refutes linear narratives of its historical progression. Together, the empirical and methodological interrogation foregrounds the issue of epistemology, through which I propose a theoretical intervention to the existing scholarship on neoliberalism and the conventional ways in which we study the social and economic phenomena under its name. These are the potential contributions studying hegemonic struggles over trade and economic liberalization in Taiwan can yield, with which I conclude my research journey.
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