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# **State and Business in the era of Globalization: the Case of Cross-Strait Economic Relations**

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## **Introduction**

Economic and political entangling between Taiwan and China has provided fresh materials for examining the interaction between the state and business in the era of globalization. The regulative capacity of the state has been weakened due to the rise of autonomous business communities. The business circle has integrated their operation with a global division of labor

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in various sectors of the industry. However, given the political nature of cross-strait economic interaction, direct or indirect intervention from the central government has further complicated this unique relationship.

Scholars have adopted various approaches in analyzing cross-strait relations.<sup>1</sup> Among them, I utilized the “developmental state approach” to put cross-strait economic interactions into a broad analytic framework of state and society in Taiwan. By the 1990s democratization in Taiwan had produced great structural changes in state-society relations resulting in state capacities and autonomy very different from the authoritarian era. Taiwanese businesses had developed political networks on both sides of the Taiwan Strait and investment projects in China had become potent bargaining chips for the Taiwanese business community to gain greater domestic clout in influencing Taiwanese politicians. Taiwanese regulatory policies had failed to halt a stampede into the China market. Irrespective of state controls and prohibitions, the Taiwanese business community was autonomous in its explorations of the China market.<sup>2</sup>

New factors have been added to create new state-business relations due to the impacts of economic globalization since the late 1990s. Pure “Taiwanese firms” have become difficult to identify. Many Taiwanese firms and investors are registered as foreign companies or investment firms. Globalized Taiwanese firms are now involved in truly international operations and logistics and the state’s limited instruments of control in domestic economy have

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<sup>1</sup> Yu-shan Wu, “Theories on Relations across the Taiwan Strait: Nine contending approaches”, *Journal of Contemporary China*, Vol. 9, No. 25, November, 2000, pp. 407-429.

<sup>2</sup> Tse-Kang Leng, *The Taiwan-China Connection: Democracy and Development Across the Taiwan Straits*, (Boulder, Co.: Westview Press, 1996). [Tse-Kang Leng](#), "Dynamics of Taiwan-Mainland China Economic Relations: the Role of Private Firms". *Asian Survey*. May, 1998, pp. 494-509.

become inadequate to regulate the strategic alliances of business. Cross-strait economic relations have become a matter of global concern. Finally, state capacities in China are devolving from the central government to local governments in the coastal areas. The sub-national actors such as Guangdong province and Shanghai municipal government now play the key role in accommodating economic needs for foreign investors. Even lower governments such as Dongguan in the Guangdong province have played key roles in managing Taiwanese firms and investments.

Economic globalization has also shifted the state-business relations in the traditional “developmental state” model of analysis. For instance, Linda Weiss argues that the state could provide “disciplined supports” and commit itself to cooperative undertakings with business. It also means that public resources are used in deciding how to achieve the most productive outcomes. The state promotes various forms of public-private innovation alliances to improve private-sector governance. The public-private innovation alliance is associated with policies for acquiring, upgrading and spreading technology.<sup>3</sup>

Sean O’Rian utilizes the case of Ireland to demonstrate the role of the state in the era of globalization. O’Rian argues that the ways in which the Irish state mediates between local and global networks are different from East Asian NICs. O’Rian labels the East Asian Newly Industrialized Countries’ (NICs) “bureaucratic developmental states (**BDS**)” characterized by social embeddedness and state autonomy. State autonomy is reinforced by the coherence of state bureaucracy and selection of “national champions” in the export-oriented model of growth.

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<sup>3</sup> Linda Weiss, *The Myth of the Powerless State* (Ithaca, New York: Cornell University Press, 1998), pp. 70-80; “Is the State being transformed by the globalization?”, in Linda Weiss, ed., *States in the Global Economy* (Cambridge: Cambridge University Press, 2003), pp. 293-317.

O'Rian's "flexible developmental state" (FDS) as in Ireland, adopts different strategies. He points out that in Asia, local firms' alliance with the BDS are undermined as they become more and more closely aligned with the interests of their international partners. To cope with challenges of globalization and to accommodate the new state-business relations, the FDS develops two new strategies: on the one hand, the FDS connects to existing flows of capital by attracting foreign direct investment and then building local networks of production and innovation around this; on the other hand, the FDS fosters indigenous networks of innovation and then encourages them to internationalize. The effect of both strategies is to connect the local economy to the global economy in such a way that local industrial transformation, accumulation, and development can take place. According to O'Rian, the FDS plays a key role in fostering better connections between the state and the global economy.<sup>4</sup>

Both Weiss and O'Rian emphasize a transformation toward "selective intervention" by state power in the era of globalization. The whole process of globalization is a kind of "organized irresponsibility." Corporations with the advantages of mobility and a global network are able to weaken individual states by playing one off against the other."<sup>5</sup> Instead of total retreat, states need to restructure capacities to cope with rising demands from the business community. In principal, countries respond similarly to the forces of globalization, and they are therefore forced to compete with each other by

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<sup>4</sup> Sean O'Rian, "The Flexible Developmental State: Globalization, Information Technology, and the Celtic Tiger," *Politics and Society*, Vol. 28, No.2, June 2000, pp. 163-165.

<sup>5</sup> Ulrich Beck, "Redefining Power in the Global Age: Eight Theses," *Dissent*, Fall, 2001, p. 86.

offering attractive legislative packages to corporations.<sup>6</sup>

On the other hand, globalization will be “embedded” in specific places. As Saskia Sassen points out, global processes are structured by local constraints, including the composition of the local workforce, its work culture, and its prevailing political culture and processes. Processes of economic globalization are constituted as concrete production complexes situated in specific places.<sup>7</sup>

As elaborated in the preceding analysis, globalization and government efforts to cope with autonomous corporate dynamics have become major driving forces that challenge the earlier form of the developmental state model. In the context of cross-strait economic relations, these two forces place the state in a more difficult position to govern economic transactions.

The purpose of this paper is to incorporate these new developments and actors to provide a framework for analyzing the cross-strait political economy. I will explore the impact on cross-strait economic relations of globalization and changing state-business relationships in the following aspects: First, the general framework of state-business relations of cross-strait economic interaction, and the political nature of this unique relationship; secondly, the collective efforts of Taiwanese and global firms to develop the Chinese market; thirdly, the process of “localization” of globalized Taiwanese firms in China; fourthly, efforts of the central state, the municipal governments, and the “quasi state agencies” to accommodate the forces of globalization.

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<sup>6</sup> Ronen Palan, “Recasting Political Authority: Globalization and the State” in Randall Germain ed., *Globalization and its Critics* (New York: St. Martins Press, 2000), p. 158.

<sup>7</sup> Saskia Sassen, “Cities and Communities in the Global Economy,” *American Behavioral Scientist*, Vol. 39, No. 5, March/April, 1996, p. 631, 636.

## **The Political Nature of State-business Relations of Taiwanese investment in China**

During Taiwan's authoritarian past, business interests were channeled by the patron-client framework of the one-party political system. Through condensed networks with local factions and state-owned enterprises, the Taiwanese business community developed a co-existent relationship with the authoritarian state. The rise of social forces in the era of democratization influenced patterns of state-business interaction. Domestic big enterprises consolidated their state-business relationships through direct participation in electoral politics. Big enterprises also formed strategic alliances with the ruling as well as opposition parties to enhance their political influences. The most common way to enhance the state-business networks is to make campaign donations and help establish policy think tanks for politicians. For small and medium sized firms, the more popular way to increase political power is to establish various business associations. They maximize their political influences through collective actions such as informal group consultation and lobbying.<sup>8</sup>

The developmental state theorists emphasize the role of the state in regulating business activities and initiating industrial policies. Private Taiwanese firms, however, have developed their own strategies to integrate the production capacities into global division of labor. In the labor-intensive industries like shoe making, the dependency of the industry on foreign capital and the instability of world markets have discouraged domestic manufacturers from consolidating large holdings in the industry. Social relations found at the

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<sup>8</sup> Chen Dongsheng, *Jinuan Chengshi* ( Money, Power ,and City) ( Taipei: Juliu, 1999), pp.34-36.

community, regional, state, and world level influence the industry's patterns of ownership and organization.<sup>9</sup> In other words, the unique ownership type under the global sub-contracting system is not "created" by specific state policies. Indigenous Taiwanese small firm owners have become the real "hero" in promoting flexible production and development.

The Taiwanese business community has been exploring the mainland Chinese market since the late 1980s. The fresh investment environment in China has forced the Taiwanese business community to develop new ways to accommodate local governments and economic interests. The vast range of public resources accumulated by the local Chinese state and administered by the bureaucracy has become "commodified" since the 1980s. The process of commodification is apparent in the evolving idioms of *guanxi*: private entrepreneurs use *guanxi* idioms to talk about their business activities, although embellished with new terms that reflect the commodified values of the market reform era.<sup>10</sup> Hsing You-tien also stresses the importance of local governments in the state-business relationship. Hsing argues that China's local officials have monopolized key economic resources like credit, land, foreign exchange, and raw materials. As China's economy becomes more open, the local governments have been expanding. The flexible implementation and interpretation of central policies have enhanced the *guanxi* networks between Taiwanese business people and local bureaucratic entrepreneurs.<sup>11</sup>

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<sup>9</sup> Ian Skoggard, *The Indigenous Dynamic in Taiwan's Postwar Development* (New York: M.E. Sharpe, 1996), p. 108.

<sup>10</sup> David Wank, *Commodifying Communism*, (Cambridge: Cambridge University Press, 1999), p. 29.

<sup>11</sup> You-tien Hsing has published extensively on the interaction between the Taiwan business community and Chinese local governments. Please refer to her book: You-tien Hsing, *Making Capitalism in China: The Taiwan Connection* (Oxford: Oxford University Press, 1998).

The Taiwanese business people have fully utilized this unique guanxi network in expanding their economic sphere of interests in the coastal areas such as Guangdong and Fujian provinces. This “guanxi capitalism” in the coastal Special Economic Zones (SEZ), as David Wank elaborates, could not fully be applied to the state-business relationship in the Yangzi River Delta. The guanxi networks still play important roles in big cities like Shanghai. However, the guanxi networks have been gradually replaced by more institutionalized considerations such as rule of law, technical advancement, and brain power advantages.

As the Taiwanese business activities expanded from the Pearl River Delta to the Yangzi River Delta, the state-business relations in China also changed. More large-scale, high-tech firms such as Taiwan Semi-Conductor Manufacturing Corporation (TSMC) have negotiated new projects in Shanghai and adjacent areas. These business tycoons adopted more institutionalized policies to develop sound relationships with Chinese local as well as central government. Local incentives and central policy collectively influence business activities in China. Guanxi works as a convenient tool for investors to work out a cooperation protocol with local partners under specific policy conditions. The outcomes of guanxi networks are not solely determined by cultural affinity and individual calculation but are also contingent on economic institutions and state policies.<sup>12</sup> In other words, for these “big boys” like TSMC, local guanxi networks alone do not determine the scope and speed of business activities in China. Political intervention from the central government, in either positive or negative ways, plays a crucial role in this unique state-business relationship.

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<sup>12</sup> Jieh-min Wu, “State policy and guanxi network adaptation in China: Local bureaucratic rent-seeking”, *Issues and Studies* (37:1, January /February 2001), pp. 46-48.

A recent case to demonstrate the political nature of the state-business relationship of Taiwanese investment in China is about the Chi-Mei group. Founded by Hsu Wen-lung in the 1960s, Hsu and his Chi-mei group have maintained a good relationship with the Taiwanese government. Hsu's Japanese background and strong support of Taiwanese independence create a solid alliance with the former President of Taiwan Lee Teng-hui. In addition to serving as the State Advisor of the DPP government, Hsu continues to support President Chen Shui-bian and the DPP government by providing campaign donations and sponsoring the "Taiwan Think Tank" as Chen's major policy analysis institutions.

The Chi Mei group is the world's largest manufacturer of important plastic material ABS and mainland China is its major market. It has established a petrochemical complex and invested US \$170 million in Zhenjiang of Jiangsu Province since 1996. After the completion of the expansion project in Zhenjiang, the total investment will reach US \$600 million and production capacity will exceed the group's Taiwan facilities.<sup>13</sup> Chi Mei Optoelectronics Corp, the world's fourth-largest supplier of flat-panel displays for computers and television, also launched plans to build a factory to assemble flat-screen monitors in Ningbo of Zhejiang province.

The Chi-Mei Group's political tendencies finally led to direct intervention from China's Central Government. After the victorious re-election of Taiwanese president Chen Shui-bian, the spokesman of the Taiwan Affairs Office of the State Council in China stated that China does not welcome the "green Taiwanese businessmen". In editorial comments of the People's Daily, China

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<sup>13</sup> "TanCha Lupi Taishang Xu Wenlong de Neidi Jidi" ( Exploring the Green Taiwanese Businessman Xu Wenlong's Mainland Projects), *Zhongguo Jingying Bao*, June 7, 2004. p. 4

calls Hsu Wen-Lung of the Chi Mei Group a “Big-shot for Taiwan independence”. China indicates that Hsu is Taiwanese President Chen Shui-bian’s major financial provider behind the scenes. The editorial also condemns the idea that even though Hsu benefits a lot from the vast market and low cost in the Chinese mainland, he still argued that “The Chinese mainland is in a way like Taiwan’s economic colony. Investment in the Chinese mainland has nothing to do with love for Taiwan.”<sup>14</sup>

Rumors are rampant about the upcoming punishment and obstruction of Chi Mei’s project in China. Chi Mei has adopted a wait-and-see policy on its projects in Ningbo. There is no direct evidence to prove that Chinese authorities will shut down the factories in Zhenjiang. However, since July 1, 2004, the Chinese government banned transportation of acrylonitrile (A C N) feedstock up the Yangzi River. The Chinese government argued that liquid A C N has high toxicity. Any spillage could result in an ecological disaster on the river. Under this new policy, the Chi Mei group could only transport its raw material from Shanghai to Zhenjiang through ground transportation. The new policy is not targeted exclusively against Chi Mei, but the sharp increase of cost is regarded as an indirect punishment by the Taiwanese business community in Shanghai.<sup>15</sup>

However, the deterioration of the state-business relationship of the Chi Mei Group in China provided another chance to enhance its connection with the Taiwanese state. Right after the release of the “Green Taiwanese Businessmen” editorial of the People’s Daily, Chi Mei Optoelectronics signed an agreement with 35 banks for a syndicated loan of US \$1.98 billion. These

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<sup>14</sup> Renmin Ribao, May 31, 2004, p. 1

<sup>15</sup> Interview Taiwan Business Association in Shanghai, July 13, 2004.

35 banks include major public-owned banks such as Bank of Taiwan, Chang Hwa Commercial Bank, Chiao Tung Bank, Hua Nan Bank, and others.<sup>16</sup> The US \$1.98 billion loan will fund the construction of Chi-Mei's 7.5 G TFT-LCD plant in the South Taiwan Science Park. Considering the special status and situation of Chi Mei after Taiwan's 2004 Presidential Election, the big bank loan is a compensation for the loss in the Ningbo project. Chi Mei's choice of locating its plant in Taiwan is also a symbol to support the Chen Shui-bian Administration's policy to "keep the roots in Taiwan."

For big Taiwanese business groups, the focus of improving state-business relationships is obviously not at the level of local government. The changing balance of economic power between Taiwan and China forces the Taiwanese business people to lean toward economic instead of political ways of thinking. On a par with the Chi Mei Group, the Evergreen Group has had a similar good relationship with Lee Teng-hui and the Chen Shui-bian Administration. The President of the Evergreen Group Chang Rong-fa was among the "State Advisory Group" in the first Chen Administration from 2000-2004. Being the head of one of the largest sea cargo groups in the world, Chang became more anxious as the direct sea and air links between Taiwan and China were delayed. In the past four years, Chang has endeavored to improve his relationship with China and gradually de-linked his connections with the DPP government. The Evergreen Group has become one of the very few Taiwanese enterprises informed well in advance by Chinese authorities about major policy announcements about Taiwan policy.<sup>17</sup> On the eve of Taiwan's 2004 Presidential Election, Chang launched severe attacks on the current

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<sup>16</sup> "Chi Mei Opto Gets Loan to Fund 7.5 G Plant", Electronic Engineering Times, July 15, 2004, [http://www.eetasia.com/article\\_content.php3?article\\_id=8800342093](http://www.eetasia.com/article_content.php3?article_id=8800342093)

<sup>17</sup> Interview officials of Taiwan Affairs Office in Shanghai, July 8, 2004.

policy adopted by the Chen Administration to obstruct direct cross-Strait links. Almost immediately after China's attack on the Chi Mei Group, Chang paid a visit to China and was well received.

In contrast to the state-business networks of big enterprise groups, small and medium size Taiwanese business people use business associations to promote guanxi networks and enhance mutual understanding. The Taiwan Business Association (TBA) in major Chinese cities and provinces set up branch associations to serve as a bridge between Chinese governments and Taiwanese business interests. The TBA also maintains close interaction with the Taiwanese government. On the eve of Taiwan's 2004 Presidential election, local TBAs launched "Ten major demands" to the Taiwanese government to facilitate cross-Strait economic relations. These demands include major policy shifts such as air links. However, the TBA did not receive any substantial response after the election. After the 2004 Presidential election, under the threat of the Chinese government to "finding the Green Label", only 10% of the local TBA attended the annual gathering of the Dragon Boat Festival organized by the Taiwanese government. In the past, at least 70% of local TBA heads attended this annual event.<sup>18</sup>

Reviewing the past decades of cross-Strait economic interaction, small and medium Taiwanese business people have very limited leverage in influencing state policies in Taiwan. Under the constraint policy of the Taiwanese government, Taiwanese business people have no choice but to transfer their "illegal business" in mainland China into domestic Chinese firms to avoid possible punishment from Taiwan. What really concerns them is their daily operation and dealing with local officials in China.

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<sup>18</sup> *Jingji Ribao*, June 21, 2004, p. 2.

Although there is no direct order from the Chinese central government to suppress the pro-DPP Taiwanese business people after the Chi Mei case, local Chinese officials tend to “speculate” on policy objectives from above and try to identify the “Green Taiwanese Business People.” Local officials compare the lists of Chen Shui-bian’s State Advisors in his first and second terms, and figure out their affiliated businesses in China. The most popular way to “punish” the Green Taiwanese Business people is to inspect their tax records and impose stricter local regulations such as environmental impact assessment standards.<sup>19</sup> Direct intervention from the central government and the local governments’ “speculation” on central policies has substantial impacts on local officials’ behavior in dealing with the Taiwanese business community. In order to maintain more positive networking with local Chinese authorities, more Taiwanese business people have decided to “choose sides” and move their business roots out completely from Taiwan. In the tug-of-war to attract Taiwanese business people, the Taiwanese state is losing leverage under the unfavorable political and economic environment.

## **The Global Division of Labor and Taiwanese Investment in China**

Besides the political nature of Taiwanese investments in China, Taiwanese capital and technology in China have become integrated parts of global economic division of labor. Through the Original Design Manufacturing (ODM) model of production, Taiwanese firms fully utilize comparative advantages of both sides of the Taiwan strait to enhance economic efficiency

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<sup>19</sup> Interview the representative of Taiwan External Trade Association Office in Shanghai, July 9, 2004.

and maximize benefits. The globalized ODM model has also pushed cross-Strait economic relationships from bilateral to global levels of interaction.

This ODM model of global production has been utilized by both the labor intensive industries such as shoes making, and more high-tech industries such as notebook PC production. The Quanta Computer Inc. provides an example about global operation of Taiwanese firms and alliances with multi-national corporations in developing the Chinese market. Quanta has served as a contract manufacturer to Dell, Compaq/HP, Gateway, Apple, IBM, Sony, Sharp and other brand-name owners since the mid 1990s. Although the brand name Quanta is almost unknown to PC consumers, Quanta surpassed Toshiba as the world's No.1 notebook computer manufacturer in 2001. Quanta assembled almost 22% of all notebooks sold in the second half of 2002, putting it in the lead for notebook production among contract manufacturers.<sup>20</sup> Of the global shipment of 37.56 million notebook computers in 2003, Quanta shipped 9.3 million units, almost 25% of world output, making it the world's largest notebook computer manufacturer. The total forecast of production for notebook computers in 2004 is 47 million units. It is estimated that Quanta's share to global notebook computer production will increase to 28.7%.<sup>21</sup>

Dell, which accounts for half of Quanta's sales, is the global master of just-in-time manufacturing and has provided Quanta with the impetus to

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<sup>20</sup> 'Quanta confirmed as world's largest notebook producer, according to IDC,' PR Newswire Association, Inc., May 13, 2003, <http://www.prnewswire.com>.

<sup>21</sup> "Quanta and Compal to boost global output", Global Sources, Jan 15, 2004, <http://www.globalsources.com/gsol//Communications-Networking/a/9000000048431.htm>; "Taiwan's notebook PC OEMs see brighter prospects for 2004", Global Sources, Nov. 17, 2003, <http://www.globalsources.com/gsol//Communications-Networking/a/9000000046786.htm>; "Asustek squeezes into world top-five notebook contract makers", Feb. 06, 2004, Global Sources, <http://www.globalsources.com/gsol//Communications-Networking/a/9000000049238.htm>.

maintain its high standard. However, not until it started working with Quanta's design and manufacturing team did Dell's laptop PC business really take off. According to the 2002 data the Texas-based PC maker relies on the Taiwanese company to produce 55% of its notebook computers.<sup>22</sup>

In order to compete with Japanese and Korean PC giants, Taiwan's entrepreneurs have to be adaptable to rapid change and short product cycles in the notebook computer industry. Normally, the US brand-holder provides the Taiwanese ODM manufacturer a road map, such as product specifications and performance, while the Taiwanese side usually generates the ideas, then creates and delivers the final product. By means of a highly interactive joint development process with its Taiwan ODM partner, a brand-holder can come up with a new model notebook in just six to nine months

The growth of Taiwan's notebook computer design capacity makes such international alliances interdependent. Dell adopts the strategy of getting the firms that produce for it to compete with each other.<sup>23</sup> Given this interdependent but precarious relationship, Taiwanese notebook producers have also been trying to reduce the risk of over-dependence. Quanta, for example, serves 9 of the 10 major notebook manufacturers in the world. Since late 2003, Quanta has also served China's PC company Legend and has become one of its major ODM partners.<sup>24</sup> Given the fact that the profits of ODM have become slim due to keen competition, Quanta has decided to

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<sup>22</sup> Bruce Einhorn, "Quanta's Quantum Leap," *Business Week*, November 5, 2001, p.79; Faith Hung, "Quanta Holds Course In Turbulent Times -- EMS Provider Manages To Make Headway Where Others Have Foundered," *EBN*. Manhasset: Dec 17, 2001., Iss. 1293; pg. 48; "Computer maker Quanta coming to Nashville" , *Tennessean.com*, May 29, 2003, <http://www.tennessean.com/business/archives/03/05/33378573.shtml>.

<sup>23</sup> Fang Guojian , *Haikuo Tiankong : Wozai Daier de Suiyue (Wide Sea and Sky : My Years in Dell)*, Taipei, Tianxia Publishing Co., 2002.

<sup>24</sup> *Gongshang Shibao*, February 9, 2004.

diversify its production lines to develop new markets such as Liquid Crystal Display (LCD) TV. According to the management of Quanta, the non-PC products will occupy at least a quarter of Quanta's total production in 2004.<sup>25</sup>

Given the precarious political situation across the Taiwan Strait, multi-national IT firms try to maintain flexibility toward their Taiwanese partners. Since Taiwan does not allow direct capital and personnel links with China, Dell's international procurement officers in Taiwan could not effectively oversee manufacturing in China. Beyond that, mainland Chinese buyers are not able to participate in PC exhibitions in Taiwan, and Chinese IT professionals face discrimination in wages and employment protection in Taiwan. Dell's strategists in the Greater China area, however, do not intend to lean toward any side. In 2001, Dell opened its first overseas R&D center in Shanghai. One year later, Dell reorganized its China R&D capacities and strengthened its Taiwan Development Center (TDC). Dell's China Development Center (CDC) is in charge of lower-level PCs and software, whereas the TDC concentrates on the development of notebook computers and Personal Digital Assistants (PDAs).<sup>26</sup>

The preceding analysis demonstrates the interdependent relationship between Taiwanese PC producers and international brand-holders. In order to cut costs, enhance international competitiveness, and maintain their global production networks, Taiwanese PC firms have little choice but to move their manufacturing capacities to China, with decisions as to relocating/branching out in China being jointly made by international brand holders and their Taiwanese contractors. Dell has pushed its ODM contractors, such as Quanta,

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<sup>25</sup> *Gongshang Shibao*, February 10, 2004.

<sup>26</sup> Guan Zhenxuan, "Waishang Xin yibo de Taiwanre" (A New Wave of Taiwan Fever of Foreign Business), *Tianxia Zazhi (Commonwealth Magazine)*, Oct. 1, 2002, pp. 112-116.

Compal and Winstron, to expand their production capacities in China, Most PC parts suppliers in the supply chain are in a similar situation.

In reality, most major Taiwanese IT manufacturers had already established networks of up-stream suppliers of key parts inside China. In the past, the "Made in China, by Taiwan" type of operation is found in the labor-intensive industries such as the alliances between Pou Chen and Nike in the sports shoes production. Nowadays the alliances between Taiwanese PC makers and multi-national corporations in China have created a new division of labor across the Taiwan Strait in the IT sector concentrated in China's major metropolitan areas such as Shanghai. In the past few years, Taiwanese firms have made substantial contributions to China's global share of the IT market. For instance, Quanta shipped 70% (5.6 million units) of its notebook from its Shanghai factory in 2003, while this number was just 25% in 2002.<sup>27</sup> In the year of 2003, 20 million units of notebook computers were manufactured by Taiwanese manufacturers in China while the total of the global output of Taiwanese notebook PC makers were 25 million units.<sup>28</sup> It is further estimated by the Institute for Information Industry in Taiwan that for the first half of 2004, 74 percent of Taiwan's notebook output came from China.<sup>29</sup>

The case of Quanta also provides an example of the attempts of the Taiwanese firms to create the division of labor across the Taiwan strait in the IT sector. Quanta spent NT \$115 billion (US \$3.3 billion) on R&D for flat panel

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<sup>27</sup> Abe De Ramos 'Quanta's Leap,' CFO Asia, Oct. 29, 2003, <http://www.cfo.com/article/1,5309,10958,00.html?f=featured>.

<sup>28</sup> "China Overtakes Taiwan in Notebook PC Production," October 2003 Issue, Nikkei Electronics Asia, [http://neasia.nikkeibp.com/nea/200310/alert\\_269236.html](http://neasia.nikkeibp.com/nea/200310/alert_269236.html); Institute for Information Industry, MIC, January 2004; Taiwan Information Industry Marks Solid Progress, [http://www.taipeitradeshows.com.tw/computex/industrybg\\_5.htm](http://www.taipeitradeshows.com.tw/computex/industrybg_5.htm).

<sup>29</sup> Yingrid Ho, "74% of H1 notebook output relies on mainland production," *The China Post*, Sept. 24, 2004, <http://www.chinapost.com.tw/business/detail.asp?ID=52173&GRP=E>

components, and has recruited 5,000 engineers and workers for its research facility and manufacturing plant in Taiwan.<sup>30</sup> Due to the lack of technological advancement, Taiwanese IT firms form various alliances with multi-national corporations to enhance their R&D capacities. In addition to Quanta, other local Taiwanese IT firms such as Advantech, Asustek, and Wistron have joined Microsoft's "Asian Incubation Project for Embedded Server Applications," in order to ally with the software giant in product development.<sup>31</sup> To retain its competitive advantage in global networking, the Taiwan state has no choice but to create new cooperative relationships with the business community to improve global logistics capacities and to enhance R&D caliber.

### **From "Global Firms" to "Chinese Firms": Localization of Taiwanese IT Companies in China**

Taiwanese IT firms in China are no longer entirely "Taiwanese" in nature but rather have often become "hybrid". The Chinese government even tends to regard these hybrid Taiwanese firms as model companies to demonstrate IT production in China. The case of Semiconductor Manufacturing International Corporation (SMIC, or Zhongxin), which will be discussed in the following pages, provide a good example. The process of localization in technology, human resources, and state-business relationship adds another important dimension of globalized Taiwanese firms to escape further from regulative schemes of the Taiwanese state.

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<sup>30</sup> 'Quanta builds Fifth-Generation Flat-Panel Plant', Nikkei Electronics Asia, August, 2003 Issues, by Van Trank, [http://neasia.nikkeibp.com/nea/200308/cotw\\_259895.html](http://neasia.nikkeibp.com/nea/200308/cotw_259895.html).

<sup>31</sup> 'Taiwan IT hardware makers join Microsoft's embedded server application project,' *China Economic News Service*, Jan. 9, 2003.

Founded in April 2000, the SMIC is a US \$1.46 billion Taiwanese semiconductor company located in Shanghai's Zhangjiang High-Tech Park. It is registered as an American company to avoid possible intervention from the Taiwanese government. In addition to attracting talent from leading Taiwanese semiconductor firms, the firm's major recruitment target is returning Chinese students with graduate degrees. SMIC has also transformed itself into a multi-national firm through strategic alliances with other international IT giants. For example, Motorola and SMIC signed a long-term strategic relationship agreement in October, 2003, in exchange for SMIC shares and Motorola will gain a seat on SMIC's board of directors.<sup>32</sup>

The hybrid SMIC's ultimate goal is not limited to its globalization drives; on the contrary, SMIC plans to localize its recruitment policies and to attract and train local Chinese talent. In reality, the mainland Chinese engineers have gradually climbed up the ladder of success and replaced many Taiwanese senior engineers in the management level. In a few years, the core management team may possibly be controlled by Chinese instead of Taiwanese IT elites.<sup>33</sup> In order to expand and consolidate its domestic roots in human resources, SMIC provides internships for local Chinese university students and graduates, especially in the field of IC design. Normally, these local "seeds", under the supervision of SMIC's international team, are given the opportunity to complete their master's thesis or Ph.D. dissertation.<sup>34</sup> Chinese universities produce 50,000 to 60,000 graduates with master's or

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<sup>32</sup> Motorola and SMIC Announce Strategic Foundry Relationship to Fully Utilize Semiconductor Factory, SMIC Press Releases, Austin, Texas, USA, Shanghai and Tianjin, China, October 24, 2003, <http://www.smics.com/website/enVersion/News/index.jsp#>

<sup>33</sup> Interview with senior Taiwanese manager of SMIC, Zhongjiang, Shanghai, July 9, 2004.

<sup>34</sup> Tse-Kang Leng, *A Political Analysis of Information Technology Development: Shanghai in Comparative Perspective* (Zixun Chanye Quanguohua de Zhengzhi Fenxi) (Taipei: INK, 2002), p. 247.

doctoral degrees in engineering each year, and this pool of brainpower is potentially the most important source of SMIC's human capital.

In addition to SMIC's base in Shanghai and new facilities in Tianjin, SMIC has established a Beijing manufacturing facility. SMIC's Beijing project is designed to strengthen SMIC's political and business networks, and facilitate its recruitment of highly-qualified graduates from top universities in Beijing. This agenda seems to exploit the two major IT bases in Shanghai and Beijing, while also ensuring that the company's operations are politically correct. In order to further localize its grass-root bases, a number of local governments in China have enhanced their R&D capacities and formed alliances with SMIC to promote local competitiveness in the IT sector. For instance, the National Integrated Circuit Design Shenzhen Industrializing Base, one of the seven bases that were approved by governmental authorities in Dec. 2001, started operations in April 2003. The base is positioned as a public multi-service technical resource to provide technical services for the IC design enterprises of Shenzhen and its surrounding areas. The Shenzhen municipal government made an investment of RMB 50 million and built an electronic design automated instrument platform, a testing and experimental platform, a training platform, and a platform for intellectual property rights consultancy.<sup>35</sup> The new momentum of SMIC in the Chinese market has been closely linked with and embedded in such local contexts.

## **State Incentives, Local States and Quasi State Agencies**

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<sup>35</sup> *SinoCast China Business Daily News*, Dallas, April 23, 2003, p. 1.

## State Incentives to cope with globalization

Given the fact that the Taiwanese firms have developed independent strategies of globalization and localization to explore the Chinese market, the Taiwanese state strives to adjust its role in governing the cross-strait economy beyond the traditional command and control methods. As discussed in the previous sections, developmental state revisionists stress the state promotion of international alliances in order to achieve global competitiveness. Such state action focuses on public-private alliances and encourages domestic firms to go global. Instead of direct intervention, the state supports this globalization of private firms by providing the necessary infrastructure and R&D facilities.

An example is the plan of Taiwan's Ministry of Economic Affairs (MOEA) to enhance Taiwan's R&D capacities and create a comprehensive division of labor across the Taiwan Strait. MOEA plans to spend NT \$100 billion (US \$2.94 billion) to set up six research and development clusters in Taiwan over the next 5 years. The project aims to foster the formation of high-tech industrial centers based on these R&D clusters. The ministry expects at least 30 multi-national enterprises to open regional research centers in Taiwan by 2006 and to team up with local enterprises on R&D work. MOEA, together with the local enterprises and multi-nationals have co-organized 15 R&D alliances and there are plans to form another 60 such alliances by 2006. Multi-nationals that have opened R&D centers in Taiwan to date are HP, Dell, Sony, Aixtron AG, and Sony. MOEA plans to use incentives such as tax breaks, R&D subsidies, and low-interest loans to encourage other foreign and domestic firms to set up

R&D centers.<sup>36</sup>

As discussed in the previous section, Quanta has adopted a unique way to ally with international IT corporations and explore the mainland Chinese market. In order to enhance its design capacities in Taiwan, Quanta also filed its requests to the Taiwanese government for support of its R & D activities. Quanta needs a site of more than 100 acres for a new plant suited to the business opportunities coming with the global economy. The National Science Council (NSC) of Taiwan is in charge of site procurement, and has located a tract in Taoyuan valued over NT\$22 billion (US \$0.65 billion), and has set up the Lung Tan Industrial Park in order to provide a site for Quanta, to serve as its production center for the manufacturing of TFT-LCT and notebook products.<sup>37</sup>

Another case for public-private alliance for upgrading R & D capacities is Hon Hai's project in the Taipei county. The reason why the Hon Hai case is important is that this case demonstrates the state's attempt to promote a global division of labor with the other side of the Taiwan Strait, and leave major logistics capacities in Taiwan. Hon Hai was among the first major Taiwanese electronic manufacturers to venture into China. It is estimated that 90% of Hon Hai's net profit now comes from its business in China. The after-tax revenue of Hon Hai for the first half of 2003 reached NT \$10 billion (US \$0.29 billion), and NT \$6.7 billion (US \$0.2 billion) of its profits are generated by its plants in China.<sup>38</sup> Keeping Hon Hai's headquarter in Taiwan thus becomes vital for the Taiwanese state to incorporate China into its globalization scheme.

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<sup>36</sup> 'Taiwan plans to set up six R&D clusters in five years,' China Economic News Services, May 27, 2003.

<sup>37</sup> *Gongshang Shibao*, Oct. 28, 2003.

<sup>38</sup> *Da Gong Bao*, Sept. 15, 2003.

In 2003, Hon Hai launched its plan to set up new global operation headquarters together with an R&D center in Taipei County, but was frustrated in its negotiations with local authorities. Hon Hai considered reducing or even withdrawing of its original plan to set up the new facilities in Taipei county. Due to the strong endorsement of the Ministry of Economic Affairs (MOEA), plans for a science park in Taipei county finally got together, including a downsized Hon Hai facility. This compromise spared MOEA as well as Taipei county from the considerable embarrassment that would have resulted from a Hon Hai pullout.<sup>39</sup>

It turned out that Hon Hai had a competitive offer from the Shanghai City government. Besides a huge tract of land with roads and other infrastructures including optical cable as well as water, power, and gas utilities offered to Hon Hai cost free, Shanghai City also offered a golf course improvement neighboring the proposed Hon Hai facility. In stark contrast, Taipei County could only offer tax advantages.<sup>40</sup> Shanghai can provide a more attractive package for Taiwanese companies like Hon Hai, which is a serious challenge to Taiwan's official policy to promote "rooting in Taiwan".

#### "Local states" and economic globalization

Both the case of Quanta and Hon Hai demonstrate the importance of local incentives in cross-Strait economic interaction. As Saskia Sassen has noted, missing from the abstract model of "retreat of the state" arguments about globalization are the actual processes, activities, and infrastructures crucial to

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<sup>39</sup> *Zhonghua Ribao*, Apr. 16, 2003,

<http://www.cdnnews.com.tw/20030417/news/cjcy/760010002003041619050246.htm>.

<sup>40</sup> ET today.com, Apr. 15, 2003, <http://www.ettoday.com/2003/04/15/91-1440105.htm>.

the implementation of globalization. Overlooking the spatial dimension of economic globalization and overemphasizing the information dimensions both have served to distort the role played by major cities in the current phase of economic globalization.<sup>41</sup>

Including local governments in the analysis adds three important dimensions to the study of economic globalization: first, such an approach breaks down the nation-state into a variety of components that may be significant in understanding international economic activities. Second, it shifts our attention from the power of large corporations over governments and economies to the range of activities and organizational arrangements necessary for the implementation and maintenance of a global network of factories, service operations, and markets. Third, it contributes to a new focus on place and on the urban social and political order associated with these activities of the global network. Focusing on localities and cities allows us to specify a geography of “strategic places” on a global scale, as well as the micro-geographies and politics unfolding within these places.<sup>42</sup>

The importance of local authorities and cities in the process of globalization is demonstrated in Monica Varsanyi’s argument that we have to understand how various social forces within cities create trans-state flows in the era of globalization. Studying local momentum would allow us to get at the place-based processes: that is, the ways in which social, political, cultural and economic processes at the local level connected with global dynamics. In essence this approach would be an attempt to understand the dynamics of globalization from a “bottom-up” perspective in which we are more concerned

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<sup>41</sup> Saskia Sassen, *Cities in the World Economy* (Thousand Oaks, CA: Pine Forge Press, 2000), p.2.

<sup>42</sup> Sassen, 2000, p. 4.

with how various political and economic interests within a city are captured by the allure of globalization.<sup>43</sup>

The preceding analysis shows that in addition to the main framework of national-level analysis of cross-Strait relations, sub-national factors have become crucial links with economic globalization. Given the fact that Taiwanese investment has concentrated in China's southeast coastal area and greater Shanghai, research focusing on the interaction of local governments and business interests illuminates the importance of sub-national actors in the political by-play of economic interaction. Cities themselves could also play certain roles in accommodating or resisting the political interventions of central governments.

In reality, Shanghai has become one of the hottest spots for Taiwanese capital and personnel flows in China. For the interaction in the IT sector between Taiwan and China the real dynamics of IT development is in the Silicon Valley—Shanghai—Taipei/Hsinchu triangle.<sup>44</sup> In some perspectives, the so-called “cross Strait economic relations” in the IT sector is the relationship between major metropolitan areas in Taiwan and China.

“Local states” like Shanghai have integrated business and political networks to enhance their capacities in the changing business environment. In the booming IT sector, the Shanghai municipal government itself has become a major investor and financial supporter. The participation of the Shanghai government in specific projects has become a stabilizing factor increasing the

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<sup>43</sup> Monica Varsanyi, “Global Cities from the Ground Up : a Response to Peter Taylor,” *Political Geography*, 19 (2000), pp. 35-36.

<sup>44</sup> For instance, Tse-Kang Leng, “Economic Globalization and IT Talent Flows : The Taipei/Shanghai/Silicon Valley Triangle”, *Asian Survey*, March/April, 2002.

confidence of Taiwanese investors.<sup>45</sup> The Shanghai municipal government invests in Taiwanese venture capital in Shanghai to foster incubators and start-up IT companies. Strong incentives and the professionalism of Shanghai officials impress overseas Chinese IT talents. This new local momentum attracts capital and talent to the greater Shanghai area.<sup>46</sup>

“Local advantages” of Shanghai are demonstrated in the fact that Shanghainese local authorities respect the rule of law and global practices of business operation. As compared to other southern Chinese regions such as Guangdong province, the transparency of law and regulations in Shanghai help the business community develop correct estimation of business cost and profits. Business owners in the high-tech sectors agree that Shanghai is not the most innovative place for advanced technology developments. However, the booming producer service industries and rich supply of talents in the service sector make Shanghai the most attractive place for foreign firms to set up branches or headquarters.<sup>47</sup> In the case of Shanghai, preferential treatments provided by the local governments play minor roles in attracting foreign corporations.

Shanghai’s “local advantages” have complex impacts on Taiwanese business people. Shanghai’s more advanced service industry and broad market size lead to keen competition of multi-national firms. Taiwanese companies are gradually “squeezed” by international and local competition in metropolitan Shanghai area. The highly competitive business environment

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<sup>45</sup> Interview with Mario Kan, Chairman & CEO, Morrison Consulting Co, Taipei, December 1, 2003. Mr. Kan serves as financial consultant for Taiwanese business people in China for about 5 years.

<sup>46</sup> Interview with Hua Yang, Vice Secretary General of Hua Yuan Science Association, San Jose, USA, December 9, 2003. Hua Yuan is a Silicon-Valley based, non-profit organization promoting high-tech exchange between US and China. Most members in Hua Yuan are engineers from mainland China.

<sup>47</sup> Interview with Wayne Sen, owner of a start-up software company, Shanghai, July 15, 2004.

also increases the cost of operation, and forces Taiwanese firms to move to adjacent Jiangsu province. For example, Kunshan and Suzhou have attracted hundreds of Taiwanese companies and form the clusters of Taiwanese electronics industries. Enjoying the lower operation costs and similar advantage in infrastructure and human resources of the flourishing Yangtze River delta, major Taiwanese firms could become a “big monster” in Suzhou but a “small potato “ in Shanghai.<sup>48</sup>

The role of the Taipei city government in promoting cross-strait economic relations, however, is dubious. Taipei’s drives to create a global division of labor with other mainland Chinese cities are always sabotaged by the hostile central government of Taiwan. The official policy of Taiwan’s central government is to restrict cross-strait interactions in order to protect national security. In contrast, Taipei city is eager to become a logistics and operations center for the Asia Pacific region, and in order to realize these plans, Taipei needs to promote direct capital, commodity, and personnel flows with China. These are natural choices for a city wishing to survive and prosper in the era of globalization. Unfortunately, as these policies contradict existing central policies, Taipei Mayor Ma Ying-jeou filed protests with the central government and engaged in several rounds of direct confrontations. In addition, the central-local conflict is further complicated by the fact that the pro-independence ruling party at the central level tries to blame the KMT mayor Ma as neglecting national security by opening direct links with China. Taipei’s drives to embrace globalization and engage China thus have become the focus of a political power struggle in Taipei.

Despite this unfavorable political situation, Taipei city is promoting a

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<sup>48</sup> Interview the Vice General Manager of the BengQ Co, Suzhou, August 14, 2003.

division of labor with the other side of the Taiwan Strait and attempting to “leave the roots in Taiwan” (根留台灣). The “leaving the roots” incentives include establishing Taipei as the research, design, and marketing core in the Greater China area and the location of Taiwanese business headquarters.<sup>49</sup> In other words, Taipei tries to go steps ahead of the Taiwanese central government to achieve a breakthrough in cross-strait economic relations.

Taipei city perceives rising challenges from major mainland Chinese cities such as Shanghai in leading the tempo and direction of cross-strait economic interaction. Taipei provides low-interest loans and tax incentives to target industries such as IT and biotech. During a visit to major high-tech companies in Silicon Valley in the summer of 2003, Taipei Mayor Ma Ying-jeou sought to attract investment to Taipei by touting Taipei’s strategic location and investment climate. Ma indicated that Taipei can serve as a testing market for information technology (IT) products targeted for the greater Chinese community, and as a springboard for technological cooperation between the east and west.<sup>50</sup> Ma said his city government will offer increased financial incentives and vocational training services to attract foreign investors. He particularly invited chip design firms to set up technological support centers, product testing facilities, and laboratories in Taipei, and he extended his welcome to other IT and biotechnology companies as well.<sup>51</sup>

In the keen competition between Taiwan and China to attract Taiwanese investment, local authorities do not have the final voices. In many cases, the

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<sup>49</sup> Keynote speech of Mayor Ma Ying-jeou delivered at a Conference on Taipei’s Challenges of Globalization, Taipei, Feb. 11, 2004.

<sup>50</sup> ‘Taipei Mayor visits Silicon Valley to court investors’, *Asia Pulse*, Aug. 28, 2003.

<sup>51</sup> ‘Taipei Mayor Ma Ying-Jeou visits firms in Silicon Valley to court investors’, NTIS, US Dept of Commerce, Aug. 27, 2003; Please also refer to Ma’s power-point presentation titled “New Digital Taipei”, delivered at Stanford University on August 25, 2003.

local governments provide “unauthorized” tax exemptions and land-use privileges to Taiwanese investors. These unauthorized preferential treatments may lead to controversies with the central government and financial disputes afterwards. In order to avoid such troubles, Taiwanese investors negotiate with both the local and central governments to obtain the status of “new high technology” for their investment projects. Once the status of “new high technology” is obtained, more preferential treatment and guarantees are secured.<sup>52</sup>

In the case of Taiwan, Taiwanese and foreign companies normally sign contracts with the Industrial Development Bureau of Ministry of Economic Affairs at the central level to facilitate the process of establishing their R & D capacities in Hsin-Chu Science Based Industrial Park, or Neihu and Nangang Software Parks in Taipei. By contrast, Taiwanese firms need to spend lots of energies to deal with Chinese local governments even their business is identified by the central government as “new high-tech” industry. The Chinese local administrations have obvious advantages in helping Taiwanese firms to set up new business in the early stage as compared to the Taiwanese local governments. However, the real problems with Chinese local governments occur only after these firms begin to operate and gain profits. In the long run, the “cooperative” local Chinese government may play both a negative and positive role in accommodating Taiwanese business interests.<sup>53</sup>

### The Role of “Quasi State Agencies”

In addition to the state apparatus at the central and local levels, new state

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<sup>52</sup> Interview with Yeh Hui-de, President of Taiwanese Business Association in Shanghai, Shanghai, August 5, 2003.

<sup>53</sup> Interview with Chen Hui-ling, Senior Advisor, Faraday Technology Corp, September 26, 2004.

or quasi state agencies have emerged to handle complex economic interdependence between Taiwan and China. Given the sensitive political nature of cross-Strait economic relations, state agencies in Taiwan face a dilemma between national security concerns and economic incentives to promote positive economic interaction. The semi-official Straits Exchange Foundation (SEF) was, until recent years, a useful vehicle for the Taiwanese state in handling cross-strait matters such as business services and trade negotiations. But after Taiwan's 1998 announcement that cross-state relations were "special state-to-state relations," the Chinese authorities rejected SEF as the formal channel for cross-Strait interaction and negotiation. The state plays a very constrained role to keep cross-Strait economic relations apart from the political confrontation.

As Taiwanese firms develop their own strategies to conduct business with and in China, the economic bureaucracies in Taiwan try to transform their roles into service providers to cope with the economic challenges and political sensitivities. For the purposes of economic relations, the China External Trade Development Council (CETRA), an exponent of Taiwan's Ministry of Economic Affairs, has filled the void. CETRA was created by the Ministry of Economic Affairs as a non-profit organization some thirty years ago, and throughout its history CETRA has been a major promoter of Taiwan's foreign trade while keeping a very low profile. CETRA plays an increasingly important role in cross-strait economic interactions, The CETRA strategy to promote cross-strait economic relations is to build Taiwan into an "international sourcing center" (ISC). Given the global trend toward outsourcing, and Taiwan's present active economic role in China, this is supposed to help transform Taiwan's role in the cross-strait economic dynamic from "producer" to "distributor" and "service

provider.” CETRA began establishing representative offices in China in 2002, to link the global sourcing activities of MNCs with Taiwan’s economic interests in China.<sup>54</sup>

CETRA has targeted six major product categories: wireless and broadband communications, auto parts, electronic medical and health-care equipment, mobile set components, optical office machines, and optical telecommunications as their focuses of promoting global sourcing.<sup>55</sup> CETRA also utilizes its role as an exhibition and trade show organizer to foster deals between Taiwanese corporations and international buyers, including Chinese buyers. In 2003, CETRA attracted 298 foreign firms to participate in 163 trade talks that it arranged, with trading value nearing US \$100 million.<sup>56</sup> At Computex 2003 in Taipei, representatives from China were among the most active buyers. Twelve major IT companies from China attended, including Legend (聯想), Haier (海爾), TCL, BOE Technology Group Co., Ltd. (京東方), TsingHua TongFang Computer (清華同方), and Peking University Founder 北大正方. It is estimated that the orders placed by the Chinese companies at Computex 2003 valued more than US \$2.95 billion<sup>57</sup>. CETRA’s chief executive agreed with his Chinese counterpart to assign a special exhibition hall exclusively for Chinese electronics at Computex 2004.

CETRA’s semi-state status to promote Taiwan’s globalization and promote Taiwan’s trade has been enhanced by its international networking with counterparts in other Asian countries. The role of “deal maker” has been

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<sup>54</sup> Interview with David Liu, Deputy Secretary General of CETRA, August 4, 2003.

<sup>55</sup> “Exploring Global Markets by International Sourcing Center,” Market Development Division, China External Trade Association, Aug. 6, 2003.

<sup>56</sup> “TAITRA Offers Tailor-Made Services to Attract More Foreign Buyers”, *Financial Times Information*, February 9, 2004. From Lexis Nexis database.

<sup>57</sup> Computex 2003 Special report – Companies in mainland China have purchased over 100 billion in Taiwan, IT Home, Sept. 26, 2003.

connected with the global interests of international companies. The cooperation between CETRA and the Japan External Trade Organization (JETRO) is a good example. The major concern of Japanese firms in China is to establish secure supply chains suitable for Japanese manufacturers. CETRA, together with JETRO, organizes Taiwanese suppliers to form strategic alliances with Japanese firms to guarantee a smooth supply of parts and semi-finished products. The major task of CETRA is to organize trips to join Japanese sourcing exhibitions in China. CETRA also helps JETRO in identifying Taiwanese firms suitable for Japanese manufacturers in China. CETRA works with local Taiwan business associations in China to hold exhibitions to attract foreign buyers including Japan.<sup>58</sup>

CETRA's efforts to promote international sourcing activities in Taiwan reflect a new type of economic interdependence between Taiwan and China. Chinese companies are buying increasing volumes of products from Taiwan's IT manufacturers. Legend alone bought US \$1.3 billion to US \$1.47 billion worth of cell phones, handheld devices and notebook PCs from Taiwan in 2003. CETRA has also helped Chinese firms to outsource IT products to Taiwanese partners. CETRA thus plays a role as a mediator and deal maker across the Taiwan Straits. In the current political situation in Taiwan, the semi-official CETRA has no choice but to keep a low profile in promoting this new type of interdependent economic activities.

However, due to its semi-governmental status, quasi state actors like CETRA can not totally isolate themselves from the macro political environment in Taiwan. In January 2004, the official name of CETRA was changed to

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<sup>58</sup> Interview with officials in JETRO Shanghai Branch , August 11, 2003; Interview with officials in JETRO Headquarters in Tokyo, February 3, 2004.

TAITRA (Taiwan External Trade Development Council). This shift reflects the current policy of the ruling Democratic Progressive Party (DPP) in Taiwan to distinguish Taiwan's unique identity from China. The "rectifying the name of Taiwan" (台灣正名) campaign aims at signifying the reality that Taiwan has incorporated the multiple cultural heritages, and integrated into a unique cultural, as well as political, entity in the domestic soil. Within such a political atmosphere, TAITRA adopted more prudent policies for its China initiatives. TAITRA's more ambitious plans to introduce major mainland Chinese manufacturers to join the ISC plan were postponed. In early 2004, TAITRA's new director ordered to close TAITRA's Beijing branch to slow down further cooperation with mainland Chinese partners.<sup>59</sup> It proves that even for such "quasi governmental branches" like TAITRA, cross-strait economic relations are not purely "economic affairs." Political concerns play key roles in influencing directions and tempos of TAITRA's drives to connect Taiwanese business people with Chinese economic dynamics.

## Conclusion

New developments of cross-strait economic relations as demonstrated in the preceding pages pose challenges to state power in governing this unique relationship. In order to create a global division of labor and maintain Taiwan's competitiveness, the Taiwanese state tries to transform its role from a direct intervener and regulator into a deal-maker and R & D facilitator. These new

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<sup>59</sup> Interview with division head of the Asia Pacific Affairs of Market Promoting Department of TAITRA, June 24, 2004, Taipei.

roles are different from the traditional “bureaucratic developmental state” that O’Rian indicated. The Taiwanese state endeavors to attract multi-national corporations to establish research facilities in Taiwan, and to encourage Taiwanese firms to retain their headquarters at home. These efforts are close to O’Rian’s description of the “flexible developmental state” which focuses on fostering better connections between the state and the global economy, and also exemplify Weiss’s thesis that such a state focuses on public-private alliances for innovation.

In the cross-strait context ,the “state power” of these kinds of “selective intervention” is constrained by globalization and the localization strategies of individual Taiwanese firms. Taiwanese firms have developed various networks with Chinese local governments, regardless the discouraging policies from Taiwan’s central government. Taiwan’s decision to lift the ban on “China initiatives” was pushed through by multi-national corporations under pressure to reduce costs until which the Taiwan state had been hesitating to promote the creation of a division of labor across the Taiwan Strait, due to sensitive political concerns.

On the other hand, being able to offer low operational costs, Chinese local authorities take initiatives to attract Taiwanese manufacturing as well as R & D facilities. In the long term, more and more Taiwanese firms will become “Chinese firms” in essence. The Taiwanese state thus faces multiple challenges from global operations, including such local transformation of Taiwanese corporations.

In the early 1990s, Taiwanese firms often used their potential projects in China for leverage, to extract concessions from the central and local governments in Taiwan. At that time, such China plans were the stuff of

industrialists' dreams. Since the late 1990s, however, those China projects are no longer just bargaining chips. Now, based on greater experience and more rational calculations of costs, those firms have discovered that their investments in China pay off better than investments in Taiwan. The balance of economic profits lean toward the Chinese side, but the "local states" on the two sides of the Taiwan strait are still competing with each other to attract lucrative Taiwanese investments.

The forces of globalization have changed state power and state-business relations in cross-strait economic interactions. In the case of the cross-strait political economy, a more comprehensive framework of analysis on the changing state-business relationship is required.

First of all, different levels and types of state apparatus and state power must be included in the analysis. It does not mean the "demise" of state in the central level, but imply the transformation differentiation of state power in the era of globalization. The developmental state paradigm treats the state as a coherent body of policy-making. The revised developmental state approach takes account of rising social demands and business interests. Because globalization must be "embedded" in local settings, local governments become crucial actors with roles similar to the "developmental state". Moreover, due to the sensitive nature of cross-strait economic relations, many "quasi state actors" have emerged to develop better connections with the business community and global economic forces. These new state actors, even though still "central level" in nature, are deal makers and service providers, but not regulators and king makers.

Secondly, the increasing power of globalized Taiwanese corporations creates a more interdependent relationship with the Chinese local states. .

Compared to the early stages of cross-strait economic interactions, Taiwanese firms have developed more independent roles in forming global alliances to explore the Chinese market. Policy instruments in areas such as finance, technology, and human resources have been greatly constricted. The processes of globalization and localization of Taiwanese firms in China demonstrate a widening gap between state goals and business interests. Taiwanese firms are embedded in local Chinese environment, but also link the Chinese local interests with global capitalism through their global operation and logistics. Academic interest in studying Taiwanese firms has also shifted from government-business relationships in Taiwan to government-business relationships in China, especially in China's major metropolitan areas.

Last but not least, political factors still play a key role in determining the interaction between the business and state. Given the political nature of cross-strait economic relationship, policies from the Chinese central government have impacts on local incentive to accommodate Taiwanese business interests. Political factors thus add more weights on the central governments in determining the tempos and directions of cross-strait economic interaction. In the case of Taiwan, the ultimate constraint on state power comes from domestic politics. Instead of managing the challenges of globalization, the Taiwanese state since the mid-1990s has treated its cross-strait economic dependency as a threat to national security. Economic issues have been mingled with non-economic concerns such as "national identity" and "betrayal of Taiwan". Thus Taiwan's economic bureaucracies adopt rather passive policies, in order to avoid political attacks. Cross-strait economic interaction has developed into a global rather than bilateral relationship, but Taiwan's domestic politics remain the link.

