The China Review, Vol. 2, No. 1 (Spring 2002), 29–59

Re-engineering the Developmental State in an Age of Globalization: Taiwan in Defiance of Neo-liberalism

Yun-han Chu

Abstract

Taiwan's experiences in coping with the new development challenges of the 1980s and 1990s prompt us to take a fresh new look at the developmental state thesis. Taiwan's experiences suggest a different but perhaps more viable variant of the developmental state model, in which the state's role in fostering the emergence of a desirable industrial profile is largely compatible with its self-imposed restraints on the use of credit policy. Instead, dense policy networks become the ties that bind the state economic bureaucracy to industrialists. They enable the state to function as a powerful locus of coordinating joint R&D activities, complementary investment decisions, and collaborative business strategies. Taiwan's unorthodox approach to financial liberalization also poses a creditable challenge to the neo-liberal call for one-size-fits-all institutional reform. Despite the trend toward an integrated global financial market, the state has been keenly safeguarding its ability to set monetary targets by preventing the internationalization of the local currency and controlling the volatility of cross-border movement of short-term capital. What really

---

Yun-han Chu is Professor of Political Science at National Taiwan University and he serves concurrently as president of the Chiang Ching-kuo Foundation for International Scholarly Exchange. He specializes in the politics of Greater China, East Asian political economy and democratization. He is the author, co-author, editor or co-editor of ten books. Among his recent English publications are *Crafting Democracy in Taiwan* (Institute for National Policy Research, 1992), *Consolidating Third-Wave Democracies* (Johns Hopkins University Press, 1997), and *China Under Jiang Zemin* (Lynne Reinner, 2000).

sets Taiwan apart from the rest of the East Asian newly industrializing economies are three interrelated institutional developments during the 1980s and 1990s: first, the consolidation of the autonomy, pre-eminence, and regulatory capacity of the central bank; second, the reinvigoration of the transformative capacity of the state economic bureaucracy, and third, the emergence of a robust structure of industrial governance in the high-tech sector. These three developments buffered the island against the regional economic crisis and facilitated Taiwan's transition to a knowledge-based economy in the context of globalization and democratization.