

World City Formation, Geopolitics and Local Political Process: Taipei's Ambiguous Development*

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Introduction

Globalization has triggered new trends toward urbanization in the world economy, in which world city formation has come to be regarded as a universal feature. It has been argued in the literature on the world city that the development of these cities can best be understood in terms of their transnational linkages and their positions in the international division of labor (Friedmann 1986; Feagin and Smith, 1987; Knox and Taylor, 1995). Among the factors that facilitate the formation of a world city, it is argued in the literature that both local and national political factors have played important roles in mediating this transformation. As Sassen (1999: 152) comments, 'precisely because global processes materialize to a large extent in national territories, many national states have had to become involved, even if at times peripherally, in the implementation of the global economic system and have, in this process, experienced transformations of various aspects of their institutional structure'. Indeed, although the imperatives of global capitalism exert a powerful influence on the transformation of a city, the local arena is not simply a passive recipient of these global processes. Processes flow from the local to the global as much as from the global to the local (Short *et al.*, 2000: 325). The formation of a world city may therefore be regarded as a response of the state and the local institutional arrangements of the city to global capitalism with a view to enhancing competitiveness (Friedmann, 1986; 1995; Storper, 1997; Brenner, 1998; Jessop, 1998; Taylor, 2000).

Politics is important, but in what sense? It seems that world city formation in the world city literature has been viewed as a response to a process of change in the global economy on the part of central and local states, in which the power struggles between levels of states and geopolitical factors in which the state is a player are rarely considered. It is necessary to take these factors into consideration when investigating a city's transformation.

In the literature on world city formation, Taipei has been located within the second tier of world cities (Yeung and Lo, 1998; Taylor, 2000). However, despite the indicators of multinational headquarters and increases in producer services, none of these studies has explained why and in what ways Taipei city has been transformed to reach world city status, nor have the issues related to its relative decline due to geopolitical and local political factors been adequately discussed. In this article I will examine how and in what ways global restructuring has affected the transformation of Taipei city, and how local politics has responded to the global and geopolitical restructuring in specific ways that have led to the further restructuring and remaking — or in some sense the decline — of this process of world city formation.

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Geopolitics and local politics in world city formation

World city formation has been an emerging phenomenon since the late 1970s when global capitalism began to experience restructuring and gave birth to a new stage of international division of labor (Ohmae, 1990; Castells, 1996). In this age of globalization, the functions of cities and the territorial sovereignty of nation states have been greatly transformed. The world of capitalism now comprises both a worldwide net of corporations and a global network of cities (Feagin and Smith, 1987: 3). Major cities have become nodes and spaces of global accumulation that link the domestic markets to the global one (Friedmann, 1986). A world city tends to be functional in relation to the needs of multinationals for global control, and therefore producer services have become the single most important sector within the industrial structure (Sassen, 1991; 1994). World cities are no longer regions that are dominated by the manufacturing sector, but are instead used by global capital as 'basing points' in articulating production and markets and as major sites for the concentration and accumulation of international capital (Friedmann, 1986). The more complex the functions and the broader the geographic scope of a city, the higher its status will be in the world system of cities.¹

World city formation often involves processes in which strategies involving the reregulation of both central and local states are used to construct new institutional capacities for promoting capital investment within major urban growth poles, and in which political factors play an essential role. First, it is argued that the state has in every respect followed the Schumpeterian pattern (Jessop, 1994) by providing policies that serve to enhance the city's market flexibility and capacity to innovate in order to increase a key city's competitiveness. Faced with the rapid movement of capital and labor across borders, the state tends to be oriented towards enhancing the immobile factors of production and institutional frameworks that promote accumulation within cities and regions. By doing so, the state may relax stringent urban policies and provide relatively fixed infrastructures such as transportation systems and communications networks that are essential to the capital city's ability to coordinate flows of value on a global scale. This entails the 'territorial non-coincidence' strategies of the nation-state (Brenner, 1998; 1999) within the national territory in order to promote global accumulation functions.

Second, the local state has tended to become the promoter of an entrepreneurial city, which adopts strategies and discourses to advocate itself as being entrepreneurial (Hubbard and Hall, 1998; Jessop and Sum, 2000: 2289). This transformation of the urban regime involves a shift in the organizational and institutional restructuring of urban government to governance, while the city is discursively and strategically marketed as a place for business and leisure (Fainstein, 1996; Cox, 1997; Jessop, 1998). In short, in the globalization era 'cities are run in a more businesslike manner' (Hubbard and Hall, 1998: 2), by which certain interests are involved while others are excluded. In so doing, the local state may adopt tactics — for example by introducing new types of urban places or space for producing, servicing, working, consuming and living — to promote its competitiveness and uphold its world city status.

Indeed, the geo-economic powers of contemporary world cities are embedded in transnational flows of capital, commodities and labor that are both articulated and disarticulated within local territories, and the central and local state play important roles in their making. The world city represents not only the expansion of the global into the local, but it also involves the intrinsic intertwining and acceleration of capital accumulation embedded in the city's infrastructure that enables capital to circulate with increasingly rapid turnover (Brenner, 1999: 434).

1 In this sense, New York, London and Tokyo occupy the highest positions within this hierarchy. On the other hand, as Douglass (2000: 2323) suggests, major cities in Asia have at least one global function (with the exception of Tokyo), and most of the governments in this area now seem to have accepted this view and are promoting their major cities as world cities at a regional level.

The theoretical model of the world city literature with regard to the role of the political suffers, however, from some theoretical weaknesses. First, the world city paradigm tends to assume that the political role of both the central and local states is to respond accordingly to the geo-economic shift, and rarely deals with the political power struggle dimension of different state levels. The state in this approach is analyzed on the basis of its economic function as a promoter and facilitator of a world city. However, the state is also a power container (Giddens, 1985), and both a site for, and the product of, power struggles, while also serving as the regulator of the society. Politics is primarily inside the state (Carnoy, 1984: 6); it has its own autonomy and is also 'about government working with and alongside other institutions and interests and about how in that process certain ideas and interests prevail' (Stoker, 1995: 58). Political struggle in and between the national and local levels may either enhance or hamper the process of the development of a city. Indeed, world city formation involves a globally structured but locally contingent process. Local and national politics can shape the ways in which transnational capital flows are channeled and transmitted to the local space. As Keil (1998: 632) argues, 'globalization takes shape in the world city. This makes the articulation of specific places dependent on local struggles and gives world city politics a place-specific character'. Local and national political factors give rise to differences that are capable of exerting a significant influence on the way in which globalization affects city development.

Second, the world city literature tends to ignore the geopolitical dimension of world city formation. While the globalization process has indeed induced the state to restructure its cities, the state is not only an economic actor but also a political actor in the international political arena. The state needs to compete with other states economically, and it also has to survive in political contests. Although the end of the Cold War may have given rise to a stimulus for global capitalism to expand and enhance the freedom of capital to enable it to move much more freely than before, this may not be applicable in every case. As Brenner (1998: 27) argues, 'global city formation generates intensely contradictory configurations of political-territorial struggle that at once *push* cities towards global accumulation strategies while simultaneously *pulling* them back into the vortex of state territorial power' (emphases in the original). Sometimes the state can utilize the benefits of both geo-economic and geopolitical forces to enhance its major city's competitiveness; however, it may also be sandwiched in the contradictory relationship between geopolitical and geo-economical positions. Therefore, geopolitics is still a major component of the world political economy and should be taken far more seriously.

To sum up, world cities in the capitalism currently prevailing function as nodes for global accumulation through which cities have been transformed to synergize both global and local forces. However, world city formation is not determined solely by global economic forces, but is also a product of national and local politics that have been directly or indirectly influenced by geopolitical factors. The formation of Taipei as a world city is a historical construction whose functions are historically contingent and can only be investigated empirically.

Taipei's ambiguous world city formation

Taipei is located in the northern part of the island of Taiwan and has a population of 2.6 million that is spread over an area of 27,177 hectares. Together with its adjoining areas, the greater Taipei metropolitan area accounted for some 37% of the total population of Taiwan in the late 1990s. In 1949, after the Kuomintang (KMT) regime was defeated by the Communists in the ongoing civil war in China, the Central Government relocated to Taiwan and made Taipei its provisional capital. On 1 July 1967, Taipei was raised to the status of a special municipality directly under the jurisdiction of the Central Government and became the *de facto* capital city. Therefore, due to its position as

the national capital, Taipei city became the place where all major governmental offices were located.

Taipei's dominant role has been expanded as the economy of Taiwan has become closely integrated with the world economy over the past few decades. It has served as the national node and the major economic center for the export-led economy. Since the 1950s, Taipei's industrial structure has been based on the service sector (Chang, 1995: 263), particularly in finance, insurance, information and commercial activities. Table 1 shows that the share of total employment of Taipei city's service industries continued to grow from 62.74% in 1969 to 78.82% in 1999. The producer services sectors (transportation, communications, finance, real estate, insurance, accounting and other business services) increased their overall share of employment to 22.92% in 1999 too. Over that same period, employment in foreign-owned firms increased the most dramatically (598.4%), while that in the secondary sector declined from 35.37% in 1969 to 21.32% in 1999. In 2000, the number of business units in Taipei city comprised 20% of the total for the island while in production value terms they accounted for about 37% of the total for Taiwan (Taipei City Government, 2000). Taipei also hosted the headquarters of all (40) domestic banks, all (leading) foreign bank branch offices (38), 142 (or 65%) of the headquarters of the 220 domestic securities companies in Taiwan, all (26) foreign securities and investment agencies (Ministry of Finance, 2001), as well as the headquarters of 74 of the top 100 industrial enterprises (*Commonwealth Magazine*, 2000/1). These figures reflect the growing importance of Taipei city and the increasing connection of its business units with global capitalism.

Taipei has also been described in many studies as a second-tier world city in Asia (besides Tokyo and Hong Kong), due to its regional linkages with other areas (Rimmer, 1998; Yeung and Lo, 1998; Taylor, 2000). According to *The Banker* (October 1999), among the top 200 Asian banks (excluding Japan) in asset terms, Taiwan was ranked first with 39 of them, India had 27, Hong Kong had 24, and South Korea and the Philippines had 19 each (Table 2). Furthermore, by the end of 2000, Taipei-based banks had a total of 112 bank branches and 44 representative offices set up in overseas markets (Bureau of Monetary Affairs, 2001), most of which were in the major cities of advanced economies such as New York, Los Angeles, London, and Tokyo (see Table 3).

Taipei, however, differs from other world cities in the region (Seoul and Tokyo), in that it hosts none of the headquarters of the world's top 100 firms. It also differs from New York where the dominant firms are in the producer services sector (16/20), and from Seoul where the dominant firms are the industrial *chaebols* (17/20) (Hill and Kim, 2000: 2182; cf. Fujita, 2000; Wang, 2003). Of the headquarters of the top 20 firms based in Taipei, 12 were state-owned or privatized state-owned enterprises, six were privately-owned enterprises, and two were foreign-owned enterprises (Table 4). Among them, 12 were in the producer services sector while eight were in manufacturing. This indicates that, while it lacks world-class companies, the state-owned sector still plays a dominant role in the economy's services sector.

Moreover, Taipei's financial markets are not as free as those of its counterparts.² The state still firmly controls capital flows in the name of national security, even though the financial sector has been gradually liberalized to some degree.³ Moreover, because of

2 For example, South Korea liberalized its financial markets to a very large degree in order to become a member of OECD in 1996. In doing so, the South Korean government also scaled down its Economic Planning Bureau. This action indicates that the South Korean government has abandoned the developmental state model that had led its economy since the 1960s.

3 In order to shield Taiwan from outside financial disturbances, the Central Bank of China (Taiwan) restricted banks' holdings of foreign assets and ownership of foreign liabilities until only recently. It also prohibited domestic banks from offering local currency accounts to their customers abroad and restricted the outward movement of the NT dollar. Even when faced with pressure from the United States, the Ministry of Finance, influenced by the CBC, only gradually lifted the ceiling on capital investments by individual foreign institutional investors in any listed company.

Table 1 Shares of employment by industry in Taipei City, 1969-99 (%)

	Primary	Secondary				Tertiary				
	Agriculture, husbandry, fishing, hunting	Total	Manufacturing industry	Electricity, gas and water supplies	Construction	Total	Wholesale and retail trade	Transportation, storage and communication business	Finance, insurance and real estate services	Social and personal services
1969	1.89	35.37	23.37	1.69	9.68	62.74	29.90	5.68	26.11	
1976	2.77	31.54	22.70	0.52	8.15	65.69	24.61	10.57	8.15	22.36
1981	1.73	32.91	22.95	0.82	8.85	65.36	29.86	8.66	5.57	21.27
1986	1.38	30.08	22.69	0.83	6.46	68.54	30.65	2.42	6.29	23.19
1991	0.87	27.66	19.87	0.74	6.94	71.47	33.56	7.63	8.81	21.48
1996	0.54	22.98	15.65	0.34	6.97	76.48	31.27	7.83	12.58	20.29
1998	0.4	21.65	15.05	0.32	6.26	77.95	30.59	7.81	15.03	20.05
1999	0.4	21.32	15.41	0.31	5.58	78.82	30.70	7.47	15.45	20.17

Source: Taipei City Government (2000)

Table 2 Top 200 banks in Asia according to Country origin

Country	Number
1 Taiwan	39
2 India	27
3 Hong Kong	24
4 South Korea	19
5 The Philippines	19
6 Malaysia	18
7 Australia	10
8 Thailand	10
9 China	7
10 Singapore	5
11 Others	22

Source: *The Banker* (1999: 10)

Table 3 Distribution of the overseas offices of Taipei-based banks, 2000

	Branches	Representative Offices
Hong Kong	7	12
Los Angeles	14	0
Singapore	7	2
New York	8	0
London	3	3
Tokyo	5	1
Amsterdam	5	1
Jakarta	0	4
Manila	3	1
Panama city	3	1
Top ten cities	55	25
World total	112	44

Source: Bureau of Monetary Affairs (2001)

the state’s controls over capital flows, foreign portfolio investment accounted for less than 4% of the total market value of all securities listed on the Taiwan Stock Exchange until mid-1997. Although this share has increased recently due to the further liberalization of the financial sector, it was still only about 6.7% on average in 2002 (Security and Futures Commission, 2003). The state’s control of the financial sector has prevented Taipei from becoming a financial center along the lines of Hong Kong or Singapore (Table 5).⁴

In the early 1990s, the Taiwan authorities proposed a project to promote Taipei as a regional financial center as well as a regional operations center, and the Taipei city government in 1994 also propagated a ‘Taipei Manhattan’ project (discussed below) with a view to promoting Taipei as a world city in order to take advantage of the

4 However, Taiwan’s conservative policies also unexpectedly helped shield Taiwan from the destruction wrought by the 1997 East Asian financial crisis (Pempel, 1999).

Table 4 Top 20 Companies in Taipei*

Company	Sector	Ownership
1 Chinese Petroleum	Manufacturing	State
2 Cathay Life Insurance	Service	Private
3 Bureau of National Health Insurance	Service	State
4 Taiwan Power	Service	State
5 Directorate General of Postal Remittances and Savings Banks	Service	State
6 Chunghwa Telecom.	Service	State/privatized
7 Bureau of Labor Insurance	Service	State
8 Hsinkong Life Insurance	Service	Private
9 <i>Acer Incorporated</i>	<i>Manufacturing</i>	<i>Private</i>
10 Bank of Taiwan	Service	State
11 Nan Shan Life Insurance	Service	Foreign (50%+)
12 <i>Phillip Electronic Building Elements Industry (Taiwan)</i>	<i>Manufacturing</i>	<i>Foreign (50%+)</i>
13 Taiwan Tobacco and Wine Monopoly Bureau	Manufacturing	State
14 Taiwan Cooperative Bank	Service	State
15 Nan Ya Plastic	Manufacturing	Private
16 Land Bank of Taiwan	Service	State
17 <i>China Steel</i>	<i>Manufacturing</i>	<i>State/privatized</i>
18 First Commercial Bank	Service	State/privatized
19 <i>Quanta Computer</i>	<i>Manufacturing</i>	<i>Private</i>
20 <i>Taiwan Semiconductor Manufacturing</i>	<i>Manufacturing</i>	<i>Private</i>

* Italics indicate that company headquarters are not located in Taipei city

Source: *Commonwealth Magazine* (May 2000)

developments within the Greater China region. However, these projects have not been implemented smoothly. As Table 5 shows, while the number of branch offices of foreign banks established in Taipei city increased from 38 in 1995 to 46 in 1998, it decreased from then on to 36 in 2002. In addition, Taipei has attracted only a very few multinationals (MNCs) (e.g. Federal Express) to establish their Asian headquarters in Taipei while at the same time some of the MNCs' regional headquarters have recently relocated from Taipei to other places, e.g. IBM to Hong Kong, Dell to Shanghai, UPS to the Philippines and Evergreen to England. The state's project and the city government's efforts thus do not seem to have been very successful. By lacking world-class companies and regional headquarters for MNCs, plus its deployment of not very free financial markets, Taipei's commanding position in the regional economy is currently not very clear. The above ambiguous features indicate that Taipei's status as a regionalized world city does not seem to be very promising. We need to therefore ask how we can explain the rise of Taipei as a regional world city in the 1990s, its not very successful status in the late 1990s, and its not too promising future.

Taipei as a flexible city before 1980

In 1949, the KMT regime was defeated by the Communists in Mainland China and, after its retreat to Taiwan, the era of authoritarian rule on the island began. As an emigrated regime, the Taiwanese state in the 1950s set in place administrative principles based on national security and survival issues in anticipation of a potentially

Table 5 Branch office of foreign banks in Taipei, Singapore and Hong Kong

	1995	1996	1997	1998	1999	2000	2001	2002
Taiwan	38	41	46	46	41	39	38	36
Singapore	128	131	140	142	133	132	125	-
Hong Kong	183	178	178	168	150	143	141	-

Sources: Hong Kong Monetary Authority (2002), Bureau of Monetary Affairs, Ministry of Finance, ROC (2003), Monetary Authority of Singapore (2002)

hostile takeover by the People’s Republic of China (PRC) as it prepared for war to ‘return to the mainland’. Against this background of authoritarian rule, the KMT regime in 1960 adopted an export-oriented industrialization policy in order to take advantage of the booming US market to develop its economy. Indeed, Taiwan’s economy greatly depended on the ability of its numerous small- and medium-sized enterprises (SMEs) to export to the US market. The value of its exports consistently exceeded 40% of GNP in the 1970s and sometimes 50% of GNP in the 1980s, during which period the United States was Taiwan’s main trading partner, accounting for some 34% of Taiwan’s total export value (Figure 1).

The urban form of Taipei city’s development was largely predetermined by the developmental state before it began to be targeted for world city status. In terms of national-local state relations, the city of Taipei as the national capital was firmly overseen by the central state, it being granted only a very limited degree of autonomy. Under the KMT’s authoritarian rule, the city’s mayor was appointed and supervised directly by the central state. The priority of wartime preparation (against the PRC) had largely relegated the status of Taipei city to that of an arm of the central state through which the functions of local representative bodies were largely reduced.

Moreover, the role of the Taipei city government in terms of economic development was also passive. Its social and urban policies had a high degree of flexibility that was coupled with the imperatives of Taiwan’s export-based economic development (Hsia, 1991). Taipei city’s social and urban policies in this context were mainly directed towards serving the needs of a low-cost route to economic development as opposed to primarily focusing on its own development, which as a consequence resulted in the city lacking a clear urban planning project. At this stage, Taipei served as the node that connected Taiwan to the world market through its dominant role in the services sector. In 1981, over 90% and 80% of Taiwan’s international trade and business service employees, respectively, were located in Taipei city. In all sectors of tertiary industry, the amount of employment in Taipei city was more than double that of the next three largest cities in the same year. Their total employment in the services sector was only about 55% of that of Taipei (Chang and Tsai, 1997: 529–30).

The concentration of the business services sector in Taipei was due to its status as the national capital. Because of the state’s leading role in the economy, being located in Taipei made it convenient for the large state-owned and privately-owned enterprises to

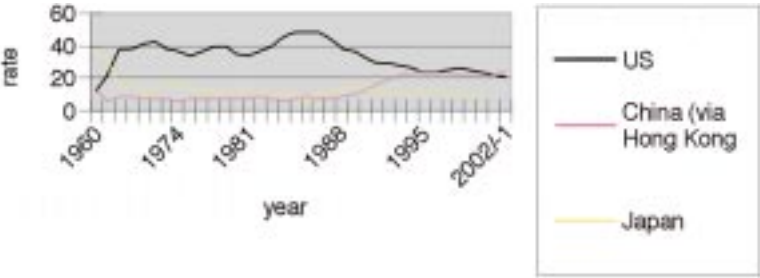


Figure 1 Taiwan’s major export market

make contact with important decision-makers and to access valuable information. As for the SMEs, the major exporting sector, it was the trading companies and other service companies located mostly in Taipei which they employed to do the marketing and legal contracting work that connected them with the global market. To sum up, before 1980 the city of Taipei exhibited strong characteristics of a peripheral national city that served as a node that connected the domestic economy with the global market. During that period, urban management was not as important an objective as economic development.

World city formation in the 1990s

From the late 1970s on, the advanced economies began to adopt neoliberal approaches that unleashed the power of capital on a global scale and largely changed the landscape of global capitalism (Harvey, 1989; Ohmae, 1990; Leyshon and Thrift, 1997; Strange, 1998). Globalization also coincided with regionalization (Amin and Thrift, 1994; Storper and Scott, 1995) and, together with the collapse of communism, new regional economic cooperation organizations (NAFTA, APEC, EU) replaced the regional political alliances of the Cold War period and served as the engine of economic growth. In this period of global transformation, Taipei's position in the world city system changed as Taiwan's economy gradually shifted to become more deeply integrated with adjacent ASEAN and Chinese markets.

Taiwan's export-led regime of accumulation began to lose its cost advantages in the world market in the early 1980s as the ASEAN countries and China began to adopt an export-led industrialization policy. At the same time, Taiwanese firms began to relocate their operations offshore in adjacent areas in their search for cheaper production sites. Up until the early 1990s, the main destinations for overseas investments were the ASEAN countries (Indonesia, Vietnam, the Philippines, Malaysia and Thailand), followed by the US. After 1993, China became the main destination for Taiwan's capital investment as the state officially allowed its businesses to invest in that region (Wang, 2001). By the end of 2001, Taiwan had become the 17th largest investor in the world while China had absorbed over 42% of its total approved outward investment (MOEA, 2002).⁵ Before 1980, Taiwan was ranked fairly low on the global division of labor scale. By the 1990s, however, Taiwan's position had changed as it became more and more integrated into the Southeast Asian regional division of labor and increasingly connected with the Greater China region through extensive outward investments.

The regionalization of the Taiwan economy has enhanced the status of Taipei as a regional hub, through which capital transactions and transnational travel have greatly increased. In addition, in order to take advantage of this globalization trend, the state has adopted various measures to enhance Taipei's competitiveness.

The state's response to globalization

The state's strategies to increase Taipei's competitiveness have involved policies that may create more space both physically and economically to upgrade the economy and attract more foreign investment. Although these policies were targeted at improving the Taiwan economy as a whole, they have nevertheless largely upgraded the city of Taipei's infrastructure. Specifically, the strategies adopted have included the following.

First, in terms of physical infrastructure, the state invested on a very large scale in the 1990s through its 'Six-year National Development Plan', 'Fourteen Major National Construction Projects' and the 'Asia-Pacific Regional Operations Center Plan'. These

5 As is well known, because of the tensions in cross-Straits relations, many investments have gone to China indirectly through third parties (i.e. British Central America and Hong Kong). Therefore, the actual overall percentage should be much higher than the official figures would suggest.

policies included the expansion of the Taipei International Airport, improvements in seaport transportation, the construction of new freeways, a high-speed north-south railway, a new subway system within the Taipei metropolitan area, and a more recent project to establish a new financial district in Taipei city. Moreover, a new National Information Infrastructure Project was launched in 1994 in order to expand the island's internet capacity and hence extend its global reach.

Second, based on the success of the Hsinchu Science-based Industrial Park, the state has drawn up plans to build more high-tech parks on the island in order to transform Taiwan into a 'scientific-technology island'. Under this project, the state intends to build a new software center in the northern part of Taipei city (Nankang district) that is being designed to integrate Hsinchu's hardware production into a 'high-tech corridor'.

Third, in order to promote its massive construction projects, the state has released large parcels of state-owned land and relaxed many formerly restrictive measures in order to create a friendly environment for investment. For example, the state released one large parcel of land in the eastern part of Taipei city (the Hsinyi district), which was originally owned by the Defense Ministry and has now become the site for the new financial center.

Fourth, in response to global pressure, the state has adopted a more liberal approach in relation to the financial sector. The reforms that have been implemented have included the liberalization of the interest rate, the foreign exchange rate and controls over capital movements, and the deregulation of the financial system through the granting of licenses to private and foreign banks (Shea, 1994; Yu, 1999). Accompanying these policies has been the gradual relaxation of ceilings on foreign investment in the Taiwanese stock market beginning in 1995, with all the major restrictions having been abolished by the end of the year 2000.

It should be mentioned that the state's policies were adopted towards the end of the Cold War era and as Taiwan-China relations became more relaxed during the late 1980s and early 1990s. Moreover, because of democratization, the KMT regime declared the termination of Martial Law and officially acknowledged the end of the civil war. It was under this new situation that both regimes across the Taiwan Strait began to establish contacts through semi-official organizations. The 1992 meeting of these semi-official organizations in Singapore signified a milestone in the relaxation of the state's civil war disposition that resulted in the official approval in 1993 of Taiwanese investment in China through third parties.

The state's new strategies to a large degree upgraded the city of Taipei's infrastructure and expanded its capacity in linking the global with the local. However, the local, as exemplified by Taipei city, has also played an important role in its transformation.

Taipei's world city strategy

The role of the Taipei city government is best described in terms of two distinct phases. Between 1980 and 1994 the restructuring of Taipei city was mainly led by market forces and by the central state in response to increased global competition. The city government simply reacted passively and submitted to the state's guidance without having the power to initiate or plan independently. It was only after 1994, when the city mayor became popularly elected and gained a higher degree of autonomy, that the city government began to pursue 'world city strategies' and become an entrepreneurial city. The newly-elected mayor, Chen Shui-bian, who came from the major opposition party — the Democratic Progressive Party (DPP) — not only actively and rapidly propelled the city into the international arena, but he also significantly transformed the structure of city governance.

First of all, in order to respond to the state's financial center project, the city government started to promote the 'Taipei Manhattan' project that aimed at developing the Hsinyi district into a new financial and commercial center. The city government intended to build this area as the window of Taipei and the showcase of Taiwan as it

marched into the twenty-first century (Tsai, 1998: 88). In order to do this, the city government not only relaxed those restrictive regulations that might have restrained private capital from stepping in, but it also actively encouraged multinationals and large domestic firms to establish their headquarters in this location (Peng, 1998: 50).

Second, a new plan to establish Taipei as an international financial center was created and a new governance structure installed as this process of world city formation took place. In order to push the Taipei Manhattan project, the city government began to establish a new private-public coalition to develop the Hsinyi district. One of the most successful cases has been the development of the (as yet unfinished) international financial center building which is being designed to house the Taiwanese stock market, the OTC market and the local offices of a large number of multinational financial firms. This has been an example of a BOT (build-operate-transfer) project for which the city government has only had to provide the land and to lease it to private companies to build on and operate the resulting infrastructure. This building will become the new landmark for Taipei city, thus signifying the determination of the city to become a world city and a new financial center in the East Asian region.

Even though Mayor Chen successfully promoted Taipei's world city image, he nevertheless failed to be reelected for a second term. The KMT regained the mayorship in 1998 when the current mayor Ma Ying-jeou took over the city government. Mayor Ma continues to pursue the former world city strategies on the one hand, while promoting new strategies to enhance the city's competitiveness on the other. The first of these is the cybercity strategy, which is intended to enhance the information infrastructure of the whole city in linking Taipei with the rest of the world. In doing so, the city government is promoting the 'Taipei Silicon Valley' project that is providing software firms with space in the Nankang area (near the Hsinyi district) in which to reside (Taipei City Government, 2001).

The second is the urban renewal strategy that is intended to rebuild the old city center, located in the Wan-hua district, as an area that brings collective memories back to the people of Taipei while at the same time strengthening the local cultural aspects of the city. Together with this, the city is also rebuilding many historical sites around the city as well as creating new festivals to attract international tourists.

Indeed, with Mayor Chen emphasizing the 'Taipei Manhattan' project to promote Taipei as a world city, and Mayor Ma directing efforts towards cultural and cyber aspects along with the economic development of the city, the city landscape has been greatly transformed. Of particular note is the expansion of the eastern part of the city, particularly the Hsinyi district. This area has become a glocalised sub-region within the city that is dominated by the logic of space of flows (Castells, 1987) where the most luxurious condominiums and shops in the city are located, thus fulfilling the consumption needs of high-income employees who work for both domestic and international financial institutions. The others are localised areas that are rebuilt with local cultural activities in mind where the logic of space of place remains dominant in order to attract tourists.

The state and city government's efforts in promoting Taipei as a world city have indeed promoted Taipei's appearance and status among the world's cities. As mentioned earlier, the establishment of foreign bank branches increased (from 36 in 1991 to 48 in 1998) while the number of Taipei-based bank branches and other forms of representation abroad also expanded rapidly (to 156 in 2000).⁶ Taipei has also been evaluated as one of the second-tier world cities in East Asia, along with Seoul and Kuala Lumpur, and ranks only behind Tokyo, Hong Kong and Singapore in terms of the numbers of financial institutions, law firms and accounting offices (which perform the control functions) that the city is host to (Taylor, 2000). However, Taipei's world city

6 Other indicators include: Taipei's international flights increased 335% between 1985 and 1999, from 39,459 to 132,343, while the number of international passengers increased 394% during the same period, from 4,523,000 to 17,808,000 (CEPD, 2000: 131). The expansion of air traffic indicates Taipei's burgeoning importance in the global economy and world travel.

formation has not progressed as rapidly as originally expected because the most important projects concerned with building Taipei into a financial center and an East Asian regional hub have not been fully implemented. The reasons for this have been the geopolitical and local political confrontations to which attention is now turned.

The sources of ambiguities: geopolitics and local politics

As Taipei has marched towards becoming a regional world city, national and local politics have moved in opposing directions from late 1996 on. Although the globalization process has provided a stimulus for the state and the city government to respond to Taipei's need for restructuring, the ongoing political democratization and internal political struggles have simultaneously given rise to geopolitical tensions that have hampered Taipei's further development.

Taiwan went through a process of democratization in the late 1980s and early 1990s that was based on a desire to establish a new nation state. As democratization was consolidated in 1996, the reformers of the KMT regime, led by President Lee Teng-hui, began to promote Taiwan as a sovereign state to the international arena (Wang, 1996). A new nation-building project involving a process of de-Chinalization and Taiwanization was propagated, which culminated in President Lee's official proclamation of July 1999 regarding the relationship across the Taiwan Strait as being a 'special state-to-state relationship'. In contrast to the more friendly atmosphere in the early 1990s, the relationship between Taiwan and China became increasingly tense in the late 1990s.

As the Taiwanese state focused on the process of becoming a 'new' nation-state, its economy moved in a reverse direction. As discussed above, the restructuring of the Taiwan economy involved a process of outward industrial investment in the Chinese market. The state thus perceived that this tendency would serve as a threat both politically and economically. Politically, the Taiwanese state foresaw that the deepening economic integration would eventually move in China's favor, whereby the PRC could use the strategy of business interests to force the state to comply with the PRC's 'one state, two systems' policy. Economically, the deepening economic integration was not only perceived as bringing massive inflows of capital into China that would eventually hurt the Taiwanese economy, but it would also lead to the upgrading of the Chinese economy, enabling it to become a competitor in the world market. This applied particularly to firms engaged in high-tech and capital-intensive industries.

In order to reduce the significance of the PRC's threats to the Taiwanese economy in relation to business activities, the state adopted a new policy to deter big firms from investing in China. On 14 September 1996, President Lee announced a new policy that upheld the strategy of 'go slow, no haste' in the area of trade and investments in China. This policy subjected mainland-bound investment projects involving high-level technology and infrastructure construction amounting to more than US \$50 million to stringent regulations and restrictions.

The state's action, plus the policy that forbade direct air and sea transportation, trade and communication across the Taiwan Strait (or the 'Three Links'), actually heightened tensions across the Taiwan Strait and resulted in the state's plan to build Taipei as a regional operations and financial center in the early 1990s merely becoming paperwork. However, the geo-economic and geopolitical environments were not in Taiwan's favor. Because of its high growth rate and market potential, China has now become one of the most attractive sites in the world for foreign investment. Therefore, for the MNCs already based in Taiwan and domestic capitalists, these deterrents and the inconveniences associated with the restrictions on capital mobility have only served to make it harder for them to enter the expanding Chinese market. Many MNCs' regional headquarters have therefore been moved to other major cities in the region. Taipei has not proved to be as attractive to large firms as Hong Kong or other cities as a location for establishing their regional headquarters.

The contradiction between geo-economic and geopolitical tendencies only became worse when the DPP took control of the state in 2000 following the KMT's defeat in the presidential election. The DPP was already well known for its pro-independence ideology, which as a consequence only roused the suspicions of the PRC and increased the tensions across the Taiwan Strait. Acknowledging the ineffectiveness of the former KMT regime's Asia-Pacific Operations Center Plan, the DPP regime announced a new 'Global Logistics Plan' instead, in order to take advantage of Taiwan's ongoing vertical integration with the Chinese market. In addition, the state has also replaced the policy of 'go slow, no haste' with a 'positive deregulation and effective management' policy that opens the way for further economic integration with China. Nevertheless, because the DPP regime regards the PRC as a hostile state, these new policies have not yet been implemented. As a result, most of the state's policies regarding its new development strategy have become merely cosmetic and its new strategy to establish a global logistics center has yet to be implemented and is unlikely to be achieved.

Moreover, Taipei's status has even deteriorated as the new DPP regime has started to suppress the city as a new wave of national vs. local political struggle has begun (*cf.* Wang, 2003: 321–2). This is because the DPP regime regards the mayor of Taipei city as the leading politician with the potential to compete against the incumbent President, Chen Shui-bian (the former city mayor), at the next election. Therefore, not only has the central state constantly verbally attacked the mayor and the city, but it has also significantly cut the annual expenditure budget of the city. Indeed, the city's annual expenditure budget has continued to decline since the DPP regime came to power. In 2001, for example, the city budget was 10% lower than the previous year and fell by a further 7.4 % in 2002. The state's reasoning is that it has to treat every city and county equally. By contrast, the budget for Kaohsiung city, the second largest city whose mayor belongs to the DPP, rose by 1% in 2001 and by a further 14% in 2002 (see Table 6). Other measures have also been taken by the central state to reduce Taipei city's exposure in the international arena in order to lessen the influence of the mayor. A notable example of this is the Lantern Festival that had been held in the city of Taipei for decades and had become an international event. Despite its success, this event was moved to Kaohsiung city in 2001 and 2002, the reason for this being 'to equalize the north and the south'. Many other similar events have occurred that have largely reduced the competitiveness of the city.

Indeed, the contradictions between these geo-economic and geopolitical tendencies as well as the tension between the central state and the Taipei city government have given the city a murky appearance. This has particularly been the case as Taiwan's external trade has depended more and more on the Chinese market⁷ (see Figure 1), in which both MNCs and domestic capitalists intend to expand their market shares. The hindrance of free capital flows and the suppression of Taipei's development have only resulted in the decline of the city's attractiveness as a regional hub. The future of Taipei remains unclear as the state has suppressed the development of the city because of political wrangling.

7 China replaced the US market to become the major trading partner of Taiwan in 2002. The Chinese market accounted for 24.33% of Taiwan's total export value in the first month of 2002, whereas the US share of its exports declined to 21.1%. In terms of the trade balance, China now contributes most of Taiwan's trade surplus with other parts of the world. For example, in 1995, Taiwan's overall trade balance amounted to US \$8,108 million, but its surplus with China amounted to US \$16,342 million. China thus contributed over 200% of the total trade balance of Taiwan. This also means that, as an export-oriented economy, Taiwan now depends on China much more than before for its economic prosperity (see Figure 1).

Table 6 Change of budgets of Taipei city and Kaohsiung City

	Taipei		Kaohsiung	
	Budget (billion \$NT)	Ratio of change %	Budget (billion \$NT)	Ratio of change %
1999	170.562		68.497	
2000	176.450	3.5	64.917	-5.3
2001	158.935	-10.0	65.514	1.0
2002	147.142	-7.4	74.839	14.0

Sources: Taipei City Government (2003); Kaohsiung City Government (2003)

Conclusion

This article has argued that the existing literature on world city formation overlooks the factors of geopolitics and local political struggles. The case study of Taipei shows that geopolitics and local politics have played important roles in its world city formation as well as in its stagnation in the late 1990s, and will continue to have an important bearing on its unpromising future. I have shown two conflicting trends that do not bode well for Taipei's future development. One is the geo-economic vs. geopolitical tendency in terms of relations across the Taiwan Strait, while the other is concerned with the issue of national politics vs. local development. What, then, are the theoretical implications of Taipei's world city formation and deformation?

First, Taipei's world city formation process in the early 1990s showed that the cooperation between central state and city government is important in a city's status transformation. Both levels of the state could take advantage of the process of globalization when they were able to work together to enhance the city's competitiveness, given that the external geopolitical environment was stable. Whether or not this joint effort at 'intentional world city building' (Douglass, 2000: 2323) was able to promote the city's status in order to 'catch up' with the advanced economies was, of course, dependent upon the level of the country's economic development and the extent of its linkages with world capitalism.

Second, Taipei's experience also shows that the geopolitical factor can be both beneficial and detrimental to a world city's formation process. Taiwan's long-term economic development and Taipei's status of continually being upgraded before the 1990s were largely due to the preferential trade policy of the US government in relation to Taiwan's exported commodities, because Taiwan was regarded by the US government as a political ally in the Cold War atmosphere in which one of the major emphases was on containing the Chinese Communists (*cf.* Woo-Cummings, 1999). However, following the end of the Cold War in the late 1980s and China becoming a major economic power in the East Asian region in the late 1990s, the geopolitical tension across the Taiwan Strait turned unfavorable to Taiwan's economic growth in general and to Taipei's further development in particular. In this sense, the dynamics of world geopolitics has played different roles in the country's economic development. Whether or not a country or a city is able to take advantage of the geopolitical contingency depends on the ability of its national politics to respond to the external environment.

Third, the Taipei experience shows that world city formation is a dynamic process in which urban politics plays a pivotal role. The autonomy of Taipei city, plus the central state's supportive policies to embrace global forces, indeed promoted Taipei's world city status in the early 1990s. However, the central state's nation-building process as well as its suppressive policy towards Taipei city under the new DPP regime, due to the ongoing political power struggle, has subsequently decreased Taipei's competitiveness

as a world city. This may indicate that, without the central state's support, the endeavors of the city government to promote itself are quite inadequate. World city formation is a process that involves articulations of international, national as well as local units that are embedded in specific localities in which local politics plays a key role (Keil, 1998).

Fourth, Taipei's experience shows that the state is neither hollowing out in this age of globalization (Ohmae, 1990), nor have its functionalities been overwhelmingly rescaled through processes of 'de-territorialization' or 're-territorialization' as it encounters the globalization process (Brenner, 1998; 1999). It could be suggested that the world city is a post-nation state phenomenon at a stage of globalization in which the state is being reoriented as its governance structures are being rescaled (Brenner, 1998; 1999; Keil, 1998). The Taiwanese state's reorganization has, however, followed the very traditional pattern of nation-building in which sovereignty and legitimacy have been the core concerns and the contested issues among partisans. Its transformation has not taken place in a post-nation state sense but, on the contrary, has degenerated into the nation-building process that runs counter to the Taiwanese economic integration with the global and Chinese business networks. This has consequently turned out to be harmful to Taipei's world city development.

The experience of Taipei reveals the importance of politics in a world city's formation process. The future of Taipei seems to be conditional upon these traditional national political factors.

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