

TAIWAN'S MULTIDIMENSIONAL TRANSFORMATION IN THE 1990s: INTRODUCTION

YUKIHIITO SATŌ

I. THE AIM OF THIS SPECIAL ISSUE

As we move into the twenty-first century, it is becoming increasingly evident that during the 1990s numerous spheres of Taiwanese society experienced significant changes. A glance at the spheres examined in this special issue shows that in the banking sector in 1990 there were only sixteen banks in existence, almost all of them state owned; by the year 2000 the number had tripled to forty-eight, the majority of them privately managed. In the media sector, innumerable illegal, underground cable TV providers were operating in 1990; these have now been legalized, and the cable TV business has been transformed into an oligopoly centered on two large groups. Growing environmental problems had by 1990 spawned a profusion of “self-relief” movements¹ clamoring for improvements and prevention; these movements have now quieted down. During the 1990s an independent labor movement began to make its first stirrings; with the coming of the new century, this movement is being forced to adjust itself to globalization. Ten years ago only one in two persons belonged to a medical insurance program; in 1995 a universal health insurance system was established. During the 1990s the opaque operations of KMT (Kuomintang) party-owned enterprises began coming into the open; today this group of party-managed businesses is heading toward dismantlement.

By bringing together the analyses of the changes that took in these spheres, this special issue seeks to provide an overall understanding of the wide-ranging transformation that Taiwanese society underwent during the 1990s. As to the subject of this study, the 1990s were undoubtedly a watershed period in the history of post-World War II Taiwan. There is clearly a discernable discontinuity between pre-1990s and post-1990s Taiwanese society. The six spheres that this study takes up—finance, the media (cable TV), environmental protection, labor, social welfare, and KMT party-owned enterprises—have been significant components of Taiwanese society and underwent substantial change during the 1990s. Therefore they are not

¹ These have been citizen protest movements which have sometimes forcefully demonstrated against environmental pollution by using such tactics as blockading factories.

only crucial for understanding this decade but also exhibit features that distinguish this ten-year period.²

As for the analytical approach, to understand the relationship between the six spheres and the society as a whole, this special issue argues that each social sphere maintains a certain degree of autonomy as it goes through change. At the same time its changes can exert an effect for change in other spheres.³ In other words, the studies in this special issue seek to understand the changes in Taiwanese society during the 1990s as simultaneous and interactive changes taking place among the many spheres. This is the meaning of the term “multidimensional” in the title of this work.

In the society’s transformation, democratization and economic restructuring were core changes that had a significant influence on most spheres of Taiwanese society. However according to the above approach, the studies in this special issue do not take a reductive view which simply sees change in each sphere as the consequence of economic growth or as a part of the democratization process. Rather, their view is that each sphere of the society possesses its own degree of autonomous dynamism, and that the changes in various spheres of the society and the changes in the political system and economic structure bilaterally affected each other.

In the remainder of this Introduction I would like to take up three matters. In the next section I will examine the simultaneous beginnings of change in each of the six spheres, which is a fundamental argument of this special issue. In Section III I will summarize the findings of each study looking at the features that characterize the changes during the 1990s. In the final section, based on the analyses presented by the six studies I will present some problems that will need to be solved.

II. THE ANCIEN RÉGIME AND THE SIMULTANEOUS START OF CHANGES

The start of changes in many spheres of Taiwanese society, including the six analyzed in this special issue, was concentrated in the latter half of the 1980s. I will

² Certainly there are other major areas of the society that had not been included in this special issue. Among those areas cross-strait relations with mainland China were particularly important for Taiwan during the 1990s. Because of such gaps, this special issue does not claim to be a conclusive or fully comprehensive study of Taiwan’s social changes during the 1990s.

Also the matter of national identity is not taken up. This issue is very important in Taiwan, but it is essentially different from the social issues examined in this study in that it is not limited to certain sectors of the society but permeates the whole of society including the spheres examined in this study, particularly the discourse of interpretation. For the most part the studies contained in this special issue limit the framework of their analyses to the institutions of the spheres they examine and do not refer to the identity issue. Although this limitation overlooks some aspects, the analyses of each study can be more concentrated and sharply focused.

³ This perception was suggested by Jessop (1990).

first look at the old order as it stood before the mid-1980s,⁴ and then at the start of changes thereafter in the political system and economic structure which were the core areas of transformation in the whole society. Following this I will examine why changes began to occur simultaneously in numerous spheres of the society.

A. *The Ancien Régime*

From 1949 until the mid-1980s the KMT built up an extremely stable system that covered not only the political system but also the whole economy and society. This system was meant to cope with a latent threat to KMT control posed by Taiwanese society, particularly by the *benshengren*, the indigenous Taiwanese who had lived on the island for generations.

While the stability of the KMT system rested ultimately on the use of force, the system build up a three-tiered structure that successfully forestalled any challenge from the *benshengren* and other dissatisfied elements in the society. The first tier was composed of the areas which the KMT almost entirely monopolized to the exclusion of the other; in the second tier it sought to conciliate the other groups by providing some privileges; and in the third tier the KMT let the others operate quite feely. In the political sphere the KMT excluded indigenous Taiwanese from the centers of national politics. In the economy the KMT maintained control over the so-called commanding heights, the banking system and the energy sector. In the media sphere it controlled the publication of newspapers and monopolized the television stations. To control labor movements it set up government-sanctioned labor unions and obstructed the formation of independent labor movements. But at the same time the KMT government also sought to include the local Taiwanese as part of the system. For this purpose, it fostered local factions as its agents to mediate between itself and the local societies, and granted them some economic privileges as a reward, although the KMT severely limit their activity to the local level and prohibit their alliances across counties (Wu 1992; Wakabayashi 1992; Chen 1995).⁵ The KMT also used the social security system as a means for politically conciliating some parts of the general public which in the early days only included public officers, servicemen, and a small portion of the workforce, but was gradually expanded after the 1970s to other occupations. Other areas where a threat to the KMT's monopoly on power was not expected to arise were left alone by the régime. One such area was the export industry (Hattori and Sato 1996). As a result, Taiwan succeeded in achieving export-led economic growth, and due to this success, the KMT system gained a legitimacy beyond its expectation.

⁴ Ancien régime as used in this Introduction refers to the whole political-economic-social system that existed up until the mid-1980s, and thus has a broader scope than just the authoritarian regime.

⁵ According to Chu (1989), local factions gained such privileges as the right to operate monopolistic local businesses such as community banking institutions, receive financing from state-affiliated banks, participate in local public investment projects, and intervene in urban planning.

B. *The Start of Change in the Core Spheres*

By the mid-1980s the ancien régime was exhibiting system fatigue and break-down in various spheres, and changes began to take place. Some parts of the KMT system faced extinction or were replaced by new institutions while other parts sought to adapt their operations to the changing circumstances. Within this change, democratization of the political system and economic restructuring influenced many of the other areas of Taiwanese society. In this sense, democratization and change in the economic structure were the two core changes in the transformation of the society.

Both internal and external dynamics induced democratization.⁶ Internally, starting from the 1970s, opposition forces gained strength by converting the government's repression into a chance to demonstrate the justice of their cause when it adapted hard-line policies and by exploiting liberalization when policies were slightly relaxed. Externally since China's start down the path of reform at the end of the 1970s and the end of the Cold War during the 1980s, the United States, which had long maintained its support of Taiwan, a member of the anticommunism camp, increasingly voiced its disapproval of the KMT's autocratic system. Under growing internal and external pressure, in March 1986, Chiang Ching-kuo, Taiwan's president and leader of the KMT, made the decision to liberalize the political system. In September of the same year opposition forces came together and set up the Democratic Progressive Party (DPP). In the following year martial law was repealed. Then in 1988 Chiang Ching-kuo died, and Lee Teng-hui assumed the presidency. His leadership played an important role in furthering Taiwan's democratization.

Through export-led industrialization dependent on low-wage labor, Taiwan achieved remarkable economic growth. But this very success created pressures for change in the economic structure. Economic growth continually pushed up wages, and the swelling trade surplus caused a dramatic appreciation of Taiwan's currency against the U.S. dollar. These changes greatly undercut the competitiveness of the country's labor-intensive export industries and brought on a large-scale shift of production capacity to Southeast Asia and the Chinese mainland where wages were much lower than in Taiwan. Between 1952 and 1990 a total of only U.S.\$3 billion of investment overseas was approved by the government. But during the decade from 1991 to 2000, the approved investment surpassed U.S.\$40 billion (CEPD 2001). Meanwhile Taiwan's leading industrial sectors shifted from labor-intensive indus-

⁶ Democratization as used in the context of this Introduction is limited to the political sphere. More specifically, it takes as a premise the guarantee of basic liberties and establishment of a system whereby political leaders are chosen through competitive elections. In this sense, a democratic political system became largely established in Taiwan with the completion of the 1996 presidential election. But the scope of analysis here extends to the change of government in the elections of 2000 and political developments thereafter in order to examine the effectiveness of democratic transition.

tries to new industries represented by personal computers and integrated circuits. Another consequence of the economic growth was a rapid increase of incomes. Taiwan's growing wealth swiftly changed consumption patterns and the quality of life which propelled the growth of service industries. In 1990 the tertiary sector had accounted for 55 per cent of Taiwan's GDP; by 2000 this had increased to 66 per cent.

C. *The Start of Change in the Six Spheres*

Democratization and the changes in the economic structure had a wide-ranging impact on all spheres of Taiwanese society. At the same time in many spheres contradictions arose between their long-standing functions that supported the KMT regime and their own sustainability. In essence, the reason why the wide-ranging change in many spheres of Taiwanese society, including in the six examined in the special issue, started simultaneously in the latter half of the 1980s was because the contradictions grew more serious and economic growth amplified the negative effect of each subsystem. At the same time democratization provided a "gap of freedom" (Wakabayashi 1992) where an initial force for change had an easier chance to form.

The financial system of the ancien régime was made up of the state-affiliated banks and was extremely rigid and excessively risk-averse. Such a conservative financial system was unable to adjust to the rapid expansion of money supply caused by the increasing trade surplus and foreign direct investment from overseas, which resulted in serious excess liquidity by the latter 1980s. In order to deal with this problem, the government undertook banking reform permitting the establishment of new banks. But banking reform was also part of the political agenda of the reformists in the KMT led by Lee Teng-hui to dismantle the ancien régime.

In the media sphere the viewing public had not been satisfied with the three KMT-controlled television stations. As economic growth made people's needs more diversified, this dissatisfaction intensified during the latter half of the 1980s. This led to the rapid spread of illegal cable TV providers which became known as the "fourth station." Illegal cable TV was a clear challenge to the KMT's media system, but the widening gap of freedom took away the KMT regime's ability to effectively control it.

The ancien régime failed to take any effective measures to prevent environmental pollution or to solve disputes caused by pollution. As Taiwan's economy grew, this deficiency in the KMT system became increasingly obvious since rapid economic growth not only produced greater environmental pollution but also made people more sensitive to environmental problems. With the coming of the 1980s, a gap of freedom opened ever so slightly, and people's accumulated dissatisfactions with environmental problems gushed forth through this opening in the form of self-relief movements.

The first stirrings of a labor movement initially looked like an environmental movement. Government-sanctioned unions failed to function as channels for worker demands and complaints. By the latter half of the 1980s there was also the growing contradiction between workers who wanted more of the fruits of economic growth and industries which were seeking to shift production overseas. At this time independent labor movements arose exploiting the gap of freedom. But compared with the environmental movement which helped further widen the gap of freedom, Taiwan's labor movement has lacked the same sort of forcefulness.

The KMT used the social security system to favor and conciliate certain groups of people, and its coverage was extended in an ad hoc manner with the result that it suffered badly from deteriorating finances and problems of fairness, so that by the mid-1980s reform of the system was only a matter of time. Democratization accelerated the process. Reforming the system became an issue in the 1989 elections, and the government moved implementation of a universal health insurance system forward from 2000 to 1995.⁷

The KMT gave the party-owned enterprises new roles to play as they adapted to democratization. They became sources for supplying funds to wage election campaigns and tools for mobilizing political support. And to better compete in the elections, their image as being privileged businesses tainted with corruption had to be altered and cleaned up. In order to fulfill these requirements the enterprises reorganized themselves as seven subgroups with respective holding companies at the top, put more importance on portfolio investment than on managing businesses by themselves,⁸ and strengthened tie-ups with private capital.

III. NOTABLE CHARACTERISTICS OF THE CHANGES IN THE SIX SPHERES

Looking over the broad range of changes that unfolded during the 1990s in the six spheres examined in this special issue, two broad characteristics can be pointed out. One was "institutional vacuum" (Terao's article in this special issue) and the other was the interaction between the change in each sphere and democratization in the political system.

Changes in the six spheres began as dismantlement of the ancien régime got under way. As changes progressed, the government found it increasing difficult to use physical force which had been a last resort for maintaining power during the authoritarian period. Also as the existing system broke down and lost effectiveness in some spheres, there was a delay in the effective takeover of new institutions. In

⁷ Reform of the social security system differs from the other five spheres examined in that economic restructuring had little direct effect on it.

⁸ One of the changes in the economic sphere which made this change possible was the growth of Taiwan's stock market during the 1990s.

other spheres the changes also created the need for institutions which had never existed under the ancien régime. Thus an institutional vacuum occurred in many spheres. To a degree this was the other side of the widened gap of freedom. Within the various spheres the widened gap of freedom brought on an absence of institutions needed for the functioning of the society under any regime.

In the state-affiliated banking system under the ancien régime, financial inspection had not been an important matter. So when reforms took place in the system, institutions responsible for inspection were underdeveloped and ill-prepared for overseeing a liberalized financial system. The early environmental movements took the form of self-relief movements because the ancien régime had no appropriate dispute resolving institutions in place. Labor movements had to begin with building organizations independent from the government. The situation for cable TV was interesting. In the early 1990s there was a chance to introduce public regulation of the industry when a cable TV law was enacted in 1993, but the opportunity was lost. The DPP had enough influence to swing debate towards supporting controls, but the party put too much trust in the market mechanism and failed to recognize the need for such regulation.

Institutional vacuum or the absence of needed institutions invited the intervention of local factions and business groups which became more autonomous and exerted more influence in the 1990s than before. The insufficient preparedness for overseeing the financial system allowed these factions and groups to embezzle money through their rent-seeking activities. The unregulated cable TV industry turned into an oligopoly dominated by two business groups. In environmental and labor disputes, local factions intervened, at times cooperating with environmental and labor movements and at other times competing with them.

A second broad characteristic was the obvious interaction between democratization and the changes that took place in the various spheres of Taiwanese society during the 1990s.⁹ The tremendous changes over the course of the decade upset the systems in each sphere making them considerably unstable and liquid, and even experiencing institutional vacuum. As mentioned above, this opened them up greatly to outside intervention. At the same time however, the political resources that each sphere possessed influenced the activities of the political forces and affected the process and speed of democratization.

The KMT was one major player involved in the interplay between democratization and changes in the social spheres. Under the leadership of Lee Teng-hui, the KMT strived to take a leading part in promoting democracy. For this purpose, the

⁹ As already stated, democratization and economic restructuring were core changes that affected many other changes that took place in Taiwanese society in the 1990s. But these two core changes did not act uniformly on all of the spheres of the society. The six spheres examined in this special issue were affected more deeply and have reacted more evidently to democratization. For this reason, the discussion here is limited to the interaction with democratization.

party sought to maintain its hold on government by revamping the systems of the ancien régime. One such system was that of the KMT party-owned enterprises. As pointed out in the previous section, these enterprises were used in a big way to provide economic and political resources for waging election campaigns. Another revamped system was that of the local factions which found greater roles for themselves within the emerging democratic system. As pointed out earlier, they intervened in numerous spheres of the society to secure economic rent and supporters which were converted into political resources. These resources were poured into election campaigns to win seats in the Legislative Yuan (Legislature).¹⁰ In this way the KMT party-owned enterprises and the local factions enabled the KMT, the ruling party of the ancien régime, to maintain power and contributed to Taiwan's gradual democratization.

Another aspect of the interplay between democratization and changes in the social spheres was the link with the growth of the Democratic Progressive Party. The DPP, environmental protection movements and labor movements, and cable TV were all heading in the same direction in that they all were challenging the KMT system. For this reason, the DPP was willing to help these protest groups develop further. The DPP itself entered the cable TV business which strengthened the social legitimacy of this illegal activity. It allied with environmental and labor movements to give them political assistance against the KMT. At the same time the rise of these new protest movements spurred the growth of the DPP. Cable TV in its early years was an important medium for the DPP, which the party used to overcome the KMT's monopolistic control over television broadcasting, while environmental and labor movements were important forces supporting the DPP.¹¹

Also it should be noted that the Legislative Yuan has been an important arena for the interaction of democratization and the changes in the different spheres of Taiwanese society because in many spheres the establishment of new institutions required acts of legislation. But a closer look at the formation of these new institutions shows that they suffer from limitations and distortions due to the immaturity of the Legislative Yuan. When the universal health insurance system was enacted, the Legislative Yuan reduced the premiums which worsened the system's already

¹⁰ It is important to note that although the KMT and the local factions maintained this symbiosis relation after the democratic transition started, the activities of the latter were different from what they had done under the ancien régime. In the 1990s the factions acted with growing autonomy and the KMT's headquarters lost the ability to determine who would run for elections in each electoral district and to freely mobilize representatives in the Legislative Yuan.

¹¹ The alliance of the DPP with environmental and labor movements was built on the common goal of bringing down the KMT regime. But this alliance grew unstable following the change of government. Labor groups switched alliances to the KMT in pursuit of their own interests, as will be mentioned later. Meanwhile the Chen Shui-bian government strived hard but failed to reach an accord with the environmental movement which was seeking to stop the construction of Taiwan's fourth nuclear power plant.

weak financial situation. As a result, the system fell into serious financial difficulties soon after it began operating. The organization of a national pension program failed after the change of government in 2000 because the government and the opposition KMT remained at loggerheads. The establishment of a financial supervisory board also has not been realized because of the political tug-of-war going on between the government and the opposition.

Due to the underdeveloped state of institutions for industrial relations, solutions to labor problems were often sought through legislation rather than through negotiations between industry and labor. However, the issue of reducing working hours revealed a perverse decision-making process in the Legislative Yuan. In 2000 the new DPP government presented a bill to revise the Labor Standards Law which would reduce working hours. Although the bill had been prepared by the KMT when it was in power, when the DPP presented it, the KMT forcefully passed a draft amendment that lowered hours far more than the original bill. It did this partly to garner the support of workers, but also to demonstrate to the Chen Shui-bian government that it still held a majority in the Legislative Yuan even after the change of government.¹² From the viewpoint of labor, this outcome looked like a success for their lobbying, but it will probably accelerate the shift of the manufacturing sector overseas and decrease domestic job opportunities.

IV. TAIWAN'S PENDING ISSUES

The successful upgrading of industry and peaceful transition to democracy were central to the changes in Taiwan during the 1990s, and in this sense the transformation during that decade can be rated as generally positive. But beyond core changes, Taiwan is still contending with numerous unresolved problems. Looking at the six spheres examined in this special issue, the rising level of bad loans, which has been caused by the interference of local factions and business groups as well as by economic restructuring, has kept the financial system unstable and brought on a credit crunch. The cable TV business has become an oligopoly dominated by two large groups which have tended to interfere in program content and which also are trying to raise user fees. Environmental and labor movements need to devise fresh strategies to resist interference from interest groups having political clout as well as adapt to new circumstances such as globalization and the alternation of governing parties. In the social security system, a national pension program remains pigeonholed in the Legislative Yuan, and the deficit in the medical insurance system has become an urgent issue needing to be resolved. There also remains the problem of

¹² With the election of 2001, the DPP became the largest party in the Legislative Yuan and the KMT slipped to number two. But the total seats of the KMT and the People First Party, the other opposition party, are more than those of the DPP and the Taiwan Solidarity Union, which has cooperated with the government, and the Legislative Yuan is still often deadlocked.

KMT party-owned enterprises which will have to be dismantled if there is to be fair competition among the political parties.

Will Taiwan be able to solve these problems? One argument says that solutions will come with further reform of the political system. This argument expects the alternation of governing parties to have a positive effect on improving the political system (see, for example, Kuo, Chen, and Huang 2000), and this is supported by the fact that since the change of government, progress has been made on dismantling the KMT party-owned enterprises. This argument also says that the next stage of political reform will center on election reform and the relationship between the Executive Yuan (Taiwan's cabinet) and the Legislative Yuan, clarifying the responsibilities of the former to the latter (see, for example, Chu 2000). These changes are expected to get rid of inane gridlock and irresponsible amendments in the Legislative Yuan which were seen, for example, in the deliberations on the social security.

However, these political reforms are likely to have limited or indirect effects on other problems. Many of these problems stem from the interference of local factions and business groups. And institutional vacuum or underdeveloped institutions have permitted their interference. The alternation of government and election reforms will probably narrow their space for political maneuvering, but their interference cannot be completely eliminated. Moreover, if the political system is reformed but the institutions are left underdeveloped, new political forces will probably take advantage of the situation. Therefore, direct and effective measure for dealing with these problems is to fill the institutional vacuum or to build new institutions. This task can and should be done even if political reform is incomplete, although political reform can have a positive effect on building institutions.

Regarding environmental problems, the institutions set up thus far to deal with these have been of some value. In the financial system the creation of needed institutions including financial inspection is moving ahead; however, a financial supervisory board, as noted above, has yet to be set up. In the cable TV sector, public regulation of such things as user fees has only just begun. Labor problems can be expected to grow more frequent as globalization advances. But it is questionable whether Taiwan's labor movements can effectively respond to conditions if they continue to rely heavily on lobbying the Legislative Yuan to promote their causes and make little effort to organize themselves.

By building needed institutions in the above spheres, they can become more independent from the political sphere. And when they are no longer affected by the vicissitudes of politics and have come to operate autonomously, Taiwan's process of change will be completed.

REFERENCES

- Council for Economic Planning and Development (CEPD). 2001. *Taiwan Statistical Data Book, 2001*. Taipei: Council for Economic Planning and Development.
- Chen, Ming-tong. 1995. *Paixi zhengzhi yu Taiwan zhengzhi bianqian* [Taiwan's present politics and factionalism]. Taipei: Sun Moon Publishing.
- Chu, Yun-han. 1989. "Guazhan jingji yu weiquan zhengzhi tizhi" [Monopolistic economy and authoritarian political regime]. In *Longduan yu boxue: Weiquan zhuyi de zhengzhi jingji fenxi* [Monopoly and exploitation: Political economy of the authoritarian regime] by Michel Hsiao et al. Taipei: Taiwan Research Fund.
- . 2000. "90 niandai minzhu zhuanxing jingji zhengce zhiding de xiaolu yu gongpingxing" [Efficiency and fairness of economic policy formation during democratic transition in the 1990s]. In *Minzhu zhuanxing yu jingji chongtu: 90 niandai Taiwan jingji fazhan de kunjing yu tiaozhang* [Contradiction between democratic transition and the economy: Problems and challenges in Taiwan's economic development during the 1990s], ed. Chu Yun-han and Tzong-ho Bau. Taipei: Laureate.
- Hattori, Tamio, and Yukihito Satō. 1996. "Kankoku, Taiwan no hatten mekanizumu" [Development mechanisms in Korea and Taiwan]. In *Kankoku, Taiwan no hatten mekanizumu* [Development mechanisms in Korea and Taiwan], ed. Tamio Hattori and Yukihito Satō. Tokyo: Institute of Developing Economies.
- Jessop, Bob. 1990. *State Theory: Putting Capitalist States in Its Place*. University Park, Pa.: Pennsylvania State University Press.
- Kuo, Cheng-tian; Chen Shang-mao; and Huang Tzung-hao. 2000. "You qian dajia zhuan?: Minzhuhua dui Taiwan jinrong tixi de yingxiang" [Is there money everybody can get?: Impact of democratization on Taiwan's financial system]. In *Minzhu zhuanxing yu jingji chongtu: 90 niandai Taiwan jingji fazhan de kunjing yu tiaozhang* [Contradiction between democratic transition and the economy: Problems and challenges in Taiwan's economic development during the 1990s], ed. Chu Yun-han and Bau Tzong-ho. Taipei: Laureate.
- Wakabayashi, Masahiro. 1992. *Taiwan: Bunretsu kokka to minshuka* [Taiwan: Democratization in a divided country]. Tokyo: University of Tokyo Press.
- Wu, Nai-teh. 1992. "Taiwan ni okeru ken'i-shugi-teki seiji taisei no kyōka" [Consolidation of the authoritarian regime in Taiwan]. Translated by Yasuhiro Matsuda. In *Gekidō no naka no Taiwan* [Taiwan in a turbulent age], ed. Hideo Ōhashi, Liu Jin Qing, and Masahiro Wakabayashi. Tokyo: Tabata Shoten.