

Dependency, the state and class in the neoliberal transition of Taiwan

MING-CHANG TSAI

ABSTRACT *The remarkable economic growth in Taiwan has served as a model of the developmental state as well as a source of scepticism about neoliberal policy for many less developed countries. However, since the mid-1980s Taiwan has gravitated from its previous statist model to the universally embraced 'market-orientated' restructuring. This study seeks to explain this neoliberal transition. A disaggregated approach is employed to break neoliberalism down into three distinct dimensions: market openness, fiscal austerity, and privatisation of public sector enterprises. The analysis results confirm that: (1) Taiwan's trade dependency on the USA constituted a decisive factor in the state opening its domestic market; (2) distributional politics was forged in a new but weak democracy to incorporate more interest groups in the fiscal expansion of the post-authoritarian era; and (3) the slow but increasingly steady progress of privatisation plans was influenced not by a 'back-to-the-market' idea but by the statist legacy with which bureaucrats attempted to manage public sector enterprises even after they became de jure private firms. The theoretical implications of this transition are discussed in the conclusion.*

The prevailing explanations of Taiwan's remarkable economic growth have focused on the significance of an authoritarian government that effectively exploited policy instruments and nurtured indigenous industrialists to fulfil state-led industrial upgrading projects. Evans (1995) utilised the Taiwan case to formulate an 'embedded autonomy' development theory which contends that the Taiwan state is characterised by an authoritarian bureaucratic regime that aggressively incorporates selected local capital to pursue a joint economic transformation project. By crafting synergetic ties with industrialists the autonomous state had succeeded in enhancing its modernising projects. These productive activities followed bureaucratic regulations because the relevant interest groups were undermined, while the bourgeoisie was still developing. The successful embedded state of Taiwan became a source of scepticism about the adequacy of the open market policy package but also an ideal example of institutional building for alternative adjustment plans (Kahler, 1990; Wade, 1990).

In the mid-1980s the state began to shift from its previous embedded model to a neoliberal strategy which aimed to sustain growth through economic liberalisation. The state's retreat from varied productive activities reveals a new political

Ming-Chang Tsai is in the Department of Sociology, National Taipei University, 67 Sec3 Min-Sheng E Road, Taipei 10433, Taiwan. E-mail: mtsai@mail.ntpu.edu.tw.

economy that follows the so-called 'Washington Consensus' at the expense of previous interventionism (Williamson, 1993). This study attempts to discover the motivating factors behind this neoliberal transition. In contrast to many less developed countries (LDCs) that have adopted neoliberalism as a consequence of government failure, Taiwan, a successful developmental state, constitutes an interesting case that reveals a distinct path towards economic liberalisation.

This examination analyses the Taiwan case with special attention to the politics of transition, or the political context within which neoliberalism develops. The most common economic explanation for such transition argues that policy changes usually happen in response to growth difficulties such as market instabilities or a debt crisis. Economic 'hard times' tend to reshape domestic politics and result in policy reform (Gourvitch, 1986). However, Taiwan is not a suitable test case for this theory because it enjoyed continuous economic growth over the analysed period (the annual economic growth rate in 1985–90 was 8.5%; in 1991–98 it was 6.6%). The other debate over the origin of liberalisation has generated three main schools of thought. First, the dependency school contends that a wide range of foreign forces, including the hegemonic powers and international financial institutions, are decisive factors proclaiming policy changes in LDCs. Dependency theory states that the core countries tend to exert heavier pressure on the peripheral states to liberalise and internationalise their economies when dependency increases (Johnson, 1972). The revival of dependency ideas has become more appealing, particularly in countries whose strong international linkages appear indispensable given the currently powerful imposition of an overarching 'global market'. Second, the Marxist perspective argues that neoliberal reform is primarily a sphere of national politics that is formed according to specific class interests. An underdeveloped bourgeoisie, *vis-à-vis* a forceful regulating state, delays the shift towards neoliberalism (Pederson, 2000). Finally, the state-centred theory suggests that state bureaucrats are a class which possesses autonomous power in policy making. The structure of state power and the ideology of bureaucratic technocrats are vital to a sufficient explanation of economic reforms (Bienen & Waterbury, 1992; Manor, 1991). The empirical analysis of Taiwan herein offers a critical opportunity to test the three prevailing theories.

A disaggregated approach is utilised to analyse neoliberalism as an emerging institutional structure because this reform actually contains three distinct dimensions (or policy prescriptions)—market openness, fiscal austerity and privatisation of public sector enterprises (PSEs). Numerous researchers have failed to detail the multidimensional diversities *within* the neoliberal transition. Our analytical strategy will focus on individual policy actions and anatomise the associated causal mechanisms before producing an overall assessment to avoid empirical ambiguity.

The analysis of Taiwan will demonstrate that: (1) although it has not been subject to economic stagnation or severe debt problems (in contrast to those highly indebted countries that adopted neoliberal packages), Taiwan's trade dependency on the USA has generated extreme pressure for the state to open its domestic market; (2) distributional politics were institutionalised by a new but weak democracy during the early 1990s to incorporate more interest groups that

were responsible for fiscal expansion; (3) the slow but increasingly steady progress of privatisation was influenced not by a 'back-to-the-market' idea but by the statist legacy that attempted to allow state bureaucrats to manage privatised PSEs.

Taiwan adopted neoliberalism at a period when the state was finding it increasingly difficult to maintain its autonomy against foreign pressure and emerging powerful domestic business interests. Thus, the state-controlled market has been eroded by the numerous concessions the government has made to various stakeholders. Our analysis also reveals an ironic connection between democratisation and economic liberalisation—Taiwan's authoritarian developmental state attempted a democratic transition by incorporating the same powerful distributional coalitions that actually caused its own demise but also incurred government fiscal expansion. Thus democratic transition actually brought in a new class structure that operated to hinder certain policy shifts towards neoliberalism.

Neoliberalism: the politics of economic transition

Theoretical arguments

Neoliberalism refers to the 'orthodox' convention that subscribes to the following core policies: (1) fiscal and monetary austerity—the state's fiscal discipline or tight budget/deficit control; (2) reduction of state economic intervention—reduction of the state's economic activity including privatising PSEs; and (3) external liberalisation and marketisation—the state accepts market-determined interest rates, deregulation, trade and financial liberalisation, and more foreign direct investment (Biersteker, 1995; Kahler, 1990; Williamson, 1993). Underlying these varied policy tools is the assumption that impersonal market apparatus can generate the desirable economic growth. While critics of neoliberalism attack its narrow economism and cast doubt on its growth outcomes (Browman, 1995; Arce M, 1999), Portes (1997) contends that neoliberalism can generate favourable growth for LDCs if the state is more powerful than civil society and there is a weak patronage link between the state and private interests. In the Latin American context, Arce M (1999) argues that human capital investment and technological innovation are necessary prerequisites of viable market reforms. However, no consensus currently exists regarding the impacts of neoliberalism.

As previously mentioned this study attempts to examine the motivating factors behind the current wave of neoliberal transition. Hojman's (1994) comparative country survey in Latin America suggests that debt crisis and the need for adjustment, state technocrats, an entrepreneurial middle class, exhaustion of import-substitution industrialisation (ISI), fiscal reform capacity, export diversification and public opinion are among the critical explanatory factors. However, he warns of any attempt to generalise since external debt played a significant role in Mexico, whereas domestic instability and hyperinflation were the major causes in Bolivia and the middle class and export interests adopted neoliberalism in Chile (cf Richards, 1997). Hojman concludes that 'each process of adoption of free market open economy policy was different from the rest ... It would be wrong to single out any one of [possible explanatory factors] to exclusion of the others.

Each country is unique' (p 217).

Examining causal mechanisms of macrostructural restructuring involves more than identifying 'this' or 'that' factor in operation, as neoliberalism must be conceived as an emerging institutional arrangement that engages numerous actors in forging a new order (Roxborough, 1992). It is a campaign that mobilises diverse powers, interests and ideologies, which operate in a distinct sociopolitical context. Some researchers have recently employed this comparative approach to examine East Asian countries. Bowie and Unger's (1997) comparative case survey demonstrated that elite consensus, institutionalised insulation of technocrats, the state's fiscal strength, as well as a rosy perception of growth potential (at least before the 1997 financial crisis) had allowed Thailand to adopt an open policy to overcome the obstacles to growth in its closed economy since the mid-1980s. Somewhat differently from Thailand's comprehensive neoliberal reforms, Indonesia opened selected economic sectors depending on whether a strong clientelist interest existed, so as to encircle certain protected industries (or sectors). Political nepotism has been a decisive factor that prevented technocrats from effecting a shift towards an export-led growth policy. Thus, an integrated elite with autonomous state power (*vis-à-vis* the interest groups in civil society) constituted an influential variable in shaping neoliberal arrangements in Thailand when compared with Indonesia. In addition, Thailand's adoption of orthodoxy was also supported by a private sector that tended to be relatively export-oriented.

Kohli's (1989) study of India's economic liberalisation during the 1980s suggests populist politics as another contentious force. Neoliberalism in India was first introduced as the Indira Gandhi government encountered difficulties in boosting growth in a closed nationalist economy. Although its IMF loan agreement also produced some structural reform pressures, it was not a determinant in this case. Kohli argues that elites' economic conception was a crucial variable because they believed that 'a closed state controlled economy' was responsible for productive inefficiency (1989: 307). Although a move away from administrative and financial control by the state was justified, Indira Gandhi's need to maintain socialist rhetoric and anti-poverty policies to ensure social support made liberalisation more of a policy orientation than a determination. When her son Rajiv Gandhi succeeded after her assassination in 1984, his temporary popularity enabled him to increase state autonomy to impose a 'rational' economic reform (Kohli described the action merely as a 'hurry' supported by a 'considerable sense of power'; p 312). However, the opposition forces, including the Congress, left-wing intellectuals, as well as the working class and rural peasants, helped defeat Gandhi in local elections and forced the state to slow down liberal reform. The India scenario highlights the fact that populist resistance is a key actor against state agency and elite ideology in neoliberal transition.

The far-reaching liberalisation reforms that the Indian state implemented in the early 1990s calls for additional theoretical explanation. Pederson (2000: 274) contends that the increasingly influential industrial engineer class that expanded during the 1980s influenced state decisions and provided continuous support for structural reforms. In contrast, the external pressure from the international financial institutions had only a limited impact on liberalisation, suggesting a

'leaning against open doors' model was more appropriate than the 'coercive-imposition-by-external-powers' model, as is suggested by dependency theorists. Although pressured to adapt the 'needs' of a new industrial elite, the state set its own agenda and initiated its own open import policies. Yet privatisation of state enterprises at this period progressed slowly against the strong wave of market liberalisation and foreign investments. The Indian case demonstrates that diverse class forces can alternate under various contexts to affect neoliberalism.

Methodological critiques of neoliberalism research

Academics tend to paint what they believe are new phenomena as holistic because this provides a plausible story and a compelling image. Succeeding academics must unpack the whole into various dimensions in order to fine-tune their hypotheses. Neoliberalism research is no exception, as previous studies have provided interesting variables and hypotheses to examine a country's neoliberal transition 'as a whole'. However, they appear to suffer from a methodological weakness since they tend to lump various policy components into a single conceptual bag and fail to discern individual processes and outcomes. Policy actions that *theoretically* converge under the neoclassical conception do not necessarily *empirically* unite. Certain policies evolve while others regress or fail because diverging interests with varying levels of power operate on certain policies at the expense of others (eg the Indonesian case). Weak commitment among elites as well as strong resistance by populist sectors can prevent states from moving in a neoliberal direction (as in the Indian case in the 1980s). The outcome might result in an 'incomplete' neoliberal transition. Thus, empirical identification of a macro-multidimensional phenomenon, a 'yes-or-no' type of assessment, can be highly problematic.

This study adopts a disaggregated approach to analysing Taiwan to avoid the methodological pitfalls mentioned above. Instead of evaluating it using an overarching but ambiguous ideal-type, the three core policy changes (market liberalisation, fiscal behaviours, and PSES) are individually investigated to identify their pattern of change and the politics underlying these changes. Although this analytical strategy inevitably complicates the causal investigation, it bears fruit to clarify a case whose neoliberalism has rarely been examined.

The empirical study in the following sections includes: (1) an investigation of individual policy changes in the three dimensions of neoliberalism (trade liberalisation, state budget behaviour and privatisation of PSES); and (2) a comparison of the factors that potentially initiate, consolidate or simply distract neoliberal reforms across these dimensions. The conclusion discusses the theoretical implications of Taiwan's path towards neoliberalism.

Market liberalisation: the state, global hegemony and trade dependency

Until 2000 Taiwan, or the Republic of China (ROC), was dominated by an authoritarian party, the Kuomintang (the Nationalist Party, KMT), which retreated from mainland China in 1949 as a result of defeat in civil war with the Chinese Communist Party. The KMT utilised its strong military power and a massive

bureaucracy (the state apparatus and the police) to immediately construct a state regime that featured high unity among elites, effective control over the native Taiwanese, and comprehensive appropriation of productive resources by establishing numerous PSEs. Civil society was repressed and state power remained unchallenged until the 1980s.

Shifting from a regulated economy towards market openness

Taiwan's postwar development was based on a 'state-regulated economy' in which a powerful state regulated and guided the private sector to enhance productivity in selective industries and to compete for foreign markets. This *dirigiste* strategy was successful as GNP per capita reached US\$8110 in 1990 from a low \$390 in 1970. Several factors contributed to this rapid growth: (1) an authoritarian-bureaucratic state that was insulated from interest groups; (2) incorporation into US-dominated liberal capitalism, which provided Taiwan with generous aid, crucial technology transfers and a huge market to absorb its exports; (3) political suppression of domestic populist demands; and (4) effective policy incentives for export producers to build competitiveness in the global market (Tsai, 1999). Two oil crises (1973-74, 1979-81), and the resultant turbulent price inflation and growth downturns appeared short-lived and struck Taiwan less severely than other developing countries. Domestic investment grew by 13.5% per year throughout the 1970s, while industrial exports advanced from \$1.2 billion in 1970 to \$18 billion per year in the 1980s (CEPD, 1995: 196, 311). Taiwan's economy 'successfully' adjusted by employing an expansionary approach, increasing its infrastructure spending in the Ten Major Development Projects (1972-76) and in the Six-Year Plan (1976-81) in order to enhance public sector capital and technology-intensive industries, rather than by way of austerity measures as international financial institutions would have suggested.

The KMT government stabilised the economy and moved to second-stage ISI by the end of the 1970s. However, as Kuo (1994), a key figure in Taiwan's financial policy making, verifies, the continuing economic growth during this adjustment depended on state spending because it compensates for declining domestic demand. A tradition of having a state interventionist ideology, supported by fiscal capacity strengthened by robust economic growth, characterised the *dirigiste* approach by which the state led structural adjustment against global economic downturns. This state-led (instead of market-led) adjustment strategy was not only 'economically viable' (it had a high problem-solving capacity from the points of view of state technocrats), it was also 'administratively viable' (a set of ideas that accorded with past experiences and the instrumental capacities of state elites) (Hall, 1989).

Despite the proven success of statist policies, the KMT government began to reduce state regulation of international trade in the second half of the 1980s. The New Taiwanese (NT) dollar appreciated by 20% against the US dollar in 1986-87 (and stabilised until the recent East Asian financial crisis), which was a drastic 'adjustment' that reflected the real value of the NT dollar. Tariff protection was reduced as the average tariff rate was decreased by 4.9% by 1994, although certain industries such as car manufacturing are still insulated from foreign

competition. This cut reduced tariff revenues from 18.5% of all state proceeds in 1985 to 10% in 1994 (Ministry of Finance, 1995: 36–37). Trade control was also relaxed by allowing economic exchange within China and Eastern Europe.

The banking industry was reorganised as a new Banking Law (revised in 1989) allowed floating deposits and enabled local banks to determine lending interest rates while foreign banks could accept long-term savings deposits.¹ The opening of 15 new private banks in 1991 and 1992 was a critical event in the liberalisation trend since it dismantled the oligopoly of the state-run commercial banks (Kuo, 1994; FEER, 1992: 203). The government tolerated outbound capital mobility because investment (mainly by labour-intensive industries at this period) in China increased and because the state intended to attract more direct foreign investment.² Meanwhile the Central Bank also released its strict control over the interest rate.

Explanations of market liberalisation in Taiwan

Several theories have been put forward to determine the structural forces responsible for the liberalisation of trade and financial industries. The crisis theory argues that economic liberalisation in LDCs is usually the outcome of low growth and foreign debt. Although this hypothesis can explain some African and Latin American examples, it is not applicable here because Taiwan experienced neither growth stagnation nor difficulties in balance of payments during the adjustment period. Indeed, economic growth remained stable immediately before these liberalisation actions (an annual average of 8.9% from 1981–85) and inflation was also stabilised after a turbulent period (1977–81).

The middle class, while arguably one of the most prominent social agencies in promoting liberalisation in other LDCs, in Taiwan appeared to show less concern with restructuring a state-dominated economy than with demanding more political democracy on the island. Liberal intellectuals produced debate but failed to exert significant pressure on the authoritarian state policy making.

Business people, especially large business conglomerates which had long thrived in domestic markets (ranging from construction through insurance to manufacturing), greatly benefited from banking deregulation because they were among the first to take advantage of market openness to establish new banks. Yet overestimating the strength of this class's interests and its influence on state policy represents a tautological reasoning trap since they had very limited penetration into the state apparatus when the state started its liberalisation adjustments. Business interests began to establish particularistic ties with elite politicians in the ruling party and exert increasing pressure on state policy only after the state became a soft authoritarian regime following the death of Chiang Ching-Kuo (son of Generalissimo Chiang Kai-shek) in 1988.

Elite ideology in the first half of the 1980s did not attempt any substantial threat from statism. Although the state bureaucrats had long conceived protectionism as a contributing factor of inefficiency in domestic producers (Liang & Liang, 1988), what the technocrats had perceived as the *really urgent* problem was an emerging 'disequilibrium of the macro-economy'—insufficient domestic demand, excessive savings, an enormous trade surplus, and declining investment

combined with slower export growth to produce what they thought signalled prospective stagnation (Yeh, 1992). Reduced protectionism and market openness were used as short-term stabilising instruments to alleviate these difficulties and to reduce trade frictions with advanced economies (Ministry of Economic Affairs, 1994). However the neoliberal idea of the 'market economy' was not yet incorporated as the central theme in the state's adjustment strategy at this stage.

In short, neither fiscal constraints nor sectoral interests were major factors in state policy orientation in the mid-1980s. There is little evidence that state elites were considering abandoning political regulation of trade and financial markets.

A strong force for liberalisation was the USA which had incorporated Taiwan into its capitalist liberal world economy since the Cold War began. However, Taiwan's 'beneficial dependency' on the US market had generated severe trade conflicts. Taiwan's trade surplus with the USA, which averaged \$6.8 billion per year from 1981–85 escalated to \$12.2 billion during 1986–90 (CEPD, 1995: 198) and became a salient target of the USA's trade war in East Asia. The bilateral negotiations between both sides in 1986 were a major event that led to the appreciation of the NT dollar and other market opening measures ranging from agricultural imports to the entry of US banks. While US interests targeted trade and non-tariff barriers in the late 1970s, they began to take an aggressive stance on enforcing 'market access', with threats of retaliation under Section 301 of the US Trade Act, from 1982 onwards as a result of frustration at their failure to break down tariffs through bilateral negotiations (Baldwin *et al*, 1995). The announcement of 'internationalisation and liberalisation' by Prime Minister Yu Kuo-Hua in 1984 was a response to coercive demands from the USA for opening the domestic market.³ The continuing US pressures resulted in a state plan in 1989 that laid out the sequences and targets of market liberalisation in various industries including banking, insurance, securities, government procurement and foreign investment.⁴ Moreover, this plan also set a target to reduce the trade surplus with the USA to a level of 4% of GNP by 1992 (it registered 13.5% in 1985).⁵

Although international powers had successfully forced Taiwan to adopt a 'market economy', how such deviation from state regulation was consolidated calls for further exploration. Three structural mechanisms need be specified to understand this unusual scenario. First, Taiwan's heavy export concentration and consequent trade dependence on the US market greatly reduced the state's bargaining capacity *vis-à-vis* the USA. Second, the state maintained strong coercive powers in thwarting populist opposition, particularly that of the peasants who militated against agricultural imports but failed. Third, the state's deregulation of the financial sector invited local capital into a lucrative market that had long been controlled by PSEs (such as banking). Although nurtured by the developmental state for decades, this class welcomed neoliberal deregulation of the domestic economy because their capital accumulation was severely hindered by the state's comprehensive control of the domestic market.

Taiwan's weak position in international politics constituted an additional factor of market openness. The state elites had encountered great difficulties as a result of its diplomatic isolation because of its continuing conflict over sovereignty with China. Thus the state required close ties with the USA in order to re-enter

the international community, particularly the World Trade Organization (WTO), and to simultaneously increase its domestic popularity. A senior US trade representative explicitly proposed that Taiwan open its markets as a precondition for prospective membership in the WTO.⁶

Neoliberal reform of Taiwan's trade regime and financial industries was more a strategic reaction to save the potential trade relationship with the USA than an attempt to rescue a troubled economy, as in other LDCs. The state's approach to the 'Washington Consensus' revealed its *external* weakness (in view of its dependence on a global market) and vulnerability to a hegemonic power even though it has enjoyed *internal* power *vis-à-vis* domestic interests. This aspect of neoliberal reform was easily consolidated in the context of weak populist resistance. Yet the state sought to remain a tenacious sector *in* neoliberalism in respect of the fiscal expansion and privatisation of PSEs. Domestic politics, rather than foreign forces, had a more intimate relationship with these state practices.

The size of government: redistributive politics and state expansion

The fiscal expansion of the state

Taiwan's government conventionally ran a conservative budget policy, as can be seen from Table 1. Total state expenditure during the 1980s remained at roughly 30% of the national income (except in 1989; see Column 1 in Table 1). However, the government began to boost its budget in 1989 and reached a peak of nearly 36% in 1993. This fiscal expansion, which counteracted the neoliberal move towards open markets, was to a great extent attributed to increased spending on the acquisition of private lands for public infrastructure. In 1990 the government announced a US\$305 billion Six-Year National Development Plan that focused on transportation, electrical power plants, housing and environmental protection.⁷ Although the state expenditure ratio has levelled off since this peak, it still registered a higher ratio than in the 1980s.

Taiwan incurred difficulties in mobilising sufficient fiscal income because the budget expanded during a period of slow economic growth. However, the KMT government was able to finance its enlarging deficits (see Column 2) as the domestic market quickly absorbed state bonds, while it utilised less international borrowing than most LDCs did. The abundance of local savings ironically enabled the state to accumulate huge domestic debts. The debt burden (indicated by outstanding state bonds and obligations repayment) dramatically increased in the 1990s (Columns 3 and 4) compared with previous austerity efforts.

Taiwan's inflated state spending is unique since it deviates from neoliberalism. Although it appears that state expenditure significantly increased because of Taiwan's successful economy and rising personal incomes (conforming to Wagner's Law) (Pen, 1987) this theory is too mechanical since it omits the effect of substantial sociopolitical forces on the state's budget behaviour. Moreover, the oft-used alternative explanations also do not apply well to the Taiwan case. Keynesian theory argues that an unbalanced and inflated budget tends to be a result of the state's response to market failures and unemployment. However, Taiwan did not experience severe economic difficulties in economic growth or

TABLE 1
State expansion in Taiwan (1985–98)

<i>Government expenditure as % of national income</i>	<i>Government deficit as % of net state revenue</i>	<i>Outstanding amount as % of annual expenditure</i>	<i>Obligations as % of total state expenditure</i>	<i>Monopoly revenue</i>	<i>Surplus of public enterprises as % of government revenue</i>	<i>Public enterprises' share in total industrial production</i>	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1985	25.3	-0.6	11.6	4.2	7.2	13.3	17.7
1986	26.0	-5.0	14.2	3.4	7.0	15.7	16.5
1987	23.1	1.2	20.1	4.1	6.5	14.5	16.3
1988	23.9	4.6	27.7	4.5	5.4	13.1	17.1
1989	35.7	-20.7	28.1	3.5	3.4	9.3	17.1
1990	30.2	-0.4	18.0	7.4	4.4	10.1	16.8
1991	33.5	-15.7	18.4	12.3	4.2	6.6	16.0
1992	35.8	-17.8	32.5	9.9	3.4	8.3	16.2
1993	35.8	-17.9	45.6	9.0	3.3	8.8	16.9
1994	33.9	-16.8	50.4	8.5	3.4	9.6	16.5
1995	32.9	-16.7	57.6	17.3	2.9	6.7	15.7
1996	30.5	-11.8	52.4	13.4	2.8	9.0	15.6
1997	29.2	-8.4	56.5	14.7	2.8	8.7	12.2
1998	28.2	2.7	51.4	14.9	2.5	13.2	12.5

Sources: Yearbook of Financial Statistics of the Republic of China, 1998 (Ministry of Finance) for Columns 1, 2 and 4–6; Monthly Statistics of Finance—June 1999 (Ministry of Finance) for Column 3; and Taiwan Statistical Data Book—1999 (Council for Economic Planning and Development) for Column 7.

job creation during the period analysed. Another interesting argument derived from the Western industrialised countries is that an inflationary state tends to ride on a 'new moral order' in which social welfare or citizenship rights require legal and institutional arrangements that force the government sector to expand (Pen, 1987). Indeed, the state increased outlays of social welfare and instituted an obligatory medical insurance programme in 1995. Spending on health and welfare programmes comprised 22% of the total state expenditure in 1998, which represents a significant increase from 16% in 1990.⁸ However, this pro-citizenship policy did not produce spending pressure as the welfare expenditure ratio has declined since then. The following analysis argues that the inflated state finance was largely the outcome of the elite circulation and conflict Taiwan experienced during the late 1980s.

Redistributive politics in the post-authoritarian regime

Political power and economic resources in Taiwan had been controlled by the so-called 'mainlander' group (comprising 20% of the total population) to the disadvantage of the native Taiwanese. The mainlanders include the bureaucrats and military of the refugee KMT government as well as civilians who emigrated from China in 1949, whereas the Taiwanese group had been settled on the island for several hundred years. When President Lee Teng-hui, a native scholar and agro-economic technocrat, succeeded Chiang Ching-kuo in 1988, he faced a

challenge from the conservative 'mainlander' KMT elites. Lee, perhaps in order to placate his rivals, appointed the former minister of defence and hardliner, General Hau Pei-tsun, to be premier of the new cabinet in June 1990. The division of the ruling elite into two major blocs significantly weakened the authoritarian leadership that had characterised the centralised state under the Chiangs. In addition, a militant opposition party (the Democratic Progressive Party, DPP) was organised after martial law (in effect since 1947) was lifted in 1987. The struggle among the political elites and the pressing challenge from the increasingly influential opposition constituted a 'double jeopardy' for the ruling party that forced Lee to adopt a new coalition strategy to secure KMT rule in a democratising regime.

The KMT began to incorporate diverse local interests. Although such encompassing efforts had been practised since the 1970s (particularly under Chiang Ching-Kuo), they merely diluted the ethnic contour of top-level government officers with more natives, whereas Lee required a more 'deepening' political incorporation, because the KMT was experiencing increasing political mobilisation difficulties (both in rural and urban areas). Lee established his leadership and suppressed the 'voices' of mainlanders within the party by securing electoral victories. Lee was successful in forging a broader coalition by bringing numerous politicians and businessmen of Taiwanese origin into both the party and the state. The shift toward an *inclusive* politics was a watershed that discarded the isolational politics employed by the Chiang regime (Y Chu, 1994). However, labour continued to be excluded in this new state corporatism as it has been in the authoritarian regime.

The broader constituency effectively increased and stabilised political support for an indigenised KMT regime. The Party continued to control the national congress as well as local assemblies and Lee won the first direct presidential election in 1996. However, this new coalition permanently altered the power structure within Taiwan as well as within the KMT itself. First, the exclusion of mainlander elites from the new coalition produced severe and continuous conflicts within the party. The mainlanders who were denuded of political power chose to 'exit' by forming the New Party in 1993. This party set the KMT back in national elections (mostly in the urban areas where mainlanders are concentrated) by way of mass mobilisation based on ethnic background. The two opposition parties made it increasingly difficult for the KMT to maintain its majority in Congress. Second, the decision-making autonomy of the economic technocrats was significantly eroded by the patronage system that was created by incorporating business interests into the representative parliament. The business elites were mainly holders of large fixed assets who tended to accumulate profits from the favourable macroeconomic policies as well as in the expanded domestic market generated by the state's retreat from economic activities.⁹ Third, politicians at the local level often preyed on the public coffers by restricting infrastructure project bids. Their incorporation into the Lee regime provided an excellent opportunity for them to voice their interests.

Although the new political elites had gained more influence during the democratising period, they were not powerful enough to make the state apparatus directly serve their class interests. Lee effectively used his presidential power to

outweigh the legislative pressures and protected autonomy of the technocrats in the executive branch. The state–society relationship thus experienced a moderation of state power for greater access to new constituent sectors’ interests. In contrast to our conception of *moderated state power* for the post-authoritarian KMT, those researchers who subscribe to the *instrumentalist apparatus* perspective maintain that this relationship generated ‘money politics’ in which capital could easily be transformed into political power. The business interests were additionally armed with political power with which to attack the state (Kau, 1996). The argument underestimates the state’s institutional capacities and ignores the autonomy of the technocrats in regard to macroeconomic management and policy incentives for leading industries (such as semiconductor manufacturing, which now dominates at the expense of traditional manufacturing).

The democratisation of the authoritarian regime significantly weakened the KMT’s disciplining power over its elite members. The state inflated government budgets to create a bigger pie (including the Six-Year National Development Plan) for the distribution of favours in exchange for support. The Six-Year Plan aimed to invest more than US\$100 billion to duplicate state enterprises (Chen *et al.*, 1991: 229). Lawmakers in both the national and provincial congresses received enormous profits from obtaining ‘sweetheart’ contracts in numerous large-scale public construction projects. A surprisingly high portion of these contracts produced low-quality road construction and pavements that performed no obvious function for the community.¹⁰ The centralised state distributed such favours and consequently contributed to a fiscal heterodox.

Privatisation of state firms: the politics of consensus

Although East Asian states such as Japan and South Korea have strong administrative power, they generally do not establish firms to engage in productive activities. Their domestic business conglomerates assume responsibility for upgrading industrialisation, whereas the Taiwanese government has operated hundreds of large PSEs that play a significant role in fulfilling state-guided industrialisation projects. Although substantial private sector development downplayed the importance of the PSEs since the economic take-off in the 1960s, the surplus PSEs generated from the domestic market still constituted a vital source of state revenue in the 1980s (see Columns 5 and 6 in Table 1) while their share of total industrial production remained high at 15% until 1996 (Column 7 in Table 1).

The KMT drafted a plan to privatise 22 state and provincial enterprises in 1991–92. The estimated values of these varied enterprises (including steel, engineering, shipbuilding, banks and insurance) amounted to some \$145 billion. They employed 69 000 workers, which is about 26% of total PSE employees.¹¹ The privatisation policy attempted to reduce the percentage of shares owned by the government to no more than 50% from which the government expected to endow a large quantity of capital on its lavish Six-Year National Development Plan. However, privatisation advanced slower than expected as only 10 of the then 50 cases had completed the privatisation procedure by 1997.¹² However, the successful privatisation of three public commercial banks (Hua Nan, First and Chang Hua) in 1998 was a major step forward. The PSEs remain a behemoth in

the economy despite these efforts, since two were among the top 10 manufacturing companies and four were also dominant in the service industry as of 1998. PSEs accounted for 13.3% of total capital formation in 1996, which nevertheless represented a decrease compared with 22.7% in 1991.¹³

The initialisation of privatisation: the USA and the state technocrats

As with market openness, the privatisation of PSEs was first forged to achieve favourable international trade relationships. Taiwan's state firms were cited as an obstacle to the opening of domestic markets at the Uruguay Round talks of 1986 (McBeath, 1997: 1150). It is hard to underestimate the impact of foreign pressure on Taiwan since it has been enthusiastically pursuing membership in several international organisations to enhance its diplomatic standing. A Task Force on ROC-US Trade Relations was established by the Executive Yuan in 1989 to resolve bilateral trade disputes. This official effort produced a detailed plan that 'touched on virtually all sectors of the economy and was tantamount to a comprehensive plan for economic restructuring in expectation of continuous US pressures' (Baldwin *et al*, 1995: 95). The industries that the PSEs monopolised (such as tobacco and wine), dominated (banking), or protected (transportation, insurance, etc) were included in the government's privatisation plan.¹⁴

The state technocrats also proposed a PSE restructuring plan in the early 1980s. However, they attempted to revitalise the PSEs rather than retreat from the market since their major concern was the low efficiency of these public industrial enterprises. The economic belief the technocratic class upheld was 'structuralism' rather than neoliberalism and they had utilised the PSEs to advance Taiwan's industrialisation for decades. State engagement and regulation appeared useful instruments for promoting large developmental projects, and industrialisation without PSEs was not a preferred institutional arrangement. State technocrats developed a 'conservative' agenda to maintain a high level of government shares in the *de facto* 'privatised' PSEs so that: (1) the bureaucratic entrepreneurs in management could still be appointed by the state; (2) the PSEs could remain autonomous from rent-seekers.¹⁵ In short, privatisation for them meant running state firms like private enterprises,¹⁶ and they never considered privatisation as a form of state retreat or private capital control of PSEs. The state technocrats believed that Taiwan's statist capitalism would be reconstructed into a collectivity of modernised firms under new management by professional technocrats *qua* entrepreneurs (in place of the party cadres, retired government or military officers whose lack of expertise had badly hurt the PSEs' performance) because enormous local savings could be mobilised to purchase the PSEs. These bureaucrat-led restructuring projects were consummated because the state possessed substantial control of these enterprises even after they were legally excluded from the list of PSEs.

Political consensus in consolidating privatisation

The consolidation of privatisation gained ground when additional privatised PSEs appeared in the mid-1990s and more giant PSEs that had monopolised infra-

structure industries were put on a privatisation schedule.¹⁷ Neither the USA nor the state technocrats could have expected such efforts at the beginning of the 1990s. A surprising consensus among the KMT, the DPP, and big business evolved and they collectively asserted privatisation as an 'established state policy'. However, the DPP adopted this position because of political concerns. For example, the three large commercial banks owned by the provincial government had long been captives of influential provincial assemblymen (mostly members of the KMT). These elites had received huge loans from these banks with relatively low interest rates, which they utilised to capture numerous public construction projects that were typically finished without meeting the legal requirements. This scheme functioned as a vicious circle since these elites accumulated vast profits that they used to mobilise or buy voter support and then to continue to pressure the banks. The KMT also used its power to control the PSES to enrich its party machine. The DPP endorsed privatisation policies with the aim of ending the distribution of favours.

Privatisation offered a 'profit niche' for the large conglomerates. The conglomerates bought many privatised PSES to expand their financial basis and conduct speculation in stock markets. Although these conglomerates were not responsible for initiating privatisation, they appeared to benefit enormously from such neoliberal reforms. Researchers on economic liberalisation in South Korea have demonstrated that the *chaebols* (big business groups) competed with the state in providing necessary services to the private sector even though the state helped them expand. Thus, the large business interests in both Taiwan and South Korea circumvented state regulation and performed those functions the state provided to facilitate their growth during their infancy (Hamilton & Kim, 1993). This outcome concurred with many other LDCs (Bienen & Waterbury, 1992).

The position of the KMT as arguably the biggest business group in Taiwan cannot be ignored. The KMT business conglomerate had long thrived on state firms—it accumulated enormous profits by exclusively doing business with the PSES. The party owns seven stock-holding companies, 27 enterprises, and has invested in over 400 firms ranging from construction to recreation industries. Although there are no reliable statistics for the assets of these 'legal private firms', a conservative estimate by the party was \$2.5 billion (NT\$78 billion).¹⁸ The KMT requires a huge budget to cover: (1) the salaries of a large army of full-time party workers; (2) mass mobilisation activities managed by local rank and file; (3) subsidies for the political campaigns of member politicians; and (4) escalating election campaign expenditures.¹⁹ Although the KMT encountered much more difficulty ransacking the state coffers in a democratic polity than during the authoritarian era, it reluctantly accepted privatisation as a structural reform in order to discard its image as a corrupt regime that preyed on the PSES.

The KMT did not give up the public sector to meet its ever-enlarging financial requirements as it started to utilise its enormous resources on 'usual' (thus politically uncontroversial) investment projects instead of on patronage in the early 1990s. It succeeded in controlling certain PSES (including a gas-supply monopoly) by acquiring majority shares but also managed the stock sales of PSES (including Taiwan Insurance and Taiwan Business Bank).

Although political power appeared to have been mobilised for some business

cases, the KMT could not have taken advantage of economic deregulation without its long-standing business expertise. The party's active and successful business practices beyond the public sector were also a contributory factor in its support of privatisation. It increased its portfolio investments in numerous listed companies, including many cutting-edge electronic firms, and it also encouraged local venture-capital investments to compete with the state-run enterprises in certain industries (such as telecommunications).²⁰ It also made special efforts to reduce its share in companies conspicuously marked as 'KMT, Inc' (the China Television Company for example) such that it could conduct the business as a private company competing in the market released by the state. KMT corporations performed successfully and yielded an annual profit estimated at \$260 million during 1993–99.²¹ While opposition parties intended to use privatisation policies to weaken the KMT, these neoliberal reforms ironically created a bigger and more successful 'KMT, Inc'.

Conclusion: state, class and (geo)politics in neoliberal restructuring

The past two decades have witnessed a triumph of neoliberalism that forcefully transformed the global economic, political and ideological landscape (Biersteker, 1995). Many theorists believe that neoliberalism is such a coercive power that policy reforms in numerous LDCs have converged in the direction of state retreat and market domination. Rather than adopt a holistic conceptualisation, this study has employed an examination that broke down three critical dimensions of neoliberal reform in Taiwan, a state which had excelled in promoting industrialisation in comparison with most LDCs. Our empirical analysis provided substantial theoretical implications from this unusual case.

1. Dependency and global power

A standard model of power asymmetry between the global agents (the USA) and Taiwan was proposed. Although the inevitable exposure of this semi-peripheral country (like most LDCs) to external pressures and the adoption of market institutions was expected, Taiwan confronted unique external pressures. Despite being widely praised for its bureaucratic autonomy, the Taiwan government has also been dubbed a 'vassal state' that depends on the US-dominated geopolitical system and its 'world market' for exports (Castells, 1992). Indeed, the USA did exert tremendous pressure on Taiwan to open its markets in order to reduce the trade deficit between the two countries. The IMF or World Bank was not involved in the neoliberal transition over the past two decades simply because Taiwan had only accumulated trivial external debts. Although the USA generated the first nudge towards PSE privatisation, it played a less significant role than domestic powers and interests in later restructuring.

The empirical analysis documents two fundamental types of dependency: debt and trade dependency. There is a built-in bias towards short-run stabilisation in the debt dependency situation that prompts neoliberal reforms focusing on the state sector to restrain public demands (Nelson, 1990). In a trade dependency

situation such as Taiwan experiences, market access appears to be a major concern for the USA.

2. *Power structure of the state and elite ideology*

The Taiwan government has been extensively used by development researchers to construct a theory which contends that the state can possess administrative apparatus, propose a national development project and exercise independent power in policy reform. However, our analysis of the Taiwan government revealed that this autonomy (particularly with regard to market openness and fiscal expansion) has been eroded over the past two decades. However, the state clearly did not retreat to allow the market to dominate as demonstrated by the carefully designed privatisation plan, which turned PSEs into bureaucratic instruments to effect industrial transformation.

My contention is that privatisation was initialised by state technocrats. Yet state technocrats at different periods revealed distinct attitudes. The 'first-generation' technocrats who came with the refugee government from mainland China 'lived on' state firms and had enthusiastically sought to elevate their management and efficiency. 'Industrial policy through the means of PSEs' remained a central belief that largely accounted for how privatisation was 'legally' defined. In comparison, the 'second-generation' technocrats started a more 'radical' plan of selling PSEs. For instance, Schive Chi, associate director of the Council of Economic Planning and Development during 1993–2000, was a US-trained economist and professor at National Taiwan University (NTU) before he took office. Being responsible for implementing privatisation projects, his attitude toward PSEs conforms to the neoclassical idea of the market as the ultimate device of resource allocation and efficiency (Schive & Hu, 1999). However, the state technocrats' ideological drift away from the *dirigiste* developmentalism should not be considered as the *only* basis of continuous PSE restructuring efforts. Consolidation of privatisation policy was intimately related to the transformation of power structure of the state.

The political liberalisation of the late 1980s strengthened the legitimacy of the KMT and institutionalised a new democracy. However, it also invited distributive pressures from new coalitions that severely weakened the autonomy the KMT state enjoyed during the authoritarian regime. The democratic transition fragmented the ruling elite, reduced ideological cohesiveness and weakened the capacity of the KMT to discipline its members in the Congress. Consequently, both the state and the policy-making bureaucracy were increasingly subjected to the interests of newly incorporated party members. While some political scientists maintain that the power elite in a new democracy is more likely to take advantage of its legitimate regime and to exercise bureaucratic autonomy, Taiwan in the 1990s presented more of an example of how fragmented and polarised politics tend to 'heighten rivalries, magnify conflicts among organized interests, and weaken the capacity of the executive to initiate reform' (Haggard & Kaufman, 1995: 14). Nelson (1990) and Kaufman & Stallings (1989) argue that when a regime in democratic transition is supported by populist forces, it is more likely to adopt heterodox programmes when faced with increased distributive

demands. Taiwan's democratising state only supports Nelson's argument with regard to its fiscal expansion, which deviated from the general trend of market openness and privatisation.

3. *Economic interests and state retreat*

Big business conglomerates evolved as a strong interest group in the post-authoritarian era thanks to a strong economy, growing consumption and continuing state support. Previous research held that the Taiwan state could avoid forging political relations with the private sector and instead adopt a 'slow but steady' move to economic liberalisation based on its conservative macro-economic policy and strong economy (Haggard & Kaufman, 1995: 281–282). Such a state-centred perspective unduly overstates the political independence of the KMT based on its dominant position in the one-party authoritarian state, while also underestimating the strength of emerging capital. The capitalist class that matured in the 1980s was extremely concerned with the domestic market that has long been under the state's firm control. This class was able to profit by competing with foreign firms in opened markets (such as the banking industry), and to take advantage of liberalisation simply because the market released was large (for instance, the telecommunications industry). In the context of East Asian statist developmentalism, the conglomerate capital had grown more powerful and self-reliant, and the capitalist class's accumulation strategy began to shift from state-supported industrialisation to free market designs. Big business in both South Korea and Taiwan similarly pursued their independence from state control beginning in the 1980s (Koo & Kim, 1992; Hamilton & Kim, 1993).

Not all neoliberal reforms were produced by the business class exercising its newly built 'muscles'. In fact, this class played a more significant role in *consolidating* market openness and privatisation than in *initiating* it. Although this class was growing, by the early 1990s it was not yet a fully grown bourgeoisie capable of making the state as its instrument of accumulation. In contrast to India's recent economic liberalisation, the relatively limited influence of the big capitalists (*vis-à-vis* the state) in Taiwan's neoliberal transition mandates a 'weak' version of the class explanation. The state retreat strengthened the capitalist class. But the capitalist class did not produce the state retreat. An open market and the economic services released by the PSES provided this class with new profitable niches that they utilised effectively to exercise their class interests over state policy.

The power of the KMT via the state bureaucracy and party machine has been a distinct aspect of the Taiwanese neoliberal transition. However, the party lost the 2000 presidential election to the DPP and ceased to be the ruling party. This will reduce the likelihood of it using political power to intervene in the market and facilitate its economic gains through political means. Although the broad policy position of the new government led by Chen Shui-Bian remains unclear, some general trends can be detected. The liberalisation policy appears firmly established in this export-orientated economy and protectionism is very unlikely to be revived given the government's enthusiasm to join the WTO. Chen also main-

tained that 'Market rules also will have to be followed and the opening has to be proportional and reciprocal' in terms of economic links with China.²² The Chen administration has so far adhered to its populist stance by proposing several welfare programmes for lower-income groups and seniors (allegedly its royal supporters). Both the government budgets and deficits are expected to increase. The new government is also deeply concerned with the potential worker layoffs and union militancy that might result from the sale of PSEs to big business groups; it recently announced it will reschedule the privatisation timetable.²³ Thus the new government appears to combine both neoliberalism and populism.

Hall (1994: 149) argues that 'economic policy making [is] not simply a response to economic development but is a highly political process conditioned by the interaction between evolving ideas about the economy and the shifting political pressures that government faces'. Although it is difficult to predict future politics among the current neoliberal practices in Taiwan, external market dependence, democratisation, the breakdown of one-party authoritarianism, and the increasing strength of business interests *vis-à-vis* the state have led to a decentralised regime in which the technocrats have significantly less power than during the authoritarian era. The state technocrats might have to forgo comprehensive developmentalism in a large number of industries but may adjust by building ties with certain industries such as semiconductors, information technology and biotechnology. They may also be capable of carving out a privatisation project that allows technocratic management to bring the statist legacy back into vital capital-intensive industries including electricity, telecommunications, petroleum and machinery. Indeed, it would be immature to assert that this developmental state has arrived at the 'end of ideology' (or the 'end of history') in terms of its neoliberal reform.

Notes

The author would like to thank the National Science Council of the Republic of China for financially supporting this research under Contract No NSC 89-2412-H-005A-001. An early version of this paper was presented to the American Sociological Association Annual Meeting, August 2000, Washington, DC.

¹ In addition, the Securities Exchange Law was rewritten in 1988 while the Insurance Law was revised in 1990. These efforts further removed state controls and introduced US firms into Taiwan's market, whereas European and Japanese firms were still excluded.

² For more detailed accounts of these events see Y Chu (1995), J Chu (1995) and Kodama (1992).

³ Yu, in a recent biography of his technocratic career, indicated that internationalisation of the domestic economy aimed to 'reduce the obstacles in international economic exchange and to play a more active role on the stage of the international economy. In order to avoid *foreign pressures ... trade liberalization* is a necessary measure of economic development to our country' (Wang, 1999: 419, emphasis added).

⁴ For details see Baldwin *et al* (1995: ch 5).

⁵ This figure is computed from data in CEPD (1995).

⁶ See *Far Eastern Economic Review* (FEER), 25 July 1996, p 85. Despite its breakthroughs in trade and market openness, Taiwan's bid to enter the GATT was hindered because of its delay in allowing agricultural products imports and its reluctance to allow free direct trade with mainland China. China's heavy lobbying against Taiwan's admission also allegedly had some effect (FEER, 1995: 213).

⁷ See Kuo (1994). The project was reduced to US\$273 billion in 1994 (a 22% reduction) because of the government's fear of increasing debt levels, implementation delays, labour shortages, and the legislature's veto on some controversial projects such as the north-south high-speed train project (FEER, 1992: 203; 1994, 211).

- ⁸ *Monthly Finance Statistics—June 1999*, Taipei, Ministry of Finance.
- ⁹ In contrast, the small- and medium-size enterprises that focus on exports and comprise the majority of production organisations are less capable of self-organising and have only limited influence on economic policy. Unable to voice their interest in the new regime, they chose to ‘exit’ by moving their labour-intensive industries to China and Southeast Asia.
- ¹⁰ My collection of rural county (*Yun-Lin*) documents in South Taiwan indicated that in 1997, 60% of total (about US\$40 million) infrastructural aid from central and provincial governments was assigned for this purpose. Flooding control and the sewerage system was the second major spending target. However, there appeared to be a lack of co-ordination and an integrated plan among local and central governments. The flooding problem in this county (and many other counties) continued, especially during the rainy season. Numerous street widening projects in low-population rural villages also appeared unnecessary.
- ¹¹ *Commonwealth Magazine* (in Chinese), July 1992; Chang (2001).
- ¹² The important cases include China Insurance Co (1994), China Petrochemical Development (1994), BES Engineering (1994), China Steel (1995) and YangMing Marine Transport (1996). See McBeath (1997) for detailed case accounts.
- ¹³ From the CEPD, www.spring.org.tw/mission/private/pro3.html; Central Bank of China (1995).
- ¹⁴ The state attempted to hold a large share of stock (though not over 50%) to maintain governmental monitoring of these firms. However, the state plans not to hold any shares in those PSEs that do not dominate the market.
- ¹⁵ This argument is based on articles and autobiographies of two key technocrats: Chao Yao-Tung (Minister of Economic Affairs and Director of Council for Economic Planning and Development during 1981–88), and Wang Chao-Ming (a high-ranking technocrat involved in financial and economic policies). See Chao (1981; 1991), Liu (1995: 137) and Wang (1995: 69, 163). See also ‘Tough as steel: Taiwan’s largest steel maker speeds up privatization’, FEER, 20 October 1994, pp 84–85.
- ¹⁶ State technocrats guarded against the unproductive use of the state firms sold to business conglomerates. The 1994 scenario of China Steel’s sale and Chao Yao-Tung’s protest is a noteworthy case. See Liu (1995: 197–204).
- ¹⁷ The list includes the Taiwan Tobacco and Wine Monopoly (due 2000), Taiwan Power, Chinese Petroleum and China-Ship Building (all due in 2001).
- ¹⁸ *Taipei Times*, 18 June 2000. The figure reached US\$4 billion according to ‘Money machine’, FEER, 11 August 1994, pp 62–66. Although not all of the KMT’s companies are profitable, those that enjoy a monopoly in the market enjoy lucrative profits.
- ¹⁹ The KMT’s budget in 1994 was estimated as NT\$5 billion, with an additional NT\$7 billion for that year’s election, according to ‘Money machine’, pp 62–66.
- ²⁰ FEER, 9 March 2000, pp 42–45.
- ²¹ *China Times*, 8 January 2000; FEER, 9 March 2000, p 43.
- ²² FEER, 13 April 2000, p 18.
- ²³ *China Times*, 16 June 2000.

References

- Arce M, D G (1999) The political economy of the neoliberal transition, *Latin American Research Review*, 34, pp 212–220.
- Baldwin, R E, Chen T & Nelson D (1995) *Political Economy of US–Taiwan Trade* (Ann Arbor, MI: University of Michigan Press).
- Bienen, H & Waterbury J (1992) The political economy of privatization in developing countries, in: C K Wilber & K P Jameson (eds), *The Political Economy of Development and Underdevelopment*, pp 376–402 (New York: McGraw-Hill).
- Biersteker, T J (1995) The triumph of liberal economic ideas in the developing world, in: B Stallings (ed), *Global Change, Regional Response*, pp 174–196 (Cambridge: Cambridge University Press).
- Bowie, A & Unger D (1997) *The Politics of Open Economies: Indonesia, Malaysia, the Philippines and Thailand* (Cambridge: Cambridge University Press).
- Browman, J (1995) Economism and critical silence in development studies: a theoretical critique of neoliberalism, *Third World Quarterly*, 16, pp 297–318.
- Castells, M (1992) Four Asian tigers with a dragon head: a comparative analysis of the state, economy and society in the Asian Pacific Rim, in: R Appelbaum & J Henderson (eds), *States and Development in the Asian Pacific Rim*, pp 33–70 (Newbury Park, CA: Sage).
- Central Bank of China (1995) *Survey Reports on the Conditions of Assets Values of Public and Private Enterprises in Taiwan, ROC—1994*, Taipei.

- Council for Economic Planning and Development (CEPD) (1995) *Taiwan Statistical Data Book, 1995*, Taipei.
- Chang, C (2001) Social responsibility and marketization of labor relationship—an analysis of privatization policy of public firms, unpublished manuscript, Institute of Sociology, Academia Sinica, Taipei.
- Chao, Y (1981) From ‘the timing creates a hero’ to ‘a hero creates the timing’—challenges of industrial upgrading in the 1980s (in Chinese), *United Daily News*, 19 July.
- Chao, Y (1991) Public enterprises (in Chinese), in: C Kao & J S Lee (eds), *The Taiwan Experience, 1949–1989*, pp 304–335 (Taipei: Commonwealth).
- Chen, S *et al* (1991) *Disintegrating KMT—State Capitalism* (Taipei: The Taipei Society).
- Chu, J J (1995) Taiwan, a new regional centre, in: K Cao (ed), *The Changing Capital Markets of East Asia*, pp 170–201 (London: Routledge).
- Chu, Y (1992) The realignment of business–government relations and regime transition in Taiwan, in: A MacIntyre (ed), *Business and Government in Industrializing Asia*, pp 113–141 (Ithaca, NY: Cornell University Press).
- Chu, Y (1995) The East Asian NICs: a state-led path to the developed world, in: B Stallings (ed), *Global Change, Regional Response*, pp 199–237 (Cambridge: Cambridge University Press).
- Evans, P (1995) *Embedded Autonomy: States and Industrial Transformation* (Princeton, NJ: Princeton University Press).
- FEER (1992) *Asia Yearbook, 1992*, Hong Kong.
- FEER (1994) *Asia Yearbook, 1994*, Hong Kong.
- FEER (1995) *Asia Yearbook, 1995*, Hong Kong.
- Gourvitch, P (1986) *Politics in Hard Times* (Ithaca, NY: Cornell University Press).
- Haggard, S & R Kaufman (1995) *The Political Economy of Democratic Transitions* (Princeton, NJ: Princeton University Press).
- Hall, P A (1989) Conclusion: the politics of Keynesian ideas, in: P A Hall (ed), *The Political Power of Economic Ideas*, pp 361–391 (Princeton, NJ: Princeton University Press).
- Hall, P A (1994) Keynes in political science, *History of Political Economy*, 26, pp 137–153.
- Hamilton, N & E M Kim (1993) Economic and political liberalization in South Korea and Mexico, *Third World Quarterly*, 14, pp 109–136.
- Hojman, D (1994) The political economy of recent conversions to market economics in Latin America, *Journal of Latin American Studies*, 26, pp 191–219.
- Johnson, D L (1972) Dependence and the international system, in: J D Cockcroft, A G Frank & D L Johnson, *Dependence and Underdevelopment*, pp 71–111 (Garden City, NY: Doubleday).
- Kahler, M (1990) Orthodoxy and its alternatives, explaining approaches to stabilization and adjustment, in: J Nelson (ed), *Economic Crisis and Policy Choice*, pp 33–62 (Princeton, NJ: Princeton University Press).
- Kau, M Y (1996) The power structure in Taiwan’s political economy, *Asian Survey*, 36, pp 287–305.
- Kaufman, R & B Stallings (1989) Debt and democracy in the 1980s: the Latin American experience, in: B Stallings & R Kaufman (eds), *Debt and Democracy in Latin America*, pp 201–223 (Boulder, CO: Westview).
- Kodama, K (1992) Financial and capital markets in South Korea and Taiwan—present conditions and prospects for liberalization, *Pacific Business and Industries*, 3, pp 27–45.
- Kohli, A (1989) Politics of economic liberalization in India, *World Development*, 17, pp 305–328.
- Koo, H & E M Kim (1992) The developmental state and capital accumulation in South Korea, in: R P Appelbaum & J Henderson (eds), *States and Development in the Asian Pacific Rim*, pp 121–149 (Newbury Park, CA: Sage).
- Kuo, S W Y (1994) The Taiwanese economy in the 1990s, in: G Klintworth (ed), *Taiwan in the Asia-Pacific in the 1990s*, pp 89–120 (Canberra: Allen and Unwin).
- Liang, K & C Hou Liang (1988) Development policy formation and future policy priorities in the Republic of China, *Economic Development and Cultural Change*, 36 (3) (supplement), s67–s101.
- Liu, Y (1995) *The Incidents of Iron Head, the Legend of Chao Yao-Tung* (in Chinese) (Taipei: Lien Ching Press).
- Manor, J (1991) Politics and the neo-liberals, in: C Colclough & J Manor (eds), *States or Markets? Neoliberalism and the Development Policy Debates*, pp 306–320 (Oxford: Clarendon).
- McBeath, G A (1997) Taiwan privatizes by fits and starts, *Asian Survey*, 37, pp 1145–1162.
- Ministry of Economic Affairs (1994) *The White Paper on Industry Development*, Taipei.
- Ministry of Finance (1995) *Annual Reports on Tariff Affairs—1994*, Taipei.
- Ministry of Finance (1996) *Yearbook of Financial Statistics of the Republic of China, 1995*, Taipei.
- Nelson, J (1990) Introduction: the politics of economic adjustment in developing nations, in: Joan Nelson (ed), *Economic Crisis and Policy Choice*, pp 3–32 (Princeton, NJ: Princeton University Press).
- Pedersen, J D (2000) Explaining economic liberalization in India: state and society perspectives, *World Development*, 28, pp 265–282.

- Pen, J (1987) Expanding budgets in a stagnating economy: the experience of the 1970s, in: C Maier (ed), *Changing Boundaries of the Political*, pp 323–361 (Cambridge: Cambridge University Press).
- Portes, A (1997) Neoliberalism and the sociology of development: emerging trends and unanticipated facts, *Population and Development Review*, 23, pp 229–259.
- Richards, D G (1997) The political economy of neo-liberal reform in Latin America: a critical appraisal, *Capital and Class*, 61, pp 19–43.
- Roxborough, I (1992) Neo-liberalism in Latin America: limits and alternatives, *Third World Quarterly*, 13, pp 421–440.
- Schive, C & C Hu (1999) Retrospects and prospects of privatization policy (in Chinese), in: T Chou (ed), *The Privatization Experience of Taiwan*, pp 1–36 (Taipei: China Credit Information Service).
- Tsai, M (1999) Geopolitics, the state and political economy in Taiwan, *Review of Radical Political Economy*, 31 (3), pp 101–109.
- Wade, R (1990) *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, NJ: Princeton University Press).
- Wang, C (1995) *Wang Chao-Ming: the Autobiography* (in Chinese) (Taipei: China Times Press).
- Wang, J (1999) *Financial–Economic Master: Yu Kuo-Hua’s Life and Career* (in Chinese) (Taipei: Sunbright Press).
- Williamson, J (1993) Democracy and the ‘Washington Consensus’, *World Development*, 21, pp 1329–1336.
- Yeh, W (1992) Reflections on liberalization, *Commonwealth* (Taipei, in Chinese), April, pp 234–238.