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# MIDDLE-CLASS CRISIS IN THE COLONIZATION TRANSITION: COMPARING CATALYSTS AND CONSEQUENCES IN TAIWAN, 1988-2008

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MIDDLE-CLASS CRISIS IN THE COLONIZATION  
TRANSITION: COMPARING CATALYSTS AND  
CONSEQUENCES IN TAIWAN, 1988-2008

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DISSERTATION

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A dissertation submitted in partial fulfillment of the  
requirements for the degree of Doctor of Philosophy in the  
College of Arts and Sciences  
at the University of Kentucky

By

Jui-Chang Jao

Lexington, Kentucky

Co-Directors: Dr. Rosalind P. Harris, Professor of Sociology  
and Dr. Thomas Janoski, Professor of Sociology

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## ABSTRACT OF DISSERTATION

### MIDDLE-CLASS CRISIS IN THE COLONIZATION TRANSITION: COMPARING CATALYSTS AND CONSEQUENCES IN TAIWAN, 1988-2008

The Taiwanese middle class has experienced two waves of crisis over the past three decades in the context of a colonization transition involving globalization and democratization as primary catalysts. On the economic front, Taiwan's economy has become increasingly integrated into the Chinese market, resulting approximately one million of the Taiwanese middle class relocating to China. Moreover, neoliberal economic reforms have led to a downsized state sector of the Taiwanese economy. These economic changes affect the growth and stability of the Taiwanese middle class. Meanwhile, on the political front, an ongoing democratic consolidation and decolonization efforts have brought about significant political changes in Taiwan that have deepened Taiwanese nationalism. While economic and political processes appear to be opposite, however, in reality they have been mutually reinforcing, causing increasingly differentiated middle class. The political economy dynamics conditioned in a colonial context suggest that the swing voters of a differentiated middle class play a pivotal role in determining electoral outcomes, and electoral outcomes reshape the differentiated middle class.

**KEYWORDS:** Third wave democratization, Globalization, Middle class, Colonialism and decolonization, China threat.

Jui-Chang Jao

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Student's Signature

July 30, 2012

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Date

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I dedicate this dissertation to my wife,

Jennifer

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## **List of Acronyms and Abbreviations**

AMCs	Assets Management Companies
ARATS	Association for Relations Across the Taiwan Strait
APROC	Asian-Pacific Regional Operation Center
ASEAN	The Association of Southeast Asian Nations
BFs	Bonded Factories
BOT	Build-Operate-Transfer
BRIC	A grouping acronym that refers to the countries of Brazil, Russia, India and China
CEO	Corporate Executive Officer
CFA	Chartered Financial Consultant
CHFC	Chartered Financial Consultant
DGBAS	Directorate-General of Budget, Accounting and Statistics (Executive Yuan, the Republic of China)
DPP	Democratic Progressive Party
EOI	Export-Oriented Industrialization
EPZ	Export Processing Zone
FASCs	Financial Asset Service Companies
FDI	Foreign Direct Investment
FRM	Financial Risk Manager
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product



IMD	International Institute for Management Development
IMF	International Monetary Fund
ISI	Import-Substitution Industrialization
JCRR	Sino-American Joint Commission on Rural Reconstruction
KMT	Chinese Nationalist Party or Kuomintang
LCD	Liquid Crystal Display
LY:	Legislative Yuan
MAC	Mainland Affairs Council
NA	National Assembly
NATO	North Atlantic Treaty Organization
NDC	National Development Conference
NP	New Party
NT\$	New Taiwan Dollar
ODM	Original Design Manufacturing
OECD	Organization for Economic Co-operation and Development
OEM	Original Equipment Manufacturing
PRC	People's Republic of China
R&D	Research and Development
RFC	Registered Financial Consultant
RMB	Renminbi
ROC:	Republic of China
ROCOT	Republic of China on Taiwan
SARS	Severe Acute Respiratory Syndrome

SEF	Strait Exchange Foundation
SMEs	Small and Medium-Sized Enterprises
SOEs	State-owned Enterprises
TCC	Transnational Capitalist Class
TEDS	Taiwan's Election and Democratization Study
TFT	Thin Film Transistor
TSCS	Taiwan Social Change Survey
TSU	Taiwan Solidarity Union
UN	United Nation
WHO	World Health Organization
WTO	World Trade Organization

## Chapter 1: Introduction

In August 1945, the World War II ended. Japan's unconditional surrender to the Allied Powers terminated its colonial rule of Taiwan. The U.S. led Allied Forces in the Pacific theatre then ordered the Chinese Nationalist regime (Kuomintang or the KMT) of the Republic of China (ROC) to occupy Taiwan. Meanwhile, the intermittent Chinese Civil War resumed. As the fight between the KMT regime and the rebellion Chinese Communist force intensified, it caused thousands of Mainland-China born (Mainlanders)<sup>1</sup> refugees to flee the war to Taiwan.

The arrival of Chinese military forces and Mainlander refugees brought to increasing ethnic tensions between Taiwanese and Mainlanders within the island. The KMT's economic control to supply resources for Chinese Civil War further collapsed an already downbeat postwar economy. Taiwanese quickly learned that the KMT regime was not only a foreign colonial regime with major military resources, but it was even more corrupt and cruel than the Japanese. Social resentments rose and ethnic hostility escalated. The worsening economy and deteriorating social relations led to island wide anti-government uprisings beginning in February 1947, known as "228 massacre," during which more than 10,000 Taiwanese lost their lives.<sup>2</sup>

In order to crack down the uprisings and to restore social order in Taiwan, the KMT imposed the Temporary Provision Act and it declared Martial Law in Taiwan. In December 1949, the defeated KMT fled to Taiwan and it recreated the defunct ROC. In

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<sup>1</sup> The term Mainlander refers to mainland-China born Chinese who either came to Taiwan after 1945 or are the Taiwan-born offspring of these people. It does not include Chinese who live in China (The People's Republic of China) and overseas Chinese.

<sup>2</sup> The number of death is still contested. See Lai et al. (1991).

order to secure its minority-rule status, the ruling KMT used continuing high-handed rule to suppress Taiwanese for four decades. Consequently, Taiwanese rarely objected to the KMT regime. The dominant/dominated ethnic relations thus drove Taiwanese society to another round of colonial rule.<sup>3</sup> Under the colonial rule, Taiwanese became the subjects of forced assimilation, and as a result Taiwan gradually converted into a cohesive society.

In the mid-1980s, the Taiwanese elite gained momentum in the political arena, signaling a challenge to colonial domination by Mainlander Chinese. As a result of this political momentum, the seemingly cohesive Taiwanese society began to experience a decade-long social conflict and political turmoil. After the increasing social resentments converged into social and opposition movements, these movements eventually ushered political development into consolidation of the third wave democratization<sup>4</sup> and decolonization momentum. These social and opposition movements during the sociopolitical crisis were middle class-led, but these same movements often assumed that an expanded middle class would lead to a successful democratic transition.

This perspective assumes that the Taiwanese middle class was homogeneously liberal. Little attention has been paid to the dimension in which the Taiwanese middle class began to differentiate itself when facing this crisis, as each fraction of the middle

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<sup>3</sup> I use colonial rule to illustrate the domination/subordination relations within the Taiwanese populace forged as a result of post-1949 Mainlander control of Taiwan. I have more discussion in chapter 3.

<sup>4</sup> Huntington (1991) defined three waves of democratization that have taken place in history. The first wave democratization movement took place in Western Europe and Northern America during the 19th century. It was then followed by a rise of dictatorships during the interwar period (1918-1939). The second wave began directly after the Second World War, but lost steam between 1962 and the mid-1970s. The third wave commenced in 1974 and is still ongoing. Democratization in Latin America, East Asia and post-Communist countries of East Europe is part of this latest wave.

class had been embedded differently in a particular context of political-economic transition. Specifically, democratic transition in Taiwan has been accomplished with the emerging identity politics due to the decolonization movement. Consequently, political parties split voters into two ideologically opposite ends, the pro-Taiwan and pro-China spectrum. Nevertheless, overshadowed by a booming economy in the 1990s, the identity politics perspective paid much attention to ex-President Lee Teng-hui's reformist regime (1988-2000), whose political agenda had switched between the two ideologically opposite ends and had attracted the majority middle class support.

### **Statement of the problem**

Academic work, focusing on the first ever Taiwanese native regime, has reinforced the homogeneously liberal middle class perspective, and it has overlooked the conservative nature of the majority of middle-class people who have preferred to maintain the status quo of the colonial state. Moreover, political observers have almost exclusively focused on scrutinizing ethnic and identity politics in Taiwan. This tendency has substantially masked a truly incisive approach to class politics.

Finally, given the then-emerging dynamics of globalization, viewing social and opposition movements as homogenous and reformist may have overstated these movements as civically engaged, participatory, and democratizing. This understanding potentially ignores the vulnerability of the Taiwanese middle class overall, within the context of large scale, worldwide economic restructuring.

As Taiwanese continued to gain political power into the early 1990s, the middle-class crisis escalated at its pinnacle, as political tension between Taiwan and China nearly triggered a war in 1995. The cause of the escalation was thought to extend from the facts

that each fraction of the middle class has ascribed ideologies about how to “fix” the intractable problem of the colonial state. Surprisingly, however, this middle-class crisis seemed to be resolving itself after Lee Teng-hui, a Taiwanese nationalist advocate, won the first ever direct presidential election in 1996. While Lee’s landslide victory tended to end political turmoil and social disorder, which had lasted nearly a decade, intriguingly, the paradoxes of the colonial state remained.

Four years later, after the Democratic Progressive Party (the DPP) candidate Chen Shui-bian won the presidential election in 2000, most political observers agreed that the democratic transition in Taiwan was completed (Rigger 2005a). More recently, however, the middle-class crisis has reemerged and railed the Taiwanese society once again. A deep fear that the Taiwanese society is being divided into two camps, pan-green (the liberal or pro-Taiwan) and pan-blue (the conservative or pro-China), has been pervasive since then. As political parties competing against each other to pursue either extreme left- or right-wing agendas,<sup>5</sup> divisions have become more profound and disturbing.

The political instability has only been worsened with the onset of economic crises in 2001, when the Y2K effect faltered and the internet-related bubble industries floundered. This was reflected in the fact that Taiwan’s export industries suffered a large blow because there was a global decline in demand for high-tech products and industrial operations shifted to China. The economic growth rate was an embarrassingly negative

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<sup>5</sup> I define left/right and liberal/conservative dichotomy in the following way:

	Economy	Politics	State identity
Left or liberal	State intervention by regulation	Collectivism	Taiwan Independence
Right or conservative	State intervention by deregulation	Individualism	Reunification

2.18%, and the unemployment rate rose to 4.57%. Both figures were the most disturbing since 1950 (DGBAS 2002: 44 and 166). Job cuts, pay cuts, downsizing, and firm closures also have become prevalent. Taiwanese not only have been worried about their job security, but they also have developed deep fear that their next generation will be jobless, if the sagging economy continues.

Even though these trends impacted blue-collar workers most of all because the recession had shifted a significant number of industrial operations to China, members of the middle class also have become vulnerable. Essentially, downward mobility has prevailed. For example, the numbers of street vendors, food stand owners and stallholders have swelled, while the homeless population has substantially increased. Many of these street vendors once were members of white-collar work force and even regular business owners. Additionally, the expansion of higher education has produced increasing numbers of college graduates. These college graduates, the “would-be” of middle class, have been unable to find jobs. The oversupply of college graduates has led many of students to stay in schools for one more year, to either prepare for the graduate school entrance exams, or public servant qualifying exams, in order to avoid joblessness.

Because of the ongoing global division of labor, 70,000 Taiwanese-funded firms and approximately one million Taiwanese relocated to China by 2005. In addition, white-collar job seekers and employees have increasingly expressed their willingness to be relocated to China, hoping for a career boost since the new millennium. These figures indicate that the health and stability of the middle class, specifically the socioeconomic conditions facilitating the growth and maintenance of a stable middle class in Taiwan has become a major social problem. The sluggish economic performance and paralyzed

government characterized by ideological antagonism within the political arena, has endangered the Taiwanese middle class. It is therefore important to understand the dynamics that underlie the middle-class crisis, in order to more fully comprehend the current and future political and economic transformations to take place in Taiwan.

### **Focus of this study**

To what extent does the middle class serve the key to understand political economy transition in Taiwan? And why is a crisis perspective critical to comprehend the nature of colonial domination in Taiwan? Class is one of the fundamental bases of a society. In Seymour Martin Lipset's (2001) account, successful economic development leads to a diamond-shaped class structure in which the middle class becomes the backbone of that society. When it is under attacked by a sagging economy and traumatized by never-ending political confrontations, a political economy crisis ensures that would only make it harder for the Taiwanese society to envision a bright future.

This uncertain and dangerous social situation facing the Taiwanese middle class has manufactured an impetus for radical change. To understand why crisis could lead to a fundamental reworking of the way Taiwanese society is run, this study holds that the middle-class crisis must be understood in a broader social context in which sociopolitical, socioeconomic, and sociocultural forces intersect. Thus, comparing the catalysts of globalization, democratization, and decolonization helps clarify how these forces impact the Taiwanese middle class and produce long-term stressful and traumatic social experiences. In turn, these catalysts reshape the political economy development toward a more controversial situation that has destabilized the Taiwanese middle class.



In the context of a political economy transition involving globalization, democratization, and decolonization, this study distinguishes and defines two waves of the middle-class crisis over the past two decades. The first wave of middle-class crisis occurred between 1988 and 1996. The second wave began in 2000 and continues presently. The notion of middle-class crisis at the micro level refers to status anxiety about individual survival, job security, and fluctuating status and privilege during the periods of economic downturn or policy reforms. At the macro level, it is an issue of the socioeconomic conditions that mitigates against the growth and maintenance of a stable middle class in Taiwan. These two levels of middle-class crisis are interconnected with politics.

Prominent modernization theorists (Huntington 1991; Lipset 1959 and 1981) argue that economic development leads to the expansion of the middle class and this, in turn, brings about democratization because the white-collar strata demand more reforms to protect their privileges and expand their citizenship rights. This argument is problematic in the Taiwanese case, in part because the middle class is not internally united, and in part because the conservative elements of the middle class (Mainlanders in particular) did not appreciate democratization and support economic reforms during the social transformation due to their pervasive colonial mentality.

Moreover, the modernist argument regarding that the middle class in developing countries prefers a liberal political package demanding that the government to intervene in the market and reform the political institutions. This seems to contradict the fact that middle-class voters in post-industrial societies tend to support a more socially conservative agenda touting the superiority of the free market to protect their advantages

in the economy. In post-industrial societies, the middle class support the preservation of status quo in terms of traditional values in social institutions. Seemingly, there is a clear-cut division between the conservative middle-class fraction in the post-industrial societies and the liberal middle-class bloc in the developing countries regarding the middle class politics. While this is not to mean that these empirical studies lack specificity, there is a theoretical inconsistency regarding political standing of the middle class before and after the post-industrial and democratizing transition for a given society. As Taiwanese society has experienced democratization and has transitioned into a post-industrial society, it is difficult to determine which middle class theoretical considerations can hold more influence.

While some modernization theorists, like Larry Diamond (1999 and 2003), continue to cast Taiwan optimistically as a classic example of “third wave” democratization, the momentum of political economy since the new millennium has changed in ways that have deeply puzzled the Taiwanese middle class. On the one hand, liberal middle-class forces have pushed the Taiwanese independence movement to a potential flashpoint, which could potentially bring a destructive war to end the newly democratized polity. These developments, accompanied by serious white-collar recession, unstable party politics, state identity crisis, ethnic tension, and increasing hostility across the Taiwan Strait have caused deep pessimism and a sense of crisis within the Taiwanese middle class concerning Taiwan’s future.

On the other hand, however, globalization keeps skimming off the Taiwanese middle class and relocating them to mainland China. Because social experience shapes identity (Brown 2004), a great deal of Taiwanese middle-class people, involved in a

burgeoning economy in China, increasingly subscribe to political reconciliation and reunification with China. Making matters more complex, after China passed the anti-secession law in March 2005, China claimed that it shall employ non-peaceful means and other necessary measures to protect its sovereignty and territorial integrity when facing any attempt at Taiwan independence. In reaction to the anti-secession law, one million Taiwanese rallied on Taipei streets on March 26, 2005, showing a strong willingness to defend their right of self-determination and back up the pro-independence government. Ironically, this massive mobilization for political demonstration was middle class-led.

To counteract the pro-Taiwan forces and ease the rising tension across the Taiwan Strait, Lien, Chan, the ex-chairman of the KMT, and James Soong, chairman of the People First Party (PFP), have turned to be more conservative measures and have hoped to gain China's help. They have made bold moves to visit China one after another in May 2005, and they received high-profile receptions as the "real" national leaders of the Taiwanese government. Employing united front tactics, China has made several agreements with these two chairmen, including arrangement for cross-Strait transportation, improving treatment for Taiwanese business people in China, and offering free trade for Taiwanese produce.

More politicians of these two parties have been on the road to work out and realize the details of these agreements since then. Treating opposition party leaders as government agents and bypassing the government, China has successfully eroded the Chen administration's power on governing cross-Strait affairs. Eventually, this united front tactic featured good sociopolitical conditions for the KMT to regain momentum and it facilitated its candidate Ma Ying-jeou to win the 2008 presidential election. While these

bold moves to visit China have pleased conservative middle-class forces, the fears and resentments among the liberal middle-class forces have increased. Thus, Taiwanese society has been split into two rivalry and hostile camps, pro-China and pro-Taiwan.

As globalization has transformed post-industrial societies into service-oriented economies, more and more Taiwanese will position themselves to be members of the middle class, or perhaps more correctly, the transnational middle class. However, most research interested in the Taiwanese political economy tends to devote decisions to power elite, especially in the context of ethnic politics and state identity. There are few linkages to class analysis. Moreover, there are few acknowledgements that the Taiwanese middle class is in deep crisis. The middle-class crisis perspective has neither entered into public discourse nor has it been examined as a sociological subject that is directly tied to democratization, globalization, and colonialism. Thus, focusing on middle-class crisis shall complement the scholarship and enrich a better understanding of political economy dynamics in Taiwan.

The examination of each middle-class crisis in this study is guided by three research questions. First, at the macro level, how did the interrelated processes of globalization and domestic political economy transitions trigger the middle-class crisis? Second, at the micro level, what are the consequences of this crisis for individuals occupying middle class positions in terms of economic situation, status identity, political perceptions and attitudes, and perception of opportunities for themselves and their families? Third, what does the middle-class crisis portend for the bigger issues facing Taiwan, such as continuing consolidation of a democratic polity, obtaining statehood, and relations with China?

### **Significance of this study**

This study contributes to sociological scholarship in a number of ways. First, it reorients class analyses by entering into a more holistic assessment of class politics in the 21st Century. In the past, sociological research has focused on the dynamics of class tensions associated with blue-collar workers, particularly industrial conflicts characterizing the antagonisms between factory workers and capitalists in manufacturing-oriented economies. This research direction assumes that factory workers are the disadvantaged groups, with the most potential for agency within industrial societies. Consequently, the middle class is treated unproblematically, as the social sphere to aspire to.

However, with so many societies having gradually transformed into service economies, this study argues that the industrial conflict model is dated and over-studied. Sociological analyses should go beyond such stereotypical models and open the door to discussions about the impacts of changing globalization dynamics facing the middle class worldwide. Although the middle-class crisis is not a new theme in sociology, unfortunately, there are only a few studies in this area. In particular, what is missing from the literature conducted by Western scholarship is an analysis of the middle-class crisis taking place in a newly industrialized and democratized society, such as modern-day Taiwan. This study has the potential to bridge these gaps.

Second, a recent trend regarding class analysis in the context of globalization is to focus on the middle class as part of the transnational capitalist class (Pitelis and Sugde 2000; Robinson 2004; Sklair 2001 and 2001). It would be misleading though to assume that all members of the middle class in post-industrial societies could benefit from

increasing transnational economic practices. Contrary to conventional wisdom, increasing non-academic works (Buchholz 2004; Dobbs 2004; Hira and Hira 2005; Peterson 2004; Sheshabalaya 2005) have argued that the practices of offshore outsourcing have resulted in millions of white-collar job losses in America, and led to the decline of middle class status for many. Ironically, sociologists in the academic community still are reluctant to deal with this important issue (Hira and Hira 2005; Blinder 2008).

While at some points, offshore-outsourcing may appear to have class impacts to similar developments taking place during the era of deindustrialization in the 1980s such as original equipment manufacturing (OEM), sub-contracted manufacturing, and relocation of operation overseas, evidence suggests that offshore-outsourcing is also threatening the survival of the middle-class people within post-industrial societies. Moreover, practices of offshore-outsourcing are explicitly connected with the upper echelon of the capitalist classes and the rise of China.

Although conventional wisdom holds the belief that newly industrialized countries benefit most from offshore-outsourcing practices, this study argues that this is not the case for Taiwan. The escalating displacement of the white-collar jobs suggests that the middle class across post-industrial societies are facing a crisis, and Taiwan is not an exception. By analyzing Taiwanese middle class in crisis, this study offers an opportunity to rethink the class assumptions associated with the consequences of globalization. Specifically, this study contributes to an integrated explanatory framework, concerning the mood of anxiety and vulnerability deeply embedded in the heart of individual middle class persons.

Third, most empirical studies have argued that the economy is the primary cause of the middle-class crisis (Corey 1935; Ehrenreich 1989; Gordon 2002; Johnson 1982; Newman 1988 and 1992; Savage 2002; Stock 1992). This perspective tends to ignore or downplay the importance of political dynamics. Moreover, these studies seem to focus on Western post-industrial societies, largely ignoring the plight of many other societies in the process. Thus, Taiwanese society offers a striking opportunity to examine the middle-class crisis in a newly democratizing, and lately industrializing society.

Fourth, this study differs from most studies in that it focuses on how the third wave democratizing transition differentiates middle-class fractions from one another within a decolonization context. This research concerns questions about how colonial institutions developed the postwar Taiwanese middle class, how political oppressions and economic reforms fractionized the middle class entity, and how social transformations produce stressful social experiences among the members of the middle-class people in Taiwan.

Modernization theorists argue that democratizing transitions within the Third World would be impossible without an expanded middle class, and that political consolidation of the third wave democratization would bring well-being for all citizens with members of the middle class benefiting in particular. Contrary to the “death of class” modernization theorists (Clark and Lipset 2001; Pakulski and Waters 1996), who assert that class politics, especially the focus on middle class and working class voting blocs, have become less useful to understanding voting behavior in post-industrial societies, this study challenges this perspective by arguing that the Taiwanese middle class has become increasingly differentiated into left/liberal, right/conservative, and contingent/swing

fractions. This is especially due to economic globalization and democratic consolidation processes.

As a result of such a class differentiation, the middle-class fraction as a swing or contingent vote is now the pivotal factor determining the outcomes of recent elections in Taiwan. By analyzing the middle class voting behaviors in recent elections, this study integrates important issues, such as state identity, ethnic politics, and economic integration into China within the contexts of democratization, globalization, and decolonization. This integrated framework offers insights into the underlying middle class differentiation process, which has resulted in the deepening of Taiwanese nationalism, the consequent emergence of pro-Taiwan campaign, and many recent election outcomes.

Moreover, the analysis will contribute to the political sociology literature on democratization process/institutionalization in two very important ways. First, in contrast to previous analyses of Taiwanese politics, which focus mainly on ethnic division and national identity differences, this study emphasizes how class dynamics interact with the ethnicity/national identity issues as catalysts for recent electoral outcomes. Second, what has been happening in Taiwan during the recent two decades as a result of its very rapid incorporation into the global economy in general and the cross-Strait economic linkages with China in particular, presages what may happen politically throughout the advanced industrial world as a result of middle class instability due to globalization.

Finally, concerns over Taiwan's future have split in opposite directions. On the one hand, the ongoing globalization processes of economic restructuring suggest that more Taiwanese companies, capital, business people, talented managers and engineers,



other white-collar workers, and even speculators will move to mainland China. This scenario prompts some political scientists to predict that economic integration between Taiwan and China will lead to a win-win political accommodation process (Clark 2002; Dreyer 2000). On the other hand, the “Taiwan rectifying movement,” aims at changing the national title from the “Republic of China” to the “Republic of Taiwan,” creating “new Constitution movement,” and seeking to eliminate China’s sovereignty claim over Taiwan. It threatens a historical break with the so called “one-China” policy line, a situation that could provoke war across the Strait, which could also trigger a World War. Contrary to modernization theorists’ prediction of increasing Taiwan-mainland China integration, many scholars suggest that Taiwan and China are moving toward separate and distinct destinies, and that a war across the Strait could be increasingly probable (Chu 2004; Corson 2004; Lynch 2004; Peterson 2004).

Within such a controversial context, this study holds that class relations are critical to the tumultuous situation that this colonial state has encountered. This is because within the predictions mentioned above about Taiwan’s future, the diverse members of the Taiwanese middle class are often the major players in cross-Taiwan Strait relations. If middle class swing voters continue to join the pro-Taiwan campaign, the birth of the “Republic of Taiwan” will become possible. In contrast, if the urban-based conservative middle class regain their strength, then Taiwan will gradually lose its sovereignty and merge with China. Therefore, by exploring how the middle-class crisis is impacting political attitudes and electoral politics, this study will potentially reveal more detailed information about how the lingering impact of colonialism continues to play a

role on the postcolonial stage. Ideally, these discussions and explorations will also tell us in which direction Taiwan may be heading.

### **Theoretical concerns**

Political sociologists (Dahl 1971; Diamond 1999 and 2003; Huntington 1968 and 1991; Lipset 1959 and 1981) anchored in the modernization theory tradition place great emphasis on the linkage between economic growth, the rise of middle class, and the consolidation of democratic political institutions in late developing industrialized countries with histories of authoritarian rule. Their analyses seem to posit assumptions about stable patterns of economic growth, gradualist societal development, and institutionalized political systems as given by the paradigm of Western historical experience. Their “equilibrium” model of middle class stability projects a growing middle class as a homogenously liberal force in democratic politics, driving electoral politics toward a centrist ground, and hence maintaining a stable political order.

With emphasis on the middle class as a political stabilizer in post-industrial countries, Samuel Huntington (1968) claims that the political order in modernized countries is stable because modernization produces a large middle class population, who often drive politics toward centrist positions and moderate political polarization. However, Huntington also argues that modernization destabilizes political order in developing countries because rapid economic expansion and social transformation have the potential to break down the equilibrium model. In this sense, modernization will eventually produce unfulfilled expectations among the urban middle class, who demand more economic opportunities and political freedom from their authoritarian governments.

If policy-making and political openness fail to meet the rising demands, grievances and resentments will escalate.

Since rapid modernization could lead to strong social grievances, Huntington (1991: 67) further claims that the urban middle class will mobilize and place pressure on the authoritarian governments for more economic freedom and political openness. Once the economic spheres open up more spaces for private sector and institutions, response to greater civil liberties for public interests and political participations will follow. In his influential scholarship, *The Third Wave Democratization*, Huntington theorizes that democratic consolidation occurs due to two important factors: (a) external influence from the international supports for democratic transition, especially Western democracies overall and the U.S. in particular, and (b) internal pressures, derived from socioeconomic modernization.

Concerning the internal factor, Huntington has observed that many social movements prior to democratizing transitions were largely middle class-led, and he suggests that at some level a successful political consolidation in the third wave democratization has at least some connection with the growing middle class. The middle class and democratic consolidation linkage model in the modernization theory tradition has been proven by its reputation and influence based on Western historical experiences in political sociology scholarship, and it has been a key interest of American foreign policy (Nafziger 1979; O'Brien 1979). This perspective renders some modernization theory followers (C. Clark 2002a; Hsiao 2001; Hsiao and Koo 1997) to conveniently assume that the Taiwanese middle-class people are homogeneously liberal, supporting a

reformist regime and hence, they are the carriers and stabilizers of the democratic transition.

However, in post-democratizing Taiwan, democratic consolidation has produced a political impasse and topsy-turvy politics since 2000. Moreover, these “empirical studies” typically ignore the fact that the working-class people were also major participants of many large scale social movements during the democratic transition. Without offering micro-foundation evidence, the middle class and political consolidation linkage model remains unfounded. It requires contesting the very fundamental theoretical concerns and scrutinizing the micro-foundation evidence. Key questions of interest are, (1) to what extent do empirical evidence support the notion that the middle class serves the role of carrier in the democratization consolidation process?; (2) Is the middle class truly homogenously liberal? And (3) does the middle class necessarily stabilize or destabilize democratic consolidation?

As for the first inquiry, while modernization theorists continue to give the credit of democratization consolidation to the middle class, some theorists suggest otherwise. For example, left theorists (Maravall and Santamaria 1986: 75; Rueschemeyer et al. 1992; Seidman 1994; Stephens 1993: 438) argue that the working class has liberal roots in history, as they suffer more social inequalities and exploitation during the excessive economic expansion. They are important agents of a regime transformation, and hence they are the carriers of democratization. It could be argued that these two competing perspectives observe the same social fact but have a different focus, with the modernization perspective emphasizing leadership, and the leftist-perspective stressing the mobilized masses. Unfortunately, these two contrasting perspectives offer no

advanced micro-foundation evidence with which to clarify which class is the primary carrier of the democratic transition.

The second inquiry questions “the breakdown of class politics” (see T. N. Clark and Lipset, 2001) in political sociology that began in the early 1990s. The “death of class” theorists (T. N. Clark 2001; T. N. Clark and Lipset 1991; T. N. Clark et al. 1993; Lipset 2001; Pakulski and Waters 1996; Ringdal and Hines 1999) argue that class politics, especially the focus on middle class and working class voting blocs, have become less useful for understanding voting behavior in post-industrial societies. In contrast, “enduring class politics” theorists argue that their analyses do not support a general tendency of declining class-party linkages, and class politics remain stable in post-industrial countries, with the American professional class as an exception (Hout et al. 1999). They conclude that it would be too premature to conclude that class-based politics is disappearing (Goldthorpe 1999 and 2001; Muller 1999; Svallfors 1999; Weakliem 2001; Weakliem and Heath 1999).

In this class-politics linkage debate, while both sides have presented micro-sociological evidence to support their assertions, they put the middle class at different ends of political spectrum. The enduring class politics school maintains that the middle class remains somewhat homogenously conservative. This perspective suggests that the right-wing parties continue to serve the interests of the middle and upper classes, and left-wing parties work to appeal to working-class people’s support. In contrast, the death of class theorists seemingly suggest that the middle class is undergoing a differentiation or realignment process, moving from conservative to centrist or even liberal ground. While

there is no sign that these two contesting perspectives are resolving their differences, some realities presented in the debate are helpful to the research inquiries at hand.

First, although the death of class politics school emphasizes a shift underlying the differentiation or realignment of class politics, it seems clear that both sides agree that the middle-and -upper class parties in Western societies have their roots in conservatism. If this is a universal phenomenon, it should be applicable to pre-democratizing societies. This implies that democratizing movement, if successful, could be attributed to the increased liberalism of the mass electorate. In this sense, the liberal fraction of the middle class and the mobilized working class are the carriers of the democratization, while the majority of the middle-class people seem to be simply riding their coattails. If the argument of this research holds, it suggests that modernization theorists exaggerate the role of the middle class during the democratic transition in developing countries.

Moreover, under liberal democracy, political parties need to constantly consult with voters and appeal to their support. Since the differentiation or realignment of class politics has been observed, it indicates attitudinal shifts in voters' political ideology. Traditionally, middle-and upper-class based conservative parties embrace free markets, individualism, and maintenance of the status quo as their economic ideology, political ideology, and the general moral claim, respectively. For conservative forces, social inequalities are inevitable and are necessary to maintain social hierarchy. This implies that each citizen should be responsible for their own well-being. However, the conservative forces advocate that the masses are incompetent in nature. Thus, they claim that the moral significance and material well-being of society must rest on the shoulders of the elite (Prewitt and Stone 1973: 18-19). To preserve the status quo, the conservative

forces pursue rigid moral codes through strong traditions, institutions, and a society governed by the elite groups, whose power rests on both their superior talent and private property inherited across the generations. In contrast, liberal forces advocate that the state intervenes in economic affairs to defend individual rights against excessive capitalist expansion and exploitation (A. G. Johnson 2000: 59).

Accordingly, for the conservative parties, the realignment of class politics could give working-class and lower-class people a substantial competitive edge to pursue institutional changes and reforms. When liberal forces promise to improve the quality and efficiency of the government under the name of social progressivism, the reforms that they carry out are not just regular adjustments in economic spheres, but ideological shifts in political beliefs and moral claims as well. These institutional changes and reforms therefore could pose serious threats to the established social order and political power, and they could produce anxiety within the conservative forces. The result of the realignment of class politics could drive the policy-making toward the centrist ground, an ideal result of compromise, or it could lead to polarization, a devastating outcome of political confrontation. The latter implies that political processes due to class differentiation could destabilize the middle-class voters' political standing in some post-industrial societies.

This politics of polarization tendency could be elaborated to construct a scenario of middle-class crisis in latecomer democracies. The central question of the scenario is whether democratic consolidation destabilizes the middle class or the middle class spoils the institutionalized democratic politics. Following this research's inquiries about middle-class politics, I integrate concepts generated from my discussions in theories of middle-

class crisis, globalization, and decolonization in Taiwan, with an emphasis on ethnic politics and stratification. This framework serves as the blueprint for my class politics analysis and two waves of middle-class crisis interpretation in later chapters.

### **Research framework**

This research focuses on periods of political and social events during about 30 years of history in Taiwan. It employs both qualitative historical-comparative methods and quantitative survey research approaches to explore the collective sense of crisis within Taiwanese middle-class people in the last quarter century. For some questions both methods are combined to produce answers. Class in some way is indispensable in social science, not only because it is a conception of social difference, but also because its effects make history distinct. However, class was a political taboo in Taiwan prior to the mid-1980s. People in Taiwan were not free to analyze their society in class terms because this was the colonial state's mortal enemy the Chinese Communists did (Gates 1987: 58). Since the political taboo hindered Taiwanese academic scholarship from doing class analysis, this study begins with intensive literatures review of Western scholarship to discuss the concepts of middle class and construct theories for middle-class crisis, and it then integrates these concepts and theories with class politics dynamics in the Taiwanese political economy transition, which culminates in chapter 4.

In the following discussion of hypotheses, research questions and hypotheses are organized according to two methodological approaches: (1) historical comparative and (2) survey research methods. But it is also important to realize that these two methods often overlap especially with the interpretation of quantitative results. I start with the



primarily comparative/historical hypotheses, and then go to the survey research hypotheses.

### **Historical comparative methods**

The first research uses strategies from Millsean methods, joint method of agreement and difference (Janoski and Hicks 1994:14; Janoski 2009) to make comparison between these two waves of middle-class crisis. The joint method of agreement and difference helps identify necessary and sufficient conditions that situate the occurrence of middle-class crisis. To make these conditions consequential, this study assesses the catalysts and consequences in a more quantitative way. Unfortunately, important variables such as political attitudes and voters' economic perceptions were incomplete in the 1990s survey data sets. This limitation only allows this study to examine the catalysts and consequences of the second stage of middle-class crisis by using survey data in the logistic models. The next section provides more discussions about the quantitative approach.

The construction of postwar Taiwanese political narrative (1945-1987) specifically focuses on the contexts of democratization, globalization, and colonialism, which serves as the background to facilitate my later examinations for research hypotheses and class politics dynamics by using secondary resources, books, journal articles...etc. This perspective subverts conventional wisdom, which holds that colonial domination ended in 1945. With focusing on the development of conservative-oriented political attitudes of postwar inchoate middle class, the view of colonial domination gives this study an edge with which to analyze the outbreak of two stages of middle-class crisis

in the recent decades. It also challenges the modernization theory, regarding the homogenously liberal middle class politics perspective.

The first major comparative/historical analysis posits the existence of a colonial relationship between the KMT and the Taiwanese people. The focus of this dissertation is more on how democratization has changed or attempted to change this colonial relationship, but in order to measure the changes in decolonization, one needs to show that colonization existed in the first place. The evidence for this comes mainly from comparative/historical evidence including the invasion of Chinese KMT with superior fire power after the Chinese civil war ended. This move was supported by the U.S. hegemony of the period just after World War II. It then involves the KMT taking over the Taiwanese government, the changes in the bureaucracy with the Taiwanese bureaucrats being replaced by Han Chinese of the KMT. The dominance of the Chinese KMT is the major focus.

Hypothesis 1: The KMT established a colonial relationship over the Taiwanese ethnic people (Minnan<sup>6</sup> and Hakkan groups) who just previously suffered under a colonial relationship under the Japanese for 50 years.<sup>7</sup>

Some evidence for this hypothesis will come later with increasing percentages of Taiwanese ethnic evidence from survey research data. To exploit the joint method of agreement and disagreement and qualitative analysis, I position narrative history in three

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<sup>6</sup> Other English language publications have referred to this ethnic group as Hokkien, Fujian, Fokien, Fukien, Holo, or Hoklo.

<sup>7</sup> This is a macro-sociological study. If it were a micro-study, it would delve into interviews of Taiwanese citizens and their subjective identities. However, this type of evidence is beyond the scope of this dissertation.

periods, the first wave middle-class crisis (1988-1996), the interlude (1997-1999), and the second wave of middle-class crisis (2000-2008). In sum, the narrative history focuses on the following conditions, which facilitated middle-class crisis:

- (1) Overall, the growth and maintenance of middle class became difficult as economic landscape shifted.
- (2) Economic development trajectory significantly shifted from the developmental state model to institutional development, which undermined middle-class people's faith in the government.
- (3) The distribution of wealth became more unequal, as deindustrialization polarized class structure.
- (4) Serious fluctuations of status occurred, causing a strong sense of relative deprivation within middle-class people.
- (5) Leadership changes alienated the sense of belonging within conservative fractions of middle-class people.
- (6) Democratization accompanied with the development of decolonization movement, led to emerging identity politics, rising ethnic tensions, middle class differentiation, and statehood crisis.
- (7) Decolonization undermined the prevalence of colonial syndromes, including the Mainlanders' superiority complex, Taiwanese middle-class people's dependency complex,<sup>8</sup> and Taiwanese inferiority complex.

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<sup>8</sup> The dependency complex has been observed but with wrong label. Y. Lin (2004), a psychiatrist, uses Stockholm syndrome to describe the dependency complex.

(8) Democratization invited China to play an antagonistic role in the political arena. Constant military threats and political tensions caused Taiwanese nationalism to develop.

(9) Globalization allowed China to shape Taiwanese economic development. The integration into the Chinese economy ushered the possibility of future conciliation, which pleased the conservative fraction middle-class people, but rising job insecurity disaffected liberal fraction of middle-class Taiwanese.

(10) The tug of war of democratization and globalization led many middle-class people, who are one of the most important forces to determine Taiwan's future to the center. However, their swing to the center deterred the advancement of decolonization momentum, causing the middle-class crisis to continue unabated.

The ten political economy conditions which contribute to middle-class crisis can be categorized into six dimensions: leadership change, democratic consolidation, globalization impacts, China threats, decolonization movement, and shifting political stance of the centrist middle-class voters. The dynamics and consequences of these six dimensions are graphically illustrated in figure 1-1. Seemingly, leadership change initiated the whole dynamics and decolonization movement posits at pivotal position of the consequences.

The decolonization movement represented a leftward shift in Taiwan's political transformation concerning Taiwan independence. However, the decolonization movement failed to come to fruition but brought to middle-class crisis, in part because the majority middle-class people, the backbone of Taiwanese society did not yearn for a

true statehood. What they wished for was the continuing reforms under the transplanted statehood which was recreated by the Mainlanders after the World War II.

As such, democratic consolidation became academic scholarship's major concern. The pronounced tendency thus put colonial perspectives aside. Consequently, discussion for the resilient colonial ideologies, Mainlander elite's ongoing domination in party politics, and enduring colonial political system, are still relatively neglected. In order to bring colonialism back to scholarship discussion, this study uses colonial perspectives to examine the middle-class crisis and expects:

Hypothesis 2: Leadership change initiates a new stage of political economy transition. This transition will bring to political uncertainty and trigger the middle-class crisis. The intertwined forces of globalization, democratization and decolonization will facilitate to endure the sense of crisis.

Hypothesis 3: Democratization gears up decolonization momentum. This momentum, however, will be offset by globalization forces and the emerging China threats. Thus decolonization will play the pivotal role to destabilize Taiwanese society. This, in turn, leads to class polarization, political stalemate, and divided society.

### **Survey research, election data and methods**

The second methodological approach comes late in chapter 7. It uses large scale survey research data on election studies and social change surveys that most often include well over a thousand cases in samples that approximate many random procedures (details are provided in chapter 7 and the number of respondents are in the tables). To conduct my analysis of the first wave middle-class crisis, I start with an intensive analysis of

changes in class configuration in Taiwan based on social survey and election studies. I use the Taiwan Social Change Survey (TSCS), conducted by Institute of Sociology of Academia Sinica. I used four data sets:

- (1) The 1991 TSCS series II-part I;
- (2) The 1993 TSCS series-part IV;
- (3) The 1996 TSCS series III-part II; and
- (4) The 2000 TSCS series IV-part I.

I use these data sets to examine how voters with different class and ethnic group background voted in Legislative Yuan elections and the 1996 President election. By offering micro-foundation evidence, this study challenges two major claims proposed by the modernization theory: that the middle class are homogenously liberal, and that the middle class are the political stabilizers.

For the analysis of the second wave middle-class crisis, this study used two further data sets from the Election Research Center of the National Chengchi University:

- (1) The 2001 survey of the Taiwan's Election and Democratization Study (TEDS-2001); and
- (2) The 2004 survey of the Taiwan's Election and Democratization Study (TEDS-2004).

The TEDS is a nationally representative survey data set, containing a series of questions relevant to voting behavior and political attitudes of adults aged 20 and over in Taiwan. The 2004 survey includes two different questionnaires. To maximize sample size in the analysis, this research combined the same variables of interest on both versions in the analysis.

Two major problems in post-election surveys are that the losing candidates' supporters often decline to reveal whom they voted for, and respondents misreported that they voted for the winner (Atkeson 1999; Wright 1990 and 1992). This is particularly the case when election outcomes contradict common expectations. These are the problems that this research encountered in the 2001 survey data. In the voting decisions in the 2000 presidential election analyzed in that survey, vote share for the three major candidates disproportionately overrepresented the winner and underrepresented the two losers (when percentages of surveyed voters are compared with the actual election results). To adjust for this problem, this study weighted the dependent variable (voter decision) in the four elections so that the vote shares in the survey matched the election results.

In the analysis, this study used multinomial and logistic regression techniques, in order to examine the odds of voting behavior against a series of sociopolitical background independent and control variables in the 2000 presidential election (multinomial), and the 2001 LY election (multinomial), the 2004 presidential election (logistic), and the 2004 LY election (multinomial). In the analysis of the 2000 presidential election, this study excluded two candidates because their shares of the votes totaled less than 1%. The dependent variables (voting decision) are coded as follows: 2000 presidential election (3=Chen Shui-bian, 2=Lien Chan, 1=James Soong); 2004 presidential election (1=Lien Chan, 0=Chen Shui-bian); 2001 and 2004 LY elections (3=Pan-Green parties, 2= Independents, 1=Pan-Blue parties).

In line with the research hypotheses outlined above concerning the importance of the middle class swing votes in these recent elections, class becomes a major independent variable and is operationalized using the following 5-class scheme: upper middle class

(managers and professionals); lower middle class (staff, salespeople, other white-collar office workers); proprietors (ranging from small business to large company owners); working class (blue collar employees); and farmers. Since the 2001 survey contains fewer occupational categories leading to an inflated percentage of upper-middle-class-respondents, this study used education and income variables to collapse this category and move part of the respondents to more appropriate lower-middle-class categories to approximate proportions found in the 2004 survey.

Given this study's recognition of the importance of other potential influencing factors on voting decisions in recent Taiwanese elections, additional independent variables were specified. Two attitudinal variables about perceptions of economic conditions at the national and household levels were included and coded as follows: 1=conditions worse; 2=no change; 3=better. An ethnic-identity variable was constructed as follows: 1=Taiwanese; 2=both Chinese and Taiwanese; 3=Chinese. In addition, a variable on preferences for state identity was constructed as follows: 1=prefer reunification; 2=prefer independence; 3=undecided; 4=prefer status quo. This study refers to both of the variables as indicators reflecting the degree of plagued colonial syndromes. Finally, this research included a variable constructed from several survey questions, which reflect "self-reported political ideology or stand" as it corresponds to commitment to pan-green, pan-blue or uncommitted (contingent/swing in this study's terminology) party platform principles.

Six control variables that are likely to impact voting decisions in Taiwan are also included in the analysis. These control variables and their operations are specified as follows: job sector (private or public); educational attainment (primary or less, middle



school, high school, college and above); region (Taichung, Nanto, Hualien to distinguish north and south); gender; ethnicity (Minnan, Hakka, or Mainlander based on father's ethnic group); and age cohort (20s, 30s, 40s, 50s, and 60s and above). The percentage distribution in the survey data of all independent and control variables on voting decisions among survey respondents and the logistic regression models are presented to play against modernization's middle class stability/democratization thesis.

Applying theories of democracy and class with survey methods backed up with the contextualization of comparative/historical methods reveals four more major hypotheses. Democracy, in Lipset's (1981: 27) account is a political system that supplies regular constitutional opportunities for changing governing bodies, and it is a social mechanism that permits the largest possible part of the population to choose among contenders for political offices. Liberal democracy, through the regular, institutional, and popular elections of the ruling elite of the state by citizens who in turn are governed by them, has been posited as the better system to make political decisions, as it assures more checks and balances. However, in some latecomer democracies in Asia, such as Thailand, the Philippines, South Korea, and Taiwan, political processes under liberal democracies have produced long stages of political instability and turmoil. In the Taiwanese cases, the breakdown of the previous colonial regime in the late 1980s marked the beginning of a political crisis. The transition to party politics has introduced another round of political instability.

This is because elite groups and discredited politicians of previous colonial regimes have remained active in political arenas, seeking their interests in the political process. When politicians regrouped, new political parties emerged. When politicians

failed to appeal to enough voters' support, political parties disorganized. It could be argued that the political consolidation in post-democratizing Taiwan destabilized social classes' political support through differentiation and realignment. This class differentiation and realignment in turn produces clashes of political ideologies, resulting in never-ending political confrontation.

King (1986: 23) once argued that ideological conflicts demand either complete victory or total defeat if they are to be resolved. King's insight points out the limitation of modernization theory. To play against modernization's middle class stability/democratic consolidation thesis, this study begins with an intensive literature review, in order to construct three theories related to the middle-class crisis. Out of this examination develops the following major concepts: status group fluctuation, class polarization tendency, as well as three colonial syndromes<sup>9</sup>, which facilitate my analysis of the middle-class crisis in chapter three. In chapter four, I take a new research position, theorizing that the Republic of China is a colonial system. After decomposing the colonial superstructure into three components, I argued that the majority of Taiwanese middle-class people emerge from a context of colonial background, and they have been politically contaminated by colonial syndromes. Therefore, they have accepted the colonial ideology, favoring reunification with China under the leadership of the Mainlander colonizer.

During the first three decades of the postwar colonial rule (1945-1975), the KMT used White Terror to imprison thousands of dissidents, resulting in chilly political climate.

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<sup>9</sup> The colonial syndromes refer to superiority, dependency, and inferiority complexes. See more discussion about this concept in chapter 2.

The effects of the transplanted state, overdeveloped state,<sup>10</sup> and developmental state also drove the inchoate middle class to conservative camp, accepting the colonial ideology. While there existed a small fraction of liberal middle class in Taiwan, fighting against the political segregation or the limited democracy that the KMT colonial regime imposed upon Taiwanese society, their political strength was too weak to carry out the entirety of the democratizing movement. The condition dramatically converted to ample momentum, however, following the leadership change due to the dictator Chiang's death in 1988. This momentum, accompanied with the dynamics of Taiwanese middle class formation and expansion in the context of both ethnically changed cross-Straits economic integration due to globalization and political confrontation due to decolonization, had produced the first stage of the middle-class crisis, threatening democratic consolidation.

After Lee Teng-hui succeeded the President and chaired the KMT, the colonial ruling ideology assumed that the colonized Taiwanese were incompetent; therefore the Mainlander colonizers have assumed the responsibility for managing the colonial state. They believe that, due to their superiority complex, they should be rewarded by responsible leadership positions. Of course, this has been challenged and dismantled. The unexpected leadership change inside the KMT, on the one hand, allowed more Taiwanese politicians to be incorporated into the inner circle of elite groups. On the other hand, it marginalized Mainlander elites' roles on the political stage. Meanwhile, globalization

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<sup>10</sup> According to Alavi (1972), the primary task of colonial regimes during the expansion of European imperialism was to subjugate all local classes by developing an unusually strong bureaucratic and military apparatus. This overdeveloped state led to an underdeveloped civil society, which could not resist state abuses and help the state to communicate with its people. Also see Rapley (1996: 141-143).

brought about a thriving private sector, resulting in the expansion of middle class population. The combination of leadership change and a booming private economy seemingly benefited the ethnic Taiwanese middle-class people most. In contrast, the political economy transition produced fluctuating status groups, in particular within the Mainlander community, and led to the first stage in the middle-class crisis, during which Mainlanders established a middle class based political party, the New Party or NP, in 1993.

On the other side of the political economy, however, rising wage resulted in offshore outsourcing practices of many labor-intensive industries, causing increasing industrial conflicts and social movements. Accompanied by the declining agricultural sector, these developments dislocated thousands of Taiwanese farmers and working-class people from the once prosperous economic landscape. The backlash caused a labor-based party, the DPP, to grow. In short, the first stage middle-class crisis leads to the following:

Hypothesis 4: Class politics developed, and the middle class began to differentiate into three fractions: conservatives attaching to the NP; the contingents aligning with the KMT; and liberals, who support the DPP.

Hypothesis 5: Mainlander voters were deeply supportive of the NP or the most conservative party, while the DPP to some extent received ethnic Taiwanese support only.

After rising to power, instead of destroying the colonial system and then constructing a brand new statehood in Taiwan, the Lee administration took a moderate stand and tried to reform it. While Lee's reform, the "Taiwanization project," had pleased many ethnic Taiwanese, the contradictions embedded in the colonial system have

continued to manifest itself both inside the Taiwanese society and within international community. This ideological conflict and the middle-class crisis were nevertheless resolved in 1996, when President Lee totally defeated challengers from conservative and liberal blocs by a landslide victory.

The conservative NP suffered a serious setback in 1998 Legislative Yuan election. This outcome led conservative middle-class voters to reunite with the KMT. It would seem that Taiwanese society was moving toward a healthy two-party politics, the middle class-based KMT versus the working class-based DPP. Nevertheless, the nomination of the KMT candidate for the 2000 presidential election split the KMT again. The electoral split of the KMT resulted in that the DPP candidate Chen Shui-bian unexpectedly won the presidential election.

Since the defeated independent presidential candidate James Soong, who was once the general secretary of the KMT and former Taiwan provincial governor won tremendous support from the conservative middle-class voters, he founded a party of his own after the election, the People's First Party (PFP) in 2001. Meanwhile, after the KMT presidential candidate Lien Chan, lost the election, he launched a power struggle against Lee. President Lee was forced to resign as the KMT chairman, and he was expelled from the KMT by Lien, whom he once appointed as his successor. Lee founded the Taiwan Solidarity Union (TSU) in August, 2001, and he has shifted his political stand from moderate to liberal, aiming to rectify the nation's name to the "Republic of Taiwan" and redraft a new Constitution. To appeal to Mainlanders' support, the KMT chairman Lien Chan steered the KMT toward a more conservative agenda. Consequently, changes in

party politics have forced middle-class voters to choose between liberal and conservative blocs.

Meanwhile, after Chen was inaugurated as President, Taiwan's economy began to experience a serious recession. The economic integration with China has resulted in a hollowed-out industrial development. The outsourcing of much of Taiwanese industry to mainland China is the most dramatic illustration of how globalization processes threaten to destabilize the lives of many middle class Taiwanese households. The fluctuation of status groups has intensified and the class polarization tendency has worsened. As a result, the rich get richer, and the poor suffer. The combinations of the changes in party politics and immiserizing growth in the economy point to the emerging second wave middle-class crisis. This initiates the following expectations

Hypothesis 6: Over time more middle-class voters will join the liberal bloc, while the majority of middle-class voters will remain supportive of the conservative parties due to political inertia. However, because the development in party politics has forced voters to take sides, outcomes of the volatile elections hinge on middle class swing voters, and the class factor will be intertwined with the ethnicity factor in explaining voter preference likelihood.

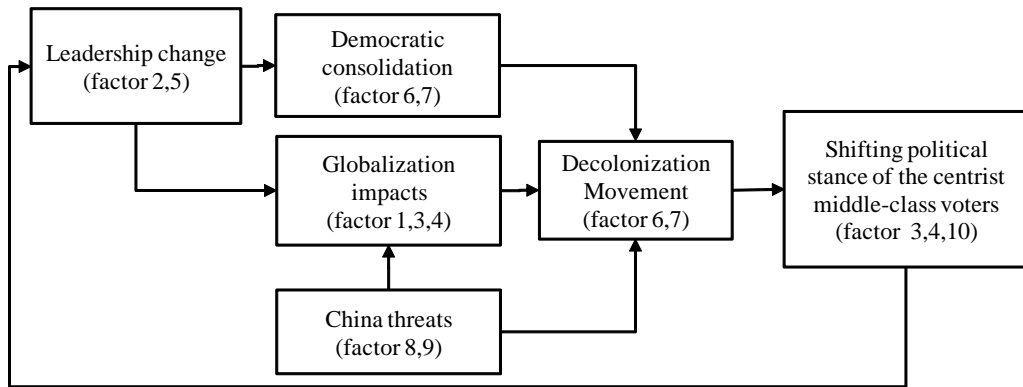
Hypothesis 7: To play against the increasingly economic integration with China, ethnic identity and state identity, based on pro-Taiwan claims, will play more decisive roles in determining vote choice in favor of liberal parties. In contrast, to accelerate political integration with China, ethnic identity and state identity, based on pro-China appeals, will matter most to determine support for conservative parties.

If these hypotheses hold, they demonstrate that the plagued colonial syndromes have continued to determine the majority of middle-class voters' political attitudes. I use several post-election survey data sets to examine these hypotheses. By integrating micro foundation evidence into the analysis of the two waves of middle class crises, this study challenges the modernization thesis of middle class stability/democratic consolidation, and it moves ahead to explore the catalysts and consequences of two waves of middle-class crisis.

### **Conclusion**

Thus, this dissertation will provide a two-pronged approach to the middle-class crisis in Taiwan. Chapter 2 discussed various theory of middle-class crisis, and chapter 3 provides the background to developments in Taiwan over the last 60 years. Chapters 4 and 5 provide the comparative/historical explanation of the two waves of the middle-class crisis and interlude period. Chapter 6 explains the role of colonization in more comparative and historical detail. In chapter 7, I review the identity and discuss how this has strengths and weakness with quantitative data and large samples but also weaknesses since it doesn't cover all of my hypotheses. In chapter 8, I summarize the comparative historical factors that explain the middle-class crisis. Finally, I conclude in chapter 9 and suggest some further research and applications of my theoretical and empirical approach to some other countries.

Figure 1-1: Process of middle class crisis





## **Chapter 2: Constructing Theories of the Middle-Class Crisis**

Undoubtedly, the middle class is one of the most successful, but also one of the most ambiguous concepts in sociology. To some extent, social scientists favor the term, “middle class,” mainly for the convenience that its emergence represents an ideal type of structural transition in modern capitalist societies. Maybe this is because in the seventeenth century, British society, there was a time of rapid expansion of middle class occupations, including merchants, clergy in secretarial and administrative posts, government and military officials, and professionals in arts and sciences. In the pre-industrial British society, however, there was no such term, as the middle class.

In 1812, the *Oxford English Dictionary* coined the term, “middle class,” and it referred to those people positioned between the nobility and the common people in Britain (King et. al. 1981: 44-47). Since then, middle class has become a pervasive theme in social science. Because the early definition assumed that the middle class is located in the middle layer of a sandwiched-like class structure, it also implied that this class held the ideal social positions for the majority of individuals. While the early definition has caused never-ending debates regarding class boundaries and how many social layers or strata exist within the middle class category, sociologists nevertheless maintain an obsession with the positive characteristics of the middle class. In particular, the modernization perspective holds a narrow view of the expansion of the middle class. Under such a perspective, middle-class crisis becomes a theme that is largely ignored by scholarly work.

This chapter starts from the conceptions of the middle class as embedded in the classic sociological tradition. To this end, I discuss concepts of the middle class within

the Marxist, neo-Marxist, Weberian, neo-Weberian and cultural traditions. After these theoretical considerations, I outline the fact that crisis is engulfing the middle class in post-industrial societies, owing to globalization transitions. To prove that middle-class crisis across post-industrial societies is not an academic fiction but a social fact, I illustrate how global employment adjustments are taking place, due to changes in entrepreneurship and economic restructuring.

Following the early sociologists' insights delineating the conditions under which crisis may engulf members of the middle class, I developed theoretical concepts, including a class polarization thesis, or the squeezing middle class from Marxism, fluctuation of status group in Weberian tradition, and anomie in cultural politics perspective as instrumental approaches to explain how the middle-class crisis may occur. Individually, these concepts may be too weak to carry the weight of the middle-class crisis in the context of the complex political economy transition, as is the case in Taiwan. However, employing them together will offer powerful explanations for this crisis. I repeatedly use these concepts in later chapters.

### **The middle class conceptions in sociology**

Marx (1988) conceptualizes social class based on one major criterion, the degree to access the means of production (property ownership) and its output. He views the middle classes as those people who stand between the workers and the capitalist or landlord (Marx 1977: 409). In the early stage of industrial society, the degree of the division of labor was less because the initial industrialization created very few professional, managerial, and even clerical jobs in the labor market. However, Marx at least is able to distinguish two kinds of the middle classes, the industrial and commercial

[or the upper] middle class, including bureaucrats and professionals; and the lower middle class or petite bourgeoisie which includes small tradespeople, shopkeepers, and retired tradespeople. For Marx, there are clear-cut class boundaries for the middle classes. However, the middle classes are not static entities. While they always recruit members from the top, many members of the middle classes would eventually sink into the bottom, due to class polarization.

Similar to Marx' definition, Weber (1947: 424-423) regards the middle class as those between classes who are positively privileged or negatively privileged. The positively privileged class means those who can control and monopolize high-priced consumer goods, surplus values, capital, business, education and various expenditures. The negatively privileged class refers to those slaves, proletarians, debtors, and the poor, who lack property. Weber typically pointed out some occupational groups in the category of the middle class. They are the independent peasants, craftsmen, officials in public or private employment, the liberal professions, and workers with exceptional monopolistic assets or positions.

Mills is the first sociologists whose scholarship, *The White Collar*, systematically illustrates the rise and fall of the American middle class. Mills distinguishes two kinds of middle class, old middle class and new middle class. The former refers to those farmers, businessmen, and free professionals. The latter means white-collar workers, such as managers, salaried professionals, salespeople, and office workers. An important characteristic of old middle class is that they directly control and own property. However, as American society moved to a more industrial model, Mills (1953: 15-33) argues that large farmers became real-estate speculators because of increased land centralization.

Many marginal producers and tenant farmers thus are eliminated or become rural waged workers. In the business dynamics circle, small businessmen came under the domination of large business, as they could not run their business efficiently and cheaply enough.

For Mills, there is a sharp break between the old entrepreneurial society and the new one. In the new capitalist society, productive property is no longer privately owned by single persons or families. It is no longer the case that legal owners of business direct and control them. Moreover, there are constant technological innovations, resulting in the great improvement of labor productivity, thereby generating a need for more efficient marketing to distribute commodities. This, in turn, creates the demand for administration and management workers. As enterprises constantly expand, they also create the need for financing and banking activities, and more new middle-class people are needed to fill job vacancies of these industries as a result.

The ownership changes of large enterprises, technological innovations, the need for efficient distribution of commodities, and increasing financial and banking activities eventually trigger the creation of many job opportunities for more white-collar workers. Unlike the old entrepreneurial society, in which factories mushroomed and produced tremendous amounts of blue-collar workers, the transition of the post-industrial society produces more job opportunities in the service sector, which supports white-collar workers.

Similar to Mills' approach, Goldthorpe (in King et al.1981: 42-43) further distinguishes "established" and "marginal" groupings for both new and old middle classes in British society, where the industrial revolution was initiated. Thus the middle class contains four categories: (1) the old established middle class consists of large

proprietors and independent professionals; (2) the old-marginal middle class includes small proprietors, self-employed artisans, and other own-account workers; (3) the new established middle class includes salaried professionals, administrators and officials, managers, higher-graded technicians, and (4) the new marginal middle class consists of routine non-manual employees, lower-grade technicians, and foremen.

The line between old and new middle classes is property ownership. The factor that distinguishes the marginal and established middle classes is the pattern of recruitment. For the established middle classes, whether old or new, Goldthorpe argues that the numbers of recruitment are increasing. On the other hand, the marginal middle classes in general experience much less recruitment from within its own ranks over the generations. In Mills' (1953: 63-76) analysis of the new and old middle classes, the percentage of old middle class decreases, while the new middle class increases. According to Goldthorpe, however, not all groups of the new middle class but only groups of established new middle class are increasing in numbers, typically those who are high-paid and are in better managerial and professional jobs.

In his class schema, Goldthorpe (Erikson and Goldthorpe 1993: 35-64; Goldthorpe 1987: 41) views the higher-grade professionals, administrators and officials, managers in large industrial establishments, and proprietors in the same class category, namely the service class. The reasons that he put professionals and managers together with proprietors is because of the fact that their incomes are much higher, jobs in general are more secure, and the career-building patterns are likely to rise steadily over lifetime. Moreover, they are in positions that are typically involved with the exercise of authority

and/or expertise within a range of discretion, and therefore offer considerable autonomy and freedom from control by others (Goldthorpe 1987: 41).

In this view, Goldthorpe's conception of service class implies that the higher graded and better rewarded professionals and managers are identical to those members of the upper class, though his early classification categorized them in the new and established middle class. Thus, the neo-Weberian approach tends to suggest that the professional and managerial occupational groups have already penetrated the upper boundary of the middle class in the post-industrial British society. Therefore, we should no longer view them as members of the middle class, but as the upper class. This implication essentially challenges Marxist notions of class structure.

In Marxist tradition, the line between capitalists and other social classes is clear. There might have some individuals across the class boundary and become capitalists, due to upward social mobility. However, a class scheme, promoting the upper middle class or some occupational groups of the middle class into the upper class and sharing the same class position with capitalists, is questionable. For Marx, the market situation is not fundamental enough to determine class location. Marx holds the belief that the relation of exploitation between sellers and buyers plays the key role to determine the social class. From this perspective, controlling the means of production fundamentally demarcates the line between capitalists and other classes.

Based upon this belief, Wright, a neo-Marxist scholar, suggests that the professionals and the managerial occupational groups are different from capitalists, but are still in the category of the middle class. In his class scheme, Wright (1985 and 1997) uses three criteria to categorize social classes. They are the means of production, one's

relation to authority (organization assets), and relation to scarce skills (skill/credential assets). According to Wright's criteria, there are twelve social classes in his class schema, and none of them is identical. Though Wright (1985: 124) agrees with the fact that in the capitalist society, managers and professionals are available to buy capital, property, stock etc., in order to obtain the "unearned" income from ownership, there are still some differences between capitalists and these two occupational groups. For capitalists, they are self-employed, the buyers of labor, and the owners of means of production, while managers and professionals are not. Moreover, capitalists do not simply own the means of production and hire workers. Instead, they also dominate workers within production. Accordingly, managers and professionals are in contradictory class locations. That is; they own a certain degree of authority to conduct work, but at the same time they are also under the domination of capitalists. They always face conflicting interests between capitalists and workers.

Given the nature of contradictory class locations, though managers and professionals might share some similar life styles with the capitalists, their market locations are distinguishable. The capitalists stand on the dominating side, while the managers and professionals are essentially on the exploited end. Wright (1997: 46) defines the capitalist class as those self-employed, who own the means of production, and employ ten or more employees. According to him, the numbers of capitalists is no more than 2% in the U.S.; however, they are a unique class. They might have class alliances, so that managers and capitalists stand side by side. However, managers and professionals are often skilled wage-earners or members of the upper middle class. In short, in the Marxist tradition, there is no ground on which to combine managers and professionals

with capitalists and form the upper class. So, managers and professionals remain in the middle class. Wright labels these managers and professionals as the “new middle class,” in order to highlight their contradictory location in that they are skilled exploiters but also capitalistically exploited because they lack assets of their own.

Wright (1997: 19) notes that the middle class are those people who do not own their own means of production, who sell their labor power on a labor market, and yet do not seem part of the working class. However, this does not mean to exclude those petty bourgeois and self-employed small producers. In reality, Wright (1985: 86-87) labels these small-scale producers and distributors the traditional or old middle class. Thus, it is clear that within Wright’s class schema, the middle class remains as in Marx’s doctrine; between the class above it, the capitalists, and the one below it, the working proletarians. Overall, the numbers of middle class have declined, except for those managerial and professional locations (Wright 1985: 207).

In sum, as a statistical aggregate, the concept of the middle class contains a variety of occupational groups with distinct interests. These theoretical considerations suggest that the middle class is never a coherent category. After reviewing the middle-class conceptions in sociology, it is clear that in both Weberian and Marxist traditions, the modern middle class has differentiated into two major categories, the new middle class and the old one. While theoretical considerations are concerned that the old middle class is under attack due to economic transformation, this study argues that the socio-economic transformation has also caused a crisis for the new middle class. Before heading to illustrate under which conditions the middle-class crisis might occur, I first clarify the fact that middle-class crisis is not an academic fiction but rather a social fact.



Then, I examine three approaches developed from early founders of sociology, in order to theorize middle-class crisis, and discuss specific mechanisms tied to globalization and democratization.

### **Middle-class crisis: an academic fiction or a social fact**

When taking a cross-national comparative historical perspective, it is undeniable that most members of middle class across countries have enjoyed rising social status, increased political power, and growing economic affluence. This image however is just one side of a coin. This study argues that below the promising side, there develops a crisis in the changing realities of the globalizing world. Recently, researchers have explored the notion that middle class crises have consistently occurred in post-industrial countries. These findings suggest that like blue-collar workers, white-collar middle-class people are not exempt from the impacts of political economy transition.

The first middle-class crisis dates back to 1900s Britain, where the middle class developed a deeply embedded anxiety and uncertainty due to taxation reform. The middle-class people faced a dilemma between the logic of economic restructuring and the moral claims for a society of free and equal citizenship. They feared that the growing power of the working class in the political arena would take advantage of the taxation reform at the expense of the middle class. The British middle class was anxious about its power to defend itself. While the Liberal government of 1906 was a government dependent on commercial middle-class support, that particular class was resistant to high taxation, and they resented the government's support of the working class. Under pressure demanding further reform from the working class, the Liberal government

procrastinated, but failed, allowing the Labour Party to become the party of progressivism in Britain (King et al. 1981: 64-66)

Historically, the Great Depression marks the first time in America that the survival of large portion of the middle class was at stake. Following “Black Thursday,” October 24, 1929, the first day of the Great Depression, when the stock market began to crumble, many small producers, storekeepers, and independent professionals’ lives were changed drastically (Stock 1992). In the spring of 1933, nearly 35% of salaried employees were out of work. Unemployment was greater among technicians than among laborers. Specifically, 65% of chemists, 85% of engineers, and over 90% of architects and draftsmen were unemployed (Corey 1935).

While the Great Depression caused a middle-class crisis, economic progressivism also led to the same result. When mass-produced goods began to dominate American society, privileges became a series of minute gradation. According to Ehrenreich (1989), the conservative middle class in the U.S. were afraid that the general affluence would erode their traditional social status, and shrink the social differences between the white-collar men and the blue-collar working people. Beginning from the 1960s, permissiveness replaced affluence as the focus of middle-class anxiety. The permissive middle-class people worried about student movements, Black Panther movements, labor movements, and even hippies, viewing them as an affront to middle-class values.

In the 1980s, the trade-driven economy resulted in that the advancement of blue-collar workers in advanced countries was involved in competition with their counterparts in Japan and the Asian Tigers. When deindustrialization occurred and the economic landscape shifted dramatically in America, not only working-class people but members of

the middle class also suffered and became desperate because of economic dislocations (Ehrenreich 1989; Johnson 1982; Newman 1988). Many white-collar workers were subject to the winds of recession. Their educational credentials, years of service, and specialized expertise offered far less protection against economic hard times than many had thought. White-collar managers were likely to be unemployed longer on average than blue-collar workers (Newman 1993: 46-47).

Recent scholarship has begun to explore how the middle class experiences crises in high-income countries as an outcome of global and political economy transition. In the 1980s and 1990s, the middle class in Britain faced white-collar recession. Managers were, for the first time, laid off in large numbers. Career options for the middle class had become less steady in terms of work rewards, and simultaneously more risky in terms of job security (Savage 2002). In France, because of the political instability of the 1980s, the middle class experienced rising levels of social costs from a longtime underemployment crisis. Additionally, they became the victims of deteriorating working conditions (Charle 2002). In Asia, Japan experienced its most prolonged economic recession that resulted in corporate restructuring in the 1990s. The economic downturn made the once-secure jobs and lifetime guarantees of employment unreliable for members of middle class (Gordon 2002).

Milanovic (2003) argues that the emerging anti-globalization movement has raised concern that the middle class faces global competition and that globalization will take away middle-class jobs from the North. For example, America has always been particularly successful at developing new industries. Indeed, no other country could match its start-up strength in terms of diversity, entrepreneurial spirit, risk capital, and

potential markets (Lawrence and Dyer 1983). However, once a new industry reaches maturity, the rising production costs in America eventually cannot compete with those in the catch-up countries. The deindustrialization or outsourcing process will occur. Then, like blue-collar workers, white-collar workers and small producers are impacted.

Sociologists, for example Bell (1973), argue that white-collar and service workers are replacing blue-collar factory labor in the post-industrial societies. However, the reality is that many white-collar jobs in the service industries are “junk jobs” or “McJobs,” characterized by low pay, no security, part time, and less benefits, and these are often held by women (Block 1990: 108-110; Pupo, Glenday and Duffy 2011: 66-81).

Some have advocated that high-tech industries create more new middle class jobs to offset the declines in other sectors (Esping-Andersen 1990: 192-193). For example, the Information Technology Association of America found that outsourcing to countries such as China and India created a net 90,000 new U.S. jobs in the information technology industries in 2003, and they estimated that outsourcing will create a net 317,000 new U.S. jobs by 2008 (Gilboy 2004). However, other evidence presents a different picture. Forrester Research reports that more than 800,000 white-collar jobs would travel offshore by 2005 and will total 3.4 million by 2015. Researchers at the University of California, Berkeley, Haas School of Business, believe that Forrester is too conservative and that 14 million white-collar jobs will be lost (Buchholz 2004:14).

Under the trend of offshore outsourcing, high-tech firms have increasingly shifted their operations to the Pacific Rim and Latin America. Many jobs that were historically available to American citizens are being diverted overseas where the labor quality is equal or better at a small fraction of the cost (Glassman 1997: 20). In Silicon Valley,

California, high-tech firms constantly lay off massive numbers of white-collar employees. The mass media has reported that Indian computer programmers are taking away American positions in the software industry through subcontracting and offshore outsourcing processes (Hutchinson 2003). These processes are thought to have caused the number of students majoring in computer science in the U.S. to steadily decline (Chabrow 2004).

The American middle class has been facing economic hardship since the new millennium. They are finding it more difficult to maintain historical standards of living. For example, in 2003, more than 92% of the 1.6 million Americans who filed for bankruptcy were the middle-class people. More than 40% of the 2.4 million newly uninsured Americans were in the middle class. Those employed as public administrators, teachers, and retail sales workers experienced average periods of unemployment as long as eleven weeks in 2003 (Schlesinger 2004). These reports demonstrate that globalization has resulted in painful employment adjustment in the high-income countries, such as the United States, and that the middle class is vulnerable in the process of continued economic restructuring.

Globalization has become the most powerful factor in explaining the rapid change of economic landscapes across nations. Capital is now increasingly available when crossing national borders in pursuit of maximum economic rewards. Consequently, capital migration has changed social relations in high-income countries. These countries are facing a major social transformation, shifting from manufacturing-based to knowledge-driven industries. Blue-collar workers in high-income countries are fighting almost unwinnable battles with those low-paid competitors in the low-wage countries,

such as China and India, and more and more white-collar workers are facing troubling futures. It is suggested that unless white-collar workers in advanced countries can “tech up” and transform themselves into successful knowledge workers, they may be squeezed out of their current positions and forced to downward mobility in the globalization process (Geoffrey 2004). This evidence indicates that middle class crises are a widespread phenomena and may now be endemic in post-industrial societies.

### **The Marxist approach: squeezing middle class thesis**

In *The Communist Manifesto*, Marx takes a pessimistic viewpoint about the future of the middle class. What he considers most at his time was that the mode of production changed considerably; the emergence of factory as the production unit and the excessive use of machinery to replace manual work. Marx (1988: 62) not only sees that the emerging bourgeoisie (business class) would assume dominance at the expense of the previous dominant landed aristocracy, but he also asserts that the change of the mode of production based upon machinery would result in the proletarianization of the middle class. Proletarianization, according to Marx, is a process of making more and more people into wage-workers, or locked in by salaries.

Moreover, this process causes members of the lower strata of middle class to lose their means of production because their small-scale production cannot compete with the capitalist mode of production. Marx then predicts that class polarization will occur and the lower strata of middle classes will gradually sink into the proletariat. Finally, Marx points out that the middle class is the class in itself and not the class for itself. The middle class are conservative in nature. They cannot carry out a revolution by themselves to

resist bourgeoisie rule. Therefore, the development of capitalist society will bring the inevitable destruction of the middle class.

Although in his later writings, *Theories of Surplus Value*, Marx (1977: 409) did detect that the number of the middle-class people constantly grew in the eighteenth and nineteenth centuries as a result of economic development. However, Marx never changes his viewpoint that the middle class would gradually sink into the working proletariat. Dahrendorf (1959: 51-57) criticizes Marx because he neglects the growing importance of the middle class in the developed capitalist society. However, Draper (1988: 164-167), Abercrombie and Urry (1983: 49-51), and Bottomore (1992:14-15) all defend Marx and argue that Dahrendorf's criticism is unfair because Marx refers to the large numbers of small producers, craftspeople, artisans, small farmers, and self-employed professionals, many of whom are in fact absorbed as paid employees into large capitalist enterprises.

Clark and Lipset (1991) argue that the expansion of the middle class to white-collar non-manual laborers has made Marx's assertion for the disappearance of the middle class problematic. The middle class in modern societies does not wither away. Neither do they join either the ranks of workers or capitalists according to Marx's expectation. Instead, it has grown substantially and differentiated internally. Lipset (2001) further points out that in the U.S. the proportion of those employed in non-manual pursuits has increased from 43% in 1960 to 58% at the end of the 20th Century. Thus, class structure measured by income resembles a diamond shape. Except the very rich on the top and extreme poor at the bottom, most people are located in the middle of the class structure.

Lipset's theory offers an explanation as to why a great majority of Americans claim that they are members of the middle class. However, using the same approach, Perrucci and Wyson (1999) draw a different picture of American class structure and come to an opposite conclusion. They argue that American class structure actually presents a double-diamond diagram. They assert that around 20% of the privileged classes occupy the upper diamond, with around 1 to 2% being a "super class" on the very top layer, and managers and professionals on the rest of the diamond. The lower diamond contains around 80% of the new working class.

In Perrucci and Wyson's conception of class structure, class polarization truly exists and there is no middle class in the U.S. Ellwood et al. (2000: 9-41) examines the real wage increase in the last quarter of 20<sup>th</sup> Century and finds that only the top third of the American families experience dramatic income increases, while in the bottom two-thirds of the families have gained little or nothing. Ellwood's findings support that class polarization, in terms of income distribution has continued. The debate of class polarization would likely keep going, but both sides might agree that, at the very least, more and more white-collar middle class have become locked in by salaries. The proletarianization process suggests that changes in the economic landscape, globalization in particular, have certainly impacted members of the middle class.

While Marx does not create a systematic theory regarding globalization, his work does foreshadow that the momentum of capitalist development will be unfettered by any regulation at local levels and moves toward globalization. According to Marx (1973: 675), capital migration is a journey without final destination. Capital always posits itself ahead of itself as consumable product, raw material, and instrument of labor, in order to



constantly reproduce itself. Therefore, in the capital accumulation process, money never sleeps. Once in motion, growth and reproduction of capital become the life forces of capitalism. However, modern capitalist development constantly faces crisis due to under-consumption tendencies and falling profits. In response to under-consumption tendencies, societies need to constantly expand the market and sales so that capitalists can chase the market over the whole surface of the globe. To pursue growth and to reproduce dominance, capitalist firms constantly face crises due to increasing competition and its outcome, overproduction.

Facing the never ending crises, Marx (1988: 58) argues that the bourgeoisie cannot survive without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society. Indeed, with the constant upgrading of technology, innovations in production, and its relation to society (social contracts), capitalist firms are able to strengthen their competitiveness and productivity, and thereby create more new markets and even renew the old markets at continuing and regular pace. While expanding the market tends to mitigate tensions, it also invites another round of more competitive struggle beyond the national level. Thus, the endless competition, overproduction, and expanding market constitute a self-destructive competitive struggle paradox, and this could drive capital to flee in the disorder of globalization dynamics.

In Marx's (1981: 297) account, capital constantly withdraws from a sphere with a low rate of profit and winds its way to others that yield higher rates of return. Capital needs constant migration, according to where profit rates are rising and where rates of return are falling. Failure to do so leads to declining business success. Capital migration,

understood in this way, implies that capitalist firms must set up production networks in places where the labor price is low in order to strengthen its production efficiency and competitiveness. Coping with the capital migration, the constant innovations in production constitute the vertical and horizontal dimensions of production relations to all societies, driving them to face massive adjustment of labor market.

At the vertical dimension, with constant innovations, capitalist firms in core countries have developed thresholds of industrialization, ranging from natural resources, labor-intensive, technology-intensive, capital-intensive, to knowledge-intensive industries. By largely investing in research and development sectors, leading capitalist firms are able to constantly renew means of production. New high technology in production and the new products of oligopolistic or even monopolistic positions in market help them maintain and reproduce their market dominances.

At the horizontal dimension, whenever capitalist firms conquer a market, they also disseminate the seeds of industrialism because corporations always locate their activities according to where profits can be yielded. Where capital immigrates and stays, industrialization begins to thrive. After more than a century geographical dissemination, almost every country on the surface of the globe has been involved in a certain degree of industrialized economy, varying from core to periphery. Although industrialization in developing countries often relies on mass production by employing large amount of workers with low levels of education and skills, the low production cost still enables manufacturing firms in these countries to outcompete their low-end products in the global market.

While this pattern regarding development and diffusion of industrialization among core to periphery countries remains stable, it is not static at all. A new variation of the international division of labor, namely the new economy, has emerged since 1990. For some, the new economy simply means the revolution in information and telecommunication technologies. For others, it refers to the rate of improvement in new products and services, and therefore there is an acceleration in the rate of productivity and growth (Lipsey 2004).

The new economy has undermined the innovation processes previously dominated by the core countries. Major transformations of research and development (R&D) activities include: a shift toward new emerging technologies and nonmanufacturing industries; a change focusing on shorter term development; a trend relying on both outsourcing and collaboration among firms, universities, and government laboratories; and changes in the location of R&D increasingly dependent on geographic proximity to clusters of related organizations (Powell and Snellman 2004). These changes in R&D activities in the emerging system of the new economy allow governments in the developing countries to play more aggressive roles in upgrading industrialization by offering attractive incentives to lure and introduce new technologies from advanced countries. The transformation in industrialization, both in advanced and developing countries, therefore constitutes a new stage of global dynamics of competition and collaboration.

In contrast to optimistic perspectives that capital migration will haul away bad jobs and create more good jobs, and therefore wage and salary levels will continue to rise in advanced countries, capital migration brings about class polarization and the declining

middle class. This is because capital migration leads to an explosion in the size of the labor force. This implies that it is capital rather than corporations can go worldwide to find the best talented people at lower price. This in turn brings to relentless pressure to drive down wages and salaries, not only for manufacturing workers but also those white-collar office workers, and even professionals and managers. The scenario of downward pressure on wages and salaries due to capital migration points to the ongoing class polarization process in advanced countries.

While control the development of advanced knowledge keeps core countries ahead, developing countries are also involved in constantly revolutionizing the means of production, and moving from labor-intensive to technological-intensive industrializations. Once they develop high-paid jobs in high-tech industries for their own citizens, the establishment of high-tech industries allows them to further encroach on the terrain of capital- and knowledge-based industries formerly controlled by the core countries. This encroachment undermines core countries' competitiveness and pressures corporations in core countries to practice innovations constantly. Much hope, therefore, has been placed on developing leading-edge technology to ensure that corporations in advanced countries can survive in the worldwide competition game, and then mitigate the tendency of squeezing the middle class in the job market.

The irony of the scenario is that large layoffs always come from high-tech corporations. High-tech firms target underperforming white-collar workers, both staff and managers, on the daily basis. In addition, high-tech manufacturing firms have a unique mode of hiring. First, high-tech firms are more willing to invest a great amount of capital in expensive equipment, rather than offering well-paying jobs for workers. Moreover,

high-tech manufacturing firms do not create more job opportunities than expected. For example, it takes couple billion US\$ to build a twelve-inch wafer plant, but that amount of money only creates around 1,000 high-tech jobs. Similar cases could be found in the TFT (thin film transistor) manufacturing firms. Furthermore, high-tech manufacturing firms create more working class jobs than white-collar jobs. Within the 1,000 high-tech jobs as mentioned in the wafer plant, more than two thirds of the positions could be performed well by workers who hold only high school diploma.

Finally, high-tech firms do not develop leading-edge technology for scientific interests but for commercial purposes. Many leading-edge technologies related to concrete production knowledge have been built into expensive equipment and sold for profits. As the division of labor in high-tech industries becomes equipment/facilities producers, some may argue that these establishments reserve more secured and high quality jobs. Nevertheless, these jobs are not for the general masses. Only those who have special talents, skills, and credentials can fill in these positions. Therefore, it would be fair to argue that once high-tech production facilities are sold, this scenario invites more rivals in developing countries. More and more often, developing countries now export consumer products to advanced countries without purchasing equivalent amounts of goods in return. It could be expected that sooner or later, both blue- and white-collar jobs created by high-tech manufacturing firms in advanced countries will be largely eliminated due to uncompetitive high-level wages. Because both working- and white-collar class people are losing competitiveness to the high productivity of expensive equipment and the growing capacities of capital reproduction, the general tendency of job quality declines and job insecurity rises as well.

Apart from this dilemma, post-industrialists like, Bell (1973), place their hopes on the growth of trade and expansion of service employment institutions, expecting that workers who are extruded by the declining manufacturing sectors could find their market niches in new emerging service industries. However, in retail industries, Walmartization<sup>11</sup> marks the revolution of shopping culture and has squeezed the middle class from the job market. When Sam Walton went into his first department store business, the Ben Franklin variety store in Newport, Arkansas, he quickly found a recipe to cook for business success. He started buying merchandise directly from manufacturers. Through bypassing the distribution dealers, Walton was able to purchase commodities at low wholesale prices, and beat his business rivals easily.

This aggressive business strategy and practice, is an initiation of business to business (B to B) strategy. In the 1960s, affluent American society allowed many large discount retailers, warehouse clubs, dollar stores, and chain stores to emerge by taking the same business philosophy as Walton did. Then the business strategy went wild by importing a large proportion of products from developing countries at a lower cost. These retailers hold an obsessive merchandizing strategy, which emphasizes the everyday low price and to expanding their turf. Walmartism, therefore, has encouraged the consumer to be addicted in cheap consumer goods.

At first glance, everyone seems to benefit. Presumably, consumers spend less but get more. However, Walmartism does not stop here. It aims at all consumer goods, from

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<sup>11</sup> Walmartization or walmartism refers to the spread of Wal-Mart's business model to other large retailers throughout the world. This business model largely imports cheap commodities from developing countries and it threatens the survivals of local stores and manufactures in post industrial societies. See Bianco (2006) and Quinn (2000).

luxurious and branded goods to inexpensive ones. In doing so, it goes hand in hand with predatory lenders, credit card companies and their accessories on Wall Street. Without noticing that the commercials advertise no money down and low monthly payment for a limited time but charge high interest rates after, many consumers are lured and trapped by both Walmartism and credit card companies to enjoy the affluent middle class life. It is just sooner or later that wants go beyond needs. When that happens, consumers actually spend more on shopping. Eventually most consumers have more bills to pay. For well-paid middle-class people, this causes fewer dollars in savings. For a great amount of middle-class people, this results in being credit card slaves or cash cows of the Wall Street lenders. Thus under the conditions of stagnant income and increasing expenditures, Walmartism creates a debt-propelled booming economy. It buries more middle-class people in the piles of debts.

In addition, it would be too soon to conclude that society as a whole benefits from Walmartism. Because of the pursuits of low profits for every single item, this business strategy results in changes in the service industries and triggers a chain reaction, which has a profound impact on the economy. First, the endless cutthroat price battles to attract consumers lead large retailers to use their powerful market muscles to squeeze out domestic manufacturers and suppliers who would eventually lose their durable competitiveness. When this situation happens, domestic manufacturers and suppliers have to choose to either close their business or pack up production facilities and move overseas. The offshore outsourcing, in turn, brings continuing pressure to reduce prices, which benefits consumers. However, in Harney's (2008: 2) account, each individual

American family benefits only US\$ 500 each year from large discounters' merchandizing strategy, but collectively, Walmartism forces thousands of factory closures each year.

Moreover, unlike Mills (1953: 67-68), who asserts that the expansion of the consumption could bring about emerging distributors and trade companies, large retailers tend to eliminate those middlemen. Furthermore, large discount chains suffocate small variety stores, who offer specific services at every main street and many shopping centers in small towns and middle cities entirely. Finally, those big retailers squelch each other. For example, Circuit City, once a leading consumer electronics chain, went out of business in January 2009. All these developments lead to a devastating result: immiserizing growth in which trade continues to grow, but this is accompanied by most people having increasingly worse-off lives.

Bhagwati (1958) first coined the term "immiserizing growth," which refers to the phenomenon that the more a country trades, the poorer it gets. This is due to income- and price-inelastic external demand, and worldwide competition from other manufacturers of the same commodities. While today the conditions that lead a country to become poor may differ, as argued by Bhagwati, the immiserizing growth facing us is a reality. Retail chains do create plenty of jobs, but most of them are part-time positions and only offer minimum wages, not enough to make a decent living for most middle class families. A small proportion of the top managerial class takes advantage of the growing economy at the expense of workers, white-collar people, and trade deficits. As manufacturing firms have squeezed a great fraction of engineers out of their market niches by offshore outsourcing and automation, Walmartization has led to increasing the new working poor,



expanding social inequalities, shrinking the middle class, and polarizing the class structure.

As the emerging high-tech and service industries from a Marxist perspective both fail to foster a promising middle class, most people place their last hope on the politicians, hoping that the government may find a way to end the middle class squeeze. However, in the new economy system, private institutions have become unbridled due to increasing transnational economic practices. There have been more corporations than countries on the list of world's top 100 economies since 2000 (Dobbs 2004: 55-59). As corporations have overwhelmed governments in the new economy system, it raises concern about reconfiguring the role of the state in directing economic development.

With increasing companies having become transnational and involved in borderless economic activities, the gains of corporations, in terms of territory and sovereignty in general and cyber space in particular, are seen as the losses of the state, and thereby constitute a zero-sum game for society. In this way, hyperglobalizers argue that economic globalization is bringing about a denationalization of economies through the establishment of transnational networks of production, trade, and finance. These borderless economic activities erode the power of national governments. The nation-state has rapidly become an unnatural or even dysfunctional unit with which to organize economic activities, and eventually this will result in the end of the nation-state (Held et al. 1999: 3-10; Ohmae 1995: 42).

In contrast, optimists of globalization theory still hold the belief that economic globalization has actually restructured certain components of nation-states precisely because nation-states have strong transformative capabilities, thereby reinforcing and

enhancing the power of the national governments. From this perspective, globalization, regarding the demise or decline of the nation-state, has been exaggerated. They hold that there is no compelling evidence in favor of the state power erosion thesis. The nation-state remains an essential actor in governing political and economic affairs (Held et al. 1999: 10; Sassen 2000; Weiss 1998). Though the Asian Financial Crisis demonstrates a good example that governments were subordinated to volatile capital, no nation-state has thereby disappeared since then. In fact, nation-states, such as South Korea not only have survived the 1997 Asian Financial Crisis, but they have also become even stronger in terms of economic performance.

A key condition supporting the enduring nation-state thesis is that the government has the capabilities to dictate how corporations are to act in the interests of their home states, even when there are conflicting interests concerning. This condition is becoming problematic in the new economy system, especially in the triangular relationships among the state, firms, and society. In Cappelli (1999) and Budros' (2002) account, a trend has emerged since the 1990s that corporations have faced a greater pressure to increase the earnings for their stockholders and sales pressures from the market. This is because ownership of the large firm has become concentrated in the hands of a relatively small number of institutional investors, for example private equality, pension, hedge, and mutual funds.

To respond to these pressures, corporations have to constantly practice flexible managements by cutting costs, downsizing the labor force, developing new products in a short time, and seeking newly emerging market niches. Precisely because the technologies become obsolete faster than one could expect and the market is so transient,

manufacturing firms in advanced countries tend to avoid long-term and fixed investments in the home state. By using offshore production and organizational restructuring through downsizing, firms no longer promise long-term employment relationships. Obviously, there exist tremendous conflicts among the states, the transnational firms, and the public at large in these contexts.

However, from this situation, there emerges a dominant class, the transnational capitalist class (TCC), whose propaganda, consumerism, global nationalism, and neoliberalism are powerful enough to overshadow, or at least mask, the interest conflicts among state, firms, and society. Consumerism pursues the best quality and the lowest-priced goods available for citizens in advanced countries. To accomplish this goal, global nationalism argues that globalized business is a production-sharing process. In this process, countries in the first world offer high-value technology and components for the production process, while workers from the third-world contribute low-valued and low-skilled labor. Although advanced countries may export jobs to the third-world through this production-sharing process, this in turn will help develop higher-skilled and higher-paying jobs at home. Neoliberalism further facilitates the framework of consumerism and global nationalism by deregulating trade barriers and establishing free trade zones.

According to Sklair (2001: 17), the TCC includes four fractions: transnational corporation executives and their local affiliates (the corporate fraction), globalizing bureaucrats and politicians (the state fraction), globalizing professionals (the technical fraction), and merchants and media (the consumerist fraction). Viewing the structure of the transnational capitalist class, one can see the fact that they overwhelmingly control the means of communication and thereby could effectively silence the masses. When

facing criticisms against the increasing disinvestments, plant closures, large-scale layoffs, offshore outsourcing, and firm downsizings due to the greed to exploit cheap labor in foreign countries, in Sklair's (2001: 108) account, the TCC argue that they simply practice a global strategy that will eventually bring benefits to everyone. In this point of view, foreign investments become inevitable in the never-ending quest for global competitiveness, prosperity, and the good life for all. This is to suggest what is good for the company is good for citizens. Thus, runaway manufacturing firms are no longer viewed as sinners.

In the context of the state, firms, and civil society, concerns over the squeezing middle class thus presents a scenario that a formula may fix one problem but mess up another. After all, politicians and small fractions of business elites take advantage of changes in the economic landscape. The new economy is full of uncertainties, but one thing is clear that millions of the middle-class people in advanced countries are facing declining in quality of life. When facing the increasing displacement of white-collar jobs, the American government is reluctant to offer protections for white-collar job holders. Hira and Hira (2005: 181) argued that this is because American society knows very little about the impacts of the newly emerging offshore outsourcing practices. Moreover, the existing employment assistance programs are underfunded, understaffed, and not helpful for a large number of white-collar workers.

Finally, as the transnational corporations and social elites take advantage of the global economic transformation, they perceive globalization in a quite different way. Rosenau and Earnest (in Tarrow 2005: 69) interviewed a sample of American elites in 1999 and 2003, and found more than 70% of American social elites viewed globalization

as a mechanism to enhance the creation of jobs, accelerate economic integration, and facilitate capitalist development in general. State managers and economic elites' understandings are greatly contrasted to the general mass' perception and what statistic figures show. A recent Pew Research Center poll found that 48% of Americans thought globalization resulted in job losses and only 12% Americans considered it a job creator in a recent survey (Pethokoukis 2007). Moreover, statistic figures show that transnational corporations slashed more than 2 million jobs in the United States within five years between 2000 to 2005 (Mandel 2008).

In short, the Marxist approach suggests that the state is becoming more impotent in dealing with the mounting transnational economic practices in the globalizing world, and it confirms that the declining middle class is an inevitable social phenomenon. Nevertheless, the macro-level views do not offer insights into how the meso- and micro-level changes of economic restructurings manufacture the middle-class crisis. In the next section, I develop arguments from Weberian tradition to strengthen the weakness appearing in the Marxist approach.

### **The Weberian approach: fluctuating status groups**

In some ways, Marx and Weber's concepts of class share many similarities. They both adopt relational concept of class, suggesting that property and market relations are important factors in determining social classes, predicting that class conflicts have a tendency to continually intensify in the course of capitalist development. They also see capitalism as undermining the salience of traditional status groups (Wright 2002). In terms of capitalism eroding traditional status groups; however, Weber does not mean that capitalist development tends to erode the strength of "all status groups." Weber gives two

examples to illustrate that capitalist development fosters some status groups to rise: members of liberal professionals with privileged position by virtue of their abilities or training, and workers with special skills commanding a monopolistic position.

In Weber's concept of class, the structure of social class is a continuum of prestige ranks without any sharp breaks, and thus without any clear line of conflict between major groups (Bottomore 1991: 16). The whole class structure, in this sense, tends to be a continuously graded hierarchical system, not discrete classes with well-defined boundaries. Treating occupational groups as a status group, one may find that there exist competition and power struggles among occupational groups. From this perspective, the prestige ranking of occupational groups fluctuates in terms of economic dynamics.

Weber's concept of the fluctuating status group is important in order to theorize the middle-class crisis. It explains the status of some occupational groups of the middle class, as they rise and some might fall, according to whether their market positions in the capitalist society are crucial or not. The fluctuating thesis, to some extent, could also be viewed as a relative deprivation that the rise of an occupational group could mean rival occupational group's relative fall. For example, those economically privileged may feel that they are losing ground during a great economic transformation because they see others are catching up. Similarly, those economically disadvantaged may worry that their economic conditions are worse off because they see improvements of others.

The scenario of relative deprivation alludes to changes of life quality in industrial society due to a transitioning job market. This aspect drives us to pay attention to what force causes fluctuating status groups in private firms and bureaucracies. In Weber's historical perception, modern capitalism is a unique achievement of Western civilization,

and modern capitalism itself sets the pace for the bureaucratization of the economy, favoring the rational pursuit of economic gain. When Weber talks about the rationalization of capitalism as a form of market economy, he indicates that all the factors of production move freely in the market and they are subject to calculation by business entrepreneurs (Collins 1986: 73).

In Weber's (1958: 215-216) idea of bureaucracy, rationalization is a process of dehumanization. This specific aspect of rationalization allows the workplace to pursue efficiency and calculation. This implies that capitalists can invest their money in where capital will maximize the greatest returns. It would seem that Weber's rationalization aspect is no different from Marx's capital reproduction and migration thesis, as capital always searches for bringing back the greatest returns. However, the interests of these two approaches are different, with the Marxist thesis focusing on the macro-level of class structure dynamics, and the Weberian analysis emphasizing organizational restructuring. Thus, if Marx's class polarization thesis answers why a middle-class crisis might occur due to capital reproduction and migration, Weber's fluctuating status groups further explore how a middle-class crisis takes place due to the rationalization of work places at meso- and micro-level.

Through the Marxist approach, I have theorized that the encroachment effect of industrialization from developing countries has forced core countries to lose their ground for cutting-edge industries. However, from Weber's rationalization theory, though the encroachment undermines the core countries' competitiveness, it would pressure corporations in core countries constantly to practice organizational restructuring.

One of the outcomes of organizational restructuring is marginalization.

Marginalization is a process of the rise and fall of massive adjustment of the labor market. This process affects a certain proportion of people in a wide array of positions in core countries, from blue-collar workers to white-collar workers and even corporation executive officers, while causing fluctuation among status groups. There are two kinds of organizational restructuring constantly practiced; productive action and paper action.

Productive action or productive entrepreneurialism refers to the actual production of goods or services based upon adapting new ways of production, producing new products, making investments in ventures, or conducting innovative marketing strategies that actually increase sales and profits (Rubin 1996: 38-39). Productive entrepreneurialism reflects the specific nature of rationalization. While productive action is more likely to expand the market share and create jobs, given the rising high production cost in core countries, the life span in productive entrepreneurialism tends to be short. This implies that the stake of investment in productive entrepreneurialism is high. Many productive actions are conducted by newly-created small firms rather than old large corporations.

First, Fordism perhaps marks the most successful story of the productive entrepreneurialism in the early twentieth century that a small firm passed a series of ordeals by applying new form of scientific management and has grown to become a large enterprise. The Fordist industrial paradigm is characterized by mass production, so that workers are separated and divided into a fragmented but rigid series of tasks according to a Taylorized labor process (Gibson and Graham 1996: 150). For Henry Ford (1988: 152-153), an underpaid man is a customer reduced in purchasing power. He cannot buy.



Business depression is caused by weakened purchasing power. Purchasing power is weakened by uncertainty or insufficiency of income. The cure of business depression is through purchasing power, and the source of purchasing power is wages.

To promote purchasing power, Ford (1988: 161) announced to pay workers a minimum wage of \$5 a day in 1914, more than double the average for the motor industry at that time. Worker turnover rates immediately dropped from 32% in 1913 to 1.4% in 1915. Ford further introduced a three-shift production system, and reduced the working day from nine hours to eight. Under the Fordist industrial paradigm, supervisors and managers won workers' loyalty and easily controlled the assembly line. Once well established, the new industrial paradigm was an inexorable push towards isomorphism. As isomorphism emerged, Fordism prevailed in manufacturing industries and manufacturing firms became similar to one another.

It is worth noting that assembly line workers in car firms actually earned much better than average white-collar middle-class people, including the majority of office workers and even college professors, and they still do. While not all manual workers in manufacturing industries enjoy pay as much as workers in auto manufacturing firms, these moderate pay and benefits form a new industrial paradigm, giving the majority workers more purchasing power. Thus, mass production of large quantities of commodities went hand in hand with emerging mass consumption. After the Second World War, Fordism reached its heyday. The prevalence of Fordist industrial production in the 1950s and 1960s fostered a rising standard of living for many working-class people.

As many working-class people became more affluent, at least materially, the gap between working class and middle class shrunk. This led to the fact that many of

working-class people began to shift their class identity to the middle class. In *Fear of Falling*, Ehrenreich (1989) used the particular concept of relative deprivation to illustrate how the conservative forces of American upper middle class had experienced a longtime uneasiness and anxiety due to large-scale socioeconomic change in the 1960s. Most American upper middle class expressed anxieties about the general improvement of material affluence, ranging from food, consumer goods, to fashionable commodities. Specifically, when the general standard of living for blue-collar workers improved, the conservative upper middle class felt that they were no longer materially privileged.

This anxiety, nevertheless, was largely relieved, after the high labor cost production paradigm in the auto industry and other manufacturing industries eventually reached its peak and began to decline in the 1970s. As Fordism declined, manufacturing firms no longer offered well-paying jobs. Concerns about a middle-class crisis arose in the early 1980s. Nevertheless, Ritzer (1996: 152) argues that Fordism is still alive and has been transformed into McDonaldism. Ritzer points out that McDonaldism shares many similarities with Fordism: homogeneous products, rigid technologies, standardized work routines, deskilling, homogenization of labor, the mass worker, and homogenization of consumption. In Ritzer's eyes, McDonaldism not only exists in the fast food and chain store industries, but also prevails in newspapers, magazines, TV programs, sports, healthcare system, and even higher education.

Walmartism perhaps is another variant of Fordism that also emphasizes homogenization of consumption by offering a wide range of varieties of commodities at affordable prices. Sam Walton opened his first Wal-Mart store in 1962, and soon has grown to become the second largest employer in the United States after the federal

government. Wal-Mart is one of the first employers giving stock ownership to employees, but this policy is only a benefit to its managers (Zukin 2005: 81-84). Since Fordism, McDonaldism, and Walmartism share the same central value of homogenization of consumption, these three paradigms have actively produced an illusion of classless society.

However, McDonaldization and Walmartization do not bring about rising status groups. The management philosophy of Fordism used to regard employees as important assets of companies. Nevertheless, in McDonaldism and Walmartism, wage payments are viewed as costs on the balance sheet. In this sense, employees become a burden, if not a debt. Therefore, to maximize profits and strive for cost cuts, the two new variants of Fordism largely offer part-time positions with minimum wage for workers, and thus they create the new working poor, who work hard but earn very little to make ends meet. This seemingly classless society in fact is a result of an increase of falling status groups.

Since Fordism has its roots in rigidity and inflexibility, a wide range of postmodernists have thereby proposed visions to express ideal forms of productive entrepreneurialism for the late capitalist economic system. Many of them view flexible specification as the solution to technical and social problems of Fordism, and the Japanese style of industrial production is an ideal paradigm (Gibson and Graham 1996: 151). In the Japanese style of industrial production, Toyotism marks the most successful paradigm of manufacturing and service excellence. However, Toyota's lean production and total quality control create revolutionary ideas from the production system. Toyotism heavily emphasizes *Kaizen*, meaning a continuous improvement system to produce the highest quality product at the lowest cost with a minimum of waste (Liker 2004).

Accompanied with the image of lifetime employment, disciplinary working regime, and the welfare corporation, Toyotism is actually more like a refined model of Fordism rather than a new paradigm of post-Fordism.

During the internet bubble in the late 1990s, flexible specification seemed to be promising in the computer-related high-tech and consumer electronics industries. Thousands of small- and mid-sized companies emerged and their stock prices skyrocketed. Following mergers and acquisitions, the internet bubble did produce thousands of high-tech new rich, who were engineers, scientists, professionals, managers, and even regular staffs. Flexible specification did breed prosperity, allowing high-tech new rich who could retire at a young age and enjoy bourgeoisie life style. After the bubble burst, however, flexible specification transformed into flexible employment, meaning more and more companies could offer temporary jobs rather than regular ones. Increasingly, companies in the high-tech related industries find qualified staff without commitment through contract jobs, owing to the emergence of temporary hiring (subcontract or contract). Regular jobs and lifetime positions seem to stray away from the reality in the productive entrepreneurialism.

Second, instead of productive action, large corporations tend to employ paper action for organizational restructuring, such as mergers, acquisitions, downsizing, temporary hiring, and outsourcing. Large capitalist firms prefer to employ mergers and acquisitions as the priority for several reasons. First, according to the vertical dimension of division of labor, this is the trend that large corporations aim for. Mergers presuppose that by creating larger companies, they can dominate world markets by their sheer size (Hira and Hira 2005: 19). Second, mergers assume that by combining market shares and

reducing head counts, companies can immediately promote per capita productivity and strengthen organizational competitiveness. When mergers bring companies together, the new company's assets increase, and it tends to generate short-term profits. Third, share holders always reward downsizing with a boost in share price (Ahmadjian and Robinson 2001). Finally, mergers allow companies to have deeper pockets to withstand economic recession.

Mergers however, rarely create new jobs. This is because downsizing frequently follows the mergers. Redundancy and de-layering are commonly cited as means of downsizings. Using the Labour Force Survey conducted by Office for National Statistics, Worrall et al. (2000) found that around 50% of white-collar occupations, including sales, clerical and secretary, associate professional and technical, managers and administrators, and professionals, were impacted by redundancy and de-layering in Britain during years between 1994 and 1997.

Downsizing is commonly practiced for company survival during times of economic recession. In the 1990s, Japan experienced a longtime economic difficulty due to the rapid appreciation of, the fall of stock market, and the burst of the bubble economy. Ahmadjian and Robinson (2001) found that large Japanese corporations at first resisted downsizing as a means to withstand the declining performance because Japanese society typically perceived that corporations broke down the implicit social contracts of permanent employment as "bad" companies. Along with the negative publicity, downsizings also affect the loyalty of remaining employees and new hires. However, eventually, most Japanese firms realized that the reduction of labor forces became a prerequisite for companies' survival during the economic downturn. The cumulative

percentages of firms that downsized at least once with a 5% labor force reduction had grown from less than 10% in 1990 to more than 50% in 1997, and downsizing more than 10% labor force increased from less than 5% in 1990 to around 20% in 1997.

Approximately at the same time, American society also witnessed a turbulent labor market. Using data from the Fortune Industrial 500 companies, Schultze (2000) found that on average, the top 50 firms that had over 50,000 employees in 1987 and still existed in 1997 had reduced their work forces by 20%. This means that more than 1.2 million jobs had been lost by these large corporations. Average employment among these fifty large firms fell from 126,000 workers in 1987 to 102,000 in 1997. During the same period of time the industrial transformation created nearly 22 million new jobs, but most of them, in reality, were created by small firms. Schultze thus concluded that the downsizing problem might have been overstated.

However, in Budros' (2002) account, when facing declining profits, large firms have to execute cost savings and therefore employ downsizing as the means for survival. Corporate culture in management is moving toward lean and mean production. Because the powerful large firms affect the everyday lives of Americans and major American institutions, we need to pay more attention to the downsizing strategy that large firms have practiced rather than to focus on the amount of jobs created or laid off by small firms.

Besides downsizing and de-layering, many massive layoffs of blue-collar workers are due to outsourcing. What makes downsizing and outsourcing different is that outsourcing could occur at a time when the economy is prosperous. In their outstanding book, *The Deindustrialization of America*, Bluestone and Harrison (1982) first use

outsourcing (parallel production or sometimes multiple sourcing) to refer to subcontracting work to another firm or subsidiaries. In the 1970s, outsourcing policies were prevalent for manufacturing firms as means to dismantle the growing union regime. By employing outsourcing policies, manufacturing firms treated their subcontractors as a cash cow on the one hand, and forced unionized work forces to compete for jobs against each other, on the other hand.

Many older-generation working-class people in the United States used to believe that jobs created by manufacturing firms were permanent and secured until they retired. Since the 1980s, massive firm closures and layoffs have made them realize that jobs in the assembly line are transitional and unsecured. Many white-collar financial, professional, and managerial workers were also displaced. The displacement rates for white-collar workers have increased by 20% to 40% since the 1970s (Doeringer 1991: 49).

After decades of adjustment, the labor markets in core countries have witnessed massive layoffs as well as the disappearance of many well-paid jobs both in blue-collar and white-collar occupations. Displaced workers always develop emotions such as shock, anger, denial, guilt, fear (Worrall et al. 2000), and social withdrawal and derivative stigmata, such as self-isolation and self-blaming (Letkemann 2002). Unemployment is also associated with other stigmata, such as laziness and apathy (Newman 1989: 8-9). Along with the economic and psychological costs of immediate job loss, displaced workers who cannot find equivalent jobs right away often experience permanent wage reductions and repeated job instability (Rubin 1996: 77).

Those individuals who survive turbulent organizational restructurings tend to reduce their loyalty toward organizations, and they are inclined to build portfolios of portable skills and marketable experience than company-specific skills (Worrall et al. 2000). Moreover, organizational restructuring is expected to improve productivity, efficiency, profitability, and competitiveness. These organizational restructuring goals in turn overload on survival tasks. Work in the core countries therefore becomes tougher. These phenomena suggest that the effects of encroachment and marginalization have alienated the job market to the extent that workplaces have become the sources of uncertainty, insecurity, uneasiness, anxiety, frustration, and stress, due to increasing levels of exploitation and lean production management.

Organizational restructuring has become an obsession, and offshore outsourcing has lured almost every country to be involved in the network. Under this offshore outsourcing network, jobs created today may leave tomorrow. Instead of viewing jobs as unsecured and transitional prior to the 1990s, more jobs in the new millennium are becoming “guest jobs,” doomed to travel around the world until they have nowhere to go. In addition to manufacturing jobs, many white-collar jobs in the U.S. are being exported to India and China, including call center work, back office work, and programming.

Because of the power of internet and modern telecommunication technology, geographical location has become less important. More and more well-paying white-collar jobs are becoming the target of offshore outsourcing, including professional jobs in areas such as architecture, engineering, life science, law, and business management. Forrest Research suggests that roughly 550 of the 700 service job categories in the U.S. will be affected by outsourcing in the coming decade (Dobbs 2004: 34). No wonder Carly



Fiorina, the ex-chairwoman and corporate executive officer (CEO) of Hewlett-Packard, once declared that “No American has a God-given right to a job” (Dobbs 2004: 20).

The pursuit of efficiency and profit-making, involving both productive and paper actions, thus traps most blue- and white-collar class people in an iron cage of rational control. In response to increasing pressure from global competition, even blue chip companies have to constantly reexamine every part of their business for signs of underperformance, and very often they enact massive layoffs after the reevaluation. The continuing rationalization in workplaces produces flip-flop effects, allowing some rising status groups to breathe fresh air on the top of the iron cage on the one hand, and on the other hand, it can cause those falling status groups at the bottom of the cage to suffer. Since there is no escape, everyone in the job market is at stake and has a right to fear that he or she may be drawn down by gravity and become the next victims of continuing rationalization.

In Weber’s fluctuation thesis or relative deprivation theory, where rationalization goes, fluctuating status follows. The practices of rationalization not only take place in private institutions but also occur in the public (or semi-public) sectors. Privatization and higher education expansion are examples that the practices of rationalization cause public employees and those middle-class wannabes high anxiety and panic. In the 1980s, the Thatcherite and Reaganist economic liberalism dominated, and it aimed to institutionalize the framework for trade liberalization, financial deregulation, and privatization at the world level. Under the influences of neoliberalism, large exporters in advanced countries were eager to conquer foreign markets by pressuring their own governments to open up at home in exchange for access to foreign markets. After more than a decade of neoliberal

reforms under the framework of World Trade Organization, the table has been turned, so that developing countries have exported more than expected, and trade deficits have been prevalent in advanced countries throughout the world.

The increase of trade surpluses in developing countries is partly dependent on privatization projects that have pressured many previously authoritarian states and socialist countries to pursue economic liberalization by selling state-owned enterprises. While privatization promotes performance and strengthens competitiveness, it is a cruel game for most public employees. Like organizational restructuring in most private institutions, large scale layoffs very often follow privatization because public employees' seniority and previous company cultures are burdens to the new owners and management teams. Privatization projects thus result in painful adjustments for millions of public employees worldwide who have gone through the ups and downs of their careers.

Higher education reform is another example of restructuring. Oversupplied college graduates cause a disequilibrium between the jobs available and the job seekers. For most modern societies, educational systems serve functions to transmit cultural values to the next generation, to socialize young citizens, to allocate citizens to proper social positions, to cope with economic development, and to pursue knowledge development. Educational systems need constant expansion, partly due to increasing populations and growing economies. As the complexity of division of labor increases, society needs a more highly trained and talented work force. Eventually, the expansion of a higher education system becomes inevitable as a result of rationalization.

However, many social changes in the globalization era are becoming less predictable and controllable, especially the shift from manufacturing economy to service

one. Deindustrialization and practices of offshore outsourcing have reduced demands for many engineering jobs in post-industrial societies, while the increase of service jobs has concentrated on the lower end of the labor force. In this case, higher educational expansion in post-industrial societies may lead to an oversupply college graduates. At the micro-level, education is the most important factor in obtaining a job. Well-educated people, in general, earn more than the less-educated, and the former always have better opportunities for upward mobility. In this sense, college graduates are the would-be middle class, and they form a rising status group. When higher education oversupplies college graduates, their status falls and they become the victims of rationalization.

In sum, Weber's fluctuation status approach highlights the importance of rationalization. After all, both the Marxist and Weberian approach are economically-oriented. These two approaches therefore are good bridges to various dimensions of globalization, and they point possible catalysts triggering middle-class crisis. Nevertheless, they are insufficient to provide linkages to political factors, which may also cause middle-class crisis. In the next section, I develop a new framework, namely a cultural politics approach, to illustrate how changes of social value system may lead to anomie, and such an anomie phenomenon in the postcolonial stage could be viewed as a response to a middle-class crisis.

### **Cultural politics approach: anomie, functionalism and colonialism**

In contrast to both Marx and Weber taking the concept of class seriously as an important analytical category to understand changes in modern capitalist society, Durkheim views class systems as archaic social structures (Lehmann 1993: 9-10). While Durkheim pinpoints the division of labor as a crucial social fact, he rarely mentions the

differences among social classes. Though the discussion of the middle class is missing in Durkheim's work, his anomie theory does offer insight with which to explore the social conditions that might occur in a middle-class crisis.

Anomie refers to a social condition marked by the dearth of common values that govern behavior. In Parsons' (1969: 83-84) account, anomie is characterized by the sociopolitical conditions in which a great amount of individuals are to a serious degree lacking in the kind of integration with stable institutional patterns which is essential to their own stability and to the smooth functioning of the social system. The consequences of anomie are that individuals react to sociopolitical situations in a state of insecurity and with high levels of anxiety.

Parsons (1969: 110) outlines some social stresses and strains to specify sociopolitical conditions in which anomie or large-scale social disorganization may occur. For example, antagonism between different social classes, tendencies to differentiation of wealth, resistance to the exercise of power, and imperfectly legitimized authority are all issues that may lead to anomie. Nevertheless, for Parsons (1951: 33-39), the presence of anomie is always sporadic. It is nothing more than a set of deviant behaviors, and it is quickly dissolved by the larger social systems, so that the social order can soon return to normal. Thus, as crime is a function to strengthen the norm, anomie is viewed as a means to reintegrate existing social systems. Consequently, while social change is as essential as it is inevitable to all societies, structural-functionalist theorists have been rarely worried that rapid social changes would break down the common values of social systems.

What makes social order possible has been one of structural-functionalist theorists' major concerns. For them, social change has always gone through an equilibrium model

in which common values are the link to history, and history is about culture and institutions. Structural functionalists hold strong faith in the normative grounds of social values embedded in the culture/institutions, and they insist that these are robust enough to defend challenging discourses. Their confidence and optimism are based on the fact that culture and institutions have a tendency to favor the maintenance of existing forms. Since social change projects itself into the unknown future, this transition, if possible, would be integrated into current culture/institutions. Otherwise, social changes may eventually bring societies to uncontrollable situations, and the effects could be devastating to social systems.

Structural functionalism's allies, modernization (McAdam et al. 2001) and pluralism (Dahl 1961 and 1967; Simth 1990), place emphasis on the general mechanism and universal process of social change over time, and they believe that civilization transits in an equilibrium form, even though cultural particularities sometimes do produce specific effects. In such an approach, the occurrence of anomie is temporary or episodic. This is because culture and institutions are so resilient that their powerful mechanisms, e.g. integration, comprise, and brokerage can always successfully transform places of disorder, troubles of dynamism, and stages of fragmentation into consolidation and consensus. Thus, once social structures are able to keep the momentum in the equilibrium model, they ensure individuals can act as coherent and rational social actors. This, in turn, reinforces the bases of social systems so that the collapse of culture and institution becomes impossible.

Since culture is the crucial factor to build interests, values, and institutions, such cultural divisions may seemingly produce divided loyalties in terms of different

ideologies and identities. Nevertheless, in the structural functional tradition, the equilibrium model tends to mask the possibilities of persistent and continuous anomie. To theorize the concept of anomie in a persistent manner, which could ignite the middle-class crisis, this study needs to frame concepts from other prospective theories, so that a synthesis can be applied to link Taiwanese case. To do so, this study first looks at one special social rupture in the context of the colonial system, namely ethnicity, which has been overlooked by functionalist theorists. Parsons (1975) notices that ethnicity can be source of conflict, bringing about disequilibrium and the instability of the social systems. But for the most part, he views ethnicity as a residual element of social systems, functioning to serve socialization. Indeed, in an equilibrium model, ethnic groupings are only units of cultural collectivity. Its major functions are no more than to passing traditional values to the next generations, emphasizing the historical memories, generating cohesion among individuals, and hence distinguishing members of an ethnic group from other groups.

However, this static functionalist view renders no vision with which to imagine that ethnicity could transform itself into ethnic consciousness, ethnic identity, and perhaps extending to nationalism, when faced with external pressure, such as colonialism, imperialism, and the expansion of modernization. Ethnic transformation, on the one hand, as commonly noticed in post-colonial literatures, is a process of resistance, power struggle, and revolt against others' imposition of disadvantaged sociopolitical conditions. On the other hand, it is an internal differentiation process within which the colonial system creates a binary opposition structure. This internal differentiation process allows the colonized who accept colonialism to identify with interests of the dominant outsiders,

so that their contingent and changeable status can take advantage of sociopolitical contexts. This internal differentiation process sets the stage to break down the equilibrium dynamics of social transformation argued by functionalist theories, and this situation may produce a long-term social disorder and political turmoil once the colonial system begins to crumble.

Much has been said in post-colonial literatures (Fanon 1967a and 1967b; Memmi 1965) about a colonial system engendering a sequence of contradictions, and producing misrepresentation of self. In Fanon's account (1967a: 11), once the outsiders conquer a colony by military force, a fine line is then set between the colonizers and the colonized. After the colonizers totally control the sources of political economy, the domination and subordination relationship leads to the internalization of the inferiority complex and dependency complex among the colonized, due to material disadvantages and ideological differences.

However, such a colonial relationship is highly unstable because suppression and various forms of political violence only invite more resistances and revolts against the colonizers. If extreme forms of political brutality continue, such as massacre or genocide, it will potentially eliminate the subjects of the colonized, and consequently, this will result in the end of colonial relations. This crisis could be solved by introducing surveillance and punishment to constantly monitor the colonized. Due to fear of severe sanctions and inferiority complex, the violent actions and reactions of the native are therefore repressed (Fanon 1967b, 40).

Although high-handed oppression is effective in maintaining social order, the cost is high. Moreover, the colonized still have the instinct and desire to change the cruel and

chaotic colonial system. If the instinct and desire cannot be eliminated or repressed, then the surveillance and punishment may seemingly produce increasing ethnic conflicts and frictions between the oppressors and the oppressed. This outcome, in turn, brings about further actions and reactions against the colonizers. Therefore, the colonizers introduce a second measure, namely an assimilation and reward system, reducing the possibilities that the colonized turn against the colonizer.

According to the inferiority and dependency complex, assimilation must, on the one hand apotheosize the colonizers, and on the other hand demonize the colonized so that the colonized become the colonizers' burden. The nature of assimilation therefore degrades the colonized to second-class citizens. The inferiority and dependency complex traumatize the colonized twice. Through colonial processes negation, brainwashing, and attachment the colonized consider their past and present negatively, and those associate with the colonizers positive. Once assimilation begins, the origins of the colonized become ignominious (Memmi 1965: 122-127). Thus, the colonizers secretly imprint an alien soul into the mind of the colonized. Though the colonized have an inborn desire for meaning, under the power of assimilation, hopelessness and meaninglessness abound.

The mind of the colonized thus becomes a political arena, constantly involving struggle between a true soul and the imprinted soul. The deeper the colonized assimilate, the more self-hate they have, especially as they see the progressiveness of the colonizers in contrast with the regressiveness of the colonized. The assimilation therefore reinforces inferiority and dependency complex, creating new categories of social groups. In this sense, the separation of individual from individuality and collectivity leads to that the colonized highly depending on imprinted souls to understand the outside world. Their



senses of self, community, statehood, and history, are all shaped and reshaped by the colonizers. The colonized now search for meaning and hope through the colonizers' own values. As soon as the colonized adopt those values, they similarly adopt their own condemnation. Memmi (1965: 121-122) concludes that in order to free themselves, the colonized agrees to destroy him or herself. The colonized thus become the subject without subjectivity. In short, they are individuals of a misrepresentation of self.

While theoretically a successful assimilation may lead the colonized to become the colonizers, this cannot happen. If the subjects of the colonized disappear, the colonial system is not sustainable. In practice, the colonizers do not put an end to themselves. The colonizers understand that where there is a distinct sociopolitical distance, there is a need to bridge the gap, so that the colonial system is not torn apart. The reward system thus functions as the selection process, so as to determine candidates who may fill in the gap between colonizers and the colonized. In Fanon (1967b: 143) and Memmi's (1965: 119-120) accounts, the native intellectuals, bourgeoisies, and the colonized middle-class are the top priorities of selection.

As soon as members of the middle class step into the void of the colonial system, the reward system encourages more emulators and followers to emerge, creating buffer status groups within the colonized, so that the frictions and conflicts, if persistent, remain among the colonized. Hence, the assimilation and reward system take a cultural turn with an economic twist, leading to race/ethnicity problems entangled with class controversies. After the assimilation and reward system form a continuum of social classes, the sharp racial/ethnic rupture transforms into class rupture. The crisis, due to discontinuity of the binary opposition colonial system, is therefore largely relieved.

The juxtaposition of the colonized and the assimilated middle class creates an internal colonization system within the natives, allowing that the latter also profits from colonization because of their somewhat measly advantageous social positions. They appreciate that the colonizers bring infrastructure to them, such as, roads, hospitals, and schools. They enjoy the privileges, benefits, and material advantages due to development projects. After all, colonialism gives positive things to the assimilated middle class. The assimilated middle class thus conclude that if not for colonialism, there would not be any sign of progress, modernity, and civilization. They develop a deep faith in colonialism such that if the colonization did not take place, there would have no promising development projects. From Memmi's (1965:112-113) perspective, they simply deny that they could do a better job without colonization.

Fanon (1967b) and Memmi (1965) thus conclude that assimilation does not emancipate the colonized. Both agree that the colonized could free themselves, however, and achieve the recovery of self through a fundamental change: revolution. While Memmi offers exquisite critiques and harsh accusations against colonialism, his solution for colonialism ends with the vague notion of revolution. In contrast, Fanon (1967b: 10; 47; 98; 143) argues that peasants, who live in close contact with their traditional societies, suffering the most colonial exploitation, are not corrupted by colonialism. They keep their moral values and their devotion to the nation intact. Therefore, they are the most revolutionary group. The lumpenproletariat, like a horde of rats living in social conditions that predispose them to react violently against the colonial system, is also considered by Fanon (1967b: 101-102) as a revolutionary force. In this way, it could be argued that

Fanon is an advocate of violence and is indebted to the Marxist/Leninist theory of revolution.

Nevertheless, Fanon goes further to offer visions about sociopolitical change of the post-colonial stage. For Fanon, revolution must be accompanied by decolonization. The former is to take over the colonial state apparatus and to destroy all the political structures established by the colonial regime, and the latter is to construct a new political structure and power relationship. Because political structures determine political behaviors and attitudes, the colonial structures should not be reformed but must be completely destroyed so that institutional changes lead to the creation of “new man” and new relationships (Hansen 1977: 137). Fanon (1967b: 174-175) indicates the assimilated middle class, having failed to break out the dependency and inferiority complex, accept the dividends that the colonial power hands out to them. For Fanon, these are illegalist elements of the colonial system and he seeks to abolish the useless and harmful middle class (Hansen 1977: 138).

Since Fanon asserts that the assimilated middle-class intellectuals, professionals, administrative bourgeoisie, civil servants, landowners, and business people is regressive and incapable of a radical transformation in the process of revolution and decolonization, Fanon (1967b: 124) lays much hope on the dissident intellectuals (legal intellectuals) to provide effective leadership for revolution and decolonization. The national leaders are expected to guide the people in their decisions, so that the intellectuals play the role of the Platonic philosopher-king, educating the rural masses and bridging the gap between urban center and rural periphery. In Fanon’s vision, the new state is a populist and socialist regime in which people hold primary power and participate effectively in the

decision-making and political process. As such, individuals can rediscover their sense of community in the society and become completely integrated within it (Hansen 1977: 194-197).

While Fanon delineates an ideal politics to restructure the political system and resuscitate the traditional culture, his vision downplays the multiplicities, complexities, and perplexities of the post-colonial society, and he overestimates the role of the action agents the alliance of legal intellectuals and lower classes in unmaking the colonial system. The multiplicities and complexities refer to multiculturalism or diverse groups, for example, multiple ethnic groups, localisms, political parties, and different social classes, with conflicting interests, antagonistic identities, competing values, and incompatible ideologies.

The new political alliance, intellectual elites and rural masses, is too weak to carry out the process of decolonization. In the real world, when intellectuals take charge of the state, they cannot exclude the ex-assimilated middle class as political action agents. The new state managers cannot deny their citizens' political participation, in part because the ex-assimilated middle class are also their people, and in part because the devastating ex-assimilated middle class would not retreat without a fight. In this sense, if Fanon's vision that people fully take part in the decision-making process remains effective, it situates the sociopolitical conditions to sustain multiplicities and complexities.

Politics is not only about economic distribution but also about recognition in the political process (Fraser 1995). Political recognition involves the inclusion of representative identities, moral values, and political interests. All of these elements of cultural politics lead to very fundamental questions concerning who are representatives in

the sociopolitical process, what kind of values should be institutionalized, and whose interests should be given priority? When trying to unify cultural politics, the maneuver of the multiplicities, complexities, and action agents open ways for the ex-assimilated middle class to return, bringing their past colonial experiences, knowledge, and values back into the political arena.

However, this time, oppression is no longer available. It could be expected then that the clash of classes, conflicts of ethnic groups, and power struggles of political parties could constantly generate political tensions and lead to perplexities, producing a unity marked by fragmentations, uncertainty, transience, and chaos in the pursuit of sociopolitical progress. Thus, the resuscitation of cultural politics coexists with the return of the old colonial force, and colonial history repeats itself by maintaining active colonial forces in the post-colonial transition. The capacity of the post-colonial politics to be both colonialism unmaking and old colonial forces reviving posits the middle class at the center of the political landscape for analytic attention. Consequently, it could be viewed then that anomie is primarily a response of the middle class, a response involving the attempt by old colonial forces to control the state apparatus and to reassert their identity.

In this scenario, because the transition of the post-colonial society is a process to disintegrate old sociopolitical bonds, the transition would likely move from one stage of anomie to another before the emergence of a decisive domination or the appearance of a compromising consensus. Thus, the goal of decolonization involves two major tasks: (1) develop a cohesive nationalism, which promises humanistic ideals and modern citizenship; and (2) pursue economic achievements, which enhance international competitiveness (Duara 2004: 5). These tasks are processes of identity politics. In

contrast to Fanon and Memmi's assertions that the colonized could recover from the traumas of inferiority and dependency complex and regain their confidence in themselves, once the colonial regime collapses, these tasks are not going to happen overnight. It may take place over a long period of years, or perhaps several decades.

A more promising approach for the post-colonial society to achieve a successful decolonization transition is through reducing the process by differentiating the middle class from one another. After all, identity politics needs agents to realize it. Without agency, there can be no emancipation. When a sizable middle-class fraction is ready to emancipate themselves and join the camp of emerging nationalisms, the structural transformation of post-colonial society can become strategically practical. Nevertheless, the promising side of the liberal middle-class fraction could be viewed as a threat to the conservative middle class, and vice versa. This contradiction presupposes continuing power struggles and growing phenomenon of anomie as a possible result.

### **Summary**

This chapter is theoretical. In the first section, I discussed where the middle class concept came from and how do sociologists categorize it. While theoretical traditions categorize the middle class in different ways, various versions are not divergent at all, but they often share high degrees of similarity. For this reason, the middle class in this research includes both the new and old middle class. The former contains two categories, the upper- and the lower-middle class. The upper-middle class refers to those who occupy in the professional and managerial positions of the job market. The lower-middle class means those clerical and non-manual workers, most of them performing routine office

works. I exclude farmers (big or small) from the old middle class. Therefore, the old middle class refers to petty bourgeoisie or small business people.

In this chapter, I also pointed out that middle class crises are endemic in post-industrial societies. As a post-industrial society, Taiwan is certainly not an exception of this widespread and contagious phenomenon. While much has been said by non-academic writers and the media, these works, in my view, present too many trees and not enough forests. To make explicit the analytical implications of the middle-class crisis, my analytical position is to open up with theoretical frameworks of three approaches from sociological theory.

The first approach, the squeezing middle class, is a more macro-level perspective, stressing how the momentums of capital reproduction and migration result in worldwide labor force changes and how these changes trigger middle-class crisis. The second approach, which deals with fluctuating status groups, is somewhat a micro- and meso-level viewpoint, emphasizing why private institutions are in need of constant organizational restructurings, due to pursuit of rationalization, and why organizational restructurings lead to fluctuating status groups. Both approaches have roots in economics, and they are associated with emerging globalization.

The third approach, cultural politics, is more politics-oriented, focusing on how colonialism leads to the multiplicities, complexities, and perplexities of the colonial society, and it predicts why anomie may occur after decolonization initiates. Thus, this approach provides a linkage with democratization. With these conceptual and theoretical discussions, I will use Weberian and Marxist framework to analyze shifting class politics in a complex colonization-decolonization-recolonization dynamics. These frameworks

allow this research to bring globalization and the resurgent hegemony of China into the middle-class crisis discussion in later chapters.



### **Chapter 3: Background to the Colonial Crisis of the Taiwan State**

In 1894, when the Tong Hake, a secret society in Korea, sought to take power over the Korean state, both Imperial China (the Ch'ing Dynasty<sup>12</sup>) and Imperial Japan went to war over this conflict. Chinese battle ships were badly defeated by the better-equipped Japanese Navy, and the Ch'ing Court was forced to sign the Treaty of Shimonoseki on April 17, 1895. Article II of the Shimonoseki Treaty states that China cedes Formosa (Taiwan) and Pescadores (Penghu) to Japan in perpetuity. Hence, Taiwan became Japan's colony for five decades.

In reaction to the incorporation of Taiwan into the Imperial Japan, Taiwanese local leaders and gentry declared Taiwan independence on May 25, 1895. After Japanese army landed on May 29, 1895, the President of the Republic of Taiwan fled back to China, and the Republic collapsed within days. There were various Taiwanese organized themselves against the Japanese rule, but Japanese troops crushed them within months (Lo 2002: 31). Nevertheless, scattered armed uprising and peasant revolts continued for another three decades.

As the first colony of the Japanese Empire, the Japanese colonial government heavily improved Taiwan's infrastructure, agricultural productivity, education, and industry in order to turn the island into a showpiece model colony. Taiwanese response to Japanese colonial rule, however, was ambivalent. On the one hand, Taiwanese were the beneficiaries of Japan's modernization projects. The progressivism and civilization then caused symbolic power contest between Chinese and Japanese identity (Harrison 2006: 72-78). Chinese identity faded because of Taiwan's relative modernity to mainland China.

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<sup>12</sup> Other English language publications have referred this dynasty as Qing Dynasty.

On the other hand, Japan's colonial rule was full of assimilatory discrimination and predatory practice (Copper 1996: 30-32; Ching 2001: 197-198). The second-class citizenship under colonial rule prevented Taiwanese to legitimize their Japanese identity. Thus, the colonial context led to identity struggle on Taiwan. The struggle of Taiwanese identity, in turn, helped develop Taiwanese consciousness. Nevertheless, the identity struggle continued, after the Japanese colonial rule ended.

### **The KMT occupation and Taiwan's uncertain status**

After Japan Lost the Second World War and signed the instrument of surrender on September 2, 1945, General Douglas MacArthur, the Supreme Commander of Allied Powers in the Southwest Pacific Area of World War II, issued General Order No. 1, directing, *inter alia*, Japanese forces in China and Taiwan to "surrender to Generalissimo Chiang Kai-shek." On October 25, 1945, Chiang's troops formally took over Taiwan. Ironically, while the liberation ended Japanese colonial rule that had lasted for five decades in Taiwan, the follow-up military occupation in fact marked the beginning of another colonial rule, and it brought about the never ending controversies regarding Taiwan's legal status in the international community.

On October 1, 1949, the Chinese Communist party decisively won the Chinese Civil War and inaugurated the People's Republic of China (PRC). By December 1949, the Chinese Communist party had virtually conquered the whole mainland of China. In the meantime, the state, namely the Republic of China, was forced to "transplant" to Taiwan, and it was "recreated" by the KMT, who fled to the island from the victorious Communists in mainland China. Taiwan had remained formally Japanese territory up to this point and its legal status had not been disputed until that the Postwar Peace Treaty

was signed by Japan and the forty-eight Allied Powers on September 8, 1951, in San Francisco. However, neither the PRC nor the transplanted ROC was invited to the peace conference because consensus concerning the legitimacy of either party could not be reached among signatory powers.

The San Francisco Peace Treaty, Article II provides that Japan renounces all right, title, and claim to Formosa and the Pescadores. Under the United States' persuasion, Japan signed a bilateral peace treaty with the transplanted ROC on April 28, 1952. According to article II of the ROC-Japan Peace Treaty, Japan again had renounced all right, title, and claim to Taiwan and Penghu. However, neither the San Francisco Peace Treaty nor the ROC-Japan Peace Treaty provides for the return of Taiwan to "the State of China." Meanwhile, according to the Treaty of Shimonoseki, China had already renounced all right, title, and claim to Taiwan and Penghu in perpetuity. Under these circumstances, the legal status of Taiwan has become undetermined from the view of international law (Chen and Lasswell 1967: 129-131; Chiu 1973:128; Wei 1973: 93). This was, in part because in the context of Korean War, the U.S. needed legal justification to prevent the Chinese Communists' liberation attempt in Taiwan. On these grounds, in contrast to the political stand based on Cairo Declaration, American policy departed from a complacent stand to become militarily well-defined but legally ambiguous. Truman's government reopened the question of Taiwan's legal status and declared that the future status of Taiwan was not yet settled (Roy 2003: 112).

The U.S. Department of State restated this position in 1971, indicating that sovereignty over Taiwan and the Pescadores is an unsettled question, subject to future international resolution (Chiu et al. 1973: 340). Since February 27, 1972, the U.S. has

“acknowledged” the PRC’s claim of “One China” principle, viewing Taiwan as part of China in the Shanghai Communiqué; this position had never been openly contended. In 1982, President Reagan departed from this position and reaffirmed that the U.S. has not changed its long-standing position on the matter of Taiwan’s sovereignty in his “six assurances to Taiwan” (Schmitt and Tkacik 2007). Specifically, the sixth “assurance” states that the U.S. will not formally recognize Chinese sovereignty over Taiwan (Herschensohn 2006: 44).

In reaction to a substantial need to settle Taiwan’s legal status, this study takes a research position, in order to argue that the transplanted ROC has remained a colonial state. First, the legal status of KMT’s initial occupation of Taiwan came from a military order. Without common consent of the majority of Taiwanese, the legitimacy of the transplanted ROC to rule over Taiwan remains problematic. While the KMT claimed that its occupation of Taiwan is based upon the Cairo Declaration, that declaration is neither an international treaty nor an agreement. In fact, the so called Cairo Declaration was only a press communiqué without any signatories, and therefore it has no legally binding effect based on international law. The military occupation based on General MacArthur’s order, also contradicts the fact that, prior to the Cairo Declaration, both the KMT and Chinese Communist party took the same political stand supporting Taiwan Independence (Bush 2005: 189; F. Chen 1996: 272-273). In particular, Mao said in an interview with American left-wing reporter Edgar Snow on July 16, 1936 stated that the Chinese Communist party did not consider Korea or Taiwan as China’s lost territories. Mao indicated that if the Koreans wished to break away from the bonds of Japanese

imperialism, the CCP would extend to them enthusiastic help in their struggle for independence. The same thing applied to Taiwan (Snow 1944: 96).

Moreover, when the KMT regime instituted a Constitution in 1946, the Constitution (including its earlier version written in 1936) did not list Taiwan as a province of “the State of China.” The transplanted ROC has thus claimed sovereignty over the territories (mainland China and the Republic of Mongolia) that it has failed to rule, but the government in exile has actually controlled and occupied an island, which is not in its jurisdiction according to its Constitution. Furthermore, the transplanted ROC has never asserted its separation from China, and it is not recognized as a distinct “State” from China (Crawford 2006: 218-219). This ambiguous political position has led the ROC in Taiwan to an embarrassing status, as it is neither a state nor a province (Copper 1996). On the one hand, the PRC has insisted that the ROC is entitled to Taiwan, so it could prevent Taiwan independence. On the other hand, not only has the PRC banned the use of the term “ROC” in the international community, but it also has forced the use of “Chinese Taipei” (literately China’s Taipei) for the island, so it can claim its sovereignty over Taiwan on the international stage.

Finally, following the military occupation, Mainlanders’ monopolization of the executive government and political positions has resulted in a class structure with serious ethnic twists. This arrangement of power has structured contexts of the colonizers and the colonized. In many ways, Taiwan has continued as a colony controlled by Mainlanders (Cumings 2004: 289; Gold 1998: 60). Though Taiwan has achieved a significant democratic transition and the Taiwanese were once in power between years 1988 to 2008, the Taiwanese still have difficulty separating themselves from this embarrassing status. In

Phillips' (2003: 136-139) account, Taiwanese society is best understood by examining the complex interaction of three seemingly contradictory elements: nation (state), province (territory), and colony (institution). Thus, the call for Taiwan's independence legitimates speaks to the fact that Taiwan remains a colony of the transplanted ROC.

Nevertheless, the call for solving Taiwan's legal status has come to be the most complex and paradoxical issue among postwar major powers, as well as within the Taiwanese society itself. As far as the former, international concerns over Taiwan's future involve two separate yet interrelated dimensions. The legal dimension, based on treaties and international laws, suggests that Taiwan's legal status is undetermined. In contrast, the political dimension, grounded on diplomatic recognitions, implies that more than 150 countries have either "acknowledged" or formally "recognized" the PRC's "One China" principle, claiming that Taiwan is part of China. In this context, any attempt to change to the current status quo would potentially trigger a war between the U.S. and China.

As for the latter circumstance, within the Taiwanese state, this issue has divided Taiwanese society into three major blocs: those who favor a political consolidation with China, those who prefer the status quo, and those who advocate Taiwan's independence from the Republic of China. Since the new millennium more Taiwanese have become discontented with Taiwan's isolation, and democratization movement has gained momentum, aiming to change Taiwan's current status. This study argues that disputes with regard to Taiwan's future have continued to generate controversies and uncertainties. Hence, democratic consolidation becomes one of the major sources destabilizing the middle class.

Independence stands in opposition to colonialism. In this sense, colonialism is the prerequisite for independence. If the call for independence will result in middle class crises as suggested, these crises could be viewed as already embedded in the colonial system, argued by Fanon and Memmi. It is considered here that by taking into account the state/society relationships in the context of colonialism, this research aims to achieve a better comprehensive understanding of why globalization and democratization destabilize the middle class. This chapter examines multiplicities, complexities, and perplexities of the colonial structure in the context of class formation and ethnic dynamics. The aim is to look over the contradictions, namely inferiority, superiority, and dependency complex, embedded in ideological thinking. From here, the research develops conflicts of interest between liberal and conservative middle-class fractions, which will be analyzed in later chapters.

### **From one colonial power to another**

This study argues that the postwar colonial state in Taiwan is a superstructure consisting of three hegemonies, with the transplanted state on the top, and the overdeveloped state and the developmental state at the bottom. All of the three hegemonies have featured symbolic spaces and colonial experiences to the extent that social relations of domination and subordination have been produced, exercised, and institutionalized by an external government, the KMT regime. The nature of the transplanted state is based on two opposite identities: the superimposed Chinese identity, and the suppressed Taiwanese one. The overdeveloped state and developmental state also have produced ethnic antagonism. While these three hegemonies continue to generate superiority-inferiority complex, corresponding with the Mainlander colonizer and the

colonized Taiwanese, the colonial system also features dependency complex facilitating class configuration. In this way, conservative Taiwanese middle-class people emerging from the colonialism served the function to bridge the social rupture, and this thereby sustained the superstructure in a cohesive way.

The postwar colonialism in Taiwan is an unsupported colonial system, which is different from the previous colonial system. Prior to the Second World War, colonies in the third world either had strong connection with or full support of their motherlands. In Taiwan, however, the KMT was an expelled regime. It vowed to retake mainland China by military force. Under the context of political confrontation, the ruling Mainlanders initially developed a guest mentality, assuming that they would retake mainland China at some point. In reality, the Mainlander regime knew that to retake mainland China was a virtually impossible task. Consequently, they have had to transform the guest mentality to a colonial mentality, ensuring their political dominance. On these grounds, the regime's survival and success has largely depended upon aggressive exploitation of economic resources and intensive oppression of the Taiwanese.

After KMT's troops occupied Taiwan in 1945, the departure of Japanese administrators and business people led to deteriorating public services and falling production. In the meanwhile, the Chinese Communists routed the KMT in mainland China. With the KMT suffering one defeats after another, increasing refugees, afraid of Chinese Communist party's political persecutions, fled to Taiwan. The influx of mainland Chinese refugees and the exploitation of economic resources from Taiwan for the Chinese Civil War immediately squeezed local Taiwanese due to the serious postwar economic crisis. Rampant unemployment, surging price inflation, increasing food



shortages, and intensifying corruption created social frictions and political conflicts between the dominant immigrants and dominated locals (Lai et al. 1991: 50-98).

During the Chinese Civil War, peasants and workers were less mobile, hindering them from seeking refuge from calamities, as they had little money and resources to pay heavy expenditures. Except for the soldiers and officers in the military, refugees who came to Taiwan were not common people. Instead, they were civil servants, intellectuals, professionals, and business people, who had stronger motives to seek refuge, because they were supporters of the KMT. They represented a small sample of the middle- and upper-classes of the mainland China. Their class positions, cultural values, and ideology were different from the majority of Taiwanese. These new comers soon replaced Japanese colonizers and showed their cultural and material superiority over the Taiwanese, viewing the latter as Japanese collaborators. In their minds, the Taiwanese colonial past was politically and culturally degraded. Therefore, the Taiwanese were viewed as in need of a Chinese cultural reeducation. This prejudice created the second-class citizenship status for the Taiwanese (F. Chen 1996: 287; Kerr 1965: 240).

During the Japanese colonial rule period, Taiwanese had developed ambivalence toward law enforcement units. The nickname for the police, *Da-Ren*, (meaning master or respectful official), perhaps best described such ambivalence. On the one hand, they were stern and harsh, as they carried out the mission to brutally oppress the colonized Taiwanese. On the other hand, however, they had very high social reputation, as they were honest and capable. When the KMT arrived, all social images about its law enforcement units became negative, as they were largely involved in rampant corruption. The bullying police force soon earned a new nickname “thief heads” because since the

KMT's arrival, corrupted policemen began to share many characteristics with career criminals. In this way, social ruptures based on class confrontation and ethnic hostility escalated. Taiwanese society was on the verge of a sociocultural explosion. In an atmosphere of political distrust and ethnic hostility, a small spark could have caused a conflagration.

On February 27, 1947, six Mainlander agents from the Monopoly Bureau patrolled a Taipei street, searching for illegal cigarette sellers. Two of them found a Taiwanese widow, who was selling cigarettes without a permit. After they confiscated her goods and cash, the woman fought for her belongings. When agents grabbed and struck the woman, it drew bystanders' attention. An angry crowd soon formed and joined the grapple. During the encounter, an officer fired and killed a bystander. The scene was not just a street incident involving legal matter between law enforcement units and a suspect. Instead, it epitomized sharp contrasts of postwar ethnic relationship, within which Taiwanese were on the disadvantaged end: colonizers/colonized, powerful/powerless, employed Mainlander officials/ jobless Taiwanese civilians, etc. The next day, some 3,000 angry Taiwanese marched to the Monopoly Bureau headquarter with a petition demanding justice to be served. After protestors found that the Tobacco Bureau was heavily armed, they turned to the governor-general's office for petition.

To expel protestors, snipers in the office opened fire with machine guns into the angry crowds, killing two and wounding six. After being provoked, the resentments against Mainlanders escalated, and the situation soon turned uncontrollable. In the following days, Taiwanese took over some administrative offices in southern cities and beat Mainlanders in revenge on the streets across the island. In the meantime, enthusiastic

Taiwanese gentlemen and local opinion leaders, the majority of whom were prominent businessmen and professionals, formed committees across the island to try to settle the disputes. They proposed thirty-two different demands that ranged from general demands for improving Taiwanese citizenship from self-governance, improving living conditions by deregulations, to particular requests for the executions of agents who were involved in the original incident.

Facing the increasing pressure, the governor-general Chen Yi pretended kindness and promised to give medical treatment to all of the wounded, and he proposed monetary compensation for the death. At the same time, Chen Yi secretly telegraphed to the KMT for help. On March 8 1947, some 13,000 KMT troops landed on Taiwan. Instead of continued settlements and mediations, the KMT's troops began an island-wide attack, known as the "February 28 Massacre." Activists involved in mediations were first on the list. Most of the executions and slaughter took place in public plazas, schools, and military camps. All of the victims shared the same fate in that they were executed without a trial.

The KMT had lost the Chinese civil war. However, after cracking down uprisings by slaughtering more than 10,000 Taiwanese, the majority of which were Taiwanese social elite and local opinion leaders, the Chinese Nationalists became conquerors. This massacre, the first of a series of repressions, has profoundly squelched the spread of colonial dissent. During the eight years of the Sino-Japanese War between 1937 to 1945, the Chinese had developed hatred against the Japanese. After conquering Taiwan, the Chinese Nationalists found a way to recast their anger and resentment against the Japanese by demonizing and devaluing the Japanese-assimilated Taiwanese. In the eyes

of the Chinese Nationalists, the Taiwanese were shameful for their 50 years of colonization under the Japanese.

In addition, after losing sovereignty over mainland China, the KMT regime viewed Chinese Communists as mortal enemies of the state. Since some of the activists involved in the February 28<sup>th</sup> Massacre were important players in the Taiwanese Communist party and advocates of Taiwan's Independence, this connection made all Taiwanese potential suspects of the Taiwan independence movement, as well as suspectable collaborators with the Communists. In the eyes of the Chinese Nationalists, Taiwanese were inherently dangerous and threatening. They feared that the Taiwanese could overthrow their regime. Consequently, it justified the heavy-handed measures to repress the Taiwanese. In this light, the KMT implemented the Temporary Provision Act in 1948 and declared Martial Law in 1949, and they brought about the White Terror to crack down on any attempt that might challenge it. Under the White Terror, between years 1950 to 1954, the KMT executed nearly 3,000 people and jailed more than 9,000 political prisoners (F. Chen 1996: 534-535). These actions ruined thousands of families, who were forced to live in grief through speedy trials and continued surveillance.

The newly created colonial state was dominated by a warlord, Chiang Kai-shek, who reinstated himself as the President of the ROC after his expulsion from presidency. He was obsessed by one political goal: insisting that the ruling KMT was the sole legitimate regime of all China. Through this process he could retake mainland China again. To accomplish such an obsessive goal, the nature of the colonial state was essentially authoritarian and militaristic, supporting the KMT version of the "One China" ideology. Under this ideology of the colonial state, the Taiwanese became overwhelmed,

as they were forced to join the military and carry out the KMT's illusionary mission: recovering mainland China.

In this way, the perceptions for the Taiwanese as shamefully colonized, potential rebels, and suspectable communist collaborators were gradually transformed into expectations to be the helpful servants for their Mainlander masters. The KMT regime thus institutionalized a delicate assimilation policy, a Mainlander's holy state ruling over hostile Taiwanese society. As an extension of this ideology most cultural and educational policies were designed to serve the interests of the KMT. First, because article I of the Constitution of the ROC states that the ROC is a democratic republic based upon Dr. Sun's "Three Principle of the People," the KMT fabricated Dr. Sun Yat-sen as the sole founder of the ROC, and brought Sunism, "the Three Principles of the People," into textbooks, curricula, and civil service examinations. By articulating Chiang Kai-shek as the sole legitimate successor of Dr. Sun, the KMT deified Chiang as the Savior of whole China. Since the future of the Taiwanese depended on the divine Chiang, the KMT naturally demanded Taiwanese to show loyalty to its leadership. The Taiwanese became the burdens of the state. The master/servants relationship thus led to dependency complex.

Moreover, the KMT understood that to stabilize its regime, it would be required to conduct politics in the name of certain values. Thus, the KMT not only imposed Sunism as a political ideology, but it also modeled it as the supreme morality. More elements of political ideology were incorporated into the educational system, particularly concerning the greatness of Chinese history and geography, which produced and reproduced Chineseness as core national values. The glorified Sun Yat-sen, Chiang Kai-

shek, and this new Chineseness penetrated every physical sphere, cultural field, and symbolic space in Taiwan.

These three elements, appearing in the form of names, slogans, symbols, statues, and portraits, had pervaded schools, offices, state-owned enterprises, companies, factories, stores, public buildings, plazas, parks, markets, stadiums, arenas, roads, highways, bridges, airports, banknotes, media, literature, and music. These messages existed not only as a matter of individual belief of the colonized, but they also played role in forming the moral consciousness of Taiwanese society. The colonized Taiwanese were enchanted with these sacred texts and rituals.

It is important to note that colonialism starts with political violence, and then assimilation follows. The KMT drew its primary political strength from repressing the Taiwanese by military power, and they obtained this dominant position through forced assimilation. Colonial history is all about the victor's story. This is the fundamental basis for the process of assimilation. Since anything related to Taiwan was either rarely mentioned or portrayed in negative way, Taiwanese culture and identity had been largely excluded and demonized.

Language policy was a typical example that demonstrated how Taiwanese culture was oppressed. From day one, when Taiwanese students entered school, their mother tongs (Minnan or Hakka language) became a source of punishment. After they learned Mandarin, school teachers and Mainlander students mocked their Taiwanese accents. Schools planted the seeds of self-hate in the minds of young Taiwanese students. For Taiwanese, remembering their past became shameful.

While most Taiwanese share common Chinese origins, after experiencing some 400 hundred-year colonial history, the Taiwanese had developed their own language and culture. Specifically, Taiwanese nationalism encouraged citizens to be masters of their own island during the Japanese occupation. But now in a powerless position, they no longer had a solid foundation on which they could claim an identity of their own. For the Chinese Nationalists, Taiwanese cultural roots were inferior, and too degraded due to colonial history. The belief was that these inferiorities could be corrected if the Taiwanese reassimilated with their Chinese origins.

Restrained by this inferiority complex, the Taiwanese middle class became the first class to subordinate to colonialism. As the Taiwanese consciousness developed under the Japanese colonial faded, the rest of the Taiwanese could not make political claims against the supreme morality. Thus, not only did colonialism surge in Taiwan, it was also imprinted and inscribed into the minds of the majority of Taiwanese. The colonial ideology presented a dichotomy of good and evil between Chineseness and Taiwaneseeness: moral/evil, upper/lower, core/periphery, and superior/inferior. A dualistic framework had been developed.

### **Recolonization and the dilemma of the overdeveloped colonial state**

When the KMT took over Taiwan in 1945, more than 20,000 technicians and managers, 40,000 officials, and 10,000 professional workers of the Japanese colonial regime were forced to return to Japan (Myers 1973: 42). In the Japanese bureaucracy, the total number of staff was 85,449, including 46,955 Taiwanese. Despite the fact that most Taiwanese civil servants were in lower positions, they still made up 56% of the personnel.

In 1946, the KMT restructured the bureaucracy and brought 28,234 Mainlander civil servants into the new administration.

Within the new bureaucracy of 44,451 civil servants, the numbers of Taiwanese involved in state work went down to 9,951, or 22% of public job holders. A mere 6,266 Japanese officials (14%) constituted the rest of the personnel. In other words, some 36,000 former Taiwanese civil servants in the Japanese colonial administration lost their jobs during the transition of administration (Lai et al. 1991: 65-66). Most Taiwanese could not hold official posts simply because the Nationalist Mainlanders questioned their knowledge of Mandarin (official Chinese) and lack of administrative experience (Phillips 2003: 70-72). Those posts that the Japanese left were soon occupied by mainland Chinese, particularly the middle and upper positions.

During the Japanese colonial period, the Japanese made up only 6% of Taiwan's population. In fact, the Japanese colonial regime had already established an overdeveloped state, which aimed at controlling local classes and exploiting resources for war. The framework of the ROC government was designed for mainland China. When it was transplanted to Taiwan in 1949, it inevitably became an oversized state. Following the expansion of the state apparatus, more Mainlanders were then over-represented in the swollen military, bureaucracies, and schools.

More importantly, the KMT regime plundered most industrial assets left by the Japanese colonial administrations, and it transformed them to become state-owned enterprises (SOEs). It was estimated that 90% of the Taiwan's economy was controlled by the KMT in the initial years after their arrival (Manthorpe 2005: 190). Through



political expropriations, the KMT further acquired many Japanese properties in the private sector, and it became one of the richest political parties in the world.

In addition to the oversized administrative apparatus, the KMT also brought a huge defense establishment to Taiwan that had the combined personnel strength of over 600,000 officers and men. The KMT had the highest enrollment of men in armed forces per capita, more than any other state since the World War II. In fact, the majority of the national budget had gone to the military, more than 80% in the 1950s and well above 50% for the following three decades. The heavy burden of the huge military establishment caused national budget to be unsustainable. This difficulty, nevertheless, was largely relieved because of the outbreak of the Korean War. The KMT received American Aid and military protection. Under the guidance of the United States Military Assistance Advisory Group, the KMT began to reorganize the armed forces in 1950.

By recruiting young Taiwanese soldiers through conscription, the KMT was able to retire aged and disabled Mainlander troops from the military payroll. In addition, in 1954, the KMT established the Vocational Assistance Commission for Retired Servicemen in the Cabinet, and it began to transfer retired Mainlander soldiers and officers to positions in other public organizations that it recently acquired from the Japanese administration. Thus, the majority of positions and openings due to the inheritance of the overdeveloped state were based upon preferential hiring and promotion, which favored Mainlanders in particular.

Living conditions in the military services were good. Pay was decent, or at least comparable to those in the civilian sector. The overdeveloped state had a world-class welfare program for public employees in general: health insurance, housing, food

allowances, educational subsidies, water and utility subsidies (for employees in the military only), and pensions. More importantly, public employees were entitled to a special fixed deposit account with 18% annual interest rates. For employees of the military and teachers of elementary and middle school, where Mainlanders had disproportionate numbers, they were exempt from income tax.

The combination of the pension scheme and 18% interest rates in the fixed deposit account were particularly lucrative. From the day one, when a public employee got hired, they were eligible to deposit their salary up to one million New Taiwan Dollars (hereafter, NT\$) into a special account, which had interest rates well above the real interest rate. After retirement, the public employee could choose between a lump sum payment, one-half of the lump sum payment, or a pension. In the first two cases, the employee could invest a certain amount of payment in an 18% special interest rate account. In the third case, retirees could still invest up to one million NT\$ in that 18% special interest rate account, and they continue to receive monthly pension payment based on years that he had served. Twenty years serving in the public sector (including in the KMT) means that employees receive 80% of their previous salary. An additional year of service was rewarded with one more percent adding up to 80% of their previous salary. Overall, under the benefits of the overdeveloped state, the majority of retirees could earn much more than when they worked.

Mainlander veterans, also known as “honorary citizens,” were less privileged. They only received monthly payments equivalent to minimum wage after they retired from the military. Nevertheless, if they remained single, they were eligible to live at free nursing homes. If they had families, their benefits increased. One more child added up to

one more monthly payment, until the child became an adult. After a veteran died, these benefits automatically transferred to the spouse, if the spouse remained single and alive. According to Memmi's (1991: 11-12) classification for colonizers, the framework of the overdeveloped state classified the majority Mainlanders into three categories; the colonialists (the most privileged administrative elite and bourgeoisie), the colonizers (the privileged middle-class people), and the colonial (the less privileged veterans).

While examinations and qualifications for hiring public employees were eventually based on meritocracy and credentialism, there were substantial discriminative measures and backdoor regulations that excluded Taiwanese from managerial and higher ranking positions. While the law required civil servants to pass state civil-service exams, only 9,000 out of 217,000 had passed the government examinations before 1962 (Mancall 1964: 15). Prior to 1980, there was a quota system based on provincial origins of civil servant exams to distribute openings for middle and higher ranking positions. Ironically, Mainlanders made up less than 15% of Taiwan's population, but they attained more than 85% of the openings, simply because they represented the State of China. Other backdoor regulations further qualified and certified large amounts of Mainlander military officers to become school teachers and higher ranking civil servants, or transferred them to professional posts, like lawyers and medical doctors.

Since the KMT created the colonial state, there was no substantial difference between the state and the ruling party. That political status further allowed the KMT to transfer positions freely between the party and other bureaucracies. Limited by the size of the Mainlander population, it was technically impossible for Chinese Nationalists to occupy all openings in public sector jobs. To perpetuate a social context of domination,

Mainlanders' interests therefore have focused on the middle- and upper-echelons, as the system constantly produced more managerial and supervisory positions. In this way, a great amount of lower positions at the staff level became available for Taiwanese. Table 3-1 shows that, overtime more Taiwanese have been able to enter into the public sector.

In particular, the numbers of ethnic Taiwanese in civil servants in the colonial apparatus more than doubled between the years of 1945 and 1962. Most Taiwanese civil servants were once "the unqualified," but now they could enter the colonial apparatus, in part because Mainlanders created backdoor regulations and rampant corruptions.

Taiwanese followed the loopholes and obtained public jobs through bribery, social networks, special connections or other corrupt ways. Most of these positions were less desirable in the rural townships, where Mainlanders did not want to live.

Overall, it would seem that the Taiwanese shared similar life chances with their Mainlander cohorts to become civil servants. However, serving in the colonial apparatus was a dangerous business. While in traditional Chinese society, civil servants enjoyed the highest social status, they also had higher odds receiving capital punishments than common people. In some extreme cases, the entire clan of an official could be eliminated because of political conspiracy, verbally offending the emperor, or simply because of a power struggle. The overdeveloped state copied this cultural tradition. Therefore, it inherited this disposition of treating its employees with serious threats.

Consequently, resistance had never been an option because the more the resistance, the more severe the punishment. Once ethnic Taiwanese civil servants entered the bureaucracy, they were controlled by the ruling ideology and senior Mainlander bureaucrats. The deeper they buried their opposition, the more rewards the Taiwanese

received. In this way, the Taiwanese and their oppressors rationalized their discriminatory treatment. However, as long as they internalized the Mainlander colonizer's political values, they built an iron cage in which they were locked by inferiority and dependency complex. Within the iron cage, being loyal to the colonizers and staying in the mainstream faction were the wise ways to hold onto their measly privileges. There were constant calls for Taiwanese civil servants to prove their loyalty by surrendering their cultural background and behaving with political tact. The KMT created "loyalty files" in every public organization, enforced by thousands of formal spies and informal informants in society, administration, military, and campuses for continued surveillance.

Under the KMT colonial system, the new middle class in postwar Taiwan was right-wing oriented, holding the glorified Sun Yat-sen, Chiang Kai-shek, and Chineseness in veneration. After the February 28th massacre, however, being a Taiwanese was indeed "politically incorrect" because they were potential rebels of the colonial state. The Taiwanese civil servants often had no choice but to offset their "ascribed wrongness" by turning their loyalty to the KMT to secure their careers. Hence, ethnicity and loyalty to the KMT became the major factors for hiring and promotion in the public sector. The KMT has systematically recruited prospective students from schools and promising junior citizens from the society both in the public sector and private institutions. This recruitment of Taiwanese social elite, in turn, buffered the KMT's alienation from the masses. This new elite ended up accepting the status differences of their positions, and therefore adopting the ideology of the colonial state. In the end, most of the Taiwanese middle-class people became loyalists.

Class by its very nature has a tendency to reproduce the subordination/domination relationship through generations, and the state is the most powerful instrument to reproduce domination. The interwoven Mainlanders and state relation allowed Mainlanders to monopolize the upper ends of the social ladder and the middle-class positions emerged in the overdeveloped state. While table 3-1 shows that a large amount of Taiwanese were also incorporated into positions of semi-privileges overtime, what the statistic figures do not reveal is that many were on the lower ends of the social ladder. In 1987, Mainlanders still held 86% of Taiwan's top 2,000 positions (Kau 1996). In 1988, Mainlanders public employees and civil servants occupied 58% of the highest ranking positions, and 39% of the middle-rank jobs (Lin and Lin 1993: 111-112). In the military, there were only a handful Taiwanese military generals, despite the fact that Mainlanders made up less than 15% of Taiwan's population.

After four decades of KMT colonial occupation, the system of the overdeveloped state had created double dualisms. The Taiwanese middle-class people entered the system of overdeveloped state simply because they needed to create economic positions for themselves so that they could make a living. However, the colonial system is an institution of discrimination. Once they entered the system, they had to accept and often internalize the discrimination waged against them. Therefore, within the category of the public sector, ethnic origins determined the degree of privilege. Within the ethnic Taiwanese, KMT partisanship means social status. The Taiwanese civil servants thus seemingly bridged the colonizers and the colonized. Nevertheless, the dualisms suggest continuing ethnic distrust, and perhaps most important of all, the ongoing inferiority and

dependency complex that had trapped these Taiwanese middle-class people from the beginning.

The rest of the Taiwanese were not only in a position of being the ruled, but they also had to support the colonial regime through excessive taxation due to the oversized military establishment and the swollen colonial apparatus. Since the Taiwanese had revolted soon after the KMT's arrival, one might expect that the controversy would bring the growing Taiwanese consciousness to confront the colonial regime. However, this did not occur. Despite the fact that the Taiwanese public servants were subordinated by the KMT, another important factor was that fortunes constantly shifted to the KMT. First, the U.S. changed its policy to politically support the KMT and offered military protection for Taiwan due to the outbreak of the Korean War, while maintaining legal ambiguity about Taiwan's status. Moreover, when the American aid ended in the 1960s, the follow-up advocacy of modernization allowed the KMT to launch modernization projects and then claim the credits for development. The postwar political transition in East Asia also reinforced the dependency complex in Taiwanese society.

### **Development projects and credits**

At the beginning of the postwar period, the U.S. faced two major problems in the political and economic transition. On the one hand, the U.S. needed a relatively stable world order, as the ex-USSR constantly challenged its hegemony. On the other hand, it was the only country whose infrastructure had not been harmed by the war and its production strength had remained strong as a result. It therefore needed to reestablish some effective demands in the rest of the world, so it could have more customers for its flourishing productive enterprises (Riain 2000; Wallerstein 2000).

The U.S. solved the first problem by the establishment of international institutions and the enforcement of containment. The former included the United Nation (UN), International Monetary Fund (IMF), Organization for Economic Co-operation and Development (OECD) and the World Bank, while the latter were the North Atlantic Treaty Organization (NATO) in West Europe, and the US-Japan, US-Korea, and US-Taiwan Mutual Defense Treaties in North East Asia. By successfully controlling these international institutions and military alliances, much of the world was in the American Zone. As for the second challenge, the U.S recognized the fact that where poverty and social inequalities were rampant, there would be the potential for the emergence of communism. To effectively eliminate the potential threat from the rise of communism, the U.S. decided to launch a number of development projects in these areas.

In the first decade after the war, the U.S. granted \$38 billion of nonmilitary foreign aid (including the Marshall Plan) to revitalize capitalist development. Most substantial credits and technical assistance went to countries directly confronted the Second world, including Western Europe (65.1%), the Pacific Rim (18.8%), and the Mid East (7.3%). Latin America as a whole and Eastern Europe received a paltry amount of nonmilitary U.S. aid (3% and 2.9%) respectively. Less than 3% of the aid flowed to Africa (0.4%) and the rest of the Third World countries (Chirot 1986:198-199). Nevertheless, where countries benefited from these development projects and aid, they also had to show strong commitment and obligation to join the capitalist world. Thus, “the invention of development” brought about the new stage of modernization (Escobar 1987: 62-85).



Under the influence of American aid, economic performance in most Western European countries strongly rebounded and grew above prewar levels. Nevertheless, for most Third World countries, economic growth remained paltry. The discourse of development and modernization thus became one of sociologists' major concerns. Lipset (1959) was one of the first to argue that the democratic regimes emerging in Western Europe and North America have their root in this capitalist development. If democracy is the universal goal for the Third World countries, the first step is to strengthen and reform their economies.

Similar to Lipset's perspective, Rostow (1960: 4-11) proposes a refined stage theory, arguing that Third World countries go through various stages on the path to achieve the stages of economic growth in the direction of modernization. His stage theory suggests that knowledge, technology, and capital of developed countries could be diffused to underdeveloped ones (Chilcote 1984: 89). Structural-functionalists (Parsons 1951; Moore 1974) also proposed an evolutionary view of modernization. By identifying some key social, cultural, economic and political changes in the West, the so-called "good" societies, these theorists view modernization as an evolutionary process of social change, by which the social system gradually adapts to a changing environment. This perspective constructs an "ideal type" of modernization process, assuming that the change direction is one-dimensional, "adaptive upgrading," due to the increases of interrelatedness, differentiation, and integration within and among systems.

The above theories, to some extent, shared common beliefs assuming the Western societies as the "paradigm" and the development stages or processes as "universal and repetitive." These "Eurocentric" or "Americancentric" assumptions have formed a

hegemonic ideology implying what the Third World countries (governments) should do in terms of the development stage. However, these “paradigm approaches” were attacked by world-system (Wallerstein 1974) and dependency theories (Cardoso and Faletto 1979; Frank 1966). World system theory challenges the conceptions of development viewing the West as the supposed purveyors of modernity and the development paradigm as repetitive process. They first criticized that “paradigm” proposed by structural-functional and stage theories were not grounded in the historical experiences of societies on the periphery. In other words, they ignored the hegemonic power, imperialism, and colonialism that the periphery had suffered (Shannon 1989: 7-8).

Moreover, these modernization theories never considered the differences between the present situations of the periphery or the past conditions of the core. World-system theorists argue that Britain had developed industrialization without competition and intervention from others, but the periphery countries have to compete with the wealthy, technologically advanced, and militarily powerful states. Furthermore, modernization theses do not explicitly address the role of relationships among societies in explaining changes within them, such as the role of industrialized countries in creating conditions in the periphery. Finally, the modernization approach fails to take into account the role of power, exploitation, and conflict in both relationships within and among the periphery and the core (Wallerstein 1974; Shannon 1989: 7-8). From a world-system theorist perspective, the modernization approach is hardly applicable.

Just as world-system theory provides historical evidence for core countries benefit from the international economic order at the expense of periphery countries, dependency theorists agree with one another that the development and underdevelopment are two

sides of the same coin. Underdevelopment should be thought of as part of the global historical process of development. Dependency theorists, such as Sunkel (in Blomstorm and Hettne 1984: 49-50), argue that poor countries stay poor because the privileged developed countries contribute to and maintain their poverty by imposing conditions of unequal exchange on the periphery, concerning the export of raw materials and cheap labor.

Cardoso and Faletto (1979), and Frank (1966) also argue that the core takes advantage of cheap labor and raw materials of the outer region to produce a surplus controlled by the center. Such an arrangement makes the center reluctant to encourage industrial development in outer areas because the outer region might, in turn, compete with the center. Therefore most dependency theorists reject the modernization thesis in general, and regional specialization and trade tariff reduction specifically because they believe that these approaches do not serve the functions of “paradigm” or achieve the goal of “salvation” at all. In fact, during the 1970s, the term modernization not only was unfashionable, but it also became the word of negative connotations (Dore 1990: 363). If the modernization thesis blueprints the stages from the current to future for developing states, then, for the dependency theorists, the meaning of real development would pursue economic goals in order to move to independence from dependency. Thus, dependency theorists, such as Cardoso, Faletto, Frank, and Cumings all preferred to adopt import-substitution industrialization (ISI) because it could offer a feasible solution to dependency (Biggart and Guillen 1999)

This import-substitution industrialization strategy, nevertheless, resulted in Latin America’s loss of competitiveness in the world export market. Latin America’s share of

world exports had decreased from 12.4% in the 1950s to 3.9% in 1990 (Kiely 1998). With increasing trade deficits in these countries, largely reliant on foreign direct investments, and government spending, some Latin American countries had therefore experienced economic stagnation and debt crisis in the late 1970s. Gerrifi (1990a; 1990b; 1992) traced the development patterns between Latin American and East Asian countries and suggested that different policy choices can make a good deal of differences. Indeed, during the beginning years of postwar period, both Latin American and East Asian countries all took the same development strategy, namely the primary import-substituting industrialization.

However, in the mid-1950s, Latin American countries such as Brazil and Mexico, continued an inward-oriented development strategy, secondary ISI, emphasizing domestic production to substitute for imports of a variety of capital-and technological-intensive manufacturing. In the 1970s, these two countries continued to adopt the secondary ISI, but at the same time they also took on a diversified export promotion strategy, aiming to develop outward-oriented industrialization. The secondary ISI and the diversified export promotion strategy largely depended upon the inflows of foreign direct investment (FDI).

On the other hand, East Asian countries such as South Korea and Taiwan shifted to outward-oriented development strategy in the 1960s, the primary export-oriented industrialization (EOI). Both Korea and Taiwan took advantage of the booming affluence culture in Western Europe and North America, gained international trade surpluses, and cumulated considerable foreign exchange reserves from developing export-oriented industrialization. The effect of EOI and secondary EOI, in turn, encouraged local

manufacturers to reinvest more domestic capital to upgrade and develop new industries. Thus, Korean and Taiwanese development processes did not depend upon the inflows of FDI (Akyuz et al. 1998). The success of Korea and Taiwan was largely led by local capital in alliance with the state (Kiely 1998).

Dixon and Boswell (1996) argued that inflows of foreign capital boost economic growth in the short term, but significantly less so than domestic investment. However, dependence on foreign investment reduces growth. Furthermore, dependence on foreign investment also inhibits domestic investment through negative externalities associated with dependence. Dixon and Boswell's theory is helpful in explaining why Brazil and Mexico faced economic stagnation and debt crises in the 1980s. In contrast to most Latin American countries facing sagging economy and debt crises during the decade between the late 1970s and early 1980s, influential scholars in the development area observed the fact that East Asia was the only region where the barriers to late industrialization had been overcome.

This observation called for an attempt to explore a complex of social transformation and a large scale economic landscape shift. What has happened in East Asia and what were the roles of the state in achieving such successful economic development and social transformation? In the 1980s, leading scholars (Amsden 1989; Evans 1995; Gold 1986; Johnson 1982; Wade 1990) in the Weberian tradition, known as developmental-statist theorists, began to bring the state back into explanations for the East Asian Miracle. This theory assumes that the state is a distinct entity, opposed to and set apart from larger society. More precisely, the state has a monopoly on the legitimate use of force in a country to back their taxing and regulatory powers. This assumption

leads to the argument that the state is an autonomous entity whose actions cannot be reduced or should not be determined by forces in society. The developmental-statist thesis thus grasps the key point that the state is a decision-making system, viewing the nature of the East Asian Miracle as a result of government efforts in determining the allocation of resources to strategic industries, building infrastructure, and investing in the educational system (Booth 1998; Mitchell 1999: 81-82).

Since the developmental-statist theory claims that the state has the autonomy, will, and interest to carry out economic reforms, the outcome of successful industrialization and upgrading modernization may result in an increase in state capacity. It could be misleading, however, to overemphasize that the state has unparalleled vitality and tremendous capacity as a result. Consequently, this thesis might go too far, to the extent that it undermines the important role of the private sector, like social organizations, corporations, and civil society, in shaping the economic policy-making. Institutional theory complicates developmental-statist thesis on two points (Polidano 2001). First, are East Asian states truly autonomous from social forces? Second, does autonomy enhance or detract from a state's capacity and effectiveness? From the developmental-statist perspective, East Asian states were all authoritarian regimes with Hong Kong as an exception. This political characteristic allowed the state to employ its tremendous capacity to discipline private institutions. This top-down policy making therefore became an effective component in shaping the East Asian Miracle. Polidano, a developmental-statist theorist, thus asserts that Korea and Taiwan were two such cases.

However, the institutional thesis challenges this assertion because it seemingly gives all of the credit of development success to dictatorships (Cheng et al. 1998). In this

way, it would fail to explain why many totalitarian and authoritarian regimes in Latin America became rent-seekers and resulted in economic failures. For institution theorists (Friedman 1988), even though the efficient-enhancement effects asserted by the developmental-statist theory were significant, the emphasis on central decisions for resources allocation, through regulations and incentives, should not ignore the millions of decision-making processes within corporations on a daily basis. Institutional theorists (Cheng et al. 1998) thus seek to find a different way to explain the miracle growth by arguing that power interests are molded into particular networks of politicians, interest groups, and the social elite. The state could not pass laws and bills, make policies, empower institutions, and generally govern without being influenced by these particular networks.

For institutional theorists, state and civil society should not be lumped together as a homogenous group with tension-free consensus (Evans 1998). Each country fashions its institutions in different ways (Janoski 1998). Some countries have strong states but weak civil societies. Some, on the contrary, have strong civil societies, but weak states. Some are in transition. Nevertheless, civil societies have a share in development. After bringing civil societies and private sectors back into the explanation, the role of the state is more like a broker, whose job is to facilitate industrialization instead of dictating economic development without reconciling conflicting interests. These two dominant theories, developmental state and institutional thesis, therefore constitute a much more complete version of development, as one's advantages could strengthen the other's shortcomings.

Both of these development theories conclusively promise an expanded middle class to grow and lead to expected internal political openness. Because a booming

economy eventually diversifies the class configuration, the state has to respond to conflicting interests posed by social classes and so becomes a reformist regime. Once the authoritarian regime transforms itself to a more democratic one, there is an opportunity to replace its ruling status. These two models therefore could converge to create what Barrington Moore (1966) calls “no bourgeoisie, no democracy.” The developmental-statist authoritarian regimes dig their own graves (Evans 1995: 229). In the end, these two competing aspects, combined with the modernization theory predict that capitalism and democracy triumph and prevail. However, history has never ended up in this way. Capitalism still spreads far wider than democracy. In turn, even some capitalist democracies have been replaced by socialist-authoritarianisms or military dictatorships. These prove that the former is not the probable cause of the latter. The world just does not work in a one-dimension way.

In this way, two questions arise and this is particularly true in understanding the Taiwanese case. First, if the middle-class people benefit most from the developmental-statist situation, why would they give up their support to this “beloved regime?” If so, who would be the new state managers, representing what forces? Would the ex-ruling elites retreat without a fight, and could they come back? Second, Taiwan has experienced a long history of colonialism. And while colonialism has been integrated into analyses as an important background to development success, no scholarship has ever assumed that colonialism existed after the KMT’s arrival. This research posits that colonialism not only existed after KMT’s arrival, but that it continues to exist in Taiwan. Because of the missing discussion, the crucial role of ethnicity in a colonial system has not been explored.



In the next section, I discuss the problem of the developmental state with an integration of globalization, in order to explore the dualistic ethnic division of labor and the resulting colonial syndrome within the Taiwan Miracle paradigm. This discussion leads to clues to help examine whether the middle class plays a catalyst agent that expedites the democratic transition, or if they play a road blocker role that sustains the colonial system.

### **The problem of the developmental state**

According to theories of the developmental state, a general improvement of living conditions should be an outcome of a successful economic development. Development projects, carried out in a top-down manner by a colonial regime, could be viewed as problem-solving actions. The degree of improvement could be measured by various statistical figures. However, statistical figures only reveal changes in material affluence. When applying economic transformation to the interpretation of sociopolitical transformation, issue involves more than the relationship between the swelling middle class and the democratic transition. Taken-for-granted interpretations of schools of developmental state and modernization theory thus reach their limits, in part because they mainly serve the interests of colonial ruling elite. To break through the limits, the internal logic of development needs to be deconstructed to generate new understandings.

I argue that the Republic of China is in various stages of a colonial system in the Taiwan setting. This is a colonial system that has not been changed much because the Taiwanese had only been in power for two decades. Although the KMT has achieved significant economic success, economic development should not be exclusively viewed as only general improvement in the living conditions for all people. Research should also

pay attention to the ideological transformation of superiority, inferiority and dependency complex. To achieve an understanding of these colonial syndromes, which produce two stages of the middle-class crisis for later analyses, it is important to start with the concept of “double illegitimacy.”

Double illegitimacy, according to Memmi (1991: 9), refers to “the foreigner who comes to a land is both a privileged being and illegitimately privileged one, ...a usurper...not only in the eyes of the colonized but in his own as well.” The concept of double illegitimacy demonstrates an unequal power relationship that could be best illustrated by using coercive forces to conduct land grabs, property plunders, slaughters, imprisonments, and discriminatory practices against the indigenous. These illustrations of oppression in turn point to the very nature of the colonial system, the superior status of the colonizers and inferior position of the colonized.

Presumably, in the Taiwanese case, these demonstrations would put the Mainlander colonizer to shame, especially since they were “losers” in the Chinese Civil War. Nevertheless, their superior status quickly leads to dependency complex, even if everything colonizer does in the economic sphere is in the name of “reform.” Therefore, it is understandable that all of the negative images are often overlooked and the colonizers are a positive force. This is because economic reform is an inseparable partnership of the reformist agents and the reformed objects. The reformist agents refer to the colonizer elite who exercise power and distribute various sources to achieve economic growth, and the reformed objects points to where the problems and difficulties arise. Since problems and difficulties are associated with local natives, they inevitably go to the colonized. Once development projects begin, the internal logic of development

manifests itself in superiority-inferiority complex by assigning the colonizers and the colonized to the opposite ends of the sociopolitical spectrum. This creates a dependency relationship.

The KMT was a notorious colonial regime soon after its arrival on Taiwan, as it employed all sorts of severe measures to suppress the Taiwanese. The outbreak of the Korean War created perfect political surroundings for the KMT to change its sociopolitical image. After the Korean War, Taiwan's geopolitical location proved to be an indispensable post for American defenses, specifically on the west shore of American Lake<sup>13</sup>. Through this establishment of a defense perimeter, the Truman administration reaffirmed the KMT as its important ally in East Asia. In addition to a strong commitment to assure Taiwan's national security, the Truman administration also gave substantial American aid to the KMT so it could initiate development projects. Urged by American modernization projects, the miracle growth of Taiwan's economic success started with the land reform.

By redistributing public land and forcing 106,000 landlords to release their farm land to the colonial regime, the KMT regime resold to tenants. These two packaged projects created 130,000 and 344,000 small farm families, respectively (Cheng 1961: 53 and 76). Accompanied with a rent reduction project in the late 1940s, land reform had produced 733,000 farm families, with around 2.5 acres of land per household by 1955. At this time, the farming population totaled 4,603,000. This was a half of Taiwan's population, all of whom benefited from land reform. The KMT therefore successfully reversed its sociopolitical image to land-grantor from land-grabber and property

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<sup>13</sup> The American Lake is the nickname of the Pacific Ocean.

plunderer. Because of land reform, most Taiwanese began to minimize the fact that Taiwan was still militarily occupied by the Mainlander colonizers.

With American aid, technical assistance, and American-trained experts, the KMT supplied more modern farming techniques, such as irrigation system, fertilizer, agrichemicals, technical advices, and new varieties of grains and crops to improve agricultural productivity. By 1959, agricultural products and processed goods consisted of nearly 90% of Taiwan's exports (Vogel 1991: 19-20). Real growth rates in the agricultural production in the 1950s averaged 14% annually, and production values tripled in a decade between years 1955 and 1965 (Council of Agriculture 1999: 38). It would seem that farmers benefited most from the development projects; however, the structuring principle of the colonial economy was economic exploitation. The colonial regime implemented a rice-fertilizer barter system, controlled crops pricing and markets, and restricted agricultural financing and credit. These policies led to a "superexploitative state," by which the ruling class extracts a large surplus and prevents the development of a class of wealthy farmers who might challenge the regime (Amsden 1979). Most farm families averaging nearly 7 people per household in 1965 found it increasingly difficult to bring enough food to the table by farming small parcels, especially due to excessive land tax. It was ironic that the colonized farmers even while they were suffering, appreciated everything that the KMT brought to them.

For those 106,000 previous landlords who were forced to lose their land, the KMT paid the land price with corporate stocks and land bonds. But because these bonds and stocks were paid above their market values, landlords immediately suffered a great loss. And while the KMT claimed that most of them changed their occupations to become

successful business people or industrialists after they sold their shares in the market (Sheng 1970: 66), a survey conducted by Yang (1970: 233) showed that less than 10% of the small landlords and 17% of the bigger ones used the money from the sale of the stocks to establish a factory or a business. In other words, only a few Taiwanese landlords were able to enter the white-collared stratum, because of the land reform. Most previous landlords, big or small, suffered downward mobility and became ordinary farmers.

Statistical figures are important to the colonial regimes. They are sources of propaganda and often create a positive terminology for what the ruling elite has achieved. Fooled by the statistical figures, development scholars, such as Campos and Root (1996: 32) and Vogel (1991: 40) argue that land reform is the major factor to explain why wealth has been more equitably distributed in Taiwan than in most other developing countries. Others, like Davis (2004), mislabel Taiwanese farmers as a promising “rural middle class” with highly disciplinary character without noticing their increasing disadvantages in the developmental trajectory. She argues that disciplined farmers, Mainlanders, and big capitalists served key roles for the KMT’s achievement of economic success.

I argue that there is more effective way to interpret the statistical figures. Past perspectives and theories have typically ignored ethnic tensions and resentments due to oppression and exploitation in the colonial economy. While income distribution in Taiwan was relatively equal in the reform period, the bottom quintiles of household income distribution were exclusively Taiwanese. The same ideology can be applied to class configuration. Moreover, extended family was the mainstay of most Taiwan farm families. These extended families normally consisted of a number of nuclear family units.

In this sense, even the definition of the household was biased, further deteriorating income distribution. Furthermore, if Davis' rural middle class thesis holds, it would be hard to believe that a large proportion middle class already existed during the pre-industrial stage. The disciplinary character would make things more difficult to explain why farmers have gradually become major forces against the Mainlander colonizers since democratization was initiated in the 1990s. These contradictory aspects simply veil the realities of oppression and exploitation that the Taiwanese farmers have suffered to support over a million Mainlander civil servants and the military servicemen on the colonial state payroll.

Meanwhile, on the other side of the ethnic division of labor, economic policies tell a different story. While exports from the agricultural sector had gained considerable foreign exchange earnings, it was not enough to balance imports. To control inflation and stabilize the colonial economy, the KMT had to set protectionist tariffs, restrict import items, and employ quota system to support import-substitution industrialization, so that products produced domestically could replace imported consumer goods. Protected by the state, import-substitution industrialization created economic rents, simply because demands outreached supply. The state-owned enterprises, previous Chinese Shandong- and Shanghai-based industrialists, and lots of Mainlander dependents were the major beneficiaries of the rent-seeking activities (Davis 2004: 223; Hsiao 1991: 129). Thus, the presence of privilege, due to double illegitimacy, made it easier for Mainlanders to enter the white-collared positions of the private sector.

By 1960, American aid was approaching an end, productivity in farming gradually reached its potential, and domestic demand for goods from import-substitution

industrialization nearly stymied. These conditions made it difficult for the colonial regime, as it needed a great amount of foreign exchange reserves to sustain the overdeveloped state. Nevertheless, where there was a crisis, there was an opportunity. In the late 1950s, the prevalence of Fordism in manufacturing created material affluent societies in the Western world. Accompanied with the emergence of Walmartization resulting in constant expansion of discount stores in the 1960s, strong purchasing power demanded a large amount of cheaper consumer goods in the American markets. When international trade underwent significant changes, opportunities set the stage to transform Taiwan's economy. The colonial regime was in a good situation to launch export-oriented industrialization.

In 1960, the KMT enacted "the Statute for the Encouragement of Investment." The purpose of this bill was to attract funds and investments from foreign countries in general, overseas Chinese in Southeast Asia as well as exiled Mainlander bourgeoisie who were residing in Hong Kong. The incentives of the statute included a five-year tax holiday, rebate duties on equipments, parts, and raw materials for export manufacturing, and a maximum business tax rate of 18%. Textiles, plastic and rubber products, paper and paper products, and chemicals were among the KMT-promoted industries (Wang 1999: 332). By 1969, nearly a thousand cases were approved (Gold 1986: 80).

In 1965, the KMT set up the first export processing zone (EPZ) in Kaohsiung harbor, and opened another two EPZs in the following years. The KMT also established bonded factories (BFs) outside the EPZs. Protected by the state, these export-oriented factories enjoyed duty-free status for imports and exports, tax exemption, relief from government red tape, and good infrastructure. The total production value from EPZs and

BFs accounted for more than 20% of Taiwan's exports in the 1970s (Wade 1990: 130). Textiles and garments were the major industries in the EPZs and BFs. Since the two industries were dominated by Mainlander bourgeoisie, they inevitably benefited most from export promotion strategy.

When the booming market in the Western world shifted Mainlander textile and garment industrialists to target their sales to overseas market, however, even in the export oriented industrialization, discriminatory practices due to double illegitimacy continued to exist. In the 1960s, when the U.S. imposed a quota system to restrict cotton textile imports, the KMT discriminated against the ethnic Taiwanese in apportioning export quotas. Based on their political privilege, Mainlander textile firms, most of whom were ex-Shanghai and Shandong based bourgeois enjoyed the lion's share (Gold 1986: 82). While this discriminatory practice created economic rents favoring Mainlander textile industrialists, rent-seeking activities in turn discouraged privileged Mainlander firms in pursuing competitiveness. This is because they often traded quotas to get quick bucks for the sake of hedging. Thus, quota-trading gave an opportunity for small Taiwanese mill owners to emerge as they could buy export quotas from Mainlanders.

In contrast to Mainlander manufacturers, who largely depended on the colonial regime's central planning and protectionist policies, most Taiwanese small firms emerged due to a response to global market forces. In this respect, Japan and the United States played key roles in the long spell of economic growth in Taiwan. In the 1950s, Japan first revitalized its economic strength in a high speed way and became the major consumer goods supplier for Western markets. In the early 1960s, the U.S. pushed Japan for trade liberalization and Japanese Yen appreciation. In response to upcoming international



protectionism and rising domestic wage levels, Japanese trading houses and manufacturing firms began to export electronic parts and low-end production technologies overseas. Both Taiwan and South Korea became the favored production sites of the decentralization strategy, as social networks established during previous Japanese colonial occupation remained active. Based on colonial affinities and linkages, some Taiwanese business people hooked up with Japanese manufacturing firms and started joint ventures in electrical appliances and electronics consumer goods industries (Gold 1986: 82-85).

Taiwanese was sandwiched by two colonial forces, the KMT, the new colonial force whose policies favored Mainlander capitalists in particular, and the old colonial force, the Japanese manufacturers who restricted to transfer leading-edge technology to local firms. The Taiwanese manufacturers in the electrical appliance and electronic consumer goods industries could only developed a niche in the labor-intensive, downstream, and sunset industries. The KMT colonial regime did very little to help these small producers before 1970 (Wade 1990: 145). Nevertheless, once the foundation for electronic and electrical appliance industries was established, it featured driving power to shape export-oriented industrialization. This is because American manufacturers were facing price-cutting pressures from Japanese firms. To compete against cheap Japanese consumer goods, many of them began to practice outsourcing activities to offset rising production costs.

The influx of Western firms and buyers in the late 1960s led to hundreds of small trading companies and local manufacturers becoming as partners and subcontractors of large brand-name corporations. When export-oriented industrialization took off in the late

1960s, thousands of low-tech and labor-intensive outfits started to mushroom and develop a tightly knit network of suppliers in the western plain of the island, creating strong demands for numerous assembly operators and industrial workers. Farm families began to send their undereducated, teenaged sons and daughters to factories as workers in the assembly lines, and they received remittances in return. Between 1961 and 1971, the numbers of factory workers more than triple from 184,000 to 654,000 (Vogel 1991: 35). Noticing the vibrant export activities, in the early 1970s, the KMT kept offering lip service to the cause with slogans like the “living room is factory” and “rural industrialization” to solve the increasing poverty problem in rural areas. Under these slogans, many Taiwanese working-class families employed their house frontages or backyards as cottage industries or illegal workshops to exploit the labor of their family members. Because of the loosely defined “household,” farming and working families had more disposable income. The impoverished rural communities, due to colonial regime’s excessive exploitative agricultural policies, were greatly reduced.

Since the thriving export-oriented industrialization was labor-intensive, it did not immediately produce a swelling middle class in the 1970s but rather an enormous industrial workforce. Most of the industrial workers were either from second generation Taiwanese farm families or working class in origin. Unlike their Mainlander cohorts, who sought career success as social elite, new middle-class people in the public sectors, or large corporations through educational achievements, these undereducated ethnic Taiwanese did not qualify to step into the better-paying and higher-status jobs in government apparatus or large establishments. Small business success was what they yearned to do. To pursue upward mobility, they emphasized the importance of business

experience, frugality, long-hour manual labor, social networks, good contracts, and reputation for reliability (Gates 1981).

Because of the emphases on social networks and the reputation for reliability, Taiwanese small producers could accept large business orders beyond their own production capacities. They were confident that other Taiwanese companies or subcontractors would help them fill the orders on time (Vogel 1991: 36). Consequently, business culture in Taiwan demanded business people to remain in humble, no matter what level of success. Very often, when someone succeeds in a small business, for example, as a factory owner or shopkeeper, these characters of Taiwanese business culture require the attribution of achievement not to personal efforts, but to “others,” ranging from customers, suppliers, employees, and surely the colonial government.

The colonial government was pleased to see the emergence of thousands of small businesses and took a *laissez-faire* practice in the 1970s due to two major reasons. First, they posed no threats to the governmental structure of power. Traditionally, merchants have had the lowest social prestige in the Chinese hierarchy of occupations. The intellectuals typically despise merchants because the former believe that the latter make a living by exploiting their customers. Second, the Taiwanese business communities were willing to hand in the credits of development. Assisted by American buyers and equipment suppliers, export-oriented industrialization upgraded to original equipment manufacturing (OEM). The market forces drove local manufacturers to expand their turf in producing electronics, chemicals, plastics, machinery, toys, footwear, instruments, and metal products. As the manufacturing sector expanded and fueled trade, it resulted in raising the income per person, and hence, there was now a broader tax base. The KMT

therefore had better financial resources to launch the secondary import-substitution industrialization by conducting “ten construction projects” in 1973, including a state-owned steel mill, shipyard, petrochemical facility, nuclear power plant, and transportation infrastructures, like a highway in the western plain, a railroad in east Taiwan, an international airport, and two seaports.

In 1978, the KMT initiated another 14 large infrastructure projects. In 1980, the KMT set up a new science-based industrial park in Hsinchu County, and more industrial parks and infrastructure facilities followed. Most information technology manufacturers were located in this park, including two joint venture semi-conductor companies. Consequently, it was reasonable for the Mainlander elites to step into the management positions of the state-run and joint-venture enterprises created by the development projects, while the Taiwanese served as factory or assembly line workers. These enterprises enjoyed monopolistic markets and supplied great amounts of needed tax revenues.

In some ways, living conditions seemed to go from good to better, as businesses in both public and private sectors were all thriving. In 1953, the GINI coefficient was .558, similar to those Mexico or Brazil. After industrialization took off, it fell significantly to .321, by 1970 and .303 in 1980 (Wang, 1999: 333). As measured by income, the Sunday Times Chinese Weekly (*Shih-Pao-Cha-Chih*), a Mainlander-owned magazine claimed that by 1984 well over 50% of population were in the middle class (Gold 1986: 112). However, economic advancement is one thing, and ideological transformation is another. The inferiority and dependency complex derived from double illegitimacy actually deteriorated, going from bad to worse. The 1970s were pivotal years,

in that the colonial regime took advantage of the low level of the Taiwanese business community, and it began to crown itself an iconic model of the developmental states. The key moment was due to the expulsion of the UN seat in 1971, and then Dictator Chiang's death in 1975. The diplomatic setback and isolation resulted in the Republic of China beginning to lose its international recognition. In contrast, Taiwan's dazzling export performance had held worldwide attention, and so it entered into the development scholarship. Taiwan became one of the Four Little Dragons, but the Republic of China never won that title (Harrison 2006: 14). The death of Chiang meant that his son, Chiang Chin-kuo, had to develop some charisma to succeed as the colonial leader because the current economic achievements had political significance to separate Taiwan from the Republic China.

Every time "Taiwan" was used to honor success in economic affairs, it made a clear moment to distinguish itself from the Republic of China. In response to the transition between the disappearance of the Republic of China and the appearance of Taiwan in the international community, the colonial regime could not afford to lose statehood integrity on the island. In the beginning of the 1970s, the KMT colonial regime was desperate to call for social coherence and political solidarity. The KMT could not change the use of Taiwan in the international community, but what it could do was leverage superiority complex, so the Taiwan miracle became the party's gain.

Since the KMT took a *laissez-faire* approach to the rapid expansion of Taiwanese small- and middle-sized enterprises, these small business people enjoyed a high degree of autonomy. Instead of seeking support from state's protectionist policies, their survival largely depended on adopting flexible strategies in marketing. They were the engines of

later economic growth in the Taiwanese development trajectory. Chu (1994) thus argues that the KMT did not rely on the business community for political support because it had little formal representation in the tightly knit ruling party. This perspective downplays the fact that the essence of colonialism consists of superiority, inferiority, and dependency complex. Since these three complexes were fundamentally interconnected, lacking one of them would make the colonial state inherently problematic.

In fact, banks were nationalized prior to the 1990s, and they played an important role in monitoring firms (Archardoguy 2005: 49). Consequently, by controlling the financing and licensing systems, these small- and middle-sized businesses could not escape the trap of dependency complex. Moreover, in response to the emerging bourgeoisie, proletariat, and intelligentsia, the KMT incorporated them into party-dominated associations or controlled enough of the environment to prevent the formation of class consciousness or spontaneous organizations (Gold 1986: 128). The colonial regime therefore had every means to subjugate all social classes in the private sector, including farmers, workers, new middle-class people, and the newly-emerging industrialists. In this light, farmers were docile, factory workers were obedient, the middle-classes were compliant, and the industrialists were loyal.

To obtain domination, the KMT audaciously constructed a hegemony, in which modernization in Taiwan had nothing to do with Japanese occupation. Instead, they classified it as a result of the KMT's arrival (Fei et al. 1979: 26; Harrison 2006: 144). Through the negation of history, land reforms and major development projects became the best methods for official propaganda. After all, development projects were not only an economic issue but also a symbol of political subject. Under the power of official

propaganda, the KMT successfully transformed economic development into ideological brainwashing, narrating a version of development in which the Mainlander leadership was always farsighted, delicate, experienced, and benevolent. Having suffered discriminative treatment in the economic development process, it was not surprising that the colonized Taiwanese learned that everything associated with their past was negative, ignorant, obsolete, and in need of assistance.

Once the relation of the Mainlander elites versus the Taiwanese masses was fixed, the Taiwanese were required to collectively cheer development projects and sing songs in praise of the benevolent colonial regime. The developmental state became a religion, and development projects were the texts, inscribed into the mind of every colonized Taiwanese. Therefore, once all Taiwanese social classes started appreciating the Mainlander colonizer, they lost confidence in themselves. They could not envision economic development without ethnic discrimination. Their fate was determined by the developmental state. The more development projects advanced, the more the colonial syndromes developed. As long as the Taiwanese accepted the development narrative, they failed to withdraw from the traps in the developmental state. The colonial complexes persisted.

### **The schizophrenia of the transplanted state**

The Taiwanese attitudes toward politics were largely denied and stultified during the Japanese colonial occupation, due to their sub-citizenship status. After the KMT retreated to Taiwan; however, the nationality of the Taiwanese changed overnight. While their political freedom and civil liberties in some ways advanced, it was limited. The colonial Constitution places the power of governing in the hands of the people, but it also

provides that any act or law contradictory to the colonial Constitution should be null and void. In addition, the dictator Chiang Kai-shek was the law and he could behave above the law. Under Chiang's request, the National Assembly promulgated the "Temporary Provisions Effective During the Period of Communist Rebellion" in May 1948. Based on the Temporary Provisions, the KMT declared Martial Law on May 20, 1949. These two laws suspended the colonial Constitution and gave Chiang the highest power.

On the grounds of Temporary Provisions and the Martial Law, there had been no elections for the three bodies of the Parliament, the delegates of the National Assembly, legislators of Legislative Yuan, and representatives of Control Yuan. According to the colonial Constitution, the governor of the Taiwan Province was also to be popularly elected, but that position continued to be appointed by Chiang. In the first two decades after World War II, the Republic of China also was known as "Free China," a distinction made by Western democracies to separate it from "Red China."

Ironically, Free China had no freedom of political expression and association. Although frequent local elections allowed Taiwanese to take part in politics, the "limited democracy" served as a glass ceiling, preventing all but a handful of Taiwanese politicians from moving into the national political arena. These Taiwanese politicians were token political participants, and they rarely held posts of genuine significance or power (Kau 1996; Rigger 1996: 311). This was because the KMT passed a decree in 1953 demanding those representatives in the Parliaments whose terms were expired in 1951 and 1954 to remain effective in their posts until the next term. Since Mainlanders had overwhelmingly controlled the central government and the Parliament, they continued to separate themselves from the Taiwanese.



There were two minor registered political parties, the Chinese Youth Party and the Democratic Socialist Party. Both parties had a long history of support for the KMT. They remained supportive of the KMT, and so they maintained inactive and reluctant in nominating candidates of their own. Their existence only served to create the impression that there was not a one-party system in Taiwan (Domes 1981). Since the KMT had a political monopoly power, it could sponsor and mobilize all sorts of resources to win elections. In the late 1970s, the KMT already had nearly 2 million party members. That number was around one fifth of all registered voters, and more than one quarter of active constituents. When turnout in elections averaged between 70 to 80% at polls, that number was decisive in determining election outcomes. Its candidates, therefore, had distinct advantages. While personalities and issues were also important factors in affecting election outcomes, the odds for independent candidates based on these two factors were generally very slim. In this way, party affiliation became the prerequisite to enter politics. Competitions for nomination or sponsorship of the KMT were fierce. It had less to do with performance, education, talents, and seniority, but instead emphasized on character evaluation, the degree of loyalty and compliant to the KMT.

The limited democracy thus served two major functions. First, by manipulating nominations, the KMT pitted political factions or local clans against each other. By delivering political favoritism, the KMT divided and conquered the Taiwanese political elite. Instead of empowering the Taiwanese political elite in terms of self-governance, the limited democracy tamed the Taiwanese politicians. Hence, the majority of Taiwanese politicians were unaware of falling into the traps of inferiority and dependency complex. Second, while political favoritism encouraged local politicians to compete loyalty, feuds

and rivalries produced underdogs and losers. In some cases they turned against the KMT. Therefore, the limited democracy played a role in testing the water of disagreement and resistance. In this situation, the White Terror was introduced in the 1950s to conduct continued surveillance, so that the colonial regime could keep its status.

Estimated numbers of victims in the four-decade White Terror period run as high as 90,000 arrested and about half of that number executed (Roy 2003: 90). These victims include both Taiwanese and Mainlanders. For the Taiwanese victims, the moral duty of the colonized was to support the colonial system. Any challenge or attempt to change the status quo of the colonized would endanger the colonial system, and therefore they should be eliminated. For Mainlanders, being dissidents and then persecuted by the colonial state, according to Memmi (1991:19), only means to withdraw from those privileged conditions or remain to fight and change them. The colonial state certainly could not allow colonizers to refuse their privileged status, as it would undermine the principle of double illegitimacy. On these grounds, the colonial ruling elite maintain their superiority by continuing political persecutions and assassinations.

In the first decade after the War, the KMT not only showed its superior mentality domestically, but also internationally. While a small state in nature, the transplanted ROC considered itself one of the greatest powers in the world, partly because it was among one of the five countries enfranchised to execute the veto in the Security Council of the United Nations, and it was well diplomatically recognized in the first two decades after World War II. Nevertheless, the ROC had suffered continuous denials and humiliations by the international community and it had been diplomatically disenfranchised from international activities since 1971, when the ROC was expelled from the UN. Ever since

the People's Republic of China took the ROC's seat and franchise at the UN, the PRC took a more aggressive stance by proposing a PRC version of "One China" in order to suffocate the ROC in the international community.

In 1968, the transplanted ROC maintained formal diplomatic relations with 64 countries, while the PRC only had such relations with 45 states. Within a few years, under the PRC version of "One China," which downgraded Taiwan as a province of the PRC, the number of countries diplomatically recognizing the transplanted ROC soon had dropped significantly to 26 in 1975, while the PRC had normalized relations with 112 states (Roy 2003: 132). Constantly involved in battles with the PRC, the transplanted ROC never claimed to exist independently. This diplomatic setback eventually left the transplanted ROC in an embarrassing status, as neither a state nor a province, when major powers turned their backs against it.

Before 1949, the transplanted ROC did not exist. It was a new creature due to the containment policy. When the KMT underwent transformation and decayed into a transplanted state, it maintained its violence. Initially, the U.S. did not support this transplanted state at all. However, the outbreak of the Korean War changed the Truman administration's standing. Because of the containment policy in the Cold War, the U.S. demanded that the transplanted ROC served to buffer the collision between Western civilization and the Chinese Communist. Unfortunately, the transplanted state had aged quickly due to changes in postwar diplomatic surroundings, as well as the degradation of its internal structure. Being denied as a state in the international community, the colonial regime faced a serious legitimacy crisis and was in need of Taiwanese full support to consolidate its local strength.

This crisis pressed the KMT to enhance the limited democracy by releasing the few posts available in the Parliaments and allowing a handful of local Taiwanese politicians to move into the national political arena in the 1970s. Though the limited democracy still constituted a colonial style “apartheid system” (Lynch 2002), as the native Taiwanese occupied 85% of Taiwan’s population but only had 3 representatives in the Legislative Yuan in 1970, the major body of the Parliaments. It did, however, open the window for nurturing a liberal middle-class fraction and fostering a Taiwanese-centered identity to grow.

Ever since the ROC transplanted to Taiwan, representation of the State of China has virtually become impossible. The colonial KMT regime was afraid that the transplanted ROC was essentially the Republic of Taiwan, as it only represented the island of that name. The rejection of truth led the KMT colonial regime to develop “Taiwanphobia” and launch an anti-independence campaign. Under the influence of the UN and diplomatic recognition, the transplanted state made the nation-state a possibility. When it aged and lost diplomatic recognition in the 1970s, the state identity based on the Chinese began to fall apart, and this allowed its counter-rival, the Taiwanese, to rise in a limited democracy.

Although the White Terror had executed and ruined several thousand political prisoners’ lives, the colonial regime’s continued repression of the locals only produced more dissidents, who rebelled against the colonist’s system. Like most dissidents under authoritarian rule or dictatorship, their criticisms could only exist in their private residences (Goldfarb 2006). When a small political window opened at the central level in the 1970s, local dissidents and intellectuals grasped the chance to publicize themselves

island wide. However, outing was one thing, and association was another. Under the White Terror, liberal politicians were cautious not to openly provoke the KMT, especially the legitimacy of the superstructure, because the KMT could jail them without a trial. Being banned from organizing an opposition party at that time, the liberal dissidents could only create a loose organization known as “*Tangwai*” (outside the KMT, which later turned to be the DPP).

The political window was so small that the *Tangwai* politicians could only humbly advocate moderate ideas of democracy and civil liberties, like checks and balances, freedom of political association, freedoms of speech and publication, less military spending and more social welfare. Nevertheless, these advocacies enlightened the Taiwanese about the pursuit of democracy and social justice. The KMT did accept the fact; however, that independent politicians occasionally got elected, especially because they tended to wash out its dictatorial appearance. However, the KMT was highly sensitive to the possibility that these *Tangwai* politicians might undermine KMT’s survival. Therefore, they watched them closely. Many strong accusations and radical ideas against the colonial rulers had to be hidden in private conversations or in pronouncements by exiled liberal intellectuals. These dissidents had constantly raised fundamental questions concerning the colonial system. They questioned the essential political goals of the transplanted state, especially within the context of the KMT’s version of “One China.” Two questions were: what were the primary functions of the overdeveloped state, if any, in Taiwanese political, economic, and social life? What were the major impacts of the developmental state, if any, of the ethnic division of labor in Taiwan?

For those dissidents, the KMT's "One China" policy only put the Taiwanese in a condition of being one servant with two masters, the KMT and PRC. With both sides involved, who would determine the future of Taiwan as a province of the State of China, what then was the autonomy of Taiwanese in the context of the two versions of the "One China" principle? Given the facts that Taiwan is no match for mainland China in terms of size of population, territory, and military strength, the transplanted ROC had no realistic chance to retake the mainland. This indicates that the reunification across the Taiwan Strait only means that the PRC will end the transplanted ROC's sovereignty over Taiwan. Since the implication of the KMT version of the "One China" policy would lead to the PRC in Taiwan, the KMT version of the "One China" policy is virtually suicidal. The Taiwanese, however, could play no role in this scenario.

It also became clear that the primary function of the overdeveloped state was to sustain the KMT version of the "One China" policy. In doing so, this superstructure only privileged the Mainlanders to enjoy superior status in the public sector, as they were "the few, the proud, and the ruling class." Politically, the liberal politicians considered rule by the few as "the bad" because it downgraded Taiwanese to second-class citizens. Socially, these dissidents considered the superstructure part a process of forced assimilation, pressing the Taiwanese to become the Chinese. Economically, the overdeveloped state had budgeted the majority of revenues extracting from economic surplus into military build-up. This military priority principle created a context in which the Taiwanese were the servants and the Mainlander Chinese were masters. All of these developments lead to "Chinese-center" and "Taiwanese-periphery."

Negation after negation, the Taiwanese were brainwashed to place their hope in the KMT version of the “One China” policy. To retake mainland China, the Taiwanese had no choice but to accept an overdeveloped state, in which the Mainlander was overrepresented in higher ranking positions. The developmental state was another ingredient in the colonial superstructure. In the KMT’s explanation, the goal of development projects was to pursue Taiwan as the model for the future of China. The real significance of the developmental state thus belied in the fact that the KMT put the weight of the “One China” policy on the shoulders of Taiwanese. Because most Taiwanese were beneficiaries of the development projects, as material lives became much affluent, they did not know that there was a price to pay. In reality, the large state-run corporations created by the development projects were overstaffed by the Mainlander elites. Hence, the upper class in the 1970s was increasingly like a caste in which Mainlanders reproduced their dominance through controlling the colonial and economic state.

The *Tangwai* dissidents debunked the colonial superstructure as based upon political lies in a meticulous calculation to enslave the Taiwanese, and they proposed full democracy and self determination. The exiled intellectuals advocated that the Taiwanese already had two masters to determine their fates. They called for the third master, the U.S., to help with Taiwan independence. However, when emerging *Tangwai* dissidents just started to become vocal, the KMT got even louder by denouncing these liberal politicians and intellectuals as traitors. Therefore, both humble requests and radical demands were considered political conspiracies. They became subjects of political taboo in the eye of the KMT, and had to be demolished.

### **The opposition under oppression**

Under the KMT's continued oppression and surveillance, *Tangwai* politicians had never been dislodged their faith in reviving Taiwanese nationalism. In the November 19, 1977 local elections, *Tangwai* politicians won 2 of the 20 office of city mayors and county magistrates in Kaohsiung county and Taichung city. Another two offices in Tauyuan county and Tainan city were captured by ex-KMT members. In addition, 12 of 69 KMT nominees for the Taiwan Provincial Assembly lost to nonpartisans.

The KMT suffered an unprecedented defeat, partly due to the Chung-Li riot, when thousands of Taiwanese stormed a police station in Chung-Li city, a big working-class town in Tauyuan county, accusing the KMT of corrupting the elections by tampering with ballots (Jocabs 1979; McBeath 1978). On the election night, rioters threw rocks to a police station. After police troops retreated, they occupied the station house. As crowds gathered outside the police station, they began overturn police cars and set fires to vehicles on the road side. Eventually, they burned the station house and police dormitories nearby. While special squads and troops were standing by, strangely, the KMT did not take action to crack down on the riot in the high-handed repressive manner as they usually did, allowing the riot to last for a whole night. The KMT suppressed and covered up the news for a week. After the investigation, the police only arrested a dentist, accusing him as a rumormonger.

The Chung-Li incident had a profound effect on the *Tangwai* politicians' mobilization strategy. Because the KMT handled the riot in a subtle way, it encouraged pressure by public demonstrations and street rallies. On December 16, 1978, a week prior the Legislative Yuan and National Assembly complementary elections, Washington



informed Taipei that it would normalize diplomatic relation with the PRC. This led the KMT to cancel the Legislative Yuan and National Assembly elections. A couple weeks later, Yu Teng-fa, an aged *Tangwai* politician and former Kaohsiung county magistrate, organized a street rally to protest the cancellation of the elections on Christmas day. The KMT was unhappy about the street rally, and they set up a scheme to jail him. In January 1979, the KMT arrested Yu and accused him for being involved in Communist conspiracy. In a speedy military trial, Yu was convicted and sentenced for eight years in jail. The alleged Communist agent, Wu Tai-an was executed (Roy 2003: 167).

During the trial, on January 22, 1979, *Tangwai* politicians sponsored a street rally at Yu's hometown to support him. One of the active participants in the rally was Hsu Hsin-liang. Hsu was an ex-KMT member, who left the party after losing a nomination and then beat the KMT's candidate in Taoyuan county magistrate election due to the Chung-Li incident. The timing could not have been better for the KMT. By accusing Hsu, the incumbent county magistrate who participated in an illegal street rally without taking a leave, the KMT suspended Hsu from his office for two years. Afraid of further persecution from the KMT, Hsu fled to U.S.

While the political window was formally closed, *Tangwai* developed a new battle ground in terms of publication. A dazzling list of *Tangwai* magazines and journals emerged. In August, 1979, some 60 dissident politicians began to issue *Meilidao* (Formosa or Beautiful Island) magazine, featuring a forum to criticize the KMT regime. On December 10, 1979, encouraged by Carter's human rights diplomatic policy, the *Meilidao* magazine held a rally in Kaohsiung, a working-class metropolitan city in the south of Taiwan. The rally was organized to recognize International Human Rights Day.

Suppressed by the state, the rally turned to violence, and known as the Kaohsiung Incident. By manufacturing a riot, the KMT found ways to imprison forty more *Tangwai* politicians in three rounds of military trials, eight for life and others between two and six-years.

In Memmi's (1965: 10) account, benevolent colonizers do not exist. They do not exist simply because colonialism is violent by nature, and it has a tendency for repression to necessitate the continued violence. Such an insight, however, could hide the fact that the colonizers are Janus-faced. They were cruel to the colonized on one side, but they could make pretenses of affability on the other. After dictator Chiang Kai-shek died in 1975, the leadership passed to his son Chiang Chin-Kuo. Facing the first ever dissidents, Chiang took obscurantist approach to the *Tangwai* dissidents' request for democracy. This is an old trick evolved from the feudalistic China, in which the ruler behaves as lenient to please his people.

He routinely visited local villages and sent his regards to those lower-class people. Chiang always dressed in a white jacket of a political costume in front of the colonized. Farmers, workers, and street vendors were his favorites, and he tried to show that he had no more privilege than the common people. He spoke in a soft tone, and ate what common people had in front of the media, even if the food looked unsanitary. The media's portraits of a gracious colonizer really touched many Taiwanese hearts. Little did they know that they were being fooled by the benevolent colonizer. Some assassination schemes in the early 1980s revealed the dark secret of the benevolent colonizer, and they changed the public's image about the essence of the colonial regime.

The Kaohsiung incident served as a turning point in unmasking the violent nature of the colonizers, and the enlightenment thereby blossomed to the extent that fostered a liberal middle-class fraction to grow. Polls indicated that the majority of the citizens condemned *Tangwai* politicians as the sources of political instability, which constituted a threat to public order and to the economy, and they should fairly receive punishment during the trial for the Kaohsiung incident (Copper 1981). However, the state's violence went too far. On February 28<sup>th</sup>, 1980, the mother and twin daughters of Lin Yi-hsiung, one of the major eight Kaohsiung incident political prisoners, was brutally murdered. His older daughter was badly stabbed but later survived. Lin's home was under 24-hour surveillance, but the KMT insisted that it had nothing to do with the political violence. The truth of the second February 28<sup>th</sup> incident has never been unveiled.

Another brutal political violence occurred in the following year. On July 2, 1981, Dr. Chen Wen-Cheng, an overseas dissident and a promising professor at Carnegie Mellon University, was detained by the Taiwan Garrison Command, one of the major bureaus of the White Terror. Officials of the Taiwan Garrison Command said that they released Dr. Chen at midnight after a short interrogation. However, hours later in the early morning of the very next day, Dr. Chen's body was found in the backyard of the Research Library of National Taiwan University. While the KMT claimed that Dr. Chen had committed suicide, an autopsy conducted by an American forensics expert disputed this conclusion. Most observers agree that the KMT ordered Dr. Chen killed (Copper 1982).

Memmi's (1991: 7) assertion is correct. The colonizers often fail to see the misery of the colonized because of his own comfort. The privileged Mainlander ruling elite not

only had firmly opposed political liberalization, but they made the colonized Taiwanese live under constant threats. The continued political persecutions and assassinations had resulted in thousands of families living in grief. However, those Mainlander ruling elite still refused to believe that the colonized Taiwanese could weep. For the Mainlander ruling elite, the colonized dissidents simply got what they deserved.

Although the termination of the U.S. and Taiwan diplomatic recognition forced the KMT to close the political window, it reflected that the Parliament was in need of reforms. In the early 1980s, for more than three decades without a reelection, the parliament was full of very old representatives. With all Mainlander representatives rapidly aging, the Parliament was increasingly aging too. The Legislative Yuan could barely function. While still insisting the majority of the parliamentary representatives must be reelected from the mainland, the KMT was forced to release more posts for the Taiwanese when facing external and internal pressures.

In December 1980, the postponed complementary elections for Legislative Yuan and National Assembly were eventually held. Some families of the Kaohsiung incident victims were among those top vote getters because many lower working class and housewives without political standing sympathized with their sacrifices for democracy. The *Tangwai* received 13% of the votes in 1980 Legislative Yuan election. This sympathetic syndrome expanded to defendants' attorneys and followers, and support for *Tangwai* grew to nearly 20% in the 1983 Legislative Yuan election. With many senior *Tangwai* politicians in jail, more newcomers got elected. Infighting over the direction for future development occurred. The Pan-*Meilidao* faction preferred a moderate stand to do the work of checks and balances in the LY and local councils. They formed the *Tangwai*

Research Association for Public Policy in 1984 to train and coordinate with the junior liberal politicians. This faction served to strengthen the opposition at national and local levels.

Bellicose rookies in the *Tangwai* Editorial Association, which later grew into the fundamentalist New Tide faction of the DPP, saw the rising social injustice and growing resentments. They insisted on a strategy to conduct more street protests and rallies. Orchestrated within a social milieu in which social unrest began outbreak due to growing industrial conflicts and emerging new social movements, the rookies performed the duty of masterminds to ignite a social explosion in the 1980s. Absorbing social resentments against the colonialist state, the opposition forces soon captured its major support from the working class and disadvantaged minorities.

The two major oppositional groups then merged and formed the opposition forces to the Democratic Progressive Party (the DPP), in December 1986. Partly because the KMT was desperate to improve the already deteriorating relations with the U.S.-mainly because the KMT ordered Mainlander gangsters to murder a dissident writer Henry Liu in Los Angeles, and partly because the KMT worried that a further crackdown might cause the newly formed opposition party to boost its electoral support, the KMT took a wait-and-see approach to tolerating the DPP. With a formal organization and aggressive participation in various social movements concerning social democracy and ethnic justice, the DPP attracted many professionals in the law, teaching, and medical communities to support the opposition movement.

The DPP stabilized its electoral strength around  $27\pm 3\%$  of vote share in the late 1980s, while the KMT gradually fell below 60%. Die-hard supporters of the DPP, prior

to the 1990s, came primarily from the lower working class and the blue-collar self-employers such as street vendors, food stand owners in the bazaars, and taxi drivers who had developed resentments against the state due to constant troubles with the police. However, increasingly professionals, urban white-collar workers, and college students—the would-be middle class also became steady supporters of the DPP. In response to the growing opposition forces, the KMT smeared and discredited the DPP's social image as pro-Taiwan independence, pro-working, pro-environmentalist and anti-business, left-wing social democrat, a party of violence, and sources of social disorder. Influenced by the KMT's propaganda, the DPP could hardly alter the majority of middle-class people to change their political stand, favoring a stable politics and growing market economy. The middle class remained conservative and were supportive of the KMT.

### **Summary**

A close look at the democratic transition in Taiwan indicates that democracy had been incompatible with certain beliefs and political values in recent decades. Instead of using a traditional way through which to view the KMT as an authoritarian regime, I take a new research position, treating the Republic of China as a colonial system. By deconstructing the colonial system into three superstructures, I found that the middle class, developing from each component of the colonial system, tended to be conservative in nature. Moreover, the majority of Taiwanese middle-class people have been contaminated by the colonial syndromes, namely the inferiority, superiority, and dependency complex. I argue the colonial syndromes are the factors that resulted in many political impasses of recent decades.

Meanwhile a small fraction of the liberal middle class freed themselves from these colonial syndromes, especially when they began to oppose the colonial rule. Unfortunately, when they tried to gain legal muscle against the colonial state, they chose change within the colonial system, rather than a change of the colonial system itself. In this way, their political strategy and ideological standing set the stage for ethnic and statehood identity, which are often on a collision course with any colonial system.

As long as the majority of Taiwanese favor reform rather than to destruction of the colonial superstructure, the colonial system in Taiwan remains undisturbed. The middle class, who centrally positioned in the political arena, continue to experience a politics of polarization. This polarization process not only threatens democratic consolidation, but it also produced a long stage of middle-class crisis. In next chapter, I outline my research framework, method, and data to answer how middle class crises have been produced based on an ideological collision discourse.

**Table 3-1 Composition of civil servants by ethnic groups in selected years**

Ethnic Groups\Year	1946*	1962**	1970**	1980**	1990**
Mainlanders	28,234 (63.52%)	92,816 (42.74%)	113,627 (39.43%)	129,338 (30.76%)	128,896 (23.32%)
Taiwanese	9951 (22.38%)	124,163 (57.18%)	174,478 (60.55%)	291,006 (69.23%)	423,762 (76.66%)
Foreigners	6,266 (14.10%)	183 (.08%)	65 (.02%)	65 (.01%)	128 (.02%)
Total	44,451	217,162	288,170	420,409	552,786

Sources: \* Lai et al. 1991: 66

\*\* SOEY, 1992: 80 (Excluding temporary workers, personnel in the military and elected officials)



#### **Chapter 4: The first wave of middle-class crisis – system transformation**

In 1977, although the loosely-organized *Tangwai* politicians began to challenge colonial rule and fight for ethnic justice, its status was no more than an illegal political group or secret society. The stigma, prejudice, and trajectory surrounding it had made open events difficult. Elections were the only chance available for the political group to practice. The goals of this group were to awaken the true souls of the colonized, provoke the Taiwanese nationalist consciousness, and expel the evil spirits of colonialism. Nevertheless, democracy in terms of the political modernity was seemingly incompatible with Taiwanese society at large because it was still widely perceived as profane to have any disagreement with the colonial system.

#### **The shadow of colonialism**

This general understanding legitimated the conservative hardliners within the KMT who could employ all sorts of severe measures to suppress political resistance. The majority of the middle-class people remained a highly homogenous conservative group. If they were not very supportive of the KMT, they were silent about the actions that the KMT took. While most middle-class people would feel shame upon imprisonment, the liberal *Tangwai* politicians considered it an honor. The Taiwanese opposition culture in the 1980s included the disadvantaged minorities and lower social strata, who particularly sympathized with those political prisoners devoted to democratization. Therefore, they were willing to cast their votes for candidates with political prisoner backgrounds.

In this way, political imprisonment became a license or certificate for political dissidents to validate and advance the leadership claims of individuals and groups (Buntman and Huang 2000). Consequently, those suppressive actions did not leave

*Tangwai* politicians with an empty feeling. While the KMT continuously used state-controlled media to denounce *Tangwai* politicians as traitors, the colonial regime, as an unelected government, demeaned itself in the eyes of Taiwanese ethnic groups because of their abuse of power. When political persecutions went too far, it infuriated Taiwanese ethnic people. In particular, those at bottom of class ladder always rewarded political victims and liberal politicians with valuable ballots and helped them get elected. Thus, for those who believed in the anti-colonial cause, martyrs were the saints and the KMT's traitors became Taiwanese heroes.

Because *Tangwai* politicians could accumulate their political capital in a suppression-backlash model, it gave them an edge and encouraged more dissident politicians to take part in all sorts of social movements. On September 28, 1986, the liberal *Tangwai* politicians formalized its organization, aptly named the Democratic Progressive Party, though the KMT refused to grant it legal status. With an intention to draw sympathetic response as martyrs, *Tangwai* politicians as liberals pursued a strategy to rally masses with emotional rhetoric and confrontational demonstrations (Chou and Nathan 1987). That strategy worked, and two months later, the DPP made a strong showing in the December elections. Eleven of its 25 nominees were elected to the National Assembly with 22.2% of votes, and 12 of 19 candidates got elected to the Legislative Yuan with 24.8% the vote (Gold 1987).

However, while making some progress in elections, the seats that the liberal forces gained had little influence in the Legislative Yuan, partly because it was short of the 20 signatures required to introduce a bill. Meanwhile, the KMT had nearly 400 legislators in the Legislative Yuan. To overcome the stiff challenges, the DPP legislators

focused on the larger structural problems. They intended to show how the composition of the Parliament was unreasonable. The ethnic Taiwanese as a whole made up 85% of Taiwan's population but only constituted less than 10% of the seats in the national legislative bodies. Meanwhile, the Parliament was dominated by Mainlanders, who were elected four decades ago in China and averaged more than 80 years old. Under such conditions, the DPP received nearly one fourth of the vote cast, but they only made up less than 3% of the seats. Since the Taiwanese voice had been silenced for four decades, they could only engaged physical scuffles, verbal fights, and vandalistic damages to chairs, tables, gavels, and microphones in the Legislative Yuan. By committing all sorts of violence to paralyze the agenda, the liberals eventually forced the KMT to reach some compromise, under which the DPP obtained a reduction in bill sponsorship requirements to 10 members for ordinary bills and 20 for new laws (Dreyer 1990). This change allowed the DPP to propose new laws of their own for the first time and compete with the KMT's versions.

Nevertheless, the KMT still overwhelmingly outnumbered the DPP in the Legislative Yuan. To challenge the colonial system, the liberal forces needed to add more levers in everything. Consequently, they had to gear up on the streets, and call for widespread support from the people. In the late 1980s, Taiwanese society had been widely considered a divergent system of political stagnation and economic dynamics. Such a perspective, nevertheless, ignored the potential structural problems hidden in the economic transformation, which would later become a source of change for the democratic transition.

In chapter 3, I argued that the postwar international economy was propelled by the U.S. In this spirit, the KMT's role in the industrial expansion should not be viewed exclusively as a result of voluntary development, but largely because structural necessity linked to the core countries demanded that Taiwan performed its duties for international capital accumulation. Under the double pressures of global capitalist forces and domestic colonial government, Taiwanese farmers and working-class people had little space to exercise their class interests. Both oppressed classes were docile and obedient to the roles that the international division of labor and colonial elite assigned to them. Low strike activity demonstrated that they were a class in themselves, rather than a class for themselves.

While the KMT had been complacent about its general achievements in economic developments, statistics demonstrated that there were serious rural poverty problems and significant social inequalities in the economic transition. In particular, farmers' income had steadily fallen behind, averaging only two-thirds of non-farming families since the late 1970s. Moreover, with limited land available for per household, farm families could only obtain a third of their income from farming. It was not surprising that most farmers had to work off the farm and become part-time or full-time industrial workers. This transformation, nevertheless, became more difficult due to globalization.

After the Vietnam War, Southeast Asia became the primary focus of containment. Core countries, such as the U.S. and Japan, infused large amounts of foreign direct investments into Thailand, Malaysia, Indonesia, and the Philippines. As a result of the rise of these newly industrialized countries in the 1980s, Taiwanese labor-intensive manufacturing exports faced increasing competition from low wage countries. This

pressure, accompanied with surging wage levels, was the inevitable consequence of rapid economic growth, which led to industrial conflicts. The growing amount of large scale layoffs and firm closures, rising disputes between labor and management, deteriorating working conditions, mounting industrial pollution, and worsening living environments intensified social grievances within the lower working class. They demanded that the government take their problems more seriously.

When numerous social problems became manifest in the economic transition, resentments grew and antagonisms were exacerbated. These developments created a solid stage on which to develop social movements. Liberal politicians organized the disadvantaged and marginalized minorities in order to demand social justice and reforms. From taking part in sporadic protests, supporting strikes, to organizing large scale street rallies and demonstrations, they built close relationships through interactions with disadvantaged minorities. On any given Saturday of the late 1980s, Taipei streets were full of all sorts of marches, demonstrations, and protests. Angry consumers, union activists, factory workers, desperate farmers, aborigines, feminists, environmentalists, teachers, college students, and even Mainlander veterans all walked on the streets to call for their rights and request institutional changes.

While each mass protest tended to be politically insignificant, as the KMT colonial regime remained indifferent about people's requests, however, as a sequence, it had consequential political importance to drive the momentum for democratic transition. For the liberal DPP politicians, each street rally was a contingent event of the larger sequence of demonstrations. The number of island-wide events increased to several hundred times a year and the Taiwanese no longer were fearful of political activities

(Gold 1987). With thousands of people marching on the streets every weekend, the DPP politicians had aptly converted the participants of social movements into potential active members of their anti-colonial political forces. The DPP-led social movements, they not only brought the workers, farmers, the disadvantaged, and the poor to center stage of politics, but they also took the lead in including the lower social strata into civil society. When each street rally and protest was turned into an anti-colonial exorcism, it redoubled the opposition forces in politics. Hence, party competition began to develop for the first time.

On the other end of the social ladder, the still vibrant economy favored the urban middle class. The rising prices of the island-wide real estate and local stock markets, due to the rapid appreciation of New Taiwan Dollar and large infusion of hot money<sup>14</sup>, advanced the wealth of the majority of white-collar people. They did not care that the capitalist transformation had slashed the share of thousands of farmers and working-class people who lived in poverty. What they were concerned about most was that they played both the real estate and the stock markets without getting burned. Consequently, they demanded the continued growth of the business environment and political stability. These demands were particularly strong within the upper-middle-class people and business community because they worried that reforms or institutional changes proposed by the liberals and progressives might reduce their extraction of profits from the colonial system. As a result, they opposed what the liberals promoted for the less well of people.

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<sup>14</sup> Hot money refers to funds (or capital) from one country to another in order to seek short-term returns.

Following the emerging progressives challenging the KMT's dominance in the political arena, the majority of Taiwanese politicians within the KMT were caught in a dilemma. On the one hand, their numbers were too large to be integrated into the inner circles of the colonial leadership. For the KMT conservative elite, they had equated Taiwanese with corruption and incompetence for decades. When they promoted a few model minority Taiwanese into the inner circle of leadership, they worried that there would be a horde of corrupt incompetents seeking opportunities to join the leadership. In this sense, they could only handpick a very small number of the colonized as political tokens, and let those tokens practice limited amount of authority.

On the other hand, the native Taiwanese politicians' political strength was too weak to reform the colonial system because there was little space to practice political autonomy in the tightly organized KMT party. What they could do was to realize their limited material interests. From township and city mayors, county magistrates and councilor, provincial assembly people, and newly emerging Legislators and National Assembly people, all shared one thing in common: constant delivery of local earmark projects to please their voters, and playing the role of influence peddlers to serve their major campaign supporters and local powerbrokers. United in appearance, the KMT, in reality was more like a hodge-podge of conflicting interest groups practicing pork barrel politics.

The conservative elite within the KMT knew that many Taiwanese politicians were involved in corrupt practices. However, the political trend was that following the gradual expansion of marginal reelection in the parliaments, the majority of posts available due to aging Parliament had to be filled by native politicians. When facing party

competition, the KMT had to redefine its political market, and it transformed itself into a political machine that won every electoral victory. Therefore, the KMT demanded that all their Taiwanese politicians defend the overarching colonial ideology. The more the KMT candidates got elected, the more the opposition movement was dampened by payoffs and pork barrel earmarks.

As a result of these developments, the KMT placed that the Taiwanese politicians in the role of a political buffer to avoid disrupting the colonial structure, so that the political segregation of the Taiwanese from political representation remained. When the democratization campaign became strong in the late 1980s due to party competition, the KMT did not care to meet the demand. As one of the richest parties in the world, the KMT had largely nominated candidates with business backgrounds or well-off family origins, and they gave large funding to each of its nominees. Unlike that the DPP candidates, who had little campaign funds but relied on maneuvering social issues to attract supporters, these well-funded KMT candidates spent large amount of money on vote-buying activities to defeat the DPP candidates.

When vote buying activities became rampant, politicians had to pay for what they got. Once elected, a large proportion of the KMT politicians were interested in influence-peddling, asking for kickbacks, and other forms of corruption. These practices resulted in a vicious circle: campaigns became increasingly costly. Most elected representatives and office holders therefore had to prepare the next round of fund-raising through more corruption. The KMT simply turned a blind eye to this vicious circle and tacitly permitted its politicians to indulge in corruption. This, in turn, drove the democratic transition to plutocracy.



After all, the political developments in the 1980s were a strange mixture of promise and frustration. On the one hand, no matter what the election results were, the reality of the democratic transition was that more Taiwanese politicians were present in the Parliament. Some, like Wu (1989), argue that the political system was heading toward political pluralism. Others, like Gold (1987), view the emerging civil society against the state as sign of political progressiveness.

On the other hand, the democratic transition was disappointing. Although the DPP's heavy involvement in social movements won them the reputation of being the mouthpiece of the minority groups, the KMT had exerted its utmost strength to smear the DPP's social image by denouncing it as the trouble maker, the source of social disorder, and a party of violence. Accompanied with the DPP's electoral strength from the bottom of social ladder, the construction of a negative social image became a staple in the state-controlled media and permeated citizens' daily lives. This, in turn, reinforced the DPP supporters' long-time internalized political value. Once negation, brainwashing, and attachment came into play in the construction of political morality, the anti-colonial liberal forces were again held back by inferiority complex.

It would seem that the political construction of inferiority complex was a matter of ethno-political conflict between two ethnic groups: the colonized Taiwanese and Mainlander colonizers. Brubaker (2005: 473-474), however, suggests that ethnic conflict or what might better be called an ethnically-framed conflict need not, and should not, be understood as a conflict between ethnic groups. Indeed, at first glance, the democratic consolidation, or perhaps more properly the decolonization process was a war between the colonized Taiwanese and Mainlander colonizers. However, a second look at the issue

of the ethnically-framed conflict indicates that the fiercest battles in fact occurred “within” the categories of Taiwanese groups: the liberal opposition forces standing for the colonized and the KMT Taiwanese politicians representing the privileged colonized.

Seemingly, faith in colonialism became the sources of internal conflict within the Taiwanese. While the Taiwanese politicians within the ruling KMT in general enjoyed greater political status, their superior status only led them to be locked into dependency complex. The relative superior status did not grant them privilege to escape from inferiority complex. In fact, their privilege required it. Since many of them were mercenary, their money-hungry attitude and scandalous inclination lured them to vote-buying and other forms of corruption. These shameful behaviors not only disgraced them but also trapped them into an inferiority complex.

After all, colonialism spread confusion and the Taiwanese remained divided. Because so many shortsighted Taiwanese politicians within the KMT maintained loyal to the colonial regime, they helped maintain the political isolation of the Taiwanese as a whole. With the colonial syndromes still rampant, the emerging opposition movement and democratic transition only chipped away at the foundation of the colonial structure. The colonial system remained undisturbed.

### **Ethnicity, politics, and system transformation**

Despite the fact that the colonial system remained intact, this system was surprisingly changed when Lee Teng-hui, a native Taiwanese, assumed the presidency after Chiang Ching-Kuo’s death on January 13, 1988<sup>15</sup>. Because Lee’s arrival to power

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<sup>15</sup> See appendix 1 for a summary of presidents, parties, and dates of office from 1948 to 2012.

brought to the sociopolitical turmoil in Taiwanese society for nearly a decade, examining Lee's background is helpful to pinpoint Lee's political identity and make sense of why the social transformation led to the middle-class crisis.

Born in 1923, Lee was a grandson of a wealthy Taiwanese butcher. Lee's father was a policeman in the Japanese colonial administration. Having a privileged colonized origin, Lee went to Japan and enrolled at Kyoto Technical School (today's Kyoto University) in the summer of 1943 at the age of twenty. Unfortunately, the school closed one semester later due to war, and Lee was enlisted in the Japanese army at the beginning of 1944. After a short period of training, Lee was dispatched to Taiwan, but was recalled to Japan in 1945. When the war ended in August 1945, the Kyoto Technical School reopened, and Lee reentered. After receiving an associate's degree in 1946, Lee returned to Taiwan and managed to enter the National Taiwan University, majoring in agricultural economics.

In 1947, Lee witnessed the "February 28 Massacre." Like many Taiwanese intellectuals in the 1940s, seeking workable solutions to fight against colonialism and imperialism from Marxism, Lee had been interested in Marxist readings ever since he went to Japan. In late 1947, Lee and some young Taiwanese radicals joined a Marxist study group, an offshoot group of the Taiwanese Communist Party. That study group was broken up and led to one member's execution by the KMT, but somehow Lee escaped political persecution. In 1948, he obtained his bachelor's degree from the National Taiwan University, and held a teaching assistant job in the department of agricultural economics. In February 1949, Lee married to Tseng Wen-hui, the daughter of a wealthy Taiwanese landlord and tea merchant.

In 1952, Lee received a scholarship from the Sino-American Joint Commission on Rural Reconstruction (JCRR), and went to study agricultural economics at what is now Iowa State University. After obtaining a master's degree in 1953, he returned to Taiwan and taught at the same department as an instructor. Lee's Mandarin had a strong Taiwanese accent, and he was discriminated against by Mainlander faculty. In a department where Mainlander faculties dominated, Lee had a rocky relationship with his colleagues, though his lectures were popular to Taiwanese students. In 1957, Lee eventually left the department and went into public service as a specialist in the JCRR, while still teaching in the department of economics as an adjunct professor.

In the early 1960s, according to Kagan (2007: 60-67), Lee traveled to Japan to collect data and information on agricultural issues for research. During that trip, Lee secretly met Dr. Ng Yu-jin, a radical anti-KMT Taiwanese activist, and committed to the cause of Taiwan independence. In 1965, Lee received a scholarship from Cornell University. During his doctoral study years at Cornell, Lee constantly discussed the issue the sovereignty of Taiwan with young Taiwanese students. These students always assumed that Lee was for Taiwan independence and self-determination. In 1968, Lee received his Ph.D and returned home to Taiwan. Lee was aware of the fact that the KMT had thousands of campus spies in the U.S., monitoring Taiwanese students as potential rebels, but his conversations over the issue of Taiwanese sovereignty during Taiwanese students' gatherings were eventually given to the KMT. In April, 1969, Lee was detained and interrogated by the Garrison Command for a week, the notorious White Terror executive bureau, but again Lee was exonerated.

Prior to 1970, Lee had experienced a career both as an academician and a bureaucrat. According to Fanon (1967b: 124), Lee had two political identities. On the one hand, Lee's résumé designated him a member of assimilated middle class, or a comprador. On the other hand, he was also an ideal candidate of legal intellectual (dissident intellectual) because of his commitment to Taiwan independence. Nevertheless, Lee joined the KMT in 1971, and therefore changed his political identity to be a privileged colonized, or in Fanon's research, the assimilated middle class, one of the illegitimate elements of the colonial system. In 1972, he was handpicked by Chiang Ching-kuo, serving as minister without portfolio in Chiang's cabinet. In June 1978, Chiang promoted him to the position of Taipei city mayor, and then Taiwan province Governor in December 1981. Four years later, he became Chiang's running mate and was elected by the National Assembly as the vice president.

Lee's rise to power undermined the KMT's long term ruling ideology that the political leadership must remain in the hands of Mainlanders in order to recover mainland China. As a result of this power shift, Taiwanese society immediately faced political instability. The Mainlander-preoccupied leadership, along with the Taiwanese invading political spaces, led to rising status anxiety within the Mainlander community. In the 1980s, the power structure of the KMT was characterized by gerontocracy. First-generation Mainlander politicians in their sixties were still considered young and promising. The elderly conservative elite, led by Chiang Kai-shek's widow Soong Meiling who was ninety and Premier Yu Kuo-hwa, were confident that they could control the party apparatus and Lee would be a mere figurehead (Seymour 1989) or caretaker (Li 2006). They blocked Lee moving from acting chair to formally ascending to the

chairmanship. Since Lee had no apparent allied faction in the party, these elderly conservative hardliners underestimated Lee's political skill. They hoped to form a collective leadership in the party so that the colonial system would continue.

In contrast to the first-generation Mainlander politicians' wishes, there were numerous second-generation and "young" Mainlander politicians in a long queue, waiting for opportunities for promotion. These power-hungry young politicians were counting on a leadership change that would lead to a redistribution of power, and it would benefit them. They argued that Lee was the hand-picked successor to Chiang Ching-kuo, and they tended to accept Lee's ascension to chairmanship. As a result of infighting between the elderly conservatives and young opportunistic insurgents, Lee's ascension to chairmanship which was originally scheduled for January 1988 was postponed (Roy 2003: 180).

Nevertheless, Lee's approval rate rose to 81% in July 1988 from 71% at the end of 1987. Moreover, by 1987 the KMT had 2.2 million members (Seymour 1988), and Taiwanese made up 75% of the membership (Lu 1985). Seemingly, the factor of ethnicity was in favor of Lee. Assisted by the Mainlander young guns and senior party cadres, Lee skillfully defeated those Mainlander contenders at the KMT Congress in July 1988. Lee went on to reshuffle the party leadership, appointing 31 party members to the Central Standing Committee, 16 of whom were Taiwanese (Rubinstein 1999: 448). This was the first time in history that the KMT regime was firmly controlled by the Taiwanese.

Lee's ascension to President and wresting party chairmanship from the Mainlander conservatives produced a historical rupture of the colonial system and created sequential crises in Taiwanese society. In response to Mainlander conservatives'

challenge to his leadership, the interim President sped up the Taiwanization project<sup>16</sup> to stabilize his position by promoting and recruiting more Taiwanese politicians into key posts. Since the native Taiwanese were now in power, being a Taiwanese was now prized. The Taiwanese holding top positions and posts in the governmental hierarchies and within the ruling party had risen to 50% in 1995, from 14% in 1987 (Kau 1996). Moreover, Lee also allowed reform proposals to come to a heated debate, including (1) the Civic Organization Law, which legalized the formation of new political parties, (2) a proposal to retire senior Mainlander parliamentarian (Dreyer 1990), (3) privatizing state-owned enterprises, downsizing the military (Roy 2003: 185), and (4) deregulating the licensing system and credit policies. Arguably, these issues eroded the foundation of the colonial system and endangered the majority of Mainlanders' career paths.

Maintaining disproportionate power over the Taiwanese was a means of political self-defense for Mainlanders. The Mainlander community owed their status and livelihood to control over the KMT colonial regime (Roy 2003: 94). In the colonial past, being a Mainlander gave one different forms of privileges in term of career paths, and this background allowed one to pursue high-ranking positions through special channels in various institutions of the colonial government and the private sector. This explains why Mainlanders were overrepresented in professional and managerial positions. According to 1990 census data, nearly one quarter of Mainlanders held a public job, and almost two thirds of Mainlanders belonged to the middle class (Hseih 1997, also see table 4-1). Lee's reform proposals led to the dismantling of Mainlanders' colonial privileges and

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<sup>16</sup> Lee defined his Taiwanization as transforming KMT from alien regime to a Taiwanese KMT. See Clough (1999: 80).

depreciated their collective sociopolitical status. Feeling that they were betrayed and marginalized by Lee, the degree of dread and anxiety expressed by the Mainlander middle-class people sharpened their concerns about Lee.

Consequently, Lee became the number one enemy of the Mainlanders. They accused Lee of being a traitor and transgressor of the KMT, stealing its leadership. In response, Lee never denied that he robbed the throne. The elderly Mainlander conservatives began to regroup and challenge Lee's bid for the presidential election scheduled on March 21 1990. Inasmuch as the elderly Mainlander Assemblypersons still made up more than 80% of the National Assembly, the conservatives had one more chance to defeat Lee. They raised a counter ticket headed by Lin Yang-kang, who was former governor of Taiwan and a native Taiwanese, with Chiang Wei-kuo, the half brother of Chiang Ching-kuo (Dreyer 1991). With tremendous power and resources, Lee again demonstrated his superb political skill by playing "pork barrel" politics to consolidate Taiwanese support, while distributing positions by patronage to opportunistic Mainlander politicians, in order to split the challengers' support. As a result of these tactical maneuvers, Lee forced the pretenders Lin and Chiang to withdraw from the race.

In some ways, Lee's victory in the presidential election was a result of under-the-table deal with Hau Pei-tsun. Hau, the armed forces chief of staff for nearly a decade whose term had been expired for two more years, had a powerful influence in the military and Mainlander community. After Lee's inauguration, Lee reshuffled the cabinet and appointed Hau as the prime minister. While Hau's ascension eased Mainlanders' rising unrest, the DPP, thousands of college students, and a younger cohort citizens charged that his appointment let the military interfere in the government. The DPP supporters and



college students in particular viewed the tactical alliance between Lee and Hau as a serious regression for democratization (Dryer 1990). As a result, an anti-Hau movement emerged. The distrust and antagonism between Taiwanese and Mainlander was exacerbated.

After securing his bid to remain in power, more opportunistic Mainlanders externally cooperated with the Lee administration, known as the mainstream, and they bargained for political positions, while they internally lent no support to President Lee's reforms. Others, known as non-mainstream factions, continued to fight against the Lee administration by accusing Lee of being a separatist, transgressor, and traitor. These non-mainstream factions included elderly conservative hardliners, most of whom had either a military or intelligence background or high-ranking cadre origin, known as the New Revolutionary Alliance (NRA, or in Chinese Hsin Tung Meng Hui), and young dissidents known as the New KMT Alliance (Hsin Kuo Ming Tang Lien Hsien), which was made up by legislators and other elected representatives. The New KMT Alliance later formed the New Party (NP).

Meanwhile, the power struggle between the KMT and the DPP continued and even intensified. Although the DPP has a revolutionary idea to destroy the colonial system and rebuild a new nation-state, it pursued self-determination and Taiwan independence in a democratic and peaceful way. The DPP made more radical proposals to totally abolish the colonial system. Important issues included: the establishment of the "Republic of Taiwan," declaring independence from the Republic of China, redrafting a new Constitution, applying for membership to the UN, restructuring the central government, abolishing the Temporary Provisions Act and all White Terror bureaus,

reforming the Parliaments, and holding direct election for the offices of president, governor of Taiwan, and mayors of Taipei and Kaohsiung cities.

With challenges from right wing conservatives within the KMT and pressures from the left wing liberals outside the KMT led by the DPP, the Lee regime was sandwiched between either end of the political spectrum. Nevertheless, Lee's approval rating had been above 80% since his inauguration to president in May 1990. This high job approval rating and the tremendous power resources gave him advantage to conduct reforms of his own. In contrast to this, the colonial Chiang regime positioned itself at political right and economic left, the Lee administration took an opposite stand: political left, with the emphasis on democratization, but economic right, with stress on liberalization.

However, this middle ground political stand did not meet the interests of the middle class. Political reforms always invite criticisms. Lee's government's moderate centrist reform policies were no exemption from rising domestic opposition. The diversity of constituencies posed continuing dilemmas for images of the ideal statehood and society. When reforms were far away from expectations, they spread disappointment and anxiety, and therefore, this exacerbated the middle-class crisis.

### **Statehood under colonial contract**

Lee's résumé in the colonial past clearly indicates that his regime was a reformist administration rather than a revolutionary one. His résumé also shows that he had swing personas in terms of his political stand. Therefore, although in the early 1990s Lee clearly had the upper hand, he did not put an end to colonialism. Instead of destroying the colonial system, Lee regime defended it through reforms. Except to rename the national

title and draft a new Constitution, Lee adopted most proposals through the DPP. His democratic reforms were a compromise between left and right, but his China policies were a reflection of his privileged colonized origin, imbued with colonial legacies.

In 1990, Lee established the National Reunification Commission under the President's Office. In April 1991, Lee announced the abolition of the Temporary Provisions Act and the termination of the Period of National Mobilization for the Suppression of the Communist Rebellion. Lee's government announcement formally ceased the civil war between the ROC and the PRC, and it implied recognition of the legitimacy of the PRC's rule over mainland China. In May 1991, Lee's government promulgated the Guidelines for National Unification, which suggested to the PRC that the reunification would be possible in a three-stage process.

The pro-independence DPP immediately objected to the promulgation of the Guidelines for National Unification. Lee placated the pro-independence activists by replying that reunification was impossible in the near future. That statement caused backlash within the Mainlander community. They were surprised that Lee showed no interest in defending the colonial state's core political values. Nevertheless, Lee's government continued to realize his reunification propaganda by setting up the Strait Exchange Foundation (SEF), a non-official organization staffed by government officials who were on leave, and it was supervised by the official Mainland Affairs Council (MAC) of the Executive Yuan. Meanwhile, the PRC established a counter non-official organization to the SEF, the Association for Relations Across the Taiwan Strait (ARATS) under the Taiwan Affairs Office.

In mid July 1992, Lee's administration pressed the Legislative Yuan to pass the Statute Governing Relations between the People of the Taiwan and Mainland Areas, in which "China" is defined as "one country with two regions governed by equal political entities" (Domes 1993). Having the legal basis for cross-Strait contact, the SEF and the ARATS arranged first round talks in Singapore on mutual document verification on November 4, 1992. Because the disagreement concerned the wording of the "One China" issue, the talk failed to reach any agreement. However, both sides agreed to work out the language expression concerning the "One China" issue in the future (Domes 1993).

Lee's initiatives to improve cross-Strait relations under the impetus of being equal political status proved to be unilateral. The PRC had never accepted the legitimacy of the ROC in the international community, and it never ceased its incessant attempts to intervene in the ROC's contacts with the third countries and presences in international organizations. As a result, the dilemma of the statehood of the transplanted ROC had continued to manifest itself in the international community, and it had resulted in more frustrations in the Lee regime. For instance, the Lee administration suffered a serious diplomatic setback in the early 1990s, when both Saudi Arabia and South Korea switched their diplomatic recognitions to the PRC. In addition, on September 29, 1992, Taiwan obtained observer status in the GATT (General Agreement on Tariffs and Trade, the predecessor organization of World Trade Organization or WTO) under the name "Taiwan, Penghu, Kinman and Matsu Customs Territory." That admission was in fact humiliating because it did not grant the ROC or Taiwan a statehood status (Roy 2003: 216). However, for the majority of Taiwanese, this name is better than "Chinese Taipei," the official title

of the transplanted ROC in many international organizations because the new name has an independent identity separate from “the state of China.”

In response to these diplomatic setbacks, the Lee administration began to employ “dollar diplomacy” and “pragmatic diplomacy,” in an attempt to safeguard Taiwan’s formal diplomatic ties with some 20 countries, in order to seek out more international recognitions, and to improve the visibility in the international activities. In 1991, both North Korea and South Korea became members of the United Nations. The DPP thus launched a campaign to promote the idea of Taiwan’s return to the UN. The Taiwanese responded enthusiastically to the DPP’s UN campaign. Urged by the DPP and the liberal middle-class forces, Lee adopted the UN campaign as governmental policy. In 1993, the Lee regime attempted reentrance into the UN beginning under the name the ROC on Taiwan. This attempt again proved to be in vain due to the heavy influence of the PRC within the UN. Lee’s efforts did, however, increase the frequency of participation in international affairs and activities, and he received the majority Taiwanese support, even if his participations were under the name “Chinese Taipei.”

The bid for reentrance into the UN, and the attempts at diplomacy, caused a backlash in the Mainlander community, and eventually it created a schism across the ethnic lines within the conservative urban middle class. The NP and the KMT non-mainstream faction advocated that the Lee administration should abandon its diplomatic attempts to search for a true nation-state (Cabestan 1998: 238), mostly because Taiwan’s security was directly related to its relations with the PRC. Seemingly, the more Taiwan pushed for *de jure* independent recognition in the international community, the deeper it threatened to endanger its national security (Shambaugh 1998: 244).

Mainlanders used to persuade Taiwanese that they could retake the mainland and reunite the State of China by a war under their leadership. After they stepped down from the leadership, however, they became afraid of war. This proved the case, on the one hand, when they advocated such political lies, the Taiwanese simply could not escape Mainlanders' hoax. However, on the other hand, when a war was imminent, the Taiwanese also could not view it as a fiction. In particular, by the end of 1990, active brokerage accounts in Taiwan's stock market already reached 4.6 million in a society with a population of 20 million. Seemingly, the majority of the Taiwanese middle class had investments in the stock market. And because any tension between Taiwan and China always led to a rapid depreciation of their paper wealth in the stock market, the middle class demanded reforms that would encourage economic growth and prosperity, but would not threaten national security or their paper wealth. The Mainlander middle class in particular was not as supportive of these types of reforms. They did not yearn for a true nation-state because they feared that reforms would prevent reunification and caused a diminution of their wealth.

Meanwhile, the shaky relations between President Lee and premier Hau deteriorated. During the December 1992 Legislative Yuan election, premier Hau's conservative stand and authoritarian character proved to be a lightning rod for criticism (Rubinstein 1999: 457). Although the KMT won 102 of the 160 seats, it only received 53% of the vote, well short of expectations. After the election, Lee forced Hau to quit. Hau's removal from office showed that Lee was virtually invincible in the KMT. Lee's superb power frustrated the Mainlander elites within the party. Infected with a persecution complex, morale in the Mainlander community declined. Consuming the

anxieties of abandonment and betrayal, these Mainlander elites feared a concentration of power in President Lee's hands, someone with whom they staunchly disagreed, in terms of statehood reform. In July, 1993, many Mainlander elites and some pro-unification Taiwanese politicians within the New KMT Alliance faction left the KMT and founded an extremist right-wing party, the New Party.

The NP leaders viewed their party as one that would take enough votes from the KMT to force a coalition government. They managed their party in a way that represented Mainlanders and defended the hitherto privileged minority (Rubinstein 1999: 487). Composed of the most conservative politicians, the NP worried that the ROC on Taiwan would become a *de jure* independent nation-state, and so it provoked a military attack from the PRC. They exploited the current inferiority complex by constantly accusing President Lee of being a dictator, transgressor, and separatist, and eventually increasing anti-Lee populism. These personal attacks always went beyond business concerns. However, with their emotional exchanges, they were determined to show that their political values were superior to the Taiwanese. In the mid-1990s, the NP drew tremendous support from the college-educated, the younger generation, public employees, and urban middle-class voters in northern Taiwan (Tien and Chu 1998: 115).

According to Lipset (1981:131-148), members of the middle class were the primary supporters of populism. Lipset's theory suggests that Mainlanders' fears and the anti-Lee movement are reflective of a middle-class crisis. Prior to democratization, control over the state was the source of power and prestige for the Mainlander bureaucratic middle class. When the Taiwanese gained and Mainlanders lost their control

of this most important source of power, it was indicative of a reduction of status among the Mainlander middle class.

Effects presuppose causes, and the ethnic factor is one of the causes that led to ethnic hatred against the Lee administration. Bulhan (1985: 93-94) argues that colonialism abhors reciprocal influence and cultural authenticity. Its hallmark is the disruption of the basic structure of the life of the oppressed. Accordingly, those who are colonized are defined as objects whose existence is based upon their relations to larger colonial contracts. With power concentrated in the superior hands of the colonizers, the dependency complex inevitably forces the colonized to depend on the colonizers.

After more than four decades' socioeconomic interactions and life experiences as residents in Taiwan, Mainlanders' political values had maintained a one-dimensional top-down view. Seemingly, unequal power relations prevented any reciprocal influence. However, after the reelection of National Assembly in 1991 and Legislative Yuan in 1992, Mainlanders had no ground to claim that they represented the whole of China. Without power and dominance, Mainlanders' double illegitimacy was fading, and their superiority complex was dissolving. And when Lee came to power, the Taiwanese gradually became independent and self-defined objects. The dependency complex not only could no longer sustain them, but it quickly reversed the Mainlanders' position as dependent objects. This reversal was absolutely unacceptable for extremist right-wing politicians. The only way to regain their superior status was to continue the construction of the inferiority complex. Consequently, they put most of their stakes on bringing their "mother country," the China factor, into play so that the dependency complex could be



rebuilt in their favor. In their minds, PRC had formidable power to influence on Taiwan's domestic politics, while Taiwan had no leverage to alter Chinese politics.

Lee's attitude in his China policy offered the best opportunity for these conservative right-wing politicians to manipulate the public in their favor. Because Mainlanders controlled most mass media in Taiwan, the PRC, right-wing conservative politicians, and pro-China media constituted an invincible allied force, implicitly and explicitly, who advocated that Taiwan was on the verge of a devastating war. By constantly intimidating the local Taiwanese, in order to provoke the fear of China's military attack and exploiting negativisms to undermine Lee regime's credit, they hoped to shape a public opinion that would favor the notion of a consolidated PRC.

Under these threats and accusations, Lee was reluctant to declare the independence of Taiwan from the colonial ROC. Lee had repeatedly stated that because the ROC had been a sovereign state since it was founded in 1912 there was no need for him to declare independence again. Accompanied with that Lee did not oppose reunification in principle under certain conditions, Lee's political stance about the statehood thus caused the DPP's serious concerns. The pro-independence and liberal middle-class forces feared that Lee might betray the Taiwanese and strike a deal with the PRC for reunification. Sandwiched by the two ideologically opposing forces, Lee declined to renew the statehood issue. All he could do was break the diplomatic isolation by taking part in more international activities under the name of Chinese Taipei.

In March 1994, 24 Taiwanese tourists were robbed and murdered when they were on board a yacht on Qiandao Lake, a popular resort in Eastern China. The Lee administration released the message, on a tip from the intelligence bureau, which showed

that some officers of the People's Liberation Army masterminded the massacre. That massacre resulted in strong resentment against China. After the event, a public opinion survey showed that the support rate for reunification dropped from 27 to 21%, and pro-independence support rate increased to 27% (Wu 1995). The massacre marked a watershed moment for the development of cross-Strait relations. As a result of the rising anti-China resentment, many exchange activities were suspended. Cross-Strait relations were further strained when the PRC held four military maneuvers from August to November on its southeastern coast near Taiwan to retaliate these suspensions. In response, Lee's government launched the "go south policy" in an attempt to divert the increasing investments in China to Southeast Asian countries in the end of 1994.

In May 1995, the Clinton administration granted Lee a personal visit to Cornell, his alma mater. The visit to Cornell was a signature victory for Lee's pragmatic diplomacy, as it again broke the PRC's diplomatic isolation. The energetic President had practiced his flexible diplomatic strategy to visit many countries without diplomatic recognition with Taiwan, including Singapore, Philippines, Indonesia, Thailand, South Africa, and Jordan. The irritated leaders of the PRC responded to Lee's visit to the U.S. by postponing the second round cross-Strait talks indefinitely, which were originally scheduled for May 14.

Meanwhile, amendments to the Constitution and legislative movements to work out the remaining details for the direct presidential election were eventually finalized in early 1995. These developments convinced the PRC leaders to believe that the democratization in Taiwan had transited the island toward *de jure* independence. The PRC, again, held four more large scale military exercises between July and November in

its southeast coastal provinces nearby Taiwan, including two rounds of missile tests targeting at Taiwan's territorial seas, and resulting in the explosion of the Taiwan Strait crisis. In an atmosphere of growing political antagonism and rising military confrontation, the pro-independence DPP modified its political stand on the Taiwan independence issue. The DPP Chairman Shih Ming-teh, and the party's presidential candidate Peng Ming-min, made a concession and publicly stated that because Taiwan had existed independently for several decades, an official declaration was unnecessary (Tien 1996).

With the pro-independence DPP's concession aligning with Lee's political stand, Lee's attempt to search for statehood in the end only boomeranged under colonialism. In Crawford's (2006: 218-219) account, Lee's government continued to characterize itself as the "Republic of China," and it stressed its continuity of being an independent state since 1912. This position despite increasing to practice discontinuity of being the "Republic of China" on Taiwan, has not unequivocally declared its independence from China. It is still the case that there is no general international recognition of Taiwan as a separate state. In Crawford's conclusion, neither the "Republic of China," nor the unborn "Republic of Taiwan," is a true state at all.

In other words, the "Republic of China" has been defunct for decades. It is now a "phantom state," a government without recognition. Hence, Lee's initiatives and efforts to revitalize the statehood of the "Republic of China" on Taiwan in the international community was neither a success nor an achievement, but a willy-nilly consideration. Without establishing subjectivity of their own, the Taiwanese could not achieve a new identity as self-defined and independent objects. The majority of them seemingly agreed

to allow the specter of the transplanted ROC to keep haunting them. Soon, however, this would develop into schizophrenia, as predicted by Crawford (2006).

This state identity led to confrontation between political parties and constituencies. The development of political antagonisms eventually brought members of the middle class to adopt partisan identities, and the sense of crisis exploded both in the liberal and conservative blocs of the middle class. Accompanied with national security and economic factors, these factors in turn added fuel to flames and worsened the sense of crisis within the members of the middle class.

### **State and society in transition**

In the late 1980s, the Lee regime's campaign strategies helped the KMT maintain control over Taiwanese politics and draw majority of support across all social classes. These campaign strategies involved emphases on patron-client networks, interest-group management, social stability, and economic prosperity. On the public sector front, the KMT announced its intent to privatize state-owned enterprises (SOE) in 1989. Although it is debatable whether privatization could fundamentally raise public firms' efficiency in operation, it was a goal shared by both the KMT and opposition DPP (Chang 1999; Tsai 2001).

The consensus for this decision was based on different calculations of political interests. On the one hand, the KMT had seen that the important role of SOEs to the Taiwanese economy, in terms of their share of the national GDP (Gross Domestic Product), had steadily declined since the 1970s. By the 1980s, the share of the public sector in manufacturing production had fallen to less than 20% (Amsden 1985: 91; Myers 1998: 41). The poor performance of SOEs in general tended to deplete rather than

generate government revenues (Wade 1990: 180), and they became easy targets for criticisms. Moreover, since the late 1980s, trade conflicts between Taiwan and the U.S. had increased. Privatizing SOEs and liberalizing the economy would bring Taiwan into line with neo-liberal policies advocated by the U.S., and therefore they courted American favor (Lasater 1993).

On the other hand, the DPP recognized that the SOEs played a significant role in maintaining the KMT's dominance in the power structure, and they were also eager to see them privatized (McBeath 1996). Privatization immediately affected approximately 280,000 employees in 122 SOEs. Protected by the benevolent colonial regime, these public employees had been labeled as "blue blood workers," and they had been intensely loyal to the KMT. Their salaries and benefits were much higher than those of most private sector office workers and civil servants. They also enjoyed high prestige and job security. After the Legislature Yuan passed "the State-owned Enterprise Transfer Ownership Bill" in 1991, these public enterprise employees began to face an uncertain future, and they began to worry they might fall from the grace.

Rapley (1996: 84-87) argues that when privatization becomes a policy, it raises questions concerning selling prices. Therefore, money-losing firms must be sold at a loss. Governments may receive a good price from selling profitable public firms, but less than they might have earned over the long term in dividends. Moreover, public firms are sometimes sold at cut-rate for political reasons, perhaps to favor friends of the government. Rapley's insights are important because by 1991, four of the profitable SOEs had been transferred to local conglomerates that had close political connections with the KMT, and two profitable SOEs had become owned by the KMT. Obviously,

previous employees of the SOEs and the liberal DPP were the losers in the early stage of this privatization project (Chang 1999). The KMT took advantage of this privatization project, but they also simultaneously drew more criticisms and opposition. Many previous SOEs employees became vocal supporters of the DPP during campaigns, while others stopped supporting the KMT altogether.

Block (1977) and Habermas (1973) argue that state managers and their legitimacy to rule are dependent on some level of economic activity, in part because economic activities supply state revenues, and in part because public support for a regime will decline unless capital accumulation continues to take place. Accordingly, it was not surprising that when the Lee administration was confronting challenges, both from inside and outside the KMT, these pressures put the Lee administration in a position to demand more support from the business community and strengthen its leadership (Clark 2002a).

The recruitment of the business elite provided the impetus for the Lee administration to deregulate the licensing system and enact other neo-liberal reforms. Important policies included the removal of entry barriers to a series of state-owned corporations, such as commercial banking, construction, mass transportation, airlines, and petrochemicals. A number of state-harbored oligopolies, such as security brokerages, newspapers, TV stations, and insurance, were also opened for new entrants (Cheng and Chu 2002: 205). Additionally, the Lee administration launched large projects concerning infrastructure expansion, and it employed a build-operate-transfer model (BOT) to encourage private sector participants. The KMT regime also expanded higher education, in order to calibrate requirements for economic development.

These economic policies, under the name of neo-liberal reforms, had controversial outcomes. On the one hand, reforms inevitably promoted the expansion of the middle class in a wide range of ways. For example, after Lee's government lifted the ban on new brokerages in June 1988, licensed brokerages rapidly increased to 297 by March 1990 from 28 in June 1988. Overall about 60,000 new middle-class jobs were created in the new brokerage industry in that short period of time (Champion 1998: 19-23). The creation of thousands of new middle-class jobs was more prominent in the newly emerging service sector, such as commercial banks, insurance companies, and media-related industries. Also, the massive pork-barreling construction projects, both at local and national levels, and other newly licensed establishments in heavy industry, facilitated the creation of the new middle-class jobs. Accompanied with the increasing supply of college graduates, these developments reshaped the economic landscape in the early 1990s. By 1996, white-collar job holders (including the service class) rose up to 53% of the class configuration, from 45.6% in 1990.

On the other hand, economic policies discouraged the middle-class constituencies' support for the Lee regime. "Money," it has been said, is "the mother's milk of politics." These neo-liberal economic reforms became little more than political favoritism, and they helped business conglomerates expand in a dramatic way in the 1990s. These conglomerates found few obstacles to prevent them from reaping usurious rents from various protected sectors (Kuo 2000). As a result, to strengthen their influence in the political arena, conglomerates became political agents, providing huge amounts of cash to support the skyrocketing expenses for KMT candidates. This, in turn, created more lucrative and profitable returns, which enabled them to expand their businesses.

Plutocratic interests dominated the decade between the late 1980s and the mid-1990s. Although plutocracy helped economic progress and brought more material affluence to members of the middle class, it simultaneously invited political corruption and called for relative deprivation among the middle-class people. In particular, following the rise of private sector, those middle- and higher-ranking public employees' income had steadily fallen by 30%.

While plutocracy dominated at the national level, "black gold politics"<sup>17</sup> prevailed at the local level. In the early 1990s, criminal organizations began to penetrate the newly democratic system. Many gangsters became convinced that the best way to protect themselves from future crackdowns was to transform themselves into popularly elected representatives or public office holders (Chin 2003:7). In 1994, one-quarter of the elected city and county council members had gang affiliations. In 1996, the figure rose to one-third. Bid rigging for public construction projects, vote buying, election violence, mafia politicians, and official corruption were outcomes of the plutocracy and black gold politics (Chin 2003: 15 and 70). Democracy requires a reasonable sense of security along with a feeling of hope for the future (Scalapino 2002: 36). The majority of middle-class people were astonished by the fact that Lee's neo-liberal reform policies brought to corrupted political-business connection and rampant rent-seeking activities, and the conglomerates and councilors with criminal past reaped the biggest pie of the economic rents. The new democratic system made the Taiwanese middle class anxious because

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<sup>17</sup> Black gold politics refers to political corruption, in particular, the growing penetration of politics by organized crime during Taiwan's democratic transition in the 1990s. The term black signifies gangsters and gold means rich businessmen. See Chin (2003) and Clark (2002c).



more equitable and legal social, political, and economic opportunities had become impossible. The political economy transition seemingly led to a direction that could not facilitate a new democratic system.

While the tie between the KMT and large conglomerates grew closer, the relations between the KMT and the small and medium-sized enterprises (SMEs) became increasingly alienated. At first glance, the decade between 1987 and 1996 was full of economic prosperity. Annual economic growth rate averaged more than 7%. Exports doubled and imports tripled due to the revaluation of the New Taiwan dollar. Per capita GNP (Gross National Product) more than doubled to US\$ 13,260 in 1996 from US\$ 5,298 in 1987 (CEPD 2004: 16). Upon closer inspection, however, Taiwan began to lose its comparative advantage at this time. Rising wages, the drying up of labor reserves, growing labor movement and rapid appreciation of the New Taiwan dollar all placed Taiwan's SMEs under increasing pressure from newer tigers (Bello and Rosenfeld 1990: 14; Garran 1998: 60). Increasing American trade protectionism in the late 1980s, particularly the threats from American Antidumping Rules and the Super 301 Item, served as the impetus for Taiwanese SMEs to diversify production sites and shift operations offshore.

While the solution was to make structural adjustments from dependence on labor-intensive manufacturing industrialization and to produce more skilled, higher value-added, and high-tech products (Kuo 1997), the transition for most manufacturing firms in traditional and labor-intensive industries was difficult because their small business capital reserves could not afford the costs of research and development. Firm closures and

shifting operations overseas became the best options. Deindustrialization since the late 1980s resulted in a growing number of industrial conflicts.

When facing the increasing labor movements, supported by the DPP, the KMT faced a dilemma in dealing with deteriorating business-labor relations. On the one hand, it could no longer abuse its coercive power to intimidate industrial workers, or it would totally lose support among the working classes in elections. On the other hand, it could not propose policies favoring workers, or it would offend the business class and encourage more manufacturing firms to shift their operations overseas. The solution beginning in 1992 was to recruit guest workers from the Southeast Asian countries. This guest worker recruitment project substantially alleviated the labor shortage in labor-intensive sectors (Lu 2000). However, when profits generated from the labor-intensive industries became tenuous, and the requirements for improving workers' benefits and working conditions increased, deindustrialization became increasingly inevitable and unstoppable.

When deindustrialization occurred, China became a favorite location for Taiwanese business people. China's attraction was due to similarities in language and culture, and in part because of the huge market (White 2000: 170). In 1992, Taiwan surpassed both Japan and the United States as the second largest foreign direct investment (FDI) supplier to mainland China, though its accumulated FDI stock was still far behind that of Hong Kong (Kueh 2001: 59). When Taiwan's capital began to migrate and search for the best investment returns, it began its introduction to globalization. The notion of "globalization" was not widely recognized in Taiwan prior to 1990. The Taiwanese simply made investments domestically and did business "internationally." In

this sense, internationalization meant that the export-oriented manufacturing firms conducted sub-contracted activities and traded their products with foreign partners. After the introduction of globalization in the early 1990s, the term has been gradually skewed toward sinicization. Noticing the hollowing out effect due to increasing investments in China that would endanger Taiwan's economic prosperity over time, President Lee initiated the "Go South" policy in 1994, and he hoped to transform Taiwan into an Asian-Pacific Regional Operation Center (APROC). Special financial loans offered by the government encouraged Taiwanese business people to make investments in Southeast Asia.

SMEs, however, were increasingly willing to defy government efforts and public criticisms in order to restrict their expansion on the mainland China (Kemenade 1999). They responded to Lee's "Go South" policy, by arguing that the policy only benefited Taiwan's large state- or KMT-owned companies, and offered limited opportunities to SMEs (X. Chen 1996). By the end of 1995, it was estimated that nearly 30,000 ventures had been made at a cost of approximately US\$ 30 billion (Clark 2002b). As deindustrialization caused a gold rush fever among business people, President Lee admonished the Taiwanese business community through the slogan "no haste, be patient" in 1996, and he openly discouraged Taiwanese business people in making investments in China.

After the "missile crises" in late 1995 and March 1996, local PRC cadres offered even sweeter bargains to attract Taiwanese large enterprises and conglomerates, so that they might shift their production to coastal provinces. Trade and investment increased substantially after the crisis. In 1997, the Asian financial crisis further deterred Taiwanese

business people from making investments in Southeast Asian countries. The attractiveness of China as a market and production site not only tended to deplete Taiwanese capital, but also began to drain middle-class jobs in Taiwan. The changes in state and business relations are indicative of the escalating threats to the middle class, as a result of political economy transitions.

### **The making of the transnational middle class**

Export-led industrialization has characterized the economic miracles in East Asian countries. This industrialization strategy could not succeed without the prevalence of Walmartism in the Western market, especially by the U.S. in particular. While export-led industrialization has transformed thousands of the rural population into industrial workers in East Asian societies, the cannibalistic nature of Walmartism in Western societies points to the opposite correlation. Its obsession of insisting on low prices to expand business sales only leads to domestic suppliers to cease production due to their rising production cost. It forces thousands of both blue and white-collar workers out of jobs in advanced countries as a result, and encourages offshore supplies in the low wage countries.

The practices of export-oriented industrialization and the expansion of Walmartism could eventually bring increasing trade deficits, sluggish domestic investments, and recession in advanced countries. As economic problems increase, trade conflicts could invite global antagonism and develop a downward spiral into protectionism. This scenario describes what happened between the U.S. and Japan in the early 1980s. To substantially alleviate trade imbalances and overcome recession, the U.S., the United Kingdom, France, West Germany, and Japan reached an agreement at the

Plaza Hotel in New York City on September 22, 1985. The Plaza Accord affirmed that the U.S Dollar was overvalued and demanded depreciation of U.S. Dollar in relation to the Japanese Yen and German Mark.

As a result of the Plaza Agreement, the Japanese Yen rapidly appreciated from 239 against one US\$ in 1985 to 128 per Dollar in 1988. The rapid appreciation of the Japanese Yen caused a chain reaction in Taiwan. Under American intervention in the exchange rate, the New Taiwan Dollar also quickly appreciated from 36 in 1987 to 28 in 1988 against one US\$. The revaluation of New Taiwan Dollar in relation to the US\$ immediately produced an exchange rate malaise and pushed thousands of local export-oriented SMEs into trouble. The more they exported, the more they suffered. According to Marx's account of globalization, as I argued in chapter 2, capitalist firms must constantly practice capital migration to search for market niches where high profits can be yielded. In this regard, capital migration prompted the Taiwanese SMEs to transform in one of two directions, horizontal diffusion or vertical integration, so that they could revitalize their business strength from exports.

In terms of the horizontal dimension, most SMEs, due to their labor-intensive nature of production, could only strengthen their competitiveness by recycling their production facilities overseas, where labor was cheaper. Prior to the mid-1980s, most Taiwanese overseas investments concentrated in Southeast Asia, in particular, Malaysia and Thailand, focusing on food, beverages, textiles, plastic, and rubber industries (X. Chen 1996). Between the late 1980s and mid-1990s, when the first wave of recycling sunset industries occurred, few Taiwanese manufacturing firms invested in Southeast Asian countries, where they had social network with locals or where natural resources,

such as wood and rubber, were abundant. The majority Taiwanese firms, however, forwarded their production facilities to China. This is because in addition to cultural and language similarities, foreign exchange rate policy played a pivotal role in Taiwan's investments in China. Beginning from the 1985, the New Taiwan Dollar had rapidly appreciated from 39.85 against one US\$ to 27.3 to one US\$. Meanwhile, the Renminbi (RMB) did not appreciate at all, but it rapidly depreciated from 1.5 to the US\$ in the early 1980s to 8.3 against one US\$ in 1995. Under China's powerful foreign exchange rate policy, Taiwanese manufacturing firms in sunset industries learned that they could save material and labor costs to a great extent in China.

In 1990, the PRC responded to the boycott from the West by offering sweeter deals, so that they could attract Taiwanese firms after the Tiananmen Square Massacre. The PRC's policy had substantially reversed the "China fear" to "China fever." In the same year, a massive outflow of capital, estimated at US\$ 15 billion, made Taiwan Asian second-largest capital exporting country, while the Lee government only recorded that Taiwanese business people had invested US\$ one billion in China by 1991 (Dreyer 1991). In response to increasing deindustrialization and rising capital outflow, Lee's government legalized indirect investment activities in China under certain conditions in 1991. These developments facilitated the "China Gold Rush Movement" within Taiwanese society. Prior to 1991, there were about 3,600 projects approved by the PRC. In 1992, the number of investment projects approved by the PRC doubled to 6,400 in a single year. Pressured by isomorphism, more SMEs rushed into China because they were afraid of being too late to receive favorable deals in the Special Economic Zones, or achieve Bonded Factory status, such as low cost land, free import duties, export tax rebates, and tax holidays.

In 1993, approved investment projects by the PRC hit a record high, nearly 11,000 a year. By the end of 1995, Taiwanese firms had already created more than 30,000 investment projects in China (Table 4-2). When so many Taiwanese joint ventures were made in China, these firms became transnational capitalist firms. Taiwanese business people got a new name “*Tai-Shang*.” They brought thousands of Taiwanese cadres, which were called “*Tai-Gann*,” to China to help conduct production or management work, and therefore they inevitably created thousands of transnational middle-class jobs for Taiwanese citizens.

In terms of dual labor market theory (Althausser and Kalleberg 1981: 136-137), firm size and wage level are two important elements to determine periphery and core labor market. Wage levels reflect important elements of production relation such as, productivity, profits, competitiveness, the intensity of capital and technology, and the degree of market monopoly. Firm size is positively associated with the degree of capital and technological intensity. In the periphery or secondary labor market, wage levels tend to be low, and job ladders, as well as career development opportunities, are limited because of small firm size. On the contrary, firms in core labor market tend to be large and complicated organizations. They not only provide high wages, but they also offer a great variety of career paths and promotion opportunities.

Since most investments made by Taiwanese firms concentrated on labor-intensive industries, according to the dual labor market theory, wages levels were low and job ladders tended to be limited. However, one man’s junk could be someone’s treasure. In reality, once these Taiwanese recycling industries relocated to China, they often expanded their operations by ten times due to cheaper labor. This expansion upgraded

their business into the primary labor market, at least on a comparative basis. This was in part because their specializations and experiences in export-oriented activities were what the local Chinese firms lacked, and in part because in a society with a cash-shortage, their equity capital was much more abundant than what the local Chinese firms had.

These Taiwanese SMEs were the locomotives of Taiwan's miracle growth. The first-generation owners typically did not have a good education. Their success largely relied on hard work and the exploitation of family labor. Some newly emerged Taiwanese transnational middle-class people were previous technicians, staff, or even blue-collar craftsmen. Transformed by the capital migration, they immediately got promotions to be engineers, specialists, or managers. To keep these important production assets, most Taiwanese SMEs paid double salaries to them, and offered a great deal of perquisites, such as housing and a bonus. Their market status, in terms of experience, talent, skill, and production knowledge made them gem-like not only within the Taiwanese transnational firms, but also in the eyes of many local Chinese firms. Also in the early 1990s, Chinese firms were desperate to soak up knowledge in management, quality control, production technology, and marketing skills.

When these investment projects went well, firm size kept growing. The owners and investors might have had a chance to become bourgeoisie, and Taiwanese management cadres surely had a promising future. Therefore, these two groups of Taiwanese joined the rank and file of the transnational capitalist class, as suggested by Sklair (2001: 17). The flip side of the coin was that many of these positive images were illusory. Taiwanese companies always make decisions based upon careful calculations. When decisions were made based on rush calculations the odds for making wrong



decisions were high. Investments in China have been highly risky since the very beginning. One Taiwanese local newspaper reported fully 40% of these investment projects had failed. The factors leading to failure commonly included problems with remittances, foreign currency exchange, bottlenecks at the local government level, and inadequate infrastructure (Dreyer 1991). Since there were no reliable sources and survey data available, most Taiwanese business people tended to report only what was good while always concealing what was bad or unpleasant. This made real odds of failure difficult to estimate. Therefore, the real figure of investment failures could have been higher than 40% in the early 1990s.

The factors resulting in investment failures in Taiwanese firms have more to do with corrupt Communist cadres and the prevalent cannibalism of the Chinese culture than business environment or management problems. When Taiwanese business people came to China, they immediately became the PRC's political hostages. The PRC had an obsession with controlling these Taiwanese business people's stance on politics. The PRC could only accept a pro-reunification stance. A pro-independence stand could lead to one's investment career resulting in a jail term. Ever since Taiwanese investors signed the contracts, they have invited PRC officials and party cadres to enter and examine their minds in exchange of establishing their social network and political connection (i.e. "guanxi.") In this regard, they must spend extra time and money to establish bottom to top political connections so that they can have a better footing and to avoid being bullied or harassed by the local party cadres and officials.

Civil servants from all levels of government, for example, police, tax bureau, environmental protection bureaus, fire stations, party cadres, and city government, were

money-hungry. They all had an authority to govern these investments (e.g., issuing licenses or executing laws and regulations.) In a society where uncertainty rules, civil servants can make regulatory terms stick, so that investment projects will fail. To avoid making trouble, many Taiwanese business people had to pay protection fees on a regular basis, hoping to bend the rules. In this regard, Taiwanese business people significantly reduced their benefits from lower-cost labor because production cost inevitably became too high (Berger and Lester 2005: 20). To cover the bribery costs, they had to forge accounting documents. These practice only made them more vulnerable.

Moreover, when most Taiwanese business people felt the need to establish their social network and political connections with corrupt Communist cadres and local officials, they inevitably spent tons of money in the sex industry because both Chinese and Taiwanese cultures agree that this is the best place to establish friendship. In the early 1990s, many Taiwanese business people loved to brag of the idea that if you were doing business in China and did not sleep 50 women in a year, you had no manhood. It was no surprise that their extravagant lifestyles helped them build the reputation as nouveaux rich. Feeling that everything in China was cheap, their parvenu status pushed them to be involved in concubinage. Putting these factors together, they all impoverished these Taiwanese business people's fortunes rather than increased their wealth.

The most vexatious things come from the cannibalistic culture. Fraud and business disputes exist in every society, but they have been very rampant in the Chinese society. Early on, regulations did not allow Taiwanese business people to achieve full ownership. Taiwanese investors had to find local firms or local people as investment partners or front men, particularly in service industries, so they could pass on their

experience to the locals. Once investment deals were made, it was only a matter of time before these local firms and people took over the companies by force or by fraud. Since the PRC regards Taiwan as its renegade province, the Lee administration could not protect these Taiwanese business people when fraud and business disputes occurred. Very often, local officials, party cadres, and even local villains were collectively involved in these scenarios, and the Taiwanese had no leverage to fight back, but they had to helplessly watch their establishments fall into others' hands.

Since these SMEs did not own much advanced technology, their operation, largely depended on original equipment manufacturing. The success of this kind of sub-contracted manufacturing relied on the exploitation of cheaper labor rather than brain power. Once their Chinese employees learn how to operate the production model, they could follow the recipe, so they bought new equipment, and set up new factories on their own. Because these Chinese employees have more channels to find cheaper and more docile workers, such as child laborers and female workers, these new factories soon forced Taiwanese SMEs out of business.

It is not surprising to learn that in the early 1990s, a term, "*Dai-Bau*," literally meaning Taiwanese dupes, had been coined to describe those Taiwanese who were trapped by fraud schemes or defeated by newly emerging local firms in China. For those *Dai-Baus* who were too ashamed to return to home, they became "*Tai-Liu*." Facing a hostile investment environment with all sorts of fraud schemes and increasing competition from the local, it was not easy to make fortunes in China. As a result, *Tai-Gann*'s job security was low. There was a shift jobs in jobs, though their pay was decent.

Traditionally, Taiwanese business culture prefers to raise investment funds from social networks. Since part of investment funds always came from relatives or friends rather than banks, when so many Taiwanese business people failed in China, the resulting bad news undermined public support for investment in China. The numbers of Taiwanese who were hostile to investments in China had risen sharply since the early 1990s. Overall, the transnational capitalist class, including both *Tai-Shang* and *Tai-Gann*, had established more negative images than positive ones. And they certainly did not earn good reputation in the Taiwanese society.

### **The making of the affluent middle class**

Interestingly, while many manufacturing firms were decrying the difficulties in doing business at home, foreign investors were increasingly attracted to Taiwan, as they brought more value-added manufacturing projects (Dreyer 1990). The realignment of the Japanese Yen also forced many high-tech corporations, particularly those in information technology and communication industries to practice either offshore outsourcing production or release business order to secondary tier industrialized in countries such as South Korea and Taiwan. These changes had situated an ideal environment for Taiwan to transform its industrial development, by focusing on capital- and technological-intensive industries to business there.

Meanwhile, the Lee administration continued to bring old colonial experiences into play in economic affairs. The Ministry of Economic Affairs, Science and Technology Advisory Group, Council for Economic Planning and Development, the Executive Yuan Development Fund, and the Bank of Communication all played important roles in directing Taiwan's economic development. The Lee administration

helped Taiwanese companies offset the problems by transferring research and development knowledge to downstream manufacturing firms. In addition, the state-sponsored “Industrial Technology Research Institute” had functioned to introduce new technologies and spun off successful ones to high-tech companies (Fuller 2005: 138-139).

The Hsinchu Science-based Industrial Park served the icon of successful industrial transformation. Facilitated and guided by state policy, high-tech companies located in this industrial park demonstrated vibrant growth. The number of high-tech companies almost doubled to 203 in 1996 from 105 in 1989, and sales grew more than five times from 56 billion to 319 billion NT\$. The Lee administration’s economic policies also encouraged both large corporations and SMEs to go public, especially the newly emerging hi-tech companies in the iconic Hsinchu Science-based industrial park. In 1994, Lee’s government established an over-the-counter stock market to enhance a healthy development of the Taiwanese capital market. By issuing shares, so that traders could issue capital, several hundred SMEs had more channels to procure investment funds for business expansion or new undertakings.

The easy financing, increasing inflow of resources, introduction of cutting-edge technologies, the market-friendly state policy, and booming export market provided an antidote to offset the deindustrialization in labor-intensive industries, and orchestrated perfect timing for developing capital- and technology-intensive industries in the early 1990s. The research and development expenditure as a percentage of gross domestic production had increased from 1.01% in 1986 to 1.80% in 1996. Though the R&D expenditure still fell behind most advanced countries such as the U.S. (2.67% in 1996), Japan (2.75% in 1996), and Germany (2.30% in 1996), the gap had closed substantially.

Under these advantageous conditions, the vertical integration of high-tech industries typically concentrated on consumer electronics, information technology, and communication industries.

In the 1980s, the state-sponsored joint ventures and financially-facilitated manufacturing firms had already established vertical integration in the information technology industry. This vertical integration included down-stream desk-top and laptop computer manufacturing firms such as Acer and Mitac, and up-stream fabrication foundries, such as United Microelectronics Corporation and Taiwan Semiconductor Manufacturing Corporation. Foreign firms also transferred matured technology to Taiwan during this time because of declining profits and the growing markets in their particular industries. In response, Taiwanese manufacturing firms quickly upgraded from original equipment manufacturing to original design manufacturing in the early 1990s. Though Taiwanese firms still could not escape from their dependency on technology and market, this transition created more value-added production and produced short-term economic gains.

By 1996, the electronics consumer goods, information technology, and communication industries produced one-fourth of Taiwan's export values. These emerging high-tech companies inevitably led to the growth of professionals and managerial positions. While employees in these high-tech companies did not enjoy high pay, what made them special was that high-tech companies largely employed profit-sharing strategies to attract creative and qualified talent. Employees in these high-tech companies had their bonuses paid by stock shares. Therefore, many other industries were of their fringe benefits. In many of these rapid growth high-tech companies, bonuses for

employees could equate to total salaries for several years. By the mid-1990s, the term “*Ke-Jii-Hsin-Guey*” (literally meaning new rich in high-tech industries) had emerged to refer to those in this newly emerging middle class. In this spirit, the high-tech industries, as a byproduct of this vertical transition, began to manufacture thousands of millionaires at a high rate of speed in the early 1990s.

While the manufacturing sector in the high-tech industries was experiencing vertical integration, moving from downstream to up-stream and cutting-edge production, the service sector was also undergoing a major transformation. In 1979, a leading food company, the President Corporation, introduced Seven-Eleven as the first chain store to Taiwan. In 1984, McDonalds and KFC also set up their first stores in Taipei. After the realignment of the New Taiwan Dollar, the cost of many imported goods had been substantially lowered, making these imported commodities much more affordable to many well-to-do middle-class people. Other chain supermarkets, large discount stores, chain department stores, and warehouse hypermarkets began to mushroom in Taiwanese society in the late 1980s.

The geographical diffusion of these Western style stores and influx of imported commodities not only demarcated the differences between modern and traditional management, but this also brought to about new consumer culture. Pressured by the newly-emerging western style stores, many local stores and retailers began to suffer the pressures from the invasion of western management. Most of them resisted, but some began to experience a painful transformation by adopting modern management. They worry that if they did not make changes, they would soon be eliminated due to the ruthless competition. These western-style stores largely employed marketing skills such

as branding, advertising, points of purchase, and discount strategies to stimulate sales. These marketing capacities opened the door to mass consumption from urban to rural populations. As Walmartism emerged, the consumption base inevitably expanded. As a result, it simultaneously created a vertical development, which emphasized high-end commodities for specific groups of people in order to denote status.

Changes in consumption went hand-in-hand with the Lee administration's neo-liberal reform in banking sector. In 1992, the Lee government issued 15 licenses to new commercial banks. Once established, these new commercial banks soon became predatory lenders, targeting status consumption, using marriage loans, home loans, car loans, student loans, and travel loans. Within five months, these new banks had already issued more than NT\$ 70 billion in all sorts of status consumption loans (J. Chu 1998: 214-215). As long as shopping played a major role in the lifestyles of ordinary people, Walmartist shopping culture also destroyed the significant differences between these people. However, the increasing use of credit cards for purchases reaffirmed the status consumption for many new middle-class people. By 1995, there were 2.5 million credit cards in circulation (Gold 1998: 62).

Mass consumption due to Walmartism, let loose consumers desires that were insatiable but unsustainable. While Walmartism seemingly brought more benefits to common people, it had also driven "wants" to become "needs." This has blurred class boundaries. Under the newly emerging status of consumerism, identities were in a state of constant change. Chu (1998) thus argues that style, taste, interest, and leisure seemingly became what the new middle class was most concerned about. Material possessions, such as imported cars, fancy cellular telephones, branded high-end dress,



upscale restaurants, housing location, and routine traveling abroad, served to demarcate social status. As a result of these two changing movements, Walmartism and status consumption led to middle-class people into a constant identity crisis based on prosperity.

After all, mass consumption and status shopping undoubtedly brought about significant improvements in the life of most citizens, but there was a price to pay for such change. For instance, Chu (1998) thus argues that mass consumption and status shopping led to the decline of the national savings rate. Indeed, the saving ratios as a percentage of the GNP had dropped dramatically, by nearly 14% within a decade from 38.5% in 1987 to 24.8% in 1996. However, this correlation does not equate to causation, as argued by J. Chu. J. Chu's perspective overlooks the fact that the surging stock market was one of the major factors responsible for the declining savings ratio at the national level. The Taiwan Stock Exchange started trading on the international exchange in February 1961, and the exchange index began at 100. In late 1986, when the New Taiwan Dollar rapidly appreciated, the exchange index quickly surpassed 1,000, and this marked the beginning of the greatest bullish run in Taiwanese history (see Figure 4-1).

The stock exchange index took 25 years to reach the first 1,000 points, but it only needed three more years to climb to historical record high. In February 1990, for example, the stock exchange index reached its pinnacle at 12,495 points. When a stock market grew at such speeds, it did not matter what kinds of stocks investors bought. It only mattered how much money investors wanted to put into the market because the amount of money determined whether investors were big winners or not. By nature, most middle-class people believed they were street-wise investors. With so many middle-class people participating in stock ventures, easy money only encouraged more status shopping.

Driven by greed, most middle-class investors believed that the bull market would not come to an end, and they developed affluent middle-class lifestyles to match.

Little did they know that a bear market would soon follow the 12,495 point high in February 1990. The stock exchange index soon made an 80% adjustment. On October 1, 1990, the exchange index crashed to 2,560 points; nearly 10,000 points vanished within less than eight months. It was during this bear period that many middle-class people realized the cannibalistic possibilities of the stock market. The Taiwan stock market was full of all sorts of fraud schemes, inside trades, and manipulations. When so many substantial shareholders, politicians, high-profile government officials, the KMT, and big-market players were major price manipulators, conducting all kinds of schemes, the stock market was virtually ungovernable. Every time the stock market experienced a bounce, many middle-class investors simply believed that the bull market had come back. They enthusiastically invested more money. However, most of them were trapped by the pump and dump schemes.

When this bull market was approaching an end, many underground economic activities also began to manifest problems that impacted on thousands of middle-class families. The most infamous case involved investment companies that were a mixed product of illegal investment banks, mutual funds, and pyramid schemes. They were disproportionately run by Mainlander gangsters. Starting in the mid-1980s, the number of these investment companies soon grew to around 200. They typically targeted public employees and Mainlanders. These gangsters promised their customers that investors needed only pay one payment, and could receive guaranteed returns equal to 4% to 10% monthly interest.

These companies always started from Mainlander communities, and often hired high-profile retired military generals as their consultants or front person. Taking advantage of the reputations of those retired generals and the great bull market, these companies persuaded thousands of middle-class families to invest in the real estate and stock markets. When the stock market index grew 11 times within three years, these investment companies' customers expanded considerably. For example, the biggest one, the Homey Group had 200,000 customers at its peak. The second largest, the Fortune Group, once had 130,000 customers (Champion 1998: 102-121). In 1991, all these investment companies declared bankruptcy, and most customers suffered a great loss.

With the stock market producing several million losers, it was not surprising that the medical profession reported sharp increase in hyperactive and melancholic behavior, much of which they attributed to stock-market-related stress (Champion 1998: 61). Many often more hedonistic middle class found themselves in trouble just trying to make ends meet. The affluent middle-class life styles had eventually become easy to obtain but hard to maintain. Such struggles were quickly blamed on the KMT and the Lee government. When the stock market, and its byproduct, the underground economic activities, generated so many social grievances and discontents, the conservative elements of the KMT and the liberal forces of the DPP did not let the chance slip away. They denounced the KMT and demanded that the Lee administration take the responsibility for the disastrous outcomes.

Still, there were winners who continued to enjoy status shopping. However, if their taste, interest, style, and leisure were in a state of constant change, why not their political stance as well? In the early 1990s, the buoyant economy did not ensure the

middle-class people's status consumption at a sustainable level. On the contrary, the stock market eroded much of the middle-class people's paper wealth and brought more threats to their standard of living. It was, sooner or later, these social resentments that reflected subsequent political attitudes and voting behaviors.

### **Party competition and sense of crisis**

The formation of the Democratic Progressive Party in September 1986 has become one of the most important factors contributing to Taiwan's democratization transition, as it marked the beginning of party competition. The DPP was an ideologically European-style social democratic party. It introduced political justice and social welfare policies into its united platforms since its early stages. Politically, the DPP had led and won battles for personal freedoms and civil liberties, such as free speech, free press, the freedom of association, respect of human rights, and the complete reform of the Parliament. The social welfare policies advocated in the late 1980s included minority rights, gender equality, and rights for other disadvantaged sectors of Taiwanese society. The DPP has pursued the establishment of a comprehensive social welfare system, in order to guarantee adequate living standards for all, including a national pension scheme, unemployment insurance, and a universal health care plan.

As a social democratic party, the DPP has some anti-business characteristics, and it has unique party platforms that pursue self-determination for the people and redrafting of the Constitution. It has involved many social movements to rally the masses and in elections. Because the DPP relentlessly forced elderly Mainlander representatives out of the Parliaments and was so involved in street protests, it has also won a notorious public image as a party of violence prior to the mid-1990s. Middle-class activists have always

made up the DPP leadership. They have included urban professionals, small business owners, and local politicians.

In 1991, the DPP suffered a severe blow in the National Assembly election because it placed Taiwan independence at the center of its Charter, in defiance of Beijing's declared military threat (Kuo 1997; Nathan 1993; Tu 1998: 85). This campaign issue created great anxiety among voters, who were afraid of a possible Chinese military attack on Taiwan (Kuo 1997). Its vote share dropped to 23%, the lowest ever since 1986. In the 1992 Legislator election, the DPP adjusted its campaign strategy from Taiwan independence to public policy issues. The DPP crafted a Charter around a series of social issues, including the economy, social welfare, housing, and public transport. In response to public policy issues proposed by the DPP, the KMT announced that it would also implement farmers' insurance into the 1993 budget.

However, the DPP Kaohsiung county magistrate, Yu Chen Yei-yin, announced that she would implement the farmers' health care plan immediately. Her announcement changed the DPP's public image, and it helped DPP candidates win farmers' support. The KMT suffered a stunning setback, as its vote share dropped to 51% from 60% in 1989. In contrast, the DPP's vote share rose to 33% and it won 50 seats (see Table 4-3). This victory in the 1992 Legislature election gave the DPP a powerful base from which to challenge the KMT in the new Legislative Yuan. This election victory also allowed the DPP to expand its popular support from the working class to farmers.

During a campaign for county chief and city mayoral elections in December 1993, the DPP proposed a united platform. Specifically, it promised a pension scheme for the elderly that would award NT\$5,000 per month to all Taiwanese citizens over 65. The

ruling KMT accused the DPP of attempting to bribe Taiwan's 1.5 million senior citizens, and the KMT questioned the DPP's ability to pay for their pension plan. In response, the DPP argued that the ruling KMT was a corrupt party because their candidates used vote buying to win and indulged in political-commercial special treatments. Additionally, the DPP contended that if its candidates were elected, political corruption would no longer exist and money used by the KMT to support its corrupt practices would be used to finance the pension scheme.

Despite the mudslinging of the 1993 elections, the ruling KMT won a majority of offices, but its vote share dropped to 47% from 53% in 1989. It was the first time ever that it received less than one-half of the popular votes. This outcome indicated a decline in the KMT's electoral strength. It was widely believed, however, that President Lee helped save the KMT through his personal popularity. The 1993 magistrate and mayor election results were a major blow to the DPP, but its vote share increased to 41% from 38% in 1989 (Wu 1995). Nevertheless, the 1993 election results showed a sign that more senior citizens and retirees joined those supporting the DPP.

In 1994, the middle-class crisis manifested itself through a growing ethnic hostility between Taiwanese and Mainlanders in elections. The split of the KMT caused a major shift among middle-class voters, Mainlander veterans, intellectuals, and government employees in particular. They became reliable bases of the NP in urbanized northern Taiwan. In the Taipei City mayoral and City Councilor elections, the KMT was totally defeated. In a tri-party election, the DPP candidate, Chen Shui-bian won nearly 44% of the popular vote, compared to 26% for the KMT incumbent, Huang Da-chou, and the NP contender, Jaw Hsau-kong's 30%. The result indicated that its regular supporters,

the middle class, largely turned away from the KMT in Taipei City, and the NP played the role of spoiler (Tien 1996). In the gubernatorial election, the KMT incumbent, James Soong, won a landslide victory, despite the fact that the DPP candidate, Chen Ding-nan, used the slogan “Taiwanese voting for Taiwanese.” In Kaohsiung, the KMT incumbent also defeated the DPP candidate Chang Chun-hsiung by a landslide victory.

In the 1995 Legislative Yuan election, the DPP maintained its electoral strength by winning 33% of the vote and 54 seats. The real winner, however, was the NP which received 13% of the vote and controlled 21 seats. The NP got tremendous support from the urban middle-class in northern Taiwan, in which Mainlanders were concentrated. Unlike the relative successes of the NP and DPP, the KMT suffered more setbacks. Its vote share was 46%, and the seats it captured were just 2% above the majority. The KMT could hold onto its electoral advantage mainly through its patron-client network strategy in rural area, but they erroneously viewed farmers, workers, and small business owners as homogeneous. The KMT often bypassed class-based mobilization, which could have worked to their advantage. This led to mounting middle class dissatisfaction with patron-client networks in national elections due to local factions’ strong connections with black gold politics.

After the complete reform of the Parliament, the KMT’s steady decline in the electorate and the political strength coincided with the growing middle-class crisis. The KMT’s electorate fell below 50% in the mid-1990s, which reduced its dominance over national politics. The political momentum indicated that social issues had become more important in elections, as both the DPP and NP proposed anti-corruption platforms during campaigns. The DPP further proposed social and political reforms, keeping ahead of the

KMT. As such, the KMT was forced to institute the reform proposals advocated by the DPP, such as universal health care in 1995, in order to revive its party image. The KMT's public image had transformed from reform, stability, and prosperity prior to 1990 to a corrupt regime in the mid-1990s. This transition triggered the middle-class crisis and highlighted the importance of class politics.

The first-ever direct presidential election in 1996 facilitated the pinnacle of the middle-class crisis. President Lee's visit to his U.S. alma mater, Cornell University in June 1995 caused growing military tension across the Strait. The PRC viewed President Lee's trip to the U.S. as an attempt to covertly push for Taiwan independence. Beginning in July 1995, the PRC launched a series of military exercises and missile tests aimed at Taiwan in retaliation. On the economic front, by late 1995, Taiwan's economy faced a downturn. Real estate prices also fell and capital largely fled the island. The PRC held more military maneuvers during late February and mid-March, deteriorating the local economy and resulting in a sluggish stock market. By early March 1996, stocks were down 27% from the previous year (Rubinstein 1999: 488-489). During the March 1996 missile crisis, the local stock market plummeted 1,000 points in three days, and US\$ 15 billion in investment reported fled from Taiwan (Shambaugh 2000).

In 1995, the National Assembly revised the Constitution, stipulating that beginning with the 1996 election, the President and Vice President must be elected through a direct popular election. The left-wing DPP viewed the direct presidential election as a chance to push toward Taiwan independence. The right-wing forces, the Mainlanders in particular, believed that the election result might change the President of



the Republic of China on Taiwan (ROCOT) to President of the ROC, which would move toward political consolidation with China.

The intimidation caused by missile tests and war games by the PRC seemingly played the most critical role in the results of the four-way election, and helped Lee Teng-hui win a majority of the vote. Most analysts concluded that China's military coercion increased Lee's electorate by at least 5% (Roy 2003: 201). The DPP suffered a stunning setback, and its vote share was down to 21%, an all-time low. The DPP fell into the same trap that it did in the 1991 National Assembly election because its candidate, Peng Ming-min, made the campaign into a referendum concerning Taiwan independence (Wu 1999). China's military intimidation placed the other two sets of pro-reunification candidates, Lin Yang-kang and his running mate Hau pei-tsun, and Chen Li-an and Wang Ching-feng, in an embarrassing position. Most ethnic Taiwanese voters believed that they spoke for China. Nevertheless, these two pro-reunification candidates still captured one-quarter of the votes, well beyond Mainlander's share in the Taiwanese population.

President Lee's landslide victory primarily resulted from the tremendous support of rural ethnic Taiwanese. The election results suggest that serious splits occurred among ethnic groups, state identity, and perhaps the urban middle-class during the campaign. However, the election results also indicated that President Lee's "middle way" on state identity, in terms of ROCOT, became considerably popular. The middle way strategy pointed toward political reconciliation among major political parties.

In fact, during the 1995 Legislative Yuan election, ethnic hostility and state identity became so problematic that leaders of the ideologically opposing parties, the DPP and the NP, agreed to tone down the state identity issue. They even held a meeting

aimed at a grand reconciliation after the campaign. However, the highly-competitive presidential campaign left no room for ambiguity on the issue of state identity. After the presidential election, the DPP chairman, Hsu Hsin-liang, took a moderate stand on the pro-independence issue and shifted the party's emphasis to promote economic engagements with mainland China. This shift in the DPP resulted in a split inside the party. Peng Ming-min, the defeated president candidate, left the DPP and formed the more radical Nation-Building Party based on pro-independence (Roy 2003: 203).

The NP had been widely accused of speaking for Beijing authorities. This image made it difficult to attract support in elections from the ethnic Taiwanese in rural areas. For example, most Taiwanese citizens believed that President Lee's pragmatic diplomacy substantially helped promote Taiwan's international status. And while the NP also externally approved of the pragmatic policy, it stressed conditional support. Its major concern was that Taiwan should avoid angering China when engaging in pragmatic foreign policy (Li 2002: 134). Therefore, when facing tension across the Strait, associated with pragmatic diplomacy policies, the NP denounced the Lee administration rather than the Beijing regime.

After the presidential election, the military intimidation efforts of China led to a deep anti-China resentment in Taiwan. The NP needed to tone down the pro-reunification emphasis and change its party image. Because the KMT's majority in the Legislative Yuan was thin, the KMT could not effectively pass bills without non-KMT legislators' support. This left plenty of room for political manipulation. The NP thus maneuvered to use its "critical minority" role in the Legislative Yuan by cooperating with the KMT and

DPP, in order to work out reform projects (Wu, 1999). Therefore, the radical right-wing NP also moved toward the middle of the political spectrum.

The political economy transition during the late 1980s and the mid-1990s simultaneously triggered ethnic tension, a state identity crisis, and political corruption, with democratization, globalization, and decolonization acting as catalysts. These three factors resulted in the middle-class crisis. These issues became entangled and reinforced one another. The political momentum toward middle ground substantially undermined the ethnic tension and state identity crises, and therefore, the middle-class crisis became latent.

### **Summary**

Democratization in Taiwan is a result of historical accident rather than historical timeline. This is because when Chiang Ching-kuo was very ill in the mid-1980s his regime still rejected reforms to abolish political segregation. Without passing leadership to the more privileged but colonized Taiwanese, the democratic transition would have been impossible. Nevertheless, the democratic transition simultaneously triggered the middle-class crisis. When the repressive colonial regime shifted to a more democratic one, the reform of the colonial apartheid system made political integration between the Mainlander colonizers and the newly emerging privileged Taiwanese difficult because the latter took most spoils. The increasing tensions between these two groups, and the rising liberal forces of the DPP led the conservative fraction of the middle class to crisis, in part because they worried that they could lose their political privileges forever, and because their deep faith in colonialism was incompatible to democratic modernity.

Overall, the Lee administration performed well in economic affairs despite the stock market crash. The economy was growing in a robust way. However, Lee's neo-liberal reforms brought both polarization and fluctuation effects to Taiwanese society. The failure of hundreds of transnational capitalists, the increasing marginalization of thousands of SME owners, and millions of middle-class investors in the stock market and underground economic activities, paid a huge price for the neo-liberal transformation. Since the white-hot economy produced more victims than beneficiaries, this outcome hampered middle-class people's pursuit of other economic interests. Instead, these outcomes promised a change in political attitude and vote choice. By 1995, the middle class already had undergone serious differentiation, and it had split into three parts, the conservatives, swings, and liberals. Nevertheless, because the PRC launched the missile crises and threatened Taiwan's security, the Taiwanese eventually united with the KMT and helped President Lee win reelection. The ethnic factor thus overshadowed fractured middle-class politics.

After all of this, the economic gains and political reforms seemingly pointed to large conglomerates, the privileged colonized politicians, and timeserving Mainlander politicians as the big winners of the system transformation. The rise of liberal middle-class forces, the democratic transition, and the Taiwanese in power did reshape the colonial structure. However, with so many old colonial forces active in the inner-circle of leadership, these illegal elements of the old colonial system continued to bring colonial experiences back into politics. President Lee thus defended the colonial state so that the Republic of China continued to have a strong presence in Taiwanese socio-cultural politics.

In the end, democratization did not help Taiwanese overcome the traumas resulting from inferiority and dependency complex. Externally, the Taiwanese were firmly in power, but because of the Taiwanese President's commitment to the colonial contract, the Taiwanese still failed to be the masters of their own island. After the middle-class crisis became latent, the majority Taiwanese all turned to self-deception rather than the self-determination. The system transformation did not fundamentally solve the ideological and socio-psychological controversies due to colonial legacy. It was only a matter of time before these contradictions would manifest themselves and lead to the second wave of the middle-class crisis.

**Table 4-1 Class structure by ethnicity in 1990 Taiwan**

	Taiwanese	Mainlander	Total
Large Proprietor/ Capitalist	4.92%	4.26%	4.87%
Manager and professional	10.39%	25.08%	11.94%
Clerical and lower middle	12.37%	24.88%	13.48%
Small business owner	15.72%	11.26%	15.28%
Skilled working	11.78%	14.51%	12.00%
Non-skilled working	25.46%	18.39%	24.79%
Farming	19.36%	1.62%	17.74%

Source: Hsieh, 1997: 40. (Resorted by author)

**Table 4-2 Taiwanese foreign direct investment in China (1980-2000)**

Year	Approved by Taiwan*		Approved by China**	
	Number of Projects	Approved Value (U.S.\$ million)	Number of Projects	Approved Value (U.S.\$ million)
1980s-1990	-----	-----	1,642	1,321
1991	237	174	1,735	1,389
1992	264	247	6,430	5,543
1993	9,329	3,168	10,948	9,965
1994	934	962	6,247	5,395
1995	490	1,093	4,847	5,849
1996	383	1,229	3,184	5,141
1997	8,725	1,614	3,014	2,814
1998	1,284	1,519	2,970	2,982
1999	488	1,252	2,499	3,374
2000	840	2,607	3,108	4,042
Total	22,974	13,865	46,624	47,815

Sources: \*Taiwan Statistical Data Book (2004). P.270.

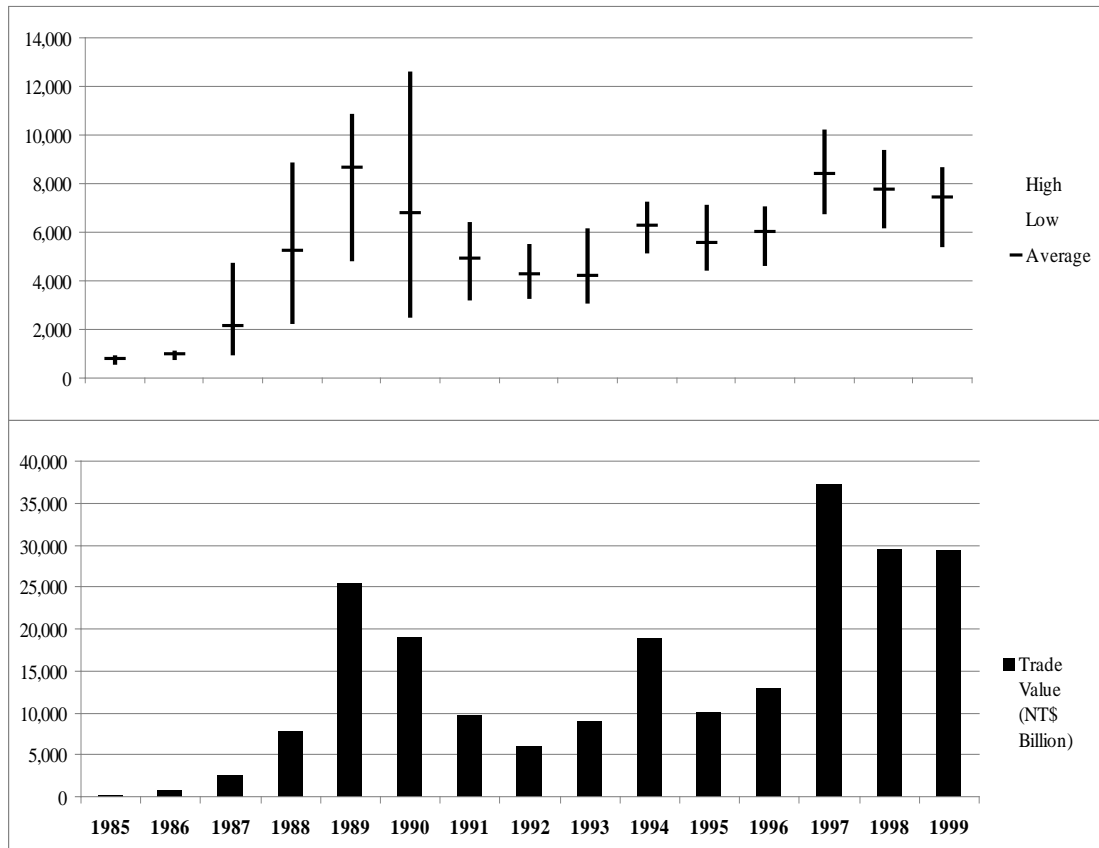
\*\*www.gwytb.gov.cn:82/lajmsj.htm 1/15/2008

**Table 4-3 Electoral support of major parties (1986-1996)**

		KMT	NP	DPP	Others
1986	Legislative Yuan	67.32 (59)	----	25.16 (12)	7.52 (2)
	National Assembly	64.87 (68)	----	23.93 (11)	11.20 (5)
1989	Legislative Yuan	60.03 (72)	----	28.16 (21)	11.80 (8)
	Magistrates/Mayors	52.69 (13)	----	38.58 (7)	8.73 (1)
1991	National Assembly	69.11 (254)	----	23.25 (66)	7.64 (5)
1992	Legislative Yuan	50.58 (103)	----	33.18 (50)	16.24 (8)
1993	Magistrates/Mayors	47.32 (13)	3.08 (0)	41.16 (6)	3.08 (2)
1994	Taiwan Provincial Governor	56.22 (1)	4.31 (0)	38.72 (0)	0.74 (0)
	Taipei City Mayor	25.89 (0)	30.17 (0)	43.67 (1)	0.28 (0)
	Taipei City Councilor	39.06 (19)	21.72 (11)	30.12 (17)	9.11 (4)
	Kaohsiung City Mayor	54.46 (1)	3.54 (0)	39.29 (0)	2.80 (0)
	Kaohsiung City Councilor	46.22 (23)	4.83 (2)	24.91 (11)	20.05 (7)
1995	Legislative Yuan	46.06 (85)	12.95 (21)	33.17 (54)	7.82 (4)
1996	President	54.00 (1)	14.90 (0)	21.12 (0)	9.98 (0)
	National Assembly	49.68 (129)	13.67 (31)	29.85 (54)	6.80 (6)

Source: Central Election Commission, the Republic of China ([www.cec.gov.tw](http://www.cec.gov.tw)), seats in parenthesis.

**Figure 4-1: Taiwan stock exchange index (1985 – 1999)**



Source: [http://www.tse.com.tw/ch/statistics/statistics\\_list.php?tm=07&stm=001](http://www.tse.com.tw/ch/statistics/statistics_list.php?tm=07&stm=001)



## **Chapter 5: Wave Two of the Middle-Class Crisis – Decolonization, Nationalism, and Society Divided**

The popular image of Taiwan in the late 1990s suggests that Taiwan served a successful example of third wave democratization. Indeed, the political segregation was abolished. The parliament had been reformed. The direct presidential election had been institutionalized. The economy remained robust. Civil society had gained greater influences in public debates, and most important of all, the middle-class crisis had ended. All of these progressive developments in the political economy transitions seemed to work in favor of the KMT. President Lee Teng-hui took the credit of democratization and entitled the crown of Mr. Democracy.

### **The comprador class in triumph**

In the December 1996 National Assembly election, the KMT rebounded and won the majority of seats. The NP maintained its electoral strength, but the DPP's vote share declined by nearly 4%. After the second missile test crisis in March 1996, the local stock market began a bull run that lasted for three years. In 1997, for example, the stock market index soared up from 3,500 points in January to 9,500 points in July (Cheng and Liao 1998). And while the Asian financial crisis occurred in late 1997, Taiwan's rosy economy was immune due to a large amount of foreign exchange reserve. Simultaneous to these events, the conservative Mainlander faction within the KMT, which resented Lee Teng-hui even more than they hated the pro-independence DPP, were left voiceless (Corcuff 2002a: 83).

After defeating both conservative and liberal challengers in the presidential election, Mr. Lee's power was virtually invincible. With Mainlanders' superiority

complex waning, Lee considered how he could dominate politics in the long term. As a political manipulator, he enjoyed constructing a spoils system, and consequently, he filled high profile government positions and high ranking public jobs with incompetent toadies. However, two crucial factors were eroding his leadership: the rising political superstar, James Soong, and the critical two-seat majority of the KMT in the Legislative Yuan.

With tremendous political capital in hand, Lee showed his strong ambition to realize his visions about the future Taiwan to secure his power. In 1996, the Lee administration formed the National Development Conference (NDC), a temporary organization including 170 delegates from major parties, government officials, and academics. The establishment of the NDC, however, had no legal foundation, and it did not represent the broad spectrum of Taiwanese society. Representatives in the NDC had been carefully handpicked by Lee administration. This, however, did not mean that these conference participants would agree to everything (Chao et al. 1997).

One of the two major issues proposed by the NDC was to downsize the Taiwan provincial government and suspend the Taiwan governor and Provincial Assembly elections. This proposal, due to political manipulation, was concocted in part because the organization of provincial government gave James Soong a strong independent power base, which threatened President Lee's leadership. The functions of the Taiwan provincial government almost overlapped with the central government, except that the former did not deal with national defense and foreign affairs. Governor Soong based his popularity on delivering immense pork barrel spending and earmark projects to interest groups and local political factions in every township. By 1996, these large amounts of public spending appropriation were beyond budget control and resulted in more than

NT\$ 500 billion in debts for the provincial government. Governor Soong continually demanded the central government to funnel more money to him, but the Lee administration had no political check on Governor Soong except denial after denial against his increasing requests for more construction funds.

Consequently, President Lee's disagreement to allocate more government spending for Soong created backlash. In late 1996, Soong's popularity rankings were above 75%, while approval rates in the opinion polls for Lee were under 50%. Obviously, there was a serious tension between Governor Soong and President Lee, and Soong surely had the upper hand. Soong was one of the most important opportunistic Mainlander politicians who helped Lee assume KMT chairmanship in 1988. Because President Lee could no longer run for reelection by law, Soong was expecting that Lee's power would soon ebb, and that he could replace Lee. In the context of this tension, downsizing the provincial government was a way that the Lee administration undermined Soong's popularity and eroded his political strength (McBeath 2000; Ku 2002; Roy 2003: 210). Another consideration was that the PRC always regarded Taiwan as its renegade province. De-layering the Taiwan provincial government from the administrative hierarchy would make it difficult for the PRC to justify its claim (McBeath 2000).

The second reason to hold the NDC was a response to the KMT's declining strength in the Legislative Yuan. The razor-thin majority and loosening party discipline as a result of democratization had forced the Lee administration to compromise with the opposition forces. To regain his dominance in the Legislative Yuan, President Lee favored a French-style semi-presidential system, in which the central government was

headed by a prime minister appointed by the President. All of this would be without the approval of the Legislative Yuan.

In July 1997, the DPP and the KMT cooperated on the NDC's proposal in the National Assembly, and passed the constitutional amendments that institutionalized the French-style semi-presidential system, almost eliminating a layer of a substantial provincial government, and it reduced its staff from 180,000 to 10,000 employees (Cabestan 1999). The Taiwan provincial administration was an important element of the overdeveloped state. During his incumbency, Governor Soong had built strategic alliance partnership with county governments to work against Lee's central administration over the distribution of budget. This downsizing project caused large amount of tension, bafflement, and speculation within the inner circle of civil servants and the conservative middle class. Local citizens also developed some complaints about this de-layering project. These developments concerning Lee administration's political manipulation backfired in the 1997 magistrate and mayoral elections. For the first time, the DPP's vote share exceeded that of the KMT. The DPP captured 12 of the 23 county and city offices, and it now administered 70% of Taiwan's population (see the 1997 row in Table 5-1).

In 1998, President Lee finally noticed that the rising Taiwanese ethnic and state identity problems were the major source of sociopolitical instability. Consequently, he proposed a new ethnic identity to include Mainlanders in the category of Taiwanese. He suggested viewing Taiwan as a melting-pot, including all the residents in Taiwan into a category that he called "the new Taiwanese." President Lee advocated the abandonment of divisions based upon who arrived first and who came later, and stressed one's love for Taiwan and each person's efforts made for Taiwan (Corcuff 2002b: 186). The idea of

“the new Taiwanese” was to relieve ethnic tension in politics. This concept helped the KMT win the 1998 Legislative Yuan election and the Taipei mayoral election.

With President Lee’s endorsement and advocacy of the notion of the new Taiwanese, the KMT candidate, Ma Ying-jeou, a Mainlander politician from the privileged colonial elite family, beat the DPP incumbent Chen Shui-bian by a landslide. This happened despite Chen’s approval rating of 70% prior to the election and polls predicting that he could win the election. In Kaohsiung city, the DPP candidate, Frank Hsieh, defeated the KMT’s incumbent, Wu Tun-yih, by a razor-thin margin. While in the Legislative Yuan election, the KMT’s vote share increased slightly, its share of seats increased 2%. The DPP’s vote share declined nearly 4% from its share in 1995.

The NP faced a disaster in 1998. The shift toward middle ground in the political spectrum caused serious infighting and led to a divided leadership (Rawnsley 2003; Wu 1999). The obsession to cooperate with the ideologically opposite DPP was intended to attract wider popular support and embarrass the Lee administration by playing the role of spoiler, but ironically, it resulted in a loosening of party discipline. The political maneuver also backfired with the NP’s regular voters, the urban middle class in northern Taiwan because they were dissatisfied with this dramatic transition. The transition to the middle ground came at a huge price for the NP. Its constituents and seats were greatly reduced.

The NP originally emerged from the middle-class crisis. It did not, however, develop a clear party platform. Its only clear political goal was its anti-Lee rhetoric. While the NP viewed him as its only enemy, ironically, President Lee became its spiritual leader. When Lee’s presidency approached its end, the NP gradually lost its anti-Lee

political appeal. With the exception of the rampant political corruption, the context of the middle-class crisis had been largely undermined since the presidential election. Without clearly articulated visions and compelling reasons of its political purpose, the NP was on the brink of extinction (Chu and Diamond 1999).

After the 1998 Legislative Yuan election, democratization in Taiwan moved toward two-party politics. Seemingly, this political momentum would help maintain stable political surroundings. In 1999, however, the Taiwanese social milieu changed dramatically. Unlike the years during the first wave middle-class crisis that created social disorder, chaos, and anomie in the daily media, the “vision” became the most popular term among the media, academics, government rhetoric, and the business community discussions. It was meant to encourage every Taiwanese citizen. Local people began to envision the possibilities of promising change as the new millennium approached. On the economic front, the Y2K bubble burgeoned and exports boomed, which created escalating demands for high-tech products in the consumer electronics, information, and communication technology industries.

However, globalization also came to a new stage of high-tech industries and competitiveness. With the exception of the upstream semi-conductor manufacturing sector, most high-tech manufacturing firms already had operations in mainland China where they produced low-end but large-volume commodities. Under the pressure to trim production costs due to Walmartization, those business executives and company bosses in the large manufacturing and upstream high-tech industries placed much hope in their ability to expand operations and expedite their investments in China. They talked about the importance of strategic alliance, and vertical and horizontal integration, which

justified their needs to deepen their business partnership with both Western and Chinese firms.

Meanwhile, after two decades of market-friendly policies to attract FDI, China's economic reforms had brought about increase in the much-needed skilled workforce and foreign capital. The export-led industrialization in China began to boom in the 1990s. As economy thrived, wages improved. This led to prosperous consumer markets and burgeoning service industries. Taiwanese banks, insurance companies, securities brokerages, and large retail establishments and service industries began to demand that the government lift restrictions and allow them to exploit Chinese market because the limited domestic market thwarted their business expansion. They openly challenged the Lee administration's cross-Strait economic policy by demanding the loosening of financial restrictions and a formalization of the cross-Strait direct links in trade, transportation, and communication. They believed these factors would facilitate their ventures in mainland China.

On the political front, in May 1999, the DPP passed a "Resolution on the Future of Taiwan." It was designed to attract swing voters of the middle class in the forthcoming 2000 presidential election (C-L Lin 2002: 231). The opposition party recognized that the discourse of Taiwanese independence was the losing issue in the 1990s elections. Thus the DPP changed its platform to that of accepting Taiwan's status quo. In doing so, they recognized that the official national name of Taiwan was the Republic of China. The 1999 Resolution stated that because Taiwan was already *de facto* independent, there was no need to declare independence.

Domestically, the new Taiwanese platform proposed by President Lee seemed to work extremely well. However, with the PRC reinforcing its block for Taiwan's international activities, President Lee's pragmatic diplomacy suffered increasing frustration. While he had repeated the statement that the Republic of China is an independent state in order to fend off his political legitimacy, President Lee had never officially responded to the statement of the PRC. Instead, he only declared the Republic of China a political entity. The ROC's Constitution had continued to claim the mainland China and the Republic of Mongolia as its territories, and Lee has no interest in changing it. In 1997, the President of the phantom state finally wondered whether the ROC on Taiwan had any legitimacy in terms of international law because the Republic of China's application for observer status was denied by the World Health Organization (WHO).

The WHO reasoned its denial by disputing that membership must be based upon the sovereignty, and it regarded Taiwan as merely a province of China (Wang 2000). In this way, the direct presidential election and all achievements in democratic transition did not fundamentally solve the dilemma of the transplanted state. President Lee thus sought advice from his political consultants who specified whether the ROC or the ROC on Taiwan was a state or not, and he was chagrined to learn that the international community believed that it was not. President Lee then recruited a small group of scholars and assigned them the task to strengthening the position of the ROC's sovereignty starting in August 1998 (Bush 2005: 219).

In July 1999, President Lee eventually declared a "special state-to-state relations" statement, in which he redefined ROC and the PRC as two separate special states. The PRC verbally denounced Lee's statement, but it did not take any military retaliation. Due



to this move, public opinion polls showed that President Lee's two-state theory had won up to 75% of Taiwanese citizens' approval (Chow 2002: 27; White 2002). For Lee, the ROC, ROC on Taiwan, and Taiwan were all interchangeable (J-W Lin 2002: 128). Thus, the two-state theory calibrated the DPP's 1999 resolution of the future of Taiwan. It also offered the theoretical base to transfer the ROCOT to the aspiring ROT (Republic of Taiwan). In this spirit, Lee's declaration kept the PRC at a distance and it steadily maintained the status quo. The political democratization and economic liberalization in the late 1990s, however pointed in the opposite directions.

Like most elected politicians in the world who have faced an unpleasant time during their last year in office, Lee was no exemption. Despite President Lee's warning that Taiwan could face a crisis as serious as that Japan had suffered if deindustrialization in high-tech industries continued, Taiwan's economy maintained its course to become increasingly integrated into that of mainland China. This in part is due to a decade of neo-liberal reforms that produced a new class of capitalists. Private firms, enterprises, and conglomerates had grown to the extent that the Lee government could no longer repress their voice because the small domestic market and dwindling labor forces could hardly sustain their business growth.

President Lee was a politician who always considered his political survival his primary goal (Lin Chia-lung in Kagan 2007: 93). During his 12 years in office (1988-2000), Lee mobilized power and resources to amend the ROC's Constitution six times. In Rigger's (2004) account, these amendments had little to do with effectively rationalizing governmental functions, but they enhanced and consolidated Lee's personal power. These aspects simply reflect that Lee is truly a political manipulator rather than a true statesman.

Lee had always expressed that he would serve as a preacher, spreading gospel for aboriginals after his retirement. Instead, however, Lee always used religion to camouflage his power-hungry ambition. Unfortunately, political observers kept admiring him as the Taiwanese Moses who would bring the Taiwanese to “the Promised Land.” He tried to remain influential by handpicking Lien Chan, the Vice President, as his successor, anticipating that he would become the chairman of the KMT in order to secure his power. Lee’s handpicked successor, Lien Chan, was docile and easy to manipulate. In Lee’s wishful thinking, had Lien been elected as President, he could have played the role of puppeteer.

In July 1999, former Taiwan provincial governor James Soong announced that he would run President for 2000, as a response to Lee’s wishful thinking. Soong’s announcement immediately dropped a bombshell and created a political storm inside the KMT. If a political compromise could not be reached, the party would be forced to split. It was believed that if Soong were not successful in the presidential election, the momentum toward Taiwan independence would likely come to fruition. The silent Mainlander community certainly hoped to reverse this political trend. Following Soong’s announcement, the chances for a political transition in Taiwan was precarious.

### **The beginning of non-stop battles**

The prelude of a drastic change in the political arena was not due to political struggle, but it was from nature. On September 21, 1999, an earthquake hit central Taiwan measuring 7.6 on the Richter scale. The earthquake killed more than 2,000 people, and brought down around 20,000 buildings. Over 100,000 people were left homeless. Total damage was estimated at 10% of Taiwan’s 1999 GDP (Edmonds 2001:14).

While the Taiwanese responded to the natural disaster courageously and unselfishly, after the quake, mounting criticisms against the KMT emerged. For example, the public criticized the Lee government for allowing buildings to be constructed in an earthquake prone zone. Earthquake victims were outraged because housing compensation from the government was slow and insufficient. Unemployment increased and local people complained that the government did little to restructure the post-quake economy. After the earthquake, the suicide rate increased and pessimism began to spread over the island. Lee's governmental relief efforts in general were viewed negatively. In November 1999, the KMT expelled the heavy weight James Soong, and the party formally split.

In the March 2000 presidential election, the independent breakaway candidate, James Soong, was the second most popular politician in Taiwan. Even without the backing of a political party, polls indicated that he still enjoyed nearly twice the support of his closest opponent. On the other hand, the KMT was one of the richest political parties in the world. Its estimated asset value varied from US\$ 2.2 to 20 billion (Robison and Brown 2000), and President Lee was the most popular politician in Taiwan. With the tremendous political and economic resources, the KMT candidate, Lien Chan had the most advantageous position in the campaign. Polls showed that his popular support was far less than Soong, but polls predicted that Lien was most likely to win the election eventually, due to his abundant political and economic resources (Rigger 2000).

The DPP candidate, Chen Shui-bian, the son of an extremely poor tenant, was a famous human rights attorney, who, together with other attorneys, fought against the military court in the *Malidao* trial. He had also earned a reputation for cleverness during his Taipei City mayoralty. Chen attracted tremendous support from the working and

farming classes, who viewed his story as a model for the poor. However, while the DPP appealed to 30% of the electorate in the 1990s, that vote share was not enough to win the presidential election. Since the DPP had rarely been trusted with the cross-Strait affairs, due to its pro-independence political stand, Chen carefully moved the state identity issue to the forefront by recognizing Taiwan's status quo, and skillfully directing the main campaign issue to attack political corruption (Dreyer 2000). Most Taiwanese believed that the DPP would more effectively deal with social issues and crack down on political corruption due to these views. The DPP took advantage of these beliefs in running their campaign themes.

Soong had spent tons of money on delivering tremendous earmark projects to please every township-based political faction in Taiwan during his incumbency as the governor in the 1990s. Since so many local politicians owed Soong a favor, the KMT needed to erode his popularity and damage his reputation. In doing so, Liu Tai-ying, the KMT's Treasurer announced that the party would spend NT\$ 1 billion to promote Lien (McBeath 2000). In reality, the KMT delivered more than ten times of the alleged campaign funds to local powerbrokers and political faction leaders, hoping that they could work for Lien. On November 16, the KMT launched attacks to undermine Soong's credentials. The KMT revealed that Soong was involved in a corruption scandal by transferring huge sums of party's money into his son's account during his incumbency as the KMT secretary-general in the early 1990s.

Once a politician starts lying, it is difficult to quit because it takes another lie to cover a lie. While Soong claimed that he never put a penny into his pocket, he changed his story several times. Eventually, the media found that he and his son owned five

houses in the U.S., and his support in the opinion polls nosedived as a result. Though Soong's popularity quickly faded, the true battle did not take place between Soong and Lien. Lien was an unpopular Vice President with constantly low approval ratings. Though Lien was a capable diplomat, Soong mocked him as "ah-dor," which literally means "a good-for-nothing person or a pinhead." Thus, Soong's embezzlement scandal most benefited the DPP's candidate Chen Shui-bian. In the end, the outbreak of the scandal helped Chen Shui-bian catch the frontrunner, James Soong, and win the election.

As important as the Soong's corruption scandal was to the election outcome, two other developments also played pivotal roles in the 2000 presidential election. First, the verbal threats from the PRC escalated. On February 21, 2000, Beijing issued a white paper that declared a new condition for using force against Taiwan, especially if Taiwan refused to negotiate on Beijing's terms as a *casus belli*. In other words, maintaining the peaceful status quo was considered by Beijing as a cause for war (Christensen 2002; Wang 2002). Just a few days before the election, the PRC's Premier, Zhu Rongji, sternly intimidated Taiwanese voters by warning on television that choosing Chen meant a destructive war.

Secondly, inside the island, in response to crack down the rampant political corruption, the Academia Sinica President and the 1986 Nobel laureate, Lee Yuan-tseh, openly endorsed Chen just a week before the election, and called for a "Taiwan Renaissance" through the slogan "rejecting the decline and embracing the rise." Top business people from traditional Taiwanese upper class and hundreds of college professors also joined the efforts to boost Chen. These developments helped Chen explode its support and catch the front runner James Soong before the finish line.

Although the KMT spent more than NT\$ 10 billion to back Lien, he had never been a threat in the race.

The final results showed that Chen Shui-Bian, the candidate of the DPP, received 39.3% of the vote, enough to narrowly defeat the independent breakaway candidate, James Soong's, 36.8%. The KMT's candidate, Lien Chan received an embarrassing 23% of the electorate (Roy 2003: 230). The election outcomes clearly indicated that the Taiwanese used ballots to tell the PRC that they were not willing to give up the political autonomy that they had achieved (Rigger 2000). The election outcomes also showed that Taiwanese voters disciplined the KMT by discarding its candidate because of rampant corrupt politics and vote-buying activities.

The results of the 2000 presidential election suggest that the KMT's political liberalization project changed the Taiwanese society. Taiwanese society, however, in turn began the erosion of the KMT regime's colonial rule over Taiwan. The victory of Chen in the March 2000 presidential election could be viewed as another milestone in Taiwan's democratization process. This transition also ended the KMT's five-decade monopoly and dominance over Taiwanese politics. Ironically, Taiwan's political development began to face deep turbulence after Chen's victory.

After the 2000 presidential election, party politics became fragile, fragmented, and contingent. The deep frustration of the Mainlander community under President Lee's Taiwanization project exploded on the night of the presidential election. Thousands of Mainlanders who supported Soong speculated that President Lee had dumped Lien and secretly switched his support to Chen in order to prevent the victory of Soong (Clark

2002c). Even the KMT's losing candidate, Lien, had attributed his failure to Lee, they demanded that Lee resign his post as the KMT chairman.

Under mounting pressure, Lee's secure landing evaporated in one night, and he was forced to step down from the KMT chairmanship in great distress. Lien Chan succeeded him as the KMT chairman, and the party later expelled Lee in September 2000. Since the regime change, the conservative Mainlander politicians have become more vociferous than they were during the last years of Lee's presidency (Corcuff 2002c: 248). They became mad and frustrated because the state was in the hands of an actual Taiwanese person. For Mainlander conservatives, losing the regime to those who should be the governed was intolerable and unacceptable.

The defeated Soong quickly founded a party of his own, the People's First Party ( PFP) on March 24, 2000. He tried to rally the Mainlander community and the conservative fraction of the middle class. Soong advocated the agenda based on the PRC's market and resources. He insisted that Taiwan could promptly establish "three direct links" with the PRC to further develop Taiwan's economy. Economic transactions were viewed as a stepping-stone to economic integration, which would lead to social integration and end in political integration (Lee 2003). In effect, he became a comprador candidate. Meanwhile, to appeal to Mainlanders' support, Lien embraced a more conservative agenda, favoring a Chinese confederacy system to include Taiwan as a substate of greater China. He thus steered the KMT toward a "One China, two political entities" policy, which degraded the ROC to a local government. He too became a comprador. Despite the competition to dominate the conservative forces' support, between the KMT and the PFP, these two parties and the NP formed a pan-blue alliance

to check the Chen government, in part because they were from the same origins and in part because they shared a common political ideology of colonialism: the pro-unification agenda.

The growing ethnic hostility, rising class tensions, and conflicting political stances made forming a minority government an uneasy task. Making it work became even more difficult. Because the ruling DPP only controlled 70 of all 225 of the seats in the Legislative Yuan, President Chen appointed Tang Fei, a Mainlander Air Force general and the former minister of national defense, as the Premier, in order to please the conservative forces. He also gave Foreign Affairs Minister and National Defense Minister posts to the KMT.

Although the DPP had won county magistrate elections, their expertise in administration had never been at the central government level. The central government was a colonial enclave because it was dominated by senior Mainlander technocrats and conservative Taiwanese bureaucrats. They stayed loyal to the KMT and lamented the new DPP government. As a result, they mocked the Chen administration, and they wondered how the inexperienced government could make the state machine run. Together with the all-around bill-blocking strategy in the Legislative Yuan, the state machine was virtually ungovernable. The joint cabinet survived for only five months. Moreover, the Chen administration began to face dilemma due to its party's pro-environmentalist stance.

On August 27, 2000, the new Premier Chang Chun-hsiung, announced that the DPP government had decided to cancel the construction for a 4<sup>th</sup> nuclear power plant. This decision led to an unsuccessful recall of the President by KMT legislators. The



Taiwanese business community also quickly concluded that the Chen administration was essentially anti-business (Chang and Cheng 2002). President Chen firmly rejected formalizing the three direct links under the premise “One China, two systems,” which negated Taiwan’s status quo. President Chen also pushed to reduce weekly work hours from 44 to 40. These policies offended many top Taiwanese business people, who backed him during the campaign, and this reinforced the anti-business stereotype against the ruling DPP.

On the economic front, the Y2K bubble began to burst in the late 2000, causing rising unemployment and business losses. By the end of 2000, the stock market lost nearly 50% of its value within a year. The economic recession caused business confidence to drop to a five-year low, and the business community increasingly recognized China as their long-term hope for continued profits (Ross 2001). Even worse, the Minister of Economic Affairs, Lin Hsin-yi, announced an unpleasant prediction in a news conference in December 2000 that a social and economic hard time was about to come and the economic recession could last for three years. Minister Lin’s announcement scared local people. In 2001, Taiwan began to experience a serious economic recession due to the sagging competitiveness of the manufacturing sector and sharply declining demands in the global information technology market (Scalapino 2003: 4).

The hostile pan-blue alliance and the alienated relations between the state and business community made the Chen administration a lame duck from the very beginning. With the KMT and PFP competing to lead the conservative middle-class bloc and the ruling DPP switching to the muddy middle ground, former President Lee saw that the political stalemate and economic recession produced an empty niche at the left of the

political spectrum. In August, 2001, the former President Lee led a group of marginalized KMT politicians and founded the Taiwan Solidarity Union (TSU), hoping to capture 35 seats in the December 2001 Legislative Yuan election. For nearly two years since the peaceful regime transition, political gridlock had prevented Taiwanese society from making constructive action concerning the deteriorating economy and divided society. Lee's reentry into politics brought some hope to the liberal fraction of the middle class, as Lee claimed that the purpose of the TSU was to help Chen govern effectively.

In addition to Lee's endorsement, the public seemed to fully understand that the KMT should be responsible for President Chen's poor performance because the KMT paralyzed the Legislative Yuan (Kemenade 2001). Voters disciplined the KMT three months later in the December 2001 Legislative Yuan election. The KMT's vote share decreased significantly from nearly 47% in 1998 to less than 28 % in 2001. Its seats dropped to 67 from 123 in 1998. Most of the KMT's regular supporters went to the PFP, which received nearly 19% of the electorate, and obtained 46 seats. As a result, the NP totally collapsed and had only one seat. Conversely, the DPP received 33% of the electorate. Its seats increased to 87 from 67 seats in 1998, and became the leading party in the parliament. Former President Lee's TSU captured 13 seats.

While the DPP made substantial progress in gaining more seats in the Legislative Yuan election, the DPP and TSU together only controlled 100 seats, which was 13 seats short of the majority. In the same year, the DPP maintained its momentum in the magistrate and mayor elections. Its vote share increased by 2%, but it lost three seats. The KMT's popular votes decreased by 7%, but somehow its seats increased from 8 to 9. After the two elections, the DPP and TSU formed the pan-green camp, in order to

confront the pan-blue alliance organized by the KMT, PFP, and NP. The differences between pan-green and pan-blue can be distinguished by pro-Taiwan versus pro-China, pro-Taiwanese versus pro-Mainlanders, pro-independence versus pro-reunification, and pro-working and farming classes versus pro-upper middle class ideologies. Because the pan-blue alliance still controlled the majority of seats in the Legislative Yuan, the structure of a stalemated Parliament and paralyzed government continued. Thus, the increasingly fragmented, fragile, and contingent party politics led Taiwanese society to become internally divided based upon ethnicity, state identity, and social class.

### **Transnational practices and hollowing-out effects**

The intense elections in the first year of the new millennium brought the China factors, including the hostility and threats, the pan-blue parties' pro-reunification stand, and increasing economic integration with China into heated debates in citizens' daily life. While these debates helped the pan-green parties make some progress, as they had the upper hand to provoke an anti-China mood, the election outcomes did not ease social pains, due to the increasing hollowing-out effects in manufacturing sector.

According to Hawe (2001: 37), small economies, such as Taiwan, have a lesser degree of freedom on the international stage. Their modes of access, channels to outside markets, and resources are basically shaped by other countries. In extreme cases, a small economy may be virtually incorporated into a large political entity or, at the very least, will have to play entirely by the rules set by the more powerful. Hawe's small economy perspective reinforces the obsolescent bargaining theory (Chang and Cheng 2002) that once an overseas investment is made, the bargaining power then shifts to the host country

because relocation costs are high and foreign firms always need more local support to function.

In the mid-1990s, when the second wave investment fever in China were taking place, President Lee tried very hard to maintain his “no haste, be patient” policy by restricting making investments in large projects to mainland China, such as heavy and construction industries in industrial sector, and banks and insurance in service sector. To evade government regulations, listing companies and large conglomerates extensively employed shell or offshore companies registered in tax havens like the British Virgin Islands, Samoa, Hong Kong, and Cayman Islands in order to transfer their investment funds to China. When companies had to increasingly exploit the immense Chinese labor forces for business survivals and place their hopes on the one billion Chinese consumer market, these transnational practices led to growing fears and anxiety in Taiwanese society, due to economic over-dependency on China.

Prior to the mid-1990s, Chinese industrial policy welcomed all kinds of foreign investments because top Communist cadres understood that the export-oriented industrialization must begin somewhere. Attracted by this market-friendly policy, Taiwanese manufacturing firms became rent-seekers. Consequently, labor-intensive and low value-added industries, like textile, garments, footwear, toys, and furniture industries, and highly-polluting industries, like electroplating, chemicals, textile dyeing, paper-pulp making, and leather processing industries soon mushroomed in the industrial parks of southern Chinese coastal provinces.

After export-oriented industrialization took off, China’s industrial development strategy quickly shifted from “location-oriented” to “industry-oriented” companies in

1994 (Leng 1998). Thus, by the late 1990s, most special economic zones on the coast no longer welcomed those labor-intensive, low-value-added, and highly-polluting industries. While the first wave investment fever in China proved to be highly risky, it did not deter Taiwanese business people from doing business in China. This is because the first wave investment had triggered the new wave of worldwide competition for low-cost production.

When Taiwan's second wave of deindustrialization occurred in the late 1990s, China's new industrial policy directed and demanded more capital- and technology-intensive industries with long term investment planning, in order to relocate into the special economic zones. Impacted by this new industrial strategy, more large and leading Taiwanese manufacturing firms in the car-making, machinery, petrochemical, and electronics-related industries began to join the rank and file of thousands of Taiwanese SMEs' offshore outsourcing practices, conducting high-volume but low-end production. With so many large Taiwanese and foreign manufacturing firms shedding their low-value productions to China for long term development purposes, the exodus of these transnational firms not only helped the PRC build a solid foundation to develop high-tech industries, but it also encouraged export activities to explode.

When Chen Shui-bian was inaugurated President in May 2000, many Mainlander bureaucrats specialized in economic planning thought that their career paths in the public sector were over. They quickly retreated from the government posts and went back to their "mother country." To regain their self-esteem and pursue their second career success, they brought the blueprints and details of high-tech industrial park planning projects, and they sold their expertise and experiences to Chinese officials at both

national and provincial levels. More new high-tech industrial parks, duplicating Taiwan's iconic model, the Hsinchu science-based industrial park, were established in the Yangtze Delta and in the northern coastal provinces since 2000. Therefore, more Taiwanese upstream high-tech firms have been involved in the continuing third wave deindustrialization process.

At the end of 2001, Taiwanese investment in China totaled more than US\$ 60 billion, with about half of all Taiwanese companies involved (Scalapino 2002:35). According to Chinese figures, the ongoing global division of labor has resulted in more than 60,000 Taiwanese-funded firms and approximately 700,000 Taiwanese relocations to China by the end of 2003 (see Table 5-2). However, the Taiwanese government only reported that around 31,000 joint ventures in China had been made. The gap between the two official figures shows that Taiwan's transnational investments in China are virtually ungovernable because of extensive shell companies. By the early 2000s, the three waves of China gold-rush fever threatened to drain Taiwan's capital and middle-class jobs, while making Taiwan's prosperity contingent on the political relationship between Beijing and Taipei.

Taiwanese business people have increasingly exerted pressure on the Chen government to facilitate their ventures in China (Tucker 2002). President Chen, in some way, accepted the business community's argument that cross-Strait economic integration was essential to Taiwan's prosperity (Rigger 2002). In August 2001, the Chen administration relaxed its economic policy to facilitate "active opening, effect management" replacing the "no haste, be patient" economic policy. Former President Lee

repeatedly warned about the danger of China, and he was unhappy about the Chen administration for its moves to abandon the “no haste, be patient” economic policy.

Despite Lee’s warning, in November 2001, the Chen administration further lifted the US\$ 50 million financial restriction on Taiwan’s investment for individual projects on the mainland China, legalized investments in some high tech industries, and permitted links between banks in Taiwan and China in order to facilitate the transfer of funds across the Strait (Roy 2003: 238). The Chen administration allowed corporations to make overseas investments no more than 40% of their paid-in capital. In 2003, the Chen administration even permitted upstream semiconductor firms to shift eight-inch wafer plants to mainland China. However, most business people did not appreciate Chen’s moderate policy. They not only openly expressed their dissatisfactions with Chen’s policies, but they hoped that Chen’s government could lift all regulations and allow capital migration to run freely.

The DPP’s pro-environmentalist stance did not favor heavy industries, such as steel mills and petrochemical plants. The Chen administration’s industrial development policy tried to construct Taiwan as a silicon island. In this regard, industrial policies emphasized developing electronics related high-tech, nano-tech, optronics (optical electronics), bio-tech and pharmaceutical industries. Ironically, while Taiwanese society has been proud of its achievement in the electronic related high-tech industries, these industries have proved to be fragile. In addition to the pull factor from China, some unique characteristics of the consumer electronics push Taiwanese manufacturing firms, creating increasing vulnerability.

First, high-tech electronics products have a very short life span because of constant innovations and advancements in technological development. Second, unlike other high-tech industrial products, which have stable pricing, prices for consumer electronics and communication products are constantly falling. Third, the market for consumer electronics and information-technology related commodities has been controlled by only a few large Western buyers, brand name companies, and large discounters. Finally, cutting-edge technologies in electronics industry are still controlled by Western leading firms, such as IBM and Intel. Some of these technologies are buyable, if governments are determined to establish certain kinds of strategic industry.

Most Taiwanese consumer electronics manufacturing firms did not develop brand names in the global market. Their survival largely relies on the larger buyers and discounters in the Western market economies, such as Dell, Hewlett-Packard, Motorola, AT&T, and Best Buy. As long as retail markets are controlled by large buyers, high-tech products in electronics industries are not different from other consumer goods in traditional industries, whose prices are controlled by large distributors and discount stores. Therefore, high-tech products do not equal high profits. Because of Walmartization, profits for high-tech manufacturing firms come not as a matter of increase of sales but as a result of intensive cost cutting. Under the continuing pressures to compete with cut-throat prices, searching for skilled workers at lower wage levels became the iron law for survival.

From this low-price commodity viewpoint, China tended to have an inexhaustible pool of cheap, skilled, and hard-working labor forces. Moreover, China also has been regarded as the next great consumer market. These two elements seemingly fit the



characteristics of Walmartization: time to volume and time to market. Once Taiwanese manufacturing firms consider survival principles, based upon time to volume and time to market, the rush to China is not a fear but an inevitable reality.

When Taiwanese manufacturing firms and other advanced countries' transnational firms brought thousands of joint ventures to China, the capital migration game not only led to transnational firms competing against each other, but they also disseminated managerial knowledge, marketing skills, production technology, and entrepreneurial spirits to China. After local Chinese firms learnt Western know-how through the capital migration game, they soon joined the new competition. Accompanied by the fact that the Chinese government had been eager to establish high-tech industries at any expense, Taiwanese firms eventually could not shield themselves from these self-destructive transnational practices.

These phenomena suggest that China has becoming the primary shaper of Taiwan's economic development. In the 1990s, both Taiwan and South Korea served as the second-tier production sites for the recycling of many high-tech products from Japan and the U.S. In the early 2000s, however, both Taiwan and South Korea's production niches were replaced by China due to the Walmartization principles, time to volume and time to market, and the Chinese government's industrial intervention policy. Middle-class jobs in Taiwan, therefore, became unreliable and less promising. The ongoing processes of globalization and organizational restructurings indicated that more Taiwanese companies, capital, business people, talented managers and engineers, other white-collar office workers, and even speculators moved to China, searching for a prosperous future.

In theory, low-paid manufacturing jobs are doomed to travel where labor costs are cheaper. Optimists, like Chen (1996), for example, argue that the exportation of low-paid jobs in the manufacturing sector forces capitalist firms to pursue a vertical division of labor, therefore conducting more value-added production by concentrating on capital- and technology-intensive production activities at home. In this way, more high-paid white-collar jobs could be created and remain in domestic labor market. These jobs include research and development, product design and engineering, finance and accounting, planning and inventory control, quality control, sales and marketing at global level, and after sales service.

This expectation, nevertheless, is far away from reality. Since the serious economic recession in 2001, many factors have undermined Taiwan's economy for more than a decade, resulting in rising unemployment. Taiwan's economy has been in disarray since then. Factory workers had begun to face another round of large scale layoffs. College graduates have had difficulty finding jobs. Many senior white-collar employees have suffered the pressures for voluntary retirement or buyout with little benefits. Independent professionals also have to choose between low-paid jobs or being jobless. All of these developments point in one direction; the Taiwanese economy has been in the process of immiserizing growth.

### **Growth with Immiseration**

When Bhagwati (1958) presented his famous trade model of "immiserizing growth," which refers to an economic situation where growing trade could lower the price of products, decrease the profits, and worsen off the wage levels, scholarship in the Western world did not pay much attention to his economic idea. This is because

Bhagwati's trade model contradicts common understandings in economic theory, which is based on comparative advantage; growing trade always brings to general improvements of living standards. After the burst of the internet and high-tech bubbles, however, the notion of immiserizing growth has become more apparent. The reason to support the notion of immiserizing growth relies on the fact that the growing offshore exodus of high-tech firms helps transnational corporations gain a lot by extracting large amount of surplus values from the developing countries. Society, however, in the advanced countries, gains very little or even suffers. Taiwan marks a classic example to illustrate immiserizing growth.

Prior to the new millennium, most Taiwanese citizens had never thought of the possibility that the Taiwan miracle could come to an end someday. The 1997 Asian Financial Crisis did not terminate the Taiwan miracle, nor did the 1999 earthquake. Most citizens just believed that the economy could keep rolling forever. However, beginning in the late 2000, the Y2K bubble was at its end. In 2001, both exports and imports faced serious declines, by more than 16 and 20% respectively. When the economic growth rate became negative in 2001, the Taiwan miracle formally ended. Taiwanese society had a relatively small home market, and most manufacturing firms were export-oriented. Exports have been the key contributor to economic growth and prosperity since the economy took off in the late 1960s. In reaction to the sharp decline in export orders and economic recession, manufacturing firms and service corporations thus have had to employ various organizational restructurings, in order to reduce loss and promote cost savings.

Most measures of domestic organizational restructurings that capitalist firms commonly practiced were paper actions, focusing on reducing head counts. After the emergence of three waves of investment fever in China in two more decades, most Taiwanese manufacturing firms already had established large offshore production sites in China. The sharp decline in export orders in the early 2000s only accelerated these manufacturing firms to close their high-cost assembly lines in Taiwan. These paper actions had nothing to do with moral claim or social responsibility. They were simply business concerns, a strategy for survival. However, the strategy for survival had opposite results. On the one hand, paper actions have resulted in mounting unemployment in Taiwan. On the other hand, production continued. Therefore, these paper actions must transform production actions somewhere, creating millions of manufacturing jobs in China.

When these Taiwanese firms left the island and reallocated their production facilities there, they not only took a large amount of investment funds with them but also brought valuable assets such as human capital, to China. By 2003, Taiwanese society had widely suspected that more than US\$ 150 billion investment funds had been moved to China. That large amount of FDI was more than twice of the approved figures according to Chinese statistics (US\$ 70 billion by 2003) and more than fourfold of the money according to Taiwanese official statistics (US\$ 34.3 billion by 2003) as shown in Table 5-2. Outsiders must also understand the fact that 3% rewards or bribes of each investment project have to go to local and central level officials' pockets (Gutmann 2004: 121).

For those Communist cadres and officials, permits and licenses allowing foreigners to do certain business in China are either robbery or in the interest payment to

the state. These bribes simply are reflections of exchange of favors. Since this kind of corruption has been so endemic, and there is an indeterminate line between a gift and bribe (McGregor 2005: 98-125), it has been widely recognized as a norm. There is no way to bypass it. Once investment deals are made, these cadres and officials dispatch paper work in a speedy way and hand in required permits, licenses, and approved documents for land use and construction within weeks, which often takes months or even years in functioning democracies. Thus, by 2003, the outflow of large amount of FDI from Taiwan to China, no matter what the real number was US\$ 34.3, 70, or 150 billion, turned thousands of Chinese racketeering officials into millionaires.

Nevertheless, investments in China have been proven to be a highly perilous business. Although rewards from corruption provide strong impetus to overcome notorious red tape over night, resulting in super efficient government services, the culture of Communist cadres and officials is inflexible (McGregor 2005: 127-129). Many business people are simply gratified by the super-efficient service. They forget that these practices harm real people.

Since Chinese officials and cadres perceive running businesses with special licenses as robbing the interest of the state, there is a tendency to take them back, especially if the businesses conducted by foreigners prove to be lucrative. Each year, Taiwanese business people have filed several thousand complaints against Chinese government, from local to central levels, regarding increasing financial disputes with local firms (partners, suppliers and buyers), labor-management problems, incessant tensions between firms and corrupt local officials, and various fraud schemes set up by racketeering Communist cadres, officials, and local business people.

Unfortunately, corruption has been increasingly rampant at all levels. The Communist courts and officials always refuse to hear cases at first unless the constituents pay bribes. It is not surprising that only very few cases are solved through normal channels, such as trial or arbitration. A small percentage of these disputes are settled by paying bribes to higher-profile officials, but most of these disputes end up as failed investments. In this way, even failed cases still benefit Chinese local economies, in general, and partner firms and officials, in particular. For local partner firms, they quickly learn how to operate at the expense of Taiwanese business people and funding. For these local officials, by executing their power, they transform their authorities in personal fortunes.

Still, there are thousands of successful investment projects. In the late 1990s Taiwanese manufacturing firms in China remained highly and consistently dependent on Taiwan-based firms for raw materials, parts, advanced components, and semi-finished products. However, since the burst of high-tech bubble in 2001, the new trend for Taiwanese high-tech manufacturing firms has been to close assembly lines in Taiwan and then fully transfer production facilities to China or other overseas production sites such as Vietnam. For example, Taiwanese firms have controlled more than 60% of OEM and ODM (Original Design Manufacturing) markets in desktop, laptop, motherboard, and monitor industries. Propelled by the new trend of offshore production, these products' assembly lines in Taiwan were largely shut down by 2003, leaving plenty of empty industrial parks.

Taiwanese high-tech industries used to strengthen their global competitiveness by developing a complete cluster network and supply system that included numerous

upstream, midstream, and downstream suppliers. When the downstream assembly lines were gone, the industrial cluster, with complete networks and supply systems, could no longer sustain themselves in Taiwan. Most downstream manufacturing firms believed that it was necessary to bring their own suppliers to China, in part because they have to assure quality, and in part because it would allow them to launch the production of new models more quickly and with less volatility. While managers and owners of these suppliers resist at first and express less enthusiasm, they had little room for autonomy (Cunningham et al. 2005: 121). Under the continued pressure to keep costs down, these midstream and upstream suppliers had no better choice but follow the trend and set up new production facilities in China to secure their market niches.

Affected by the rampant practices of factory closures and organizational restructurings, economic pessimism began to spread in Taiwan. The official unemployment rate rose to 4.57% in 2001 from 2.99 in previous year. Many analysts pointed out that the actual figure could be as high as 8% (Sutter 2002). The large amount of laid-off workers had led to shrinking employed population in the industrial sector for three consecutive years, down from 37.3% in 2000 to 34.8% in 2003. With more than a quarter million working-class families impacted by the wind of firm closures, criticisms against manufacturing firms rose, accusing them for failing to take care of their social responsibility. Those high-tech manufacturers responded indignantly that global competitiveness required shifting operations to China and other developing countries in order to trim production cost. They claimed that by hauling away low-paid jobs to China and Southeast Asian countries they would leave their roots in Taiwan and create more

high-paid jobs in research and development, product design and innovation, marketing and financing, and other high value-added areas, in their headquarters.

These defensive arguments, nevertheless, have become more like empty promises. Acer, for example, has been commonly cited as Taiwan's iconic high-tech transnational firm with a sound brand name. That company ranked fifth in the global desktop and laptop market in the early 2000s. Acer's organizational restructuring strategy emphasized the separation of the product manufacturing and sales services. After closing all its production assembly lines in Taiwan in 2005, Acer has outsourced all productions to its subsidiaries and trimmed its total employees in Taiwan's headquarters to less than 450.

Acer spent a decade, constructing an American-style company town, an upscale suburban subdivision in Loongtan, Taoyuan County. However, when Acer's employees or former office workers began to move into their luxurious suburban villas, many of them were dispatched to work in China. When a Taiwanese transnational corporation with a global brand name only employed a few hundred people in Taiwan, this led to troubling effects in the job market. There were more dismissals than engagements in the high-tech industries. It was not surprising to learn that under the chilly employment climate and hostile hiring conditions, many white-collar job holders in the high-tech industries had to work more than 70 hours a week without overtime benefits, in order to secure their jobs.

Despite the excessive paper actions and extensive exploitations, there were some production actions in the high-tech industries to keep Taiwan's economy growing. For example, in the semiconductor industry, there were more than 10 twelve-inch wafer fabrications under construction in the early 2000s. There were also 5 Taiwanese firms in



the flat-panel industry competing to build fifth generation thin-film-transistor plants. To develop a complete industrial cluster to support the flat-panel display industry, many upstream firms were also involved in expansion, such as glass substrates, color filters, polarizers, backlight modules, and driver ICs. However, no Taiwanese firm in the upstream high-tech industries had the capacity to develop the new generation product on its own. Most Taiwanese high-tech firms' survivals have depended on continuing infusions of technology by buying the newest production technology and more expensive equipment from foreign firms. The costs of building these high-tech factories and production upgrading, therefore, have constantly increased over time (Fuller et al., 2005: 86-87).

Because these upstream high-tech industries are capital- and technological-intensive, each construction project for a semiconductor wafer foundry or thin-film-transistor plant costs more than several US\$ billions, but each project creates only less than 1,000 jobs. With limited and highly-selective jobs in the high-tech industries, the vertical division of labor, moving toward cutting-edge and technological-intensive production, does not relieve rising unemployment. Meanwhile, the increasing supply of college graduates has only deteriorated the job market. After a decade of high speed expansion in higher education, the numbers of college and university had more than doubled from 46 in 1990 to 105 in 2000. By 2000, there were more than a billion students enrolling in colleges. When colleges supply more than a quarter million graduates a year and economy was in serious recession, these middle class wouldbes suffered tremendous pressures to find white-collar jobs. For example, colleges supply more than 70,000

graduates each year with all kinds of engineering majors. However, high tech firms as a whole in Taiwan only have 300,000 capacities for engineers.

High-tech firms in the manufacturing sector and large establishments in trade and service sector have thus kept complaining that higher education has supplied too many unqualified graduates with no talent and without global vision. Since Taiwanese firms have made more investments in China rather than in Taiwan, the pro-China and Mainlanders-owned media, such as United Daily, China Time, and TVBS, have always portrayed that globalization equals Sinicization. These pro-China media have advocated the notion that Taiwan's prosperity wholly depends on the exploitation of Chinese market and labor. Therefore work experiences and practices in China are indispensable in expanding middle-class people's global vision. Influenced by these pro-China media and impacted by the sluggish economy, younger-generation job seekers have expressed much interest to work in China. In the 1990s, Taiwanese white-collar workers in China enjoyed high pay and good fringe benefits. Their average incomes were double than their counterparts in Taiwan. However, beginning in 2001, the gap shrunk rapidly to less than 1.5 times. Under the continued pressure for low-cost production, many Taiwanese white-collar workers' positions in China-based Taiwanese firms have been replaced by Chinese competitors because they only ask a small fraction of Taiwanese workers' pay.

Taiwanese white-collar position holders and job seekers have been facing ruthless challenges since the early 2000s. Taiwan's manufacturing base has already been hollowed out after two decades of rapid industrial exodus. Considering the fact that the higher-education system in China has supplied 3 million graduates a year in the early 2000s and the numbers have now doubled to 6 million a year in 2010, Chinese

counterparts have been posing increasing threats as emerging competitors. They have taken away Taiwanese transnational middle-class people's positions in the Chinese job market. With the domestic job market in rapid deterioration, Taiwanese middle-class people soon lost their confidence in themselves, and the Chen government became the culprit to blame.

In comparison with wage levels averaging a 6% increase in the 1990s, real wages in the early 2000s were frozen. For example, the labor productiveness index in the manufacturing sector increased by nearly 20 points, from 96.36 in 2000 to 115.34 in 2003, but average monthly earnings only added up by NT\$ 500 within three years from NT\$ 39,080 in 2000 to 39,583 in 2003. Figures in the per capita GNP showed an even more serious regression. Considering the inflation factor, average monthly earnings were in negative growth. Most citizens, white-collar or blue-collar, did not benefit from the gains of productivity.

When the economy was in deep trouble, these problems converged. Income inequalities, measured by the GINI index or income distribution in quintiles all show signs of polarization. Those in the top fifth steadily expanded their fortunes during the socioeconomic hardship, while the lowest quintile's shares substantially shrank. The rich just got richer, while the poor continued to suffer. With an exodus of high-earning middle-class people to China, there were declining demands in real estate leading to a burst of the housing bubble in the early 2000s. Household spending decreased but consumer debts increased. The economy stagnated. In 2002, Taiwan's overall non-performance loans hit a record high at 8.78%, with NT\$ 1.4 trillion or US\$ 40.7 billion in bad debt. Among the financial institutions in deep troubles were local credit unions,

credit departments of township farmer's associations, and some newly established commercial banks.

During the heyday of the Lee regime, President Lee turned a blind eye to rampant political-business connections, in order to secure support from Taiwanese politicians and the business community. As a result, politicians treated local credit unions and township farmers' associations as their way to win elections, establishing patronage networks and supporting local political factions. Compradors and crooked business people expanded their credits without restrictions, borrowing huge amounts of money from commercial banks, either to play money games in the stock and real estate markets or make overinvestments in China. After the regime transited and the economy was in a downturn, the huge amounts of under- and non-performance loans became a major problem.

To help write off these worsening loans, the Chen administration set up the Financial Reconstruction Fund, with NT\$ 140 billion in hand to help clean up the bad loans that troubled small commercial banks, local credit unions, and farmer's associations. On the other hand, the Chen government passed a financial bill to establish assets management companies (AMCs) and financial asset service companies (FASCs), allowing these companies to purchase bad assets from commercial banks. Although the establishment of the AMCs and FASCs has relieved the bad loan problem, these financial reform efforts did little to punish the worst offenders, who fled Taiwan and continued to enjoy their bourgeoisie life style either in China or in other places overseas.

In fact, after gaining legal status, these AMCs and FASCs became a source of social problems. They often resold bad loans to debt collection agents at cheap prices, or they subcontracted with debt collectors to collect with high rewards. Since almost every

debt collection agent or debt collector has gang affiliations or a criminal background, the AMCs and FASCs were no different from loan sharks. They largely hired gangsters and career criminals to intimidate, assault, threat, humiliate, kidnap, beat, and even murder debtors.

Sadly, the excessive use of inappropriate debt collection methods led to hundreds of tragedies. During the economic downturn, banks became predatory lenders, competing to issue more credit cards and encouraging citizens to borrow money with high interest rates. The competition for credit card operations resulted in more credit card abusers, or “card slaves.” Under pressure from the debt collectors, a significant numbers of debtors who failed to repay their loans had no escape but to commit suicide. With hundreds of tragedies, the Chen government again took the blame. The Chen administration thus carried the sins for financial reforms and the outcome of immiserizing growth.

### **Crises and responses**

When the Taiwan miracle was over in the new millennium, it immediately impacted on the working-class people the most. With increasing factories relocating production facilities to China and Southeast Asian countries, traditional export-oriented industrial parks became empty. Thousands of Taiwanese workers were displaced. However, they were not alone in such miserable situations. In the early 2000s, the emerging Chinese market and all kinds of export-oriented industrial parks along the coastal provinces had successfully skimmed off a million Taiwanese to work in China within just a decade.

The majority of the “skimmed” workers were business people, industrial professionals, corporate managers, as well as better-paid middle-class office workers.

Presumably, they were valuable consumers ranking at the top layers of the pyramid consumption market. When they became long-term sojourners in China, they shopped a lot in the PRC and spent very little in Taiwan. The disappearance of so many precious consumers led to declining consumption in Taiwan. As a result, shop keepers, restaurant owners, small producers, and farmers were in trouble. With the stock market in a bear run, these scenarios made unemployment and poverty Taiwanese society's biggest concerns.

As the socioeconomic equality deteriorated, it demonstrated the importance of social security. Unfortunately, when Taiwan became an affluent society in the 1980s, the KMT was reluctant to reform its welfare policies. According to Fell (2005; 2008), the KMT was located at the far right of the welfare spectrum, defending its position that the government should take care of economic growth as its priority and family should be the welfare provider. Embracing the principle of the developmental state and inheriting the legacy of overdeveloped state, the Lee administration firmly opposed welfare provisions beyond pro-KMT vocational groups, for example, civil servants, teachers, and the military. The KMT's welfare policy position was based upon the ideology of double illegitimacy because Mainlanders disproportionately dominated these vocational groups.

In response to the KMT's welfare stance, former DPP chairman Yao Chia-wen argued that social security is not simply about social welfare. It is about how citizens in Taiwan could benefit from the national budget (Fell 2005). In the late 1990s, social security spending made up more than a quarter of the national budget (C-H Chen 2005). However, the biggest slice of the social welfare budget went to Mainlander veterans and military retirees, who were not required to pay a penny of income tax by law. By contrast, the Taiwanese were the major tax payers, but they received very few welfare benefits.

Attacking that the KMT's welfare policies, based upon ethnic and class biases, the DPP had successfully linked the welfare issues to ethnic politics and discriminatory measures. The DPP politicians demanded more generous packages and more equal treatment to those disadvantaged Taiwanese.

Starting in the 1993 county magistrate and mayor election, the DPP candidates proposed a senior pension policy. They promised to give NT\$ 5,000 to senior citizens over 65 years old who were unable to receive any government pension benefit. At first, the KMT politicians either mocked the DPP's proposals as silly thoughts or denounced them as policy vote-buying. However, when the DPP proved that its welfare platforms were the winning issues in the various elections in the 1990s, the KMT was forced to respond with a series of welfare packages, such as the senior farmers' monthly allowance and then the universal health insurance in 1995.

Nevertheless, several factors prevented the Lee administration's expansion of welfare state programs. First, without the central government's financial support, the DPP's senior citizen pension schemes all failed within months in the early 1990s. Moreover, many senior bureaucrats and influential politicians within the KMT opposed the expansion of the pension scheme because they worried that welfare policies would lead to an unbearable financial burden. Finally, because the KMT's major supporters came from middle-class constituents, the Lee administration simply wanted to bury welfare issues and showed no interest in establishing a full social security system.

The Lee administration, however, did achieve two important welfare programs in the late 1990s, passing a housing project bill to renew the residences of all Mainlander military families and declaring a decree to run an unemployment allowance program for

laid-off workers in 1998. The former has benefited Mainlanders most. These Mainlander military families had been squatters, occupying dormitories left by the Japanese for almost a half century, but they did not have ownership. After they paid partial construction fees to obtain property titles for the modern apartment compounds, each housing project beneficiary household, on average, would have profited more than NT\$ 3 million or equivalent to US\$ 100,000 at the expense of Taiwanese tax payers. For those higher-ranking military generals, the profit could easily go up to NT\$ 60 million, equivalent to US\$ 2 million, in the mid-2002.

While the latter program included all citizens in Taiwan, the KMT refused to pass a bill for it. Without formalizing the unemployment allowance, the decree remained a temporary executive order, and it had limited beneficiaries. These two accomplishments again reinforced the KMT's deep ideologies, concerning the overdeveloped state and the developmental state. Why would Taiwanese politicians behave kindly to Mainlanders but respond indifferently to Taiwanese? Seemingly, it was because the idea of double illegitimacy had deeply engraved on the minds of Taiwanese politicians and legislators within the KMT. They agreed that Mainlanders should be privileged. However, for the DPP and its supporters, these two programs seemingly were based on ethnic and class biases, producing more ethnic inequalities and grievances.

Since social security has become DPP's trademark to differ from other parties, the DPP advocated the promotion of extensive social welfare programs for all citizens in Taiwan in the 2000 presidential campaign. The DPP promised that it would move Taiwanese society to a welfare state based on principles of fairness and universalism without raising taxes. The DPP proposed to strengthen social security by passing two



important bills, unemployment insurance and a national pension scheme. They also promised a “333 special agenda,” including a monthly stipend of NT\$ 3,000 for each senior citizen more than 65 years old, free medical care for children under age 3, and the 3% mortgage interest rate for first-time house buyers (W-H. Tsai 2001).

Although welfare state campaign promises were not the determining factors to help the DPP win the 2000 presidential election, they were important elements to consolidate its supporters, mainly the lower-class workers and farmers. However, to promise is one thing and to perform is another. Without passing the bills and budget, the DPP’s campaign pledges became broken promises. During the first two years after the presidential election, the KMT legislators were busy in non-stop battles. What they were most concerned about was to make the Chen administration as ineffective as possible, even though Taiwan’s economy was in deep trouble.

Voters eventually sent an important warning message to the KMT in December 2001 by slashing its vote share in the legislator election to 28.8% from 46.5% in 1998. The newly elected KMT and PFP legislators, then the pan-blue camp, could no longer stay apathetic to welfare issues. They thus toned down their anti-Chen government rhetoric and quickly shifted to outbid the DPP in the welfare legislation process. In response to the serious economic recession, they were afraid that the DPP would turn welfare and social issues into further electoral advantages (Lee and Chu 2008). Cross-party cooperation in the mid-2002 helped facilitate important legislation on social welfare bills, such as unemployment insurance, a universal national pension scheme, and a noncontributory senior citizen allowance. At the end of 2002, the Legislative Yuan passed two more special programs for infrastructure and public service employment

expansion, in order to fend off the winds of recession, with NT\$ 50 and 20 billion respectively.

As it proved, the timing of these two special packaged programs could not have been better, due to the economic downturn. In late 2002, a mysterious but very lethal Chinese pneumonia, SARS (Severe Acute Respiratory Syndrome), began to spread in south China. At first, the Chinese authorities tried to suppress negative news reports that would damage China's international image. Eventually, however, this epidemic exploded and was exposed by Western journalists. With several millions of travel and business contacts between Taiwan and China each year, Taiwan could not be immune from the impacts of this epidemic. When the first case was reported in March 2003, fear of infection made people immediately avoid going to public areas like restaurants, stores, and theaters for nearly six months. This lethal epidemic disease soon hit local business in the service industry, including transportation, tourism, restaurant, entertainment, hospitality, and retail sector. The plummeting sales and plunging business exacerbated the already declining economy.

During the outbreak of the SARS, welfare bills and the packaged economic stimulus programs were satisfactory responses for many low-income households and economically disadvantaged minority families, who really needed only a small amount of money to carry them through difficult times. It was estimated that around 440,000 senior citizens qualified for NT\$ 3,000 monthly stipend, starting from June 2002. By 2003, nearly 680,000 senior farmers received NT\$ 3,000 monthly allowance. With the NT\$ 50 billion construction funding to stimulate the economic revival, this one-year special packaged program, which offered business deals for around 50,000 firms and stores. This

benefited an estimated 400,000 individuals directly or indirectly. The temporary public service program further created 80,000 jobs through more than 120 hiring projects. In 2002, the Labor Council approved more than 611,000 applicants, who were qualified for unemployment allowances, but the figures dropped to 325,000 in 2003.

The Chen administration did keep its campaign promise to expand infrastructure construction and the size of the welfare state without raising taxes. In fact, to stimulate economic growth, Chen's administration had fulfilled plans for tax cuts, including a reduction in the land value increment tax, an exemption of business tax for financial institutions, a reduction of capital gains tax, and tax waivers for certain high-tech industries (C-H Chen 2005; Lee and Chu 2008: 164-165). But these tax cuts and Taiwanese firms' overinvestment in China soon led to a shrinking tax base. Further, since the DPP came to power, many follow-up infrastructure construction projects after the 1999 earthquake had been under way. The increase of economic stimulus projects and the expansion of the welfare state only worsened the already deficient government revenues.

It was not surprising, then, that the Chen government would try to reduce the tax deficiency by borrowing money, issuing government bonds, and selling public assets. Table 5-3 shows that the national debt increased dramatically during President Chen's first term in office. By the end of 2003, national debt climbed to more than New Taiwan Dollar 7,000 billion, and it made up more than 50% of the GDP. Approaching the 2004 presidential and Legislative Yuan elections, both ruling and opposition parties not only took no heed to the swelling budget deficits, but they also proposed more generous entitlement programs and earmark projects to appeal to voters.

It is evident that globalization has led to worsening budget deficits and polarizing class conflicts. The worsening national debt and budget deficit, in turn, inevitably created a heavy tax burden for the middle-class people and the next-generation of taxpayers. Thus, Taiwanese middle-class people had a right to be worried. While the DPP's policy shift from developmental state to welfare state won popular support of many lower-income families, the conservative fraction of the middle class accused the Chen administration of expanding national debt in an immoral and irresponsible way. The Chen government again took the blame for its response to the economic crisis.

### **War on identities**

In the 1980s, the Reaganian-Thatcherist neoliberal economy dominated. After the 1985 Plaza Accord, the rapid depreciation of American Dollar against currencies in East Asian countries allowed the Reagan-Thatcher faith in unregulated capitalism to prevail, triggering a prolonged, painful, and protracted deindustrialization and capital outflow from Taiwan to China. Contrary to this development, China took an opposite measure against the appreciation pressure, manipulating its currency, the Renminbi (RMB), to depreciate from trading at 1.5 to one U.S. Dollar prior to the Plaza Accord, all the way down to 8.3 RMB against one US\$ in 1995. The over-depreciation of the RMB made Chinese exports super competitive, producing a pull effect to attract more foreign direct investment. The emergence of Walmartization in Western economies further initiated a push effect, directing most of Taiwan's export-oriented industries to relocate their offshore manufacturing operations and facilities to China.

After nearly two decades of deindustrialization, capital migration has led to two very distinct economic landscapes across the Taiwan Strait in the early 2000s, a

prosperous China but an unpromising Taiwan. According to small economy theory (Howe 2001), the gain of China could be seen as the pain of Taiwan because small economies are required to concede their autonomy to the greater hegemony. This constraint has raised concerns regarding Taiwan's vulnerability to the rise of China. Will Taiwan's economic prosperity continue to be contingent upon deeper dependence on China? If so, will this ongoing contingent relation result in Taiwan's dependence on China, or bring about a political consolidation? And will the change of economic landscape eventually lead to China overpowering Taiwan by military forces, causing an annexation?

Many political observers, like Clark (2002b) and Dreyer (2000), take an optimistic stance concerning the increasing economic interdependence between Taiwan and China. They argue that this would likely bring about a win-win political accommodation. However, according to Huntington (1996: 67), cultural factors prevail over economic ones. The increase of economic interdependence and trade does not necessarily reduce the likelihood of war because much evidence points to the contrary. In Huntington's (1996: 127-128) account, cultural commonality facilitates cooperation and cohesion among people and cultural differences promote cleavages and conflicts. Incompatible values due to different civilization are the roots of global conflicts. Huntington argued that since Taiwan, Hong Kong, and Singapore share the same cultural commonality with Chinese civilization, they would become increasingly oriented toward, involved in, and dependent on China, leading to the formation of a "Greater China."

However, Huntington (1996:173-174) also observed that various individuals and groups in Taiwan increasingly emphasized Taiwan's separate cultural identity, and

attempted to define Taiwanese society as non-Chinese and hence legitimately independent of China. In this view, Huntington predicted that early in the twenty-first century, China would force Taiwan to become more closely integrated with the PRC through coercion, accommodation, or a mixture of both. According to Huntington's (1996: 219-220) speculation, the prospects of China fighting Taiwan would remain high, but he believed that cultural commonalities would likely erode that possibility over time.

So why did Huntington downplay the importance of rising Taiwanese nationalism but emphasize the power of cultural commonality? Huntington had successfully promoted modernization theory for his entire career. For Huntington (1968: 37-39), modernization means that all groups, old and new, traditional and modern, become increasingly aware of themselves as groups and of their interests and claims in relation to other groups. The growth of group consciousness thus has both integrating and disintegrating effects on the social system. The intensive contacts between groups help develop both common goals and group prejudices. In this way, modernization increases conflicts among traditional groups, between traditional groups and modern ones, and among modern ones.

While modernization tends to produce alienation, anomie, and political disorder, Huntington (*ibid.* at 138) argued that ideological confrontations could be ended and class conflicts could be mitigated, if societies evolve toward an American-type system. Huntington thus expanded his American paradigm, where sociopolitical conflicts could be solved by a cultural melting-pot pattern, to a much bigger civilization model, where regional conflicts could be settled by shared cultural commonalities. However, if the American paradigm is so powerful, why did the American civil occur? If the civilization

model could deter war, why would neighboring countries, sharing cultural commonalities, constantly undergo war, like the Sino–Vietnamese War in 1979 and the Iran-Iraq war in the 1980s?

Seemingly, Huntington's civilization model replicates the reductionist approach of modernization, aiming to promote Westernization. Huntington oversimplified the Taiwanese culture to the Chinese one. The Taiwanese failed to develop their cultural identity in the modernization process because two colonial regimes suppressed their various attempts for such a movement for a century. However, once the Taiwanese came to power, the pursuit for Taiwanese identity has been flourishing. The increasing visits between Taiwan and mainland China have not promoted but weakened the Chinese identity because China has demanded Taiwanese residents, no matter Mainlander, Minnan, or Hakka to remain in the category of Taiwanese. Sadly, Huntington ignored the power of colonialism and the momentum of Taiwanese identity movement.

In previous chapters, I have argued that negation and brainwashing characterized the colonization process. This colonization process has made Taiwanese self-hate, and has led the Taiwanese to attach their identities to the great Chineseness. In Roy's (2003: 57) sense, Mainlanders brought to Taiwan a sense of superiority, a belief that the Taiwanese had been corrupted by Japanese thinking, and demanded Taiwanese respect, gratitude, and willingness to help strengthen the Republic of China. The dichotomy between saints and sinners let the Taiwanese become the burden of Mainlanders. It was Mainlanders' ambivalent attitude that trapped the Taiwanese in colonial syndromes.

In the colonizers and the colonized relationship, the Mainlander colonizers monopolized superiority complex, considering the pure Chinese identity a privilege.

Through the social and political process, the dependency complex located the majority Taiwanese in the middle spectrum of ethnic identity, self-identifying as both Chinese and Taiwanese. The rest of the lower-class Taiwanese maintained the identity of Taiwanese. Unfortunately, because of being positioned at the bottom of the class structure, inferiority complex characterized the Taiwanese identity.

Therefore, for Taiwanese, ethnic identities anchored their locations in the colonial social sphere. This social space reflected their class position and power relation. In the colonial social space, Taiwanese were forced to bear the burden of colonial ideologies, including the transplanted state, overdeveloped state, and developmental state. Through the educational system and other institutions, these colonial ideologies were constantly engraved on the minds of Taiwanese, transforming them to embrace the Mainlanders' vision of the future ROC as one of reunification with China.

Identities are essential for decolonization because new identities lead to new interests, values, and projects. Unfortunately, during Lee Teng-hui's first term in office, he was interested in developing a comfort zone for the coexistence of superiority and dependency complex. This comfort zone allowed him to use a spoils system and build his supreme authority. While the DPP pushed hard to establish a Taiwanese identity, Lee's party always demonized this movement, marking this attempt as political conspiracy. Although Lee's regime was reluctant to approve the constructing a cultural movement, it succeeded when the DPP's attempts were helpful for Lee to strengthen his personal authority. This is the major reason why Lee advocated "love for Taiwan" in the late 1990s.



In general, the Taiwanese identity movement achieved little progress in the 1990s. However, the DPP did deliver a major victory, relinquishing the Sunism or *the Three Principles of the People* from school curriculums and civil service exams. The Sunism had served as the ideological foundation of the ROC, and the KMT hardliners constantly cited Taiwan as the model province of the Sunism. Nevertheless, the movement to relinquish the Sunism succeeded because it thwarted Lee's attempt to reform the overdeveloped state through a direct presidential election to consolidate personal power. After the WHO denied the ROC's statehood in 1997, this shocking news awakened Lee, and his attitude toward the identity movement became more active.

The educational system has become more open and focused on Taiwanese culture as well. In 1997, the Ministry of Education deregulated its direct control over textbook publication and allowed private publishers to write and publish textbooks under curricular guidelines. Moreover, beginning in that year, middle-school students were required to learn a new course, *Knowing Taiwan*. These changes featured a sociopolitical space in schools to connect a new generation to Taiwanese history, geography, and culture. These educational reforms helped develop Taiwanese consciousness. Table 5-4 shows that the ethnic identity of being Taiwanese has substantially changed since 1998.

The Chineseness versus Taiwaneseness debate has anchored power relations in every corner of Taiwanese social structure. As a Taiwan-centered party, one of the DPP's political goals is to bring Taiwaneseness to the center stage of Taiwanese society, establishing the Republic of Taiwan. After the DPP took power in 2000, more Chinese symbols have been replaced by Taiwanese ones. For example, the New Taiwan Dollar 500 banknote features Taiwan's Red Leaf baseball team on one side, and a herd of

Taiwanese white-tail deer in the Kenting National Park. The New Taiwan Dollar 1000 bill features a group of elementary school students on the front side, and a Mikado pheasant with Jade Mountain, the highest peak in Taiwan, as a background on the back (Corcuff 2002a: 93).

Sánchez (2006: 33) argues that changes of elite perceptions always lead to changes to public attitudes because social elite serve as cultural agents. With these political agents, political attitudes can move toward emancipation. After the regime transition in 2000, more social elite, mainly from the academic community and liberal upper middle class, have joined the movement to redirect the cultural code, construct new social values, and advocate new institutions. Hence, the Taiwanese identity movement has helped many ethnic Taiwanese unshackle themselves from their inferiority complex. Being Taiwanese has gradually become a source of pride.

Early in December 2001, a group of grassroots activists of the Taiwan New Century Foundation held a forum, calling for the rectification of Taiwan. The Foundation claimed that the prevalent use of names, China and Chinese, has made Taiwan an “abnormal” country, due to the dilemma of the transplanted state. In August 2002, former President Lee responded to this movement by publishing an article, “Becoming a Normal Country,” in which he advocated that a new Constitution and a new state name would make Taiwan a “normal” country. In September, 2002, former President Lee’s party, the TSU advocated a national referendum on formal independence and a change of the country’s official name to Taiwan. By 2003, Lee further demanded a rectification of names, declaring that the Republic of China no longer existed and that the island ought to be called Taiwan (Tucker 2005: 9).

The identity movement thus made a dramatic turn to become a political one. Table 5-4 indicates that the Chinese identity has been gradually marginalized since 1998. However, aspects of a dependency complex still prevail. The ethnic identities thus dichotomized into two major blocs, Taiwanese and a mixture Chinese and Taiwanese. In the state identities market, the reunification stand gradually diminished but in the economic sphere it still has its appeal.

When the 2004 presidential election was approaching, the rise of state identity as an important issue caused the conservative middle-class camps to panic. They were wondering if the presidential election would split state identity, boosting the momentum of pro-independence rhetoric. In the eyes of conservative middle class, the ethnic and state identities were moving toward polarization. These developments were due to the pan-green camp's advocacies, and the DPP, the Chen government, the TSU, and Lee Teng-hui, should all take the blame.

### **The troubling "statehoods"**

Globalization seems to have assisted China in gaining more economic and political leverage, as it seeks to gain hegemonic superpower status at the world level. Historically, China considered itself the center of human civilization. The Chinese culture viewed all outside countries, big or small, as barbaric, and it demanded them to be tributaries. When China became a superpower, it always forced the subjugation of its neighboring countries. This scenario is also common in modern history. For example, when large countries such as Britain, France, Germany, Japan, or Russia modernized and emerged in earlier eras, a great deal of blood was spilled before these nations became democratic, peaceable, and trusting of benefits in a global order (White 2002).

Consequently, when China becomes formidable in the global context, it poses more threats to Taiwan's political future. This in turn, stimulates the development of Taiwanese nationalism toward complete separation from China. Contrary to modernization theorists' prediction of increasing Taiwan-China political integration, political observers in the mid-2000s suggested that Taiwan and China were moving toward separate and distinct destinies, and that a war across the Strait could be increasingly probable (Chu 2004; Corson 2004; Lynch 2004; Peterson 2004).

In the scenario of a possible war, the United States has been the sole guarantor of Taiwan's security, which could deter China from attacking Taiwan. On April 1, 2001, the United States and China went into a potential military conflict when two Chinese Navy F-8 jet fighter aircraft intimidated a U.S. EP-3 reconnaissance aircraft in the international air space near Hainan. One F-8 collided with an American surveillance plane, and it broke up in the air. The collision caused the U.S. EP-3 to take an emergent landing in Hainan, and it reinforced the fear of "China threats" as a result. In reaction to this incident, the Bush administration approved a robust package of arms sales to Taiwan, including diesel submarines, Kidd-class destroyers, anti-submarine P-3C aircraft, and PAC-3 missile defense systems, with an original value US\$ 18 billion. On April 25, 2001, President Bush further announced that his government would do whatever it took to help Taiwan defend itself.

Bush administration's steadfast support for Taiwan had a significant effect in stabilizing President Chen's popularity, especially because Chen had only secured 39.3% of the vote share in the presidential election, and the DPP's seats made up only 31% in the Legislative Yuan in 2000. As a minority government, President Chen pledged he

would carry out his campaign promise, the new middle road, in order to generate interparty consensus. His administration thus took a pragmatic stance to emphasize economy over politics, and it put Taiwan independence aside. In his inaugural speech, President Chen made his “five-no” promises. He pledged that his government would not declare Taiwan independence, change the formal title of the ROC, place President Lee’s “special state to state thesis” into the Constitution, hold a plebiscite on the unification-independence issue, and abolish the National Unification Guidelines, as well as the National Unification Council, under the condition that the PRC refrained from using military force against Taiwan.

After his inauguration, President Chen released a series of goodwill gestures to both pan-blue camp and China, hoping to improve cross-Strait relations. He first proposed to foster consensus on Taiwan’s China policy in the mid-2000, through an interparty task force with major party involvement, but the KMT and PFP rejected his proposal (Bush 2005: 285). Moreover, the KMT and PFP pushed the Chen administration to accept a fabricated “1992 consensus,” demanding Taiwan to recognize the “One China” principle. In June 2001, Chen and his allies indirectly denied the existence of 1992 consensus. Chen eventually responded to the pan-blue camp’s request on October 22, 2001 by criticizing their interpretation of the “One China” principle as accepting the “one country, two systems” paradigm. According to him, their recognition would annihilate the Republic of China and sell out Taiwan to China.

Since 1979, China has been requesting Taiwan to establish “three direct links” of trade, communication, and transportation across the Taiwan Strait through the “One China” principle. China could not achieve any success on this issue because it insisted

that the three direct links were a domestic matter. As the economic ties with China grew dramatically, the Taiwanese business community has expressed increasing interest in the Taiwanese government to solve the three direct links problem. They argued that the Taiwanese government's ban on direct transportation across Taiwan Strait not only is time consuming but also costly for their business operations.

In January 2001, President Chen advocated for political integration in his New Year's speech, and his administration lifted the ban on cross-Strait travel and trade between two Chinese ports Xiamen and Fuzhou and the two ROC-held offshore islands Kinmen and Matsu, known as "little three links." The Chen government hoped its goodwill would eventually lead to government-to-government talks. Unfortunately, China rejected the idea of government-to-government negotiation. It offered Taiwan a choice between two alternatives: accepting the "One China" principle, in which the two cross-Strait semi-official units-Strait, SEF and ARATS would conduct the talks; or authorizing Taiwanese private business associations to negotiate with China. Seemingly, China maintained a lofty stance, and still viewed the trade, communication, and transportation as a domestic one (Bush 2005: 237-240).

While the Chen administration's goodwill to China remained unilateral, the United States issued a statement in January 2001 to support Chen. The statement discouraged any precondition to cross-Strait talks. In April, President Bush signed a bill supporting Taiwan, in order to attain observer status in the World Health Assembly of the WHO, a longstanding campaign that Taiwan had lobbied for years (Swaine 2008: 183). However, after the terrorist attacks of 9/11, the U.S. needed much international support for its invasion of Iraq and Afghanistan. Moreover, mounting criticisms also pressured

Bush administration to establish multilateral partnership in dealing with the emerging nuclear crisis in North Korea. These developments quickly reversed Washington's stance regarding China's status, from a strategic threat to a strategic partner, in the mid 2002. Since China outweighed Taiwan in Washington's policy-making, both Taiwan-U.S. and Taiwan-China relations soon deteriorated.

In July 2002, one of Taiwan's allies, Nauru, a tiny Pacific nation, announced that it was switching diplomatic recognition from Taipei to Beijing. President Chen considered the transferring recognition a personal insult because on the very same day he was to take the DPP's chairman position. In reaction to Nauru's transferring recognition, on August 6, 2002, Chen declared that the cross-Strait relationship was essential one country on each side to enhance the sovereignty of the ROC. In response to Chen's statement that both Taiwan and China possess equal sovereignty, the U.S. National Security Council spokesperson reiterated the United States' "One China" principle and its nonsupport for Taiwan independence on the very following day. The United States' instant response embarrassed the Chen administration, as it indirectly denied Chen's statement that the ROC is a sovereign entity.

After two decades of rapid industrialization, China changed its economic status from a FDI-receiving country to a FDI supplier. It sought out regional development to strengthen its bonds with Southeast Asian countries for two purposes: to reverse the image of the China threats and to obstruct Taiwan's role-playing in the regional community (Bush 2005: 229). China had proposed a free trade agreement (FTA) to the Association of Southeast Asian Nations (ASEAN) for years, hoping to establish a multiple framework of ASEAN+1 (China) or ASEAN+3 (China, Korea, and Japan). In

November, 2002, China and ASEAN signed a Declaration on the Conduct of Parties, in order to promote regional cooperation and mutual trust (S-Y Tsai 2007: 72-73).

Since China's free trade agreement with ASEAN aimed to exclude and isolate Taiwan, it would certainly lead to disadvantages in Taiwan's trade relations with Southeast Asian countries. To avoid further isolation by China's regional strategy and deeper economic dependency on China, in April 2002, the Chen administration responded to China's intention to establish FTA with ASEAN by calling for the establishment of a Free Trade Area with the United States and Japan. Chen's FTA proposal nevertheless displeased the United States, and in turn, Washington urged that both Beijing and Taipei should work together to establish three direct links (Swaine 2008). In August, 2002, the Chen government allowed Taiwanese companies to engage in direct investment in China without going through third countries.

In October 2002, China responded to Chen's gesture by releasing its "goodwill" gesture, which stated that China would change its three direct links stance, changing "domestic matter" to a more moderate term, "cross-Strait air and shipping routes." However, it also insisted Taiwan accept the "One China" principle. Thus, China's goodwill only offered lip service, and the establishment of three direct links was essentially impossible. After two and a half years in office, Chen could not realize his campaign promise to solve the three direct links because China firmly refused to recognize ROC's statehood. This outcome led to mounting criticisms in the business community and pan-blue camp. Seemingly, China preferred to maintain business and political pressures on Chen, rather than to give him a policy success that would promote his popularity for reelection.



The growing dissatisfaction from the business community showed that Chen had lost significant electoral advantage. Meanwhile, the pan-blue camp continued to block Taiwan's arms procurement budget. They also agreed with Beijing's stance, opposing Chen administration's efforts on the three direct links issue and demanding capital migration to run freely across Taiwan Strait. They denounced Chen's failure to join the international organization through "self-isolationism policy" because Chen refused to accept the "One China" principle. These developments showed that Chen's campaign promise, the middle road, which tried to secure Taiwan's economic interests and protect the ROC's statehood, achieved nothing but frustration.

As China continued to exploit the Chen administration's goodwill, Taiwan's collective sense of vulnerability was aggravated. When China tried every means it could do to push the situation to the limit, eventually it pushed back. After China employed all sorts of drama to deny the statehood of the ROC, the Chen government also lost its passion. When the clock for the 2004 presidential election was ticking, the reelection pressure motivated him to fight back. The outbreak of SARS in March 2003 marked the turning point that the Chen administration maneuvered to boost the momentum for his reelection success.

During the outbreak of SARS, President Chen called for Taiwan's participation in the WHO. In Rigger's (2004) account, referendums, especially symbolic ones like that on the WHO, would help the DPP politically by mobilizing the party base and perhaps even exciting patriotic emotions to draw voters beyond the DPP's traditional supporters. Indeed, a public opinion poll showed that roughly 60% of interviewees agreed that referendums could solve controversial policy issues (Kao 2004). In April, Taiwan's bid

for WHO was denied again because of China's strong objection. Nevertheless, this denial legitimated Chen's request for a referendum and led to anti-China resentments to explode.

When representative democracy failed to function in the early 2000s, it encouraged the pan-green camp to seek direct democracy, hoping to break political stalemate. Thus, President Chen's proposal for a referendum bill convinced many people that referendums could be a panacea to solve long-term structural problems and the political deadlock facing Taiwan. While Chen reiterated his five-no promises and declared that referendums on independence would be unnecessary because Taiwan is already a sovereign state, the pan-blue parties were suspicious that the referendum bill would aid the Chen government to pursue Taiwan independence (Kao, 2004). The pan-blue parties' worry soon came true, as Chen changed his position on September 28, 2003, calling for a new Constitution and approving it through a referendum in 2006.

However, the pan-blue parties were also afraid of being branded anti-reform or anti-democracy, which might lead to losing an electoral advantage. It was in such a dilemma that the legislative Yuan passed the Referendum Bill on November 28, 2003. Because of the pan-blue parties' majority seats, they successfully excluded issues involving national sovereignty, a new Constitution, country appellation, flag, anthem, territory, budgets, taxation, investment, salaries and personal matters to hold a referendum in the bill, but they did authorize the President the right to initiate a defensive referendum on national security issues when the country faces an emergent external threat that could interfere with national sovereignty. This bill, unfortunately, had a serious grey area because it did not define what makes up an emergent external threat.

When the Legislative Yuan passed the Referendum Bill, this loophole allowed Chen to declare, on the very same day, that he would include a defensive referendum in the March 2004 presidential poll. On January 16, 2004, the Chen administration finalized the wording for two defensive referendum questions. The first question asked voters to decide, whether they agreed with the government to procure more anti-missile weapons if the PRC refused to remove hundreds of short-term missiles targeting at Taiwan. The second question asked voters, whether they agreed with the government to engage talks with the PRC for the establishment of a peace and stability framework.

While these two referendum questions seemed nonsensical and had little to do with “emergent external threats,” the plan for the first-ever referendum was to help Chen win his reelection, and it created enough momentum to deliver another victory in the year-end Legislative Yuan election. The ultimate goal was to revise the Referendum Bill, and open the door for a referendum on drafting a new Constitution in 2006, going to effect in 2008 (Phillips 2005: 67). The pan-blue parties decided to boycott the referendum.

In December 2003, The U.S. government expressed serious concern about a “unilateral change of Taiwan’s status quo” (Bush 2005: 309), and it opposed the inclusion of a referendum in the presidential election. Nevertheless, a poll conducted in mid-February by the pro-China media group, China Times, just a month before the March 20 presidential election, showed that 43% of interviewees intended to vote “yes,” 4% would invalidate their ballots, 36% would abstain, and 17% remained undecided. Considering the fact that Chen’s approval rating was only 33% at the end of 2003, Chen’s maneuver for a referendum promoted tremendous momentum for a potential reelection win.

Under President Chen's political manipulation, he had successfully drawn together his poor economic performance, the middle-class crisis, anti-China resentments, rectification of the national title, and the enactment of a new Constitution to an emotional decision for voters, who choose between two alternatives on election day, independence or unification. The statehood of the transplanted ROC was in jeopardy. The alternatives, furthermore, forced constituents to take sides, leading to a panic among swing voters. Taiwanese society was on the verge of being divided and President Chen again was the culprit.

On February 28th, 2004, the pan-green campaign rallied and summoned more than 2 million people, who held hands to form a three-hundred-mile human chain on a highway along the western coast, across from mainland China. On March 13, the pan-blue parties fought back by holding rallies of 1 million people in Taiwan's major cities. While polls indicated that the pan-green parties' joint ticket would win the 2004 election, the polls also indicated that the predicted vote share margin was closing, as the election day approached.

The March 2004 presidential election was like a matched race. The challenger led and defender trailed. However, step-by-step, the defender eventually caught the challenger. With a close, the defender finally beat the challenger by a nose at the finish line. On the night of March 20th, the result showed that President Chen received 50.11% of the electorate, and the pan-blue joint ticket got 49.89% of the vote share.

The razor-thin victory seemed to indicate that many middle-class swing voters changed their mind and voted for President Chen, seemingly due to a mysterious

assassination<sup>18</sup> that occurred on March 19th, a day before the election. Because of the mysterious assassination, in the election night, the losers, Lien Chan and his running mate James Soong, rallied around 10,000 rabid supporters in front of the Presidential Office, protesting foul play. This protest lasted for months.

The presidential campaign was so drastic that most constituents were concerned about being labeled as either pan-green or pan-blue. This caused many passionate voters to develop campaign-related psychological disorder syndromes<sup>19</sup>, such as mania, insomnia, depression, and anxiety. Both sides could hardly communicate with each other before and after the election within the public sphere, workplaces, and even families. The election outcome had made the conservative fraction of middle class, the Mainlanders in particular, to feel like the end of the world was coming. The campaign thus had led to a serious split between regions, ethnic groups, and social classes.

After the presidential election, the passionate pan-blue voters hoped that the KMT could merge the PFP and the NCP, and then rally against the triumphant pan-green parties. However, ethnic Taiwanese politicians inside the KMT resisted James Soong to chair the KMT. When the expected political compromise could not be worked out, it led to the Mainlander community developing resentments against the PFP. The infighting within the pan-blue campaign made the pan-green forces confident that they could win the December 2004 Legislative Yuan election. They hoped the momentum could keep

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<sup>18</sup> President Chen and Vice President Lu were shot while campaigning in Tainan city. Both received minor injuries and were released from hospital on the same day.

<sup>19</sup> Local psychiatrists have observed that the presidential campaign developed election mania disorder since the 2000 presidential election. See Rawnsley (2003); Taipei Times May 20, 2004; Taipei Times March 26, 2008; and Telegraph January 15, 2012.

rolling and the changing atmosphere could create a bandwagon effect. To do so, the campaign slogans, “love for Taiwan,” “rectifying the national title,” and “redrafting a new Constitution,” almost resounded through every corner of Taiwanese society.

Unfortunately, the post-election political context already made the conservative middle class stressed out. They were determined to demand a counterattack win. The pan-green parties’ resounding campaign slogans also led the swing middle-class voters to feel guilty, as their previous decisions in the presidential election caused a divided society. As a result of the sense of guilt, swing constituents were largely absent in the Legislative Yuan election, causing a disappointed results for the pan-green forces.

The pan-green parties only captured 101 seats, well short of the expected 119 (see Table 5-1). The KMT rebounded and gained 13 more seats. The PFP’s electorate strength declined, and they lost 12 seats. The NP maintained one seat. The pan-blue parties totaled 114 seats, just one seat beyond the majority. However, with 10 seats pro-KMT nonpartisan legislators, the pan-blue forces still dominated in the Legislative Yuan. The non-stop battles between the ruling DPP and the opposite pan-blue parties were doomed to continue.

## **Summary**

After democratization initiated, state identity emerged as the most important issue in Taiwan. Concerns for the future of Taiwan signaled the problem of the KMT’s colonial rule. Since leadership determined the preference of state identity, President Lee’s dominance within the KMT and Taiwanese politics caused the conservative Mainlander politicians in panic.

However, President Lee downplayed the importance of unification vs. independence by focusing on two issues. First, President Lee was interested in reforming the colonial structure to a more workable political system. The amendments of Constitution and changes of political institutions only led to strengthen his political influence on the middle ground of the political spectrum. Second, the Lee administration's neoliberal reforms in the economy stabilized its popularity within the majority of the middle-class people. Lee administration's responses to democratization and globalization made both pro-independence and pro-reunification camps' claims less appealing. As a result, the colonial structure in Taiwan remained solid.

After President Lee defeated both liberal and conservative camps' challenge in his reelection by a landslide, the first wave middle-class crisis gradually abated. With the NP suffered a crushing loss in the 1998 Legislative Yuan election, Taiwanese society seemingly headed toward a healthy two-party system. In 1999, both the KMT and DPP worked deliberately to define Taiwan's status quo. The Lee government defined the ROC and the PRC were two separate countries, and the DPP recognized the Republic of China as Taiwan's formal name. As long as the KMT and the DPP did not change Taiwan's status quo, the conservative camp did not dissent. The definitions of the status quo thus largely relieved Taiwan's internal identity crisis.

While Lee's power was invincible in the political arena, his economic policy concerning to diversify Taiwan's outward investment became inconvincible. On the one hand, a decade of neoliberal reforms and democratization gave corporations more autonomy to do business in their own self-interests. On the other hand, the prevalence of Walmartization and new round of global competition forced manufacturing firms to

practice corporation rationalities. After the 1997 Asian Financial Crisis, market force simply drove Taiwan's outward investments to concentrate on China.

Lee's government made compromise with business community and revised its restrictions on investment in China. As the cross-Strait economy quickly integrated, Taiwan's outward investment simply played by the rules set by China. Nevertheless, during the internet bubble boom in the late 1990s, vision became the most popular term in Taiwanese society, which reflected on prosperous times ahead. However, an unexpected presidential election outcome in 2000 triggered the second wave middle-class crisis, and the burst of the internet bubble drove Taiwan's economy from good to bad.

As political confrontation squared off after regime transition, it produced a dysfunctional political system. The economic sluggishness also accelerated deindustrialization, and this structural change in the job market spread pain and anxiety in Taiwanese society. These developments led to political economy transition in a downward spiral. As the collective sense of social stress and frustration among the middle-class people deepened, it caused the decolonization issue to rumble on, which helped President Chen win reelection. However, the decolonization momentum did not help the two liberal parties, the DPP and the TSU, win the majority seats in the 2004 Legislative Yuan election. Taiwan maintained a divided society, and the middle-class crisis continued.



**Table 5-1 Electoral support of major parties after 1996**

		Pan-blue Camp			Pan-green bloc		Others
		KMT	NP	PFP	DPP	TSU	
1997	Magistrates/Mayors	42.12 (8)	1.42 (0)	-----	43.32 (12)	-----	13.07 (3)
1998	Legislative Yuan	46.52 (123)	7.06 (11)	-----	29.56 (70)	-----	16.95 (21)
	Taipei City Mayor	51.13 (1)	2.97 (0)	-----	45.91 (0)	-----	-----
	Kaohsiung City Mayor	48.13 (0)	0.81 (0)	-----	48.71 (1)	-----	2.35 (0)
2000	President	23.10 (0)	0.13 (0)	36.84 (0)	39.30 (1)	-----	0.63 (0)
2001	Legislative Yuan	28.79 (67)	2.61 (1)	18.57 (46)	33.38 (87)	7.76 (13)	8.89 (11)
	Magistrates/Mayors	35.06 (9)	2.36 (1)	9.95 (2)	45.27 (9)	-----	7.37 (2)
2002	Taipei City Mayor	64.11 (1)	-----	-----	35.89 (0)	-----	-----
	Kaohsiung City Mayor	46.82 (0)	-----	-----	50.04 (1)	-----	3.14 (0)
2004	President	49.89 (0)	-----	-----	50.11 (1)	-----	-----
	Legislative Yuan	32.83 (79)	0.18 (1)	13.90 (34)	35.73 (89)	7.79 (12)	9.57 (10)

Source: Central Election Commission, the Republic of China ([www.cec.gov.tw](http://www.cec.gov.tw)), seats in parenthesis.

**Table 5-2 Taiwanese foreign direct investment in China**

Year	Approved by Taiwan*		Approved by China**	
	Number of Projects	Approved Value (U.S.\$ million)	Number of Projects	Approved Value (U.S.\$ million)
Prior to 1999	22,134	14,496	43,516	43,770
2000	840	2,607	3,108	4,040
2001	1,186	2,784	4,214	6,910
2002	3,116	6,723	4,853	6,740
2003	3,875	7,699	4,495	8,560
2004	2,004	6,941	4,002	9,310
2005	1,297	6,007	3,907	10,360
2006	1,090	7,642	3,752	-----
2007	996	9,970	3,299	-----
2008	643	10,691	2,360	-----
2009	590	7,142	2,555	-----
Total	37,771	82,702	80,061	(89,690)***

Sources: \*Taiwan Statistical Data Book (2010). P.278.

\*\*[http://big5.mofcom.gov.cn/gate/big5/tga.mofcom.gov.cn/aarticle/jingmaotongji/zongzhi/200604/200604020\\_1/5/2008](http://big5.mofcom.gov.cn/gate/big5/tga.mofcom.gov.cn/aarticle/jingmaotongji/zongzhi/200604/200604020_1/5/2008)

\*\*\* total by 2005

**Table 5-3 Taiwan's major government debts**

	Government outstanding debt (A)*	Government bond (B)**	Government debt (A+B)	GDP (C)*	Government debt/GDP (A+B)/C
1999	1,312	1,395	2,707	9,473	28.5%
2000	2,450	1,525	3,975	10,032	39.6%
2001	2,759	1,908	4,667	9,862	47.3%
2002	2,849	2,395	5,244	10,293	50.9%
2003	3,125	2,649	5,774	10,520	54.9%
2004	3,362	2,984	6,346	11,066	57.3%
2005	3,551	3,187	6,738	11,455	58.8%
2006	3,625	3,410	7,035	11,918	59.0%
2007	3,724	3,548	7,272	12,636	57.5%

Sources: \*Taiwan Statistical Data Book (2008). P.173. \*\*Ministry of Finance (MoF), Taiwan, (<http://www.mof.gov.tw>) accessed December 1, 2008. Unit: NT\$ billion.

**Table 5-4 Changes of self reported ethnic identities and state identities in selected years**

	Ethnic identities*				State identities**			
	Chinese	Both Taiwanese & Chinese	Taiwanese	Total	Reunification in conditions	Status quo in conditions	Independence in conditions	Total
1994	22.2	49.0	28.2	100	25.2	60.8	14.0	100
1996	22.8	49.3	27.9	100	29.6	53.0	17.4	100
1998	17.5	43.2	39.3	100	21.2	56.1	22.7	100
1999	11.4	46.8	41.8	100	22.9	54.8	22.3	100
2000	9.8	50.0	40.2	100	26.8	60.1	13.1	100
2001	10.8	43.9	45.3	100	23.8	58.4	17.8	100
2002	9.0	48.1	42.9	100	21.3	57.8	20.9	100
2003	8.2	46.1	45.7	100	15.2	60.4	24.4	100
2004	6.5	47.1	46.4	100	14.4	63.1	22.5	100
2005	7.6	43.9	48.5	100	15.4	62.4	22.2	100
2006	6.7	47.2	46.1	100	15.5	63.3	21.2	100
2007	6.8	47.0	46.2	100	13.1	62.8	24.1	100

Source: Election Study Center, National Chengchi University, Taipei, Taiwan.

\*at <http://esc.nccu.edu.tw/newchinese/data/TaiwanChineseID.htm>

\*\*at <http://esc.nccu.edu.tw/newchinese/data/tonduID.htm>

Based on yearend survey data, non-response excluded, resorted by author; unit: per cent.

## **Chapter 6: The Specter of Colonialism**

The year 2000 marked the beginning of the second wave middle-class crisis in Taiwan, during which the regime transition and the leadership split within the conservative forces struck the very nerve of fears about demolishing the colonial system. Although the attempt to annihilate the colonial system had never been realized, rampant speculation, concerning a fundamental change and chaotic power realignment within both liberal and conservative blocs, spread more panic in Taiwan.

### **The power struggle and political realignment**

On the conservative side during President Lee's first term (1990-1996), reforms for the colonial system had already led to many middle-class people in turmoil, shifting to a conservative ideology. Lee's overwhelming victory in his reelection however, convinced him to believe that reforms for the colonial system were necessary. As long as the Lee government was reluctant to change the title of the transplanted state and enact a new Constitution, the anxiety about a dramatic change eventually calmed down. In the 2000 presidential poll, the extremist right-wing cliques placed much hope on the only Mainlander candidate, James Soong. When the election result disappointed them, they started to grumble about the regime transition. Thus, this transition had triggered widespread social unrest and political upheaval again, especially among the middle class.

The latent resentments against Lee quickly resurfaced. The old colonial forces led by Mainlander politicians within the KMT demanded culprits to blame. They attacked Lee's handpicked successor, Lien Chan, for his incompetence and lackluster character during the campaign. Apparently, their shifting political stance to support James Soong

was the major reason for the devastating election outcome. Instead of blaming themselves, they targeted Lee for dumping Lien during the campaign.

Intriguingly, Lien as the supporter of these extremist Mainlander conservative forces, kicked Lee out of his chairmanship. These conservative Mainlanders surely would favor Soong to return to the KMT and lead the party. Unfortunately, Soong was facing an embezzlement lawsuit, filed by the KMT immediately after the election. It was in such a complicated triangle relation that Mainlander hardliners begged Lien to settle the lawsuit with Soong. Despite being a losing candidate in the election, Lien eschewed the blame and he became the sole beneficiary of the party split and Soong's financial scandal within the conservative forces.

Being ejected by one's handpicked successor could mean only one thing - humiliation. And Lee was no exception. After his expulsion from the KMT, Lee's initial scheme to continue to be a political manipulator became impossible, and his political identity was forced to change. Lee's political stance had been mercurial for his entire career. Unfortunately, never before this dissertation had political observers explained why Lee's political stance was so capricious from the view of colonialism. In previous chapter, I pointed out that Lee had two identities in the colonial system; on the one hand, before he entered the colonial bureaucracy, he was a dissident intellectual, who committed to Taiwan independence. On the other hand, once he was apparently quite easily recruited into the colonial system, he became part of the assimilated middle class, defending the interests of the Mainlander colonizers.

As an equivocating element of the colonial system, Lee had developed very flexible interests to secure his power. His opportunism had made his political stance

always unpredictable. After he was expelled by Lien, Lee lost everything that he had in the colonial system. Without authorities and administrative resources available, his strong bonds to dependency complex automatically dissolved. And, while his influence in the political arena faded, he could not let go. Therefore, he not only sought to rebuild his influence, privilege, and legacy, but he also aimed to embarrass his handpicked successor Lien Chan.

Political identity signifies politicians' political positions and values. When Lee could no longer occupy an influential position in the conservative bloc, he looked for vacant political space at the ideologically opposite end: the extreme left-wing. By nature, his political identity shifted to being a legal intellectual, hoping to provide effective leadership and visionary thinking for decolonization. Nevertheless, his interest to be a political manipulator did not entirely disappear.

In the 2000 presidential election, Chen Shui-bian portrayed himself as the “son of Taiwan,” connoting that he would be the warrior fighting for Taiwanese. Because of his shifting political stance, Lee reentered the political arena in 2001 by establishing the Taiwan Solidarity Union (TSU). The main objective of the TSU was to create the “Republic of Taiwan.” Lee also founded the “Lee Teng-hui School” in 2003, through which he recruited large amount of Marginalized KMT politicians, upper-middle-class people, business elites, and professionals, in order to deepen his version of Taiwanese identity. Through these efforts, Lee constructed his social image as the “father of Taiwan,” indicating that he would be the founder of the aspiring “Republic of Taiwan” (Kagan 2007: 146-152)

Ironically, when Lee had the most power and opportunity to realize Taiwan independence, he downplayed historical concerns in order to secure his personal authority. During his 12 years in office, he repeatedly declared that the Republic of China was absolutely an independent sovereign state, by rejecting the notion of self-determination and the need for declaring Taiwan independence as well as enacting a new Constitution. He also defended the KMT's legitimacy to rule over Taiwan by appreciating everything that Mainlander colonizers had brought to Taiwan: ideological values, political institutions, infrastructures, economic achievements, and his promotion by the dictator, Chiang Ching-kuo.

However, once Lee was excluded from the KMT, his dependency complex, which encouraged him to support the phantom state, gradually dissolved. In October 2001, Lee began to denounce the KMT an alien regime. After it was expelled by the UN in 1971, Lee portrayed the transplanted ROC as an abnormal country. He thus advocated that the only way to correct it was to rectify the name of ROC to the Republic of Taiwan and enact a new Constitution. In October 2002, Lee advanced his political vision to openly call for a new Constitution and make Taiwan a normal country. In September 2003, Lee went further to proclaim that the ROC, in effect, had ceased to exist when it was deprived of its UN seat back to 1971 (Schubert 2004). In this way, he indirectly confessed that he was a political manipulator.

Political observers, like Rigger (2004), Roy (2003: 235), and Wu (2002), for example, all argue that, for Lee Teng-hui, the goal of the establishment of TSU was aimed at assisting President Chen's political agenda, which maintained the status quo, while pushing toward rectifying the national title to the Republic of Taiwan and

redrafting the Constitution. This belief simply fails to explain why Lee had presented utterly preposterous visions about the future Taiwan during and after his presidency. And most important of all, political observers largely ignore Lee's ambition to be a political intriguer.

After a radical turn to portray Taiwan independence, the retired Lee had won his respect and influence back. The liberal middle class not only embraced Lee, but they also hoped that Lee could lead the Taiwanese to independence. President Chen, in his first term, was pleased that Lee checked his power. President Chen's political resumé indicates that he did not get involved in social movements, nor did he present any vision about the future Taiwan. What made him a prominent political standout in the 1990s was his maneuver to attack Lee's corruptive regime, on the one hand, but on the other hand, he also established his deep connection with traditional Taiwanese business elite. In doing so, Chen successfully shaped his social image as the symbol of justice.

After his inauguration, President Chen suffered tremendous pressures from Taiwanese business elite, who contributed tons of money to Chen's campaign finance, demanding more open and outward investment policies. In particular, they expressed much concern to liberalize trade with the Mainland and deregulate restrictions for their investments in China. Lee's presence at the extremist left-wing stance and his continuing objection to overinvestment in China largely relieved pressure from the business community on Chen. Politically, Lee's advocacy to change the national title and to enact a new Constitution created a formidable momentum for Chen in his reelection campaign. Together, Lee and Chen echoed each other in perfect combination. By 2003, they steered political economy transformation to the extremist left-wing view.

This transition inspired grassroots enthusiasm and genuine love for Taiwan. More liberal fractions of middle-class people empowered themselves by taking part in the documentary work of local histories from the perspectives of Taiwanese. When more Taiwanese voiced their concerns, these grassroots activities had purged the “sins” of the colonialism. With these grassroots movements, Taiwanese narratives began to emerge. As the Taiwanese consciousness became the mainstay of Taiwanese society, it translated into political unrest in the conservative bloc. Facing a more united liberal force, there was growing anxiety, stress, and even depression among the right-wingers because of the power struggle between Lien and Soong.

During the 2000 presidential campaign, the two right-wing candidates disliked and attacked each other. Soong branded Lien as a good-for-nothing person, and Lien labeled Soong as a cunning and corrupt politician. After the election, the conservative forces were in disarray, as the two prospective leaders continued to contend with each other for leadership. On the one hand, Lien Chan, the chairman of the KMT, had affluent campaign finance but his leadership was lackluster. James Soong, the chair of the newly founded PFP, on the other hand, had some charisma but he lacked enough campaign contributions to run a campaign in the next presidential election. The old colonial forces, both in the KMT and PFP, were fretting that the two could not unite. Luckily, shared hatred sometimes serves as the foundation for a contingent friendship. The two rivals had the same deep hatred of two enemies, Lee Teng-hui, who split them; and Chen Sui-bian, who defeated them in 2000.

Lien and Soong did the political math based on the 2000 presidential election result, and they reached the conclusion that united they were almost certain to take power



back. In January 2003, the two opposition leaders finalized a deal to run a joint ticket headed by Lien for 2004 presidential election. While the conservative forces eventually integrated, this pan-blue alliance's major force, the KMT's electoral machine, had been rusty for years. Many of the KMT's traditional supporters, local power brokers and political faction heads in the rural areas, had realigned with the ruling DPP due to its delivery of large amount of pork spending and district service projects. However, as the colonial syndromes and the dependency complex in particular continued to play out, the middle-class voters had consistently backed the two pan-blue parties. These factors made the 2004 presidential election a hotly contested race.

On the liberal front, with former President Lee's reentering the political arena, Lee had boosted tremendous momentum for the liberal forces. The pan-green camps had dominated the campaign issues, ranging from anti-China resentment, social unrest due to SARS, restricting investment in China, rectifying movement, new Constitution debate, and the first ever referendums. All of these issues seemingly favored the liberal forces. Because of these campaign issues, the 2004 presidential election had been translated into a choice of alternatives between pro-China and pro-Taiwan stances. Therefore, between the years January 2003 to March 2004, citizens in Taiwan were under high sociopolitical pressure to expose their political stance. This led voters to make painful decisions at the ballot boxes.

### **The collision of political manipulators**

When President Chen won his reelection by a razor-thin margin, the pan-blue forces soon came out with a conspiracy theory. The conservative forces- the radical right-wing Mainlanders and urban middle-class people in Taipei metropolitan areas in

particular argued that Chen stole the victory by staging an unsuccessful assassination attempt to attract sympathetic ballots. After all, it had become a contested election (Bedford and Hwang 2006: 152-161). The KMT called for the United States not to recognize the election outcome, but they gained no response. As a result, the two losers demanded a recount. They filed law suits, hoping that the court, which had been the authoritarian enclave (Qian 2009) of the colonial system, could overturn the result.

Two months later, after Chen was inaugurated as the president in May, Lien Chan still refused to concede defeat. He insisted that the presidential election was still not finished yet. In December, Lien showed that he was a classless politician again, as he put another crack in Taiwan's democratic foundation by announcing that everyone in Taiwan had the right to murder President Chen if the KMT did not win their lawsuits (Bedford and Hwang 2006: 156-158). Consequently, there was no jubilation in the election night for the liberal forces; as the winner, President Chen could not walk in public after his reelection victory holding his head up.

After the pan-blue coalition suffered electoral defeat again, the conservative fraction of middle-class voters in general, and Mainlander urban middle class in particular, were disappointed. While they were very determined and united to disapprove the election outcome, the upcoming legislative election at the end of 2004 soon disintegrated the contingent partnership of the KMT and PFP. As the infighting began, the KMT and PFP spared no effort to contend for survival. The conservative bloc eventually disintegrated. On the liberal side, the DPP and TSU were full of overconfidence after the presidential election. They believed that the more swing voters hopped on the bandwagon, the more likely they would be to deliver another big victory in

the legislative election. They wasted no time and continued to advocate for a new Constitution. However, when the morale in the liberal camp got better, the mood between Chen and Lee became more divisive.

In his first term in office, President Chen was cautious of managing his relation with Lee Teng-hui. As the President of a divided government, Chen needed Lee's moral support more than anyone else. Chen had successfully shaped his relation with Lee to an image of being "father and son" or "Moses and Joshua." However, after Chen won his reelection, he expected a bandwagon effect to occur and he did not want Lee's TSU to play the key minority role in the parliament. He nominated mostly DPP candidates in the legislative election in order to squeeze Lee's TSU nominees from getting elected. To dominate the campaign issues, he portrayed the DPP as the sole devotee party to rectify the national title and enact a new Constitution. He simply wanted to shape the political image of his government as the Taiwanese David battling the Goliath of China.

Unfortunately, this time the laws of probability betrayed the DPP. There was no bandwagon effect in the legislative election at all. After voters experienced more than a year of debate about their political identity, a lot of them were tired of politics. The increasing post-presidential-election social unrest, exacting campaign rhetoric, and intensifying social conflicts simply encouraged voters to be apolitical. The Legislative election turnout rate dropped to 59%, from 80% in the presidential election. This meant that more than 3 million voters did not show up at the polls. As a result, the pan-green parties failed to take advantage of electoral momentum as they only captured 101 seats, well short of the expected 119.

After the disappointed legislative election results, President Chen again won his second term without a parliamentary majority. Chen took responsibility for the election setback, and he resigned his DPP chairmanship. He also quickly toned down his rhetoric in supporting the movement of redrafting a new Constitution and rectifying the national title. A few days after the legislative election, Lien announced that he would step down from the KMT chairmanship in 2005. However, Lien demanded a power-sharing scheme, and he absurdly claimed that the KMT deserved the right to form the cabinet because pan-blue parties held the majority seats, and because the KMT was the biggest opposition party.

Since Taiwan maintained a divided government and the KMT proposed an absurd request, former President Lee directed Chen to draw Soong over to his side, hoping a bipartisanship effort could end the persistent stalemate in the parliament. In late February 2005, the first round of Chen-Soong meetings came out with ten preconditions for a future summit, including that Chen agreed not to declare independence and not promote a referendum to change the status quo. Chen and Soong also reached a consensus that the Chen administration's constitutional reform would not involve issues relating to national sovereignty, territory, or otherwise changing the status quo.

These rapprochements showed that Chen's desire to a new Constitution and rectifying the national title was not going to happen. Lee became outraged about Chen's "achievement" in the bipartisan reconciliation, and he openly criticized the DPP loss of vision and faith. He further denounced Chen by describing him as a ghost hunter who got caught by a ghost, or in the English version, that a sheep shearer who went to for wool but came home shorn himself. In reaction to China promulgating the Anti-Secession Law

in March 2005, Lee pushed Chen forcefully to change the national official title to the Republic of Taiwan.

In response to Lee's demanding manner, Chen rejected Lee's request. He impatiently responded to Lee that during his term in office he could not change the nation's title to Republic of Taiwan. Chen also believed that if Lee was the incumbent President, Lee would not be able to do it either (Jacobs and Liu 2007). Although the two did join a massive anti-China protest, which gathered one million people in Taipei city to condemn China's Anti-Secession Law in late March 2005, the "Taiwanese Moses and Taiwanese Joshua" relation, which used to work so well, soon deteriorated and was on the verge of breaking off. These developments showed that the two political manipulators' social image of being the "father and son" or the "Taiwanese Moses and Taiwanese Joshua" was essentially in title only, and more importantly, it was used to fool the majority of Taiwanese.

In the conservative bloc, after the pan-blue coalition lost the presidential campaign, Mainlander politicians were discontent with Lien Chan's lackluster leadership. They believed that the KMT would be better off without Lien, and they hoped that the PFP would merge with the KMT. They demanded that Lien step down, and they favored James Soong to lead the KMT. This expectation embarrassed Lien. As infighting occurred in both the liberal and conservative camps, Lien cooperated with Chen in August 2004, in order to squeeze out the PFP's political niche. The DPP and KMT passed a constitutional amendment proposal in the Legislative Yuan that would downsize the body from 225 to 113 seats and implement a new electoral system of single-seat constituency with two votes. Presumably, this new voting system would squeeze the

likelihood of being election for candidates from the two minor parties, the PFP and TSU (Lin 2006). Thus, both the DPP and KMT were anticipating an increase in parliamentary seats under the new voting system in 2008.

After the PFP suffered a serious setback in the 2004 LY election, Soong's political stock was plummeting. The Legislative election outcome made the proposal for Soong to lead the KMT unappealing. Meanwhile, conservative Taiwanese politicians strongly objected to Soong's return to the KMT. They conceived that the KMT had distanced itself from the Taiwanese society too far by embracing the reunification agenda. They envisioned that the KMT should steer toward Taiwanization, a project that Taiwanese politicians would replace the Mainlander leadership and shift the state identity agenda to the middle ground, while maintaining the status quo.

Nevertheless, Lien not only showed no sign of quitting his chairmanship, but he continued to compete with Soong for the extreme right wing support. After China passed the Anti-Secession Law, Lien and Soong behaved more radically than ever. In late April, Lien visited China, and openly recognized the principle of "One China." A week later, Soong made the same trip, and he too pledged his commitment to the "One China" principle to the PRC president Hu Jintao (Chan 2006; Lin and Lin 2005).

Ironically, during the 2004 presidential campaign, the two pan-blue leaders demonstrated their devotion and loyalty to Taiwan. After they lost the presidential election, they completely revealed their true colors. During the campaign, the two also swore that they would do whatever they could to defend Taiwan. However, they had continually ordered the pan-blue legislators to block special arms procurement bills for more than 50 times, which presumably would have strengthened Taiwan's national

defense. Therefore, in the year 2005, the four major political manipulators all showed that they had no credential or loyalty to their promises. Their inconsistent political stances about the future Taiwan only spread more anxiety to the Taiwanese society at large.

In June 2005, under the DPP and KMT's maneuvers, the National Assembly approved the constitutional amendments that halved legislative seats, from 225 to 113, implemented a new voting system for the Legislative election, abolished the National Assembly, and allowed future constitutional amendments by popular referendum. The new voting system of "single-seat constituency and two votes (one ballot for a candidate and the other for a party)," would damage the PFP and TSU most. Because these two minor parties have limited political strength and campaign finance, the odds that their candidates to get elected would be very slim. This new voting system therefore implied that Lee Teng-hui and James Soong's political influences would soon fade.

While Lien had announced that he would step down from KMT chairmanship in 2005, he did not mean it. He remained haughty, despite mounting discontent. He calculated that his official visit to China could boost his popular support within the KMT, so that he could stay in office by the party congress. However, growing dissatisfaction within the KMT demanded Lien's resignation, and the majority of KMT politicians also requested that the party vote for its chairman by popular election, rather than be appointed by party congress.

In June, Taipei City Mayor, Ma Ying-jeou, challenged Lien's leadership, and announced that he would run in the chairman election. In July 2005, the KMT held the first ever direct election for its chairman, and Ma, the second-generation Mainlander star politician, beat Wang Jin-ping, the Legislative Yuan speaker and a career Taiwanese

politician, by an overwhelming victory. In August 2005, Ma assumed position as the KMT chairman. Without holding a political position, Lien Chan's influence soon faded.

Ma's rise to power within the conservative party symbolized that the conservative forces has regained unity with a second generation Mainlander politician in control of the leadership. Thus, Lien and Soong, the two political veterans within the conservative forces would be out of the political arena. While Chen remained influential in the liberal camp, his collision with Lee consumed too much of his political capital. His reputation was further damaged by a series of corruption scandals beginning in late 2005.

With so many centrist swing constituencies shaking their heads in disapproval of his preposterous political stance and corruption scandals, Chen's popularity was ebbing. Meanwhile, the old colonial forces had rallied again to fight back against the Chen government under the new Mainlander leadership. Thus, the new rounds of the battle only deepened with the deteriorating ethnic tension and class antagonism, which manifested as the ongoing crisis embedded in the colonial system.

### **The vision for the BRIC economies**

In the late 1990s, Taiwanese business communities had placed much hope on globalization. They envisioned that globalization could bring about prosperity to Taiwanese society. Sadly, the ongoing deindustrialization has characterized the Taiwanese version of globalization, resulting in escalating tensions and frictions between the state and business communities. The continuing emigration of production facilities only fostered more anxiety about hollowing-out of industrialization, fifth columnists, and becoming hostage to the PRC's economic sanctions (Bush 2005: 78).



Taiwanese capitalists were united against the Chen government's cross-Strait policies due to three major factors. First, they had become the PRC's political hostages and joined the rank and file of the fifth column (Bush 2005: 34-35; Saunders 2005; van Kemenade 2000; T.Y. Wang 2001). While there were no reliable statistical figures available, there was wide speculation that about 70% of Taiwanese business people who had business associations in China had been actively pro-China and supporting more conservative political parties such as the KMT and PFP.

Secondly more than one third of Taiwanese listing companies' stock values had been controlled by foreign investment funds since the new millennium. These share-controlled percentages are positively associated with companies' profits-making capacities. Foreign investment funds have held more than half of the stock values of many blue-chip companies, such as Honghai and Taiwan Semiconductor. While these investment funds could not directly control the management teams of these firms, they could still exert considerable pressure on their boards. Market pressures, therefore, indirectly forced these listed companies to increasingly engage in offshore production.

Thirdly, although some Taiwanese manufacturing firms might resist the trend to relocate their production facilities to China, the increasing pressure to trim production costs and continuing cut-throat pricing competition due to the prevalence of Walmartization would inevitably endanger companies' survival. To avoid economic dangers, these companies were required to find new production sites where labor was cheaper in order to offset increasing production costs and to strengthen competitiveness. The trend for offshore and outsourcing production therefore followed Marx's theory of

capital migration, which indicates that capital needs constant migration from areas in which profits are falling to other places that will yield higher profits (Marx 1981: 297).

The ongoing capital migration was further extended from manufacturing industries to the financial service sector, when in 2001, Goldman Sachs, a world renowned financial holding company, coined the term “BRIC” to refer to the four emerging economies, Brazil, Russia, India, and China. While the pronunciation of this acronym is similar to “brick,” it has a different name and meaning in Taiwan. In most societies, brick mainly means a construction material with little value. However, in Taiwan, the pro-China media and Mainlander academic scholars have translated BRIC (brick) into the four gold-bar countries. There is a huge difference between brick and gold bar. Under the new name of the four gold-bar countries, BRIC had been endowed with implications of greater opportunities for investors to acquire corporate fortunes and personal wealth.

Because of geographical distance and the language barrier in other countries, China tends to be the most accessible investment site for Taiwan’s outward investment among the four emerging BRIC economies. It was not surprising that the Taiwanese vision of outward investment in the emerging markets has been narrowed down to sinicization. Following the trend of deindustrialization and offshore production, many individual investors also had rushed into China to pursue their dreams of becoming rich. Most of them had concentrated on food-related industries in which the threshold is low - restaurants, bakeries, and coffee shops. Some had invested their business on distribution and service industries, such as variety stores, retail, wholesale, real estate agencies and wedding photography shops. Many had become individual speculators playing the money game in the red-hot housing and stock markets.

Some of them did make great personal fortunes; however, behind every individual investment success there were always dozens of failures. Those who had succeeded in China always expected to make more money by expanding business to build their chain-store kingdoms. To accomplish this dream, they borrowed venture capital from Taiwan. Many of those who failed simply did not quit their China dreams, and they too would collect money from Taiwan in order to try their luck one more time. In either situation, they had brought a large amount of capital to China, but left plenty of debts in Taiwan. This development only reinforced the belief that as an emerging market, China not only hollowed out Taiwan's manufacturing industries, but it also eroded Taiwan's financial sectors. Thus, the BRIC economies helped some personal gains of some Taiwanese investors, but it also deepened Taiwan's debts and invited deepening anti-China resentment.

However, when more than one million Taiwanese moved to China to pursue their gold-rush dreams, this movement had increased debts to large financial corporations, banks, securities companies, and insurers. Both enterprises and these Taiwanese banks were too eager to expand their business in China. In President Chen's first term, his financial reform helped banks to write off mounting bad debts. After few years of reform, banks were better regulated and the financial sector had become healthier. Under the pressure of globalization, financial firms also were eager to pursue growth of profits and reproduction of capital in the global market. They had targeted the Chinese capital market for business expansion, hoping to transform themselves into transnational financial corporations.

While banks, insurers, and securities companies had exerted great pressure on the Chen administration, after years in office, Chen had learnt more political skills to deal with this pressure. He saw this as a great opportunity to build political muscle for himself and the DPP. In order to meet the goals for Taiwan's economic development and global transformation, the Chen administration encouraged banks and securities companies to form financial holding companies through mergers and acquisitions.

Since many major banks in Taiwan were semi-publically-owned, and Chen's administration had final approval of takeover and consolidation actions, this policy turned into infighting among financial firms. Therefore, Chen skillfully transformed this pressure into patronage. To obtain better deals and achieve acquisition goals, all parties – the purchasers, the purchased, the acquirers, and the acquired, had to show their loyalty and contribute campaign finances to the Chen administration. Like civic servants, employees in the financial service industry had been very conservative and major supporters of the KMT. With bankers and managerial boards shifting their political stance to beg for Chen's favor, these mostly conservative occupational groups were forced to shift their political support to a more moderate or liberal stance.

After winning reelection, the Chen administration declared its second stage of financial reform in June 2004 in order to build Taiwan as a regional financial service center. This reform policy would only issue 7 licenses for financial holding companies with global operations. Banks had to engage in ferocious infighting to obtain the limited licenses. Bosses were busy in establishing political-business relations with the Chen administration. Thus financial service and banking sectors' rush to finance operations in China was calmed down.

However, the campaign to invest in the four gold-bar economies remained prominent. In 2005, the *Industrial and Commercial Times*, a pro-China media group, published its annual special issue, “*The Top 1,000 Taiwanese Companies in China*.” This special issue offered convincing statistical figures to show Taiwanese business community’s success stories in China. In 2005, these top 1,000 Taiwanese firms directly employed about 1.5 million workers. Although their gross profit averaged only 2.6% of revenue, their sales totaled 124 billion American Dollars. That is more than one third of Taiwan’s GDP in 2005 (*Industrial and Commercial Times* 2006: 32).

More than 90% of these firms were export-oriented manufacturers. Many of them were once small and medium enterprises. However, after relocating their production facilities to China, a decade of high-speed growth allowed many of them to develop into large establishments. These statistical figures thus persuaded many conservative middle-class people to believe that Taiwan’s economic future relied fully on China’s prosperity. However, these statistic figures also indicated that Taiwan’s export-oriented industrialization was a serious problem.

In Chen’s first term, the global economic recession in 2001 and the impact of SARS in 2003 contributed to the Chen administration’s poor economic performance. Chen won his reelection because SARS had led to anti-China resentment. After the impact of SARS, Taiwan’s economy began to make an upturn in the final quarter of 2003 and continued to recover (Bedford and Hwang 2006: 94). In Chen’s second term, Taiwan’s economy had regained much of its previous status. As Table 6-1 indicates, the economic growth rate averaged 5.25% between the years 2004 to 2007. Taiwan’s per capita GNP substantially increased, and the jobless rate eventually shrank. Taiwan’s

global competitiveness ranking, measured by the Swiss International Institute for Management Development (IMD), also greatly advanced. While these statistical figures are not glittering, they are still respectable achievements. Unfortunately, Taiwanese society did not recognize that Taiwan's economy had been better off.

Two important factors seemingly contributed to this interpretation: (1) the prevalent negative view of the Chen administration and (2) the intrinsic nature of Taiwan's external trade systems. First, Mainlanders and conservative professionals had dominated the media and economics-related academic communities for decades. Because of their deep connection to colonialism, they always looked down on what the Chen government had achieved. For these naysayers, the Chen administration simply was an object of derision. Blaming Chen and devaluing Taiwanese politicians had, therefore, become daily rituals for these conservative professionals.

These conservative professionals had denounced Lee government's "no haste, be patient" policy in the past, which discouraged investment in China. Chen's lackluster economic performance, which was characterized by immiserizing growth in his first term, became a something to scorn. They simply developed an addiction to accusing the Chen administration's achievements, even though there was little factual support.

Moreover, they despised Chen because they strongly believed that Chen gained his first term victory by a fluke, and he won his reelection by a staged assassination attempt. In addition to this legitimacy crisis, the Chen administration's reputation was gravely damaged by a series of corruption scandals starting in 2005. Consequently, these negative views reinforced inferiority complex, and they led many Taiwanese to lose their confidence in the Chen administration and Taiwanese leadership in general.

Furthermore, the changing nature of Taiwan's foreign trade also deepened the feeling that Taiwan's economy was worsening. At first glance, Table 6-2 shows that Taiwan's foreign trade, both import and export values, had grown steadily. However, after taking a second look, one can easily discover a gap between exports and orders received over time. This gap only increased with offshore production ratios and Taiwan's escalating export dependence on China. While there is no literature available to tell the whole story about the changing nature of Taiwan's external trade, one possible scenario to account for this development is that Taiwan's balance of trade and terms of trade situation had rapidly deteriorated with globalization.

Finally, rising offshore production ratios indicate that since 2005, more than 40% of the export goods, based on export order received, had been produced by a third country, like China. The increasing export dependence on China further suggests that many of Taiwan's exports simply are intra-organizational activities, due to the need for vertical integration. These intra-organizational activities are particularly common in the high-tech and electronics-related industries. Transnational corporations simply transported components and materials from up-stream factories to their assembly operations and affiliated firms in China. While these had been registered in the category of exports, many of these capital transactions due to intra-organizational activities were not purchased by Chinese consumers as they remained within the realm of transnational corporations.

The rising offshore production ratios and export dependence on China therefore implied that, rather than enjoying a trade surplus, Taiwan actually had suffered from trade deficits since the new millennium. If this thesis holds, there are grounds to believe

that Taiwan's export-driven economy was not sustainable. This thesis further suggests that, as a result of the hollowing-out industrialization, the Chen administration inherited an economic transition, during which developmental state paradigm had quickly shifted to an unsustainable institutionalist development model.

The export/GDP ratios further confirms this transition. Exports had been one of the most important structural elements, contributing to the formation of Taiwan's gross domestic production. Table 6-2 clearly indicates that the exports/GDP ratios had rapidly climbed to nearly 65% of Taiwan's GDP formation in 2007, from 47% in 2000. This figure shows that the private sector's decision-makings, in particular, firms in the manufacturing sector have played the determining factor in shaping Taiwan's economic growth. Therefore, private firms' rational preferences were in favor of more deregulation of investment in China.

As a consequence of this political economy transition, Chen government's capacities to intervene and redirect the economic sphere had substantially shrunk. When the private sector's rational preferences stood in opposition to Chen's governmental policies, it invited negation, brainwashing, and attachment. Because of this, both the conservative professionals' views and the changing nature of Taiwan's external trade all had significant effects in reducing Taiwanese faith in the Chen administration's achievements in economic affairs.

After all, the vision for the BRIC economies had caused deep worry in Taiwanese society. On the one hand, it was easy to understand how much sadness and unhappiness had accrued in the liberal camp in response to Taiwan's economy leaning toward China. On the other hand, private firms and conservative forces had continued to suffer the



feeling of powerlessness and helplessness concerning the Chen administration's economic policies and relations to China. These two opposite ideologies simply frustrated each other, and reinforced sociopolitical distress.

### **Globalization and fluctuation of middle-class people**

As Taiwan's economy transitioned from the developmental state paradigm to institutionalist development model, private-firm-centered rational preferences had replaced state-driven policies, and these became the primary factor in shaping Taiwan's economic development. When capital migration to China and trade with the mainland evolved into the engine for Taiwan's economic growth, this brought about to drastic polarization and fluctuation movements in the Taiwanese job market. Eventually, they spread deep gloom and anxiety throughout Taiwanese society.

With increasing offshore production practices, a growing number of manufacturing firms treated factory workers as liabilities rather than assets. Seniority had developed into a disadvantage in the job market. This trend had become more evident, when in June 2005 the new Labor Pension Act required all employers to deposit 6% or more of a worker's monthly wages into an individual labor pension account managed by the Bureau of Labor Insurance. Suddenly, middle-aged and senior workers found that they were no longer welcome in the labor market. To make ends meet, many of them had to eke out their income with second jobs. The rapidly shrinking number of factory jobs and the large replacement of low-paid guest workers created more obstacles for laid-off factory workers to find equivalent jobs, even though new industries continued to emerge.

For example, the TFT-LCD (Liquid Crystal Display) industry had been one of the Chen government's major strategic industries. While both Taiwan and Korea had beaten

Japan, and they had competed to be the biggest TFT-LCD panel producer, the assembly factory jobs of down-stream LCD products had disappeared within a few years. In 2000, more than 97% of the LCD products were assembled in Taiwan, but this figure plummeted to 8% in 2005 (Wu 2007).

In post-industrial theory, growth of service jobs offsets losses of the manufacturing sector, and tertiary sector brings better-paying jobs. However, Esping-Andersen (1999: 96-119) points out that this prognosis is skeptical, in part because many low-skilled, labor-intensive, and female-dominated jobs characterize the lower end of service sector, and, in part because productivity in the service industry cannot compete with that of manufacturing sector. As a result, wage levels are likely to remain stagnant or decline. Unfortunately, this had been the situation facing laid-off workers in Taiwan. Thus, the vision for the BRIC emerging market had inescapably polarized Taiwanese class structure, and it brought about increasingly impoverished working-class and middle-class families.

While these excessive transnational practices produced more well-off middle-class expatriates and high-tech new rich, the endless pressure to trim production costs and strengthen competitiveness led to a dramatic turn for the worse since the global economic recession in 2001. On the one hand, despite the transnational firms who built indigenous research and development capability in Taiwan, once Taiwanese firms become transnational, they established local research and development centers in their offshore plants.

In the early 2000s, this R&D strategy invited the rise of Chinese professional and managerial strata, and it led to an encroachment on the employment of Taiwanese

professionals and managers. The growing Chinese knowledge strata have increasingly threatened to replace the Taiwanese transnational middle class in the Chinese job market, simply because the former demanded less compensation. A more threatening trend is that after Taiwanese transnational firms began to diversify their operations to Vietnam in the late 1990s, they largely recruited Chinese professionals to replace Taiwanese management teams (H-Z Wang 2008). This indicates that many Taiwanese transnational middle-class people's career paths and prosperity were quickly shrinking.

On the other hand, transnational firms had lobbied the government to issue working permits allowing them to hire more Indian and Chinese white-collar workers at home. They campaigned to attract highly skilled and talented foreign professionals to new industries, which were targeted to be Taiwan's future competitive forts. It was sad to see that Taiwanese manufacturing firms were no longer interested in making investments in Taiwan. And even if they did, they shifted their target from Taiwanese employees to hiring more foreign talents and professionals. Consequently, the rank and file of many decent middle-class jobs had become a thing of the past.

Additionally, decapitalization had accelerated the declining demand for hiring in Taiwan. Hundreds of listed companies had scaled down their registered capital since 2000. The excessive practice of decapitalization meant that major stockholders had excess cash, diverting their investment elsewhere (Chu 2007). This practice only implies that more jobs had been created in China. Job seekers thus had to place their hopes in the Chinese job market. The influx of these job seekers, in turn, lowered the possibilities for Taiwanese transnational middle-class job holders.

In the early 2000s, many medical and law professionals, architects, and certified public accountants also began to join the rank and file of the transnational middle class. With more than one million Taiwanese in China, this transnational practice simply reflected the outcome of market-driven transformation. When many value-added production activities could no longer stay in Taiwan, it decimated the job market. Many laid-off factory workers and disappointed middle-class people were forced into self-employment, hoping to make a living by running a small business. The majority of them invested in easy-entry food-related industries, such as small restaurants and food stands. However, with little investment funds and inadequate management knowledge, more than 70% of them experienced business failure within the first six months. Very few of them were lucky enough to achieve business success.

Other self-employed small business people faced a similar situation. On the one hand, with more than one million Taiwanese transnational workers residing mostly in China, the retail industry in Taiwan could only grow at a slow pace since it lacked customers. On the other hand, like transnational manufacturing firms, who determine the fate of thousands of Taiwanese factory workers, the large discounters, super markets, and convenience chain stores posed a tremendous threat to the survival of the proprietor class in small towns and big cities. These modern stores brought new consumption culture to Taiwan, but local traditional stores did not benefit much from the mass consumption due to their limited marketing capacities and poor management.

As a result, when large discounters, super markets, and chain stores emerged in the late 1980s, they immediately squeezed out the business of many small retailers and variety stores in the major cities. After they further extended their muscle from urban to

rural areas in the late 1990s, they gradually forced thousands of family-owned, traditional stores out of business. As a new generation of enterprise, the management philosophy of these large discounters and chain stores emphasized efficiency and profitability. Reducing employment costs is always their primary concern. Consequently, temporary, contract, and part-time workers largely replaced permanent staff, and wage levels remained stagnant.

Since secure and permanent jobs became scarce, it had become difficult to build a personal career in the private sector. In contrast, public jobs were more protected because the government had never laid off its redundant employees. Therefore, many job seekers looked at the public sector, hoping to become civil servants. When so many citizens wanted to enter their names onto the public payrolls, the swelling number of examinees only made recruitment examinations more competitive. In order to pass the difficult examination, many junior examinees had to go to cramming schools, spending time to practice old exams. Thousands of college students also chose to stay in schools, spending one more year to study written exams. Many of them simply attended the examinations year after year. This trend produced a large amount of idle college graduates, who were full-time examinees not holding jobs.

The passing rates in general had been very low, on average around 1%, but there were ways to hold public jobs without taking national examinations. For example, many wanted positions in the bureaucracy so badly that they paid much interest on the lowest end of the public workforce, such as a janitor or guard. While these jobs have no chance for promotion, they are secure and permanent. Local media had constantly reported that

many college graduates and even people who held a master degree, applied as janitors, garbage collectors, and other manual-labor positions, which did not require written exams.

These phenomena showed that public employees' social status and prestige had remained high. However, their self-esteem and morale was turned upside-down. Before democratization occurred, Mainlanders monopolized all higher-ranking and managerial positions. Ethnicity and loyalty to the KMT were the keys to determining position and promotion. These two factors ensured Mainlander civil servants' superiority over their Taiwanese counterparts. After Taiwan democratized, many county governments passed into the hands of the DPP. Meritocracy and partisanship had gradually become the determining factors for appointment and promotion.

Affected by the legacy of the overdeveloped state, most civil servants had ideologically committed to the KMT. When meritocracy and partisanship became the determining factors for appointment and promotion in the administration, many civil servants, therefore, had been inevitably involved in power struggles between the DPP and the KMT. But this phenomenon was largely limited to the local level. Because most public employees in the upper civil service of the central government, who held higher-ranking and managerial positions, were members of the KMT, the Chen administration maintained an innate distrust toward bureaucrats (Lee and Chu 2008: 155).

After the regime transition, these KMT civil servants in the central government units had developed deep resentments against the DPP government. They felt deeply that they had been marginalized in the administration, in part because they had worked for ideologically opposite administrators, and in part because they had difficulty to adjust their attitude in response to the new rules for promotion.

Mergers and acquisitions in the banking industries also led to turbulent fluctuations in the white-collar job market. After the takeover and consolidation, downsizing and slashing redundant employees were standard measures for organizational restructuring because the priorities of management boards were to improve their balance sheets. It did not matter if it were staff or managers, all middle-aged and senior employees who were highly-paid or had a high position became the primary targets. While financial holding companies offered severance pay, buyout programs, or forced early retirement packages, these deals were hardly to maintain lifestyles and support families in the long run. Moreover, retreating from the job market not only meant lost income and no career path, it very often implied disconnection from one's own social networks. This means that once employees took deals, they would also lose their social status, prestige, and even social support.

While these senior white-collar workers could restore their career path by finding a new job in the financial service sector, this hope became increasingly impossible because ageism surged to become the number one invisible principle in all service industries. Moreover, firms in the financial service sector, banks, insurance companies, and brokerage house, had set high recruitment standards for hiring. In the name of globalization, new recruits at the staff level had to hold five different licenses and a bachelor's degree. In order to sell financial derivatives and get better rewards, financial firms demanded applicants at the specialist and managerial levels to hold certified international licenses, such as registered financial consultant (RFC), chartered financial analyst (CFA), certified financial planner (CFP), financial risk manager (FRM), or

chartered financial consultant (CHFC). These prerequisites also implied that new employees would have a master's degree with good English proficiency.

These high recruitment standards indicate that credentialism determines who gets hired and who gets fired in the new white-collar job market. Seemingly, holding a professional license and a college degree would give one an advantage in finding a better job. However, this has not been the case for many teaching professionals. The Ministry of Education has issued more than 100,000 teaching licenses since 1997, but only two thirds of the certified educators could find teaching positions in the elementary and middle schools in the mid-2000s. The large amount of involuntarily jobless among certified school teachers points to a serious crisis facing Taiwan's higher education.

On the one hand, after rapid expansion for two decades, the number of four-year colleges grew to 149 in 2007, from 39 in 1987. As a result of the McDonaldization of higher education, the emergence of a large amount of universities and colleges has mass-produced college graduates without quality-education<sup>20</sup>. In 2006 alone, institutions of higher education produced 2,850 Ph.Ds, 50,000 master's degree holders, 228,600 four-year college graduates, and 43,800 graduates with associate diploma. By 2007, more than 3 million citizens had bachelor's degree and 720,000 citizens held a master's or Ph.D degree. When post-secondary institutions keep on expanding enrollment capacities, they simply oversupply college graduates and master-degree holders.

On the other hand, Taiwan's population growth has already lost its momentum. Fertility rates have been below replacement level since 1983. The number of newborns in

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<sup>20</sup> Taiwan's gross college enrollment rate was more than 80% but dropout rate remained less than 1% in 2005. The low dropout rate ensured that those least able students could graduate easily, once they enrolled in colleges.



1983 was 382,000, but this figure almost halved to 205,000 in 2006. As the falling fertility rates and trend in voluntary childlessness continue, the number of newborns has been rapidly shrinking. When Taiwan's higher education expanded to the extent that its enrollment capacities are far beyond the number of annual newborns, the dramatic demographic transition foresees trend for downsizing and school closure from the level of elementary schools to colleges. As the entire educational system is heading toward severe retrenchment, a large number of teaching professionals will become the victims of the demographic transition as well.

In addition, there is a bleak future awaiting large number of college graduates who expect to find white-collar jobs. They would be the source of the future middle class. Woefully, the institutionalist development and the gold rush to China have made Taiwan's job market difficult, especially when it comes to including large amounts of college graduates. Many of them, in their late 20s or early 30s, still have no work experience. Consequently, Taiwan's human resource planning has failed to calibrate the pace of globalization. Polarization and fluctuation have only produced more frustrated working poor and jobless, who would otherwise be the middle class.

### **Alienation and the iron cage**

The Taiwanese have requested a new statehood identity for a century. When the liberal electorate finally geared up enough momentum to help Chen win his reelection in 2004, they failed to capture the majority of seats in the parliament. Without a signature win to assure its dominance, the DPP's electoral momentum soon faded. Seemingly, ignorance and lack of vision were the twin weaknesses of Taiwanese society. While Taiwanese society needed a fundamental change, unfortunately, affected by inferiority

and dependency complex, Taiwanese in the conservative camp had been excessively reliant upon Mainlanders for approval. Their memories of being the oppressed remained, but they refused to come out of the shadows. Inside their minds, they always found themselves suffering from feelings of inadequacy. Without developing faith in themselves, they were constantly afraid of being rejected by Mainlander leadership. They simply prayed that any fundamental change would not happen.

In addition, although democratization movement in the past two decades had unmasked the fact that neither the Republic of China nor Taiwan enjoyed a true statehood in international communities, sadly, the biggest third party, who represented the vast majority of Taiwanese, had been those swing middle-class people. They refused to play an influential voice on matters of state and ethnic identities, and they had always remained silent on the issue of state identity (see table 5-4). As a result, they constantly made excuses that they were not ready and perhaps ineligible to make decisions for their next generation. Under the influence of colonialism, many of these centrist swing voters were still living in the past, and they thought that their past determined their future. They were simply satisfied to live in the moment to maintain the status quo, which meant that they no vision for their future. They gave up the belief that they held the decisive power to determine Taiwan's future.

The liberal camp also had responsibility for the cool-down of the momentum for Taiwan independence movement. Independence movement means different things for different people in different contexts. In most third world countries, independence implies nation-state building projects obtained by regaining sovereignty and decolonization. In Quebec, it refers to a separation movement from Canada. In Scotland,

it is a political attempt which implies dismemberment for breaking up Great Britain. In Northern Ireland, it means to be independent from the United Kingdom and join the Republic of Ireland. In Tibet, it is a movement against Chinese colonial rule. What then is exactly meaning by Taiwan Independence? Woefully, the liberal camp has never offered convincing reasons for the need of a fundamental change from the view of colonialism.

After former President Lee Teng-hui reentered the political arena, his vision for Taiwan independence - enacting a new Constitution and changing national title without declaring Taiwan independence, had dominated the discourse of the independence movement. Complimenting Lee on his achievement in democratization transition, political observers, like Lin and Tedards (2002), argue that Lee's most significant achievement was to establish the popular election of the president, conferring sovereignty to the people. Because of this, after the 1996, Taiwan has been a sovereign state and the residents of Taiwan own the sovereignty of Taiwan. This compliment to Lee simply reflects a misunderstanding of the difference between popular sovereignty and constitutional (or state) sovereignty.

Popular sovereignty is derived from constitutionalism. That is, the Constitution's rule of law, consent-grounded republican institutions, and power limitations must extend to all citizens. The extension to all citizens is called popular sovereignty (Lutz 2006: 24). The simpler and more familiar conception of popular sovereignty is the idea of democratic rule, the exercise of power by majorities. The people, in this conception, are the majority of ordinary or non-privileged individuals whose endorsement is the ultimate source of legal authority in any democracy (Yack 2003: 31).

In other words, popular sovereignty is an internally-agreed identity, whether achieved through constitutional reforms or social consensus, is not sufficient for a state to acquire is sovereignty. In this aspect, popular sovereignty authorizes legitimacy for the Republic of China to rule over Taiwan. Therefore, there is no convincing reason to redraft a new Constitution and then change the official title to the Republic of Taiwan.

Moreover, during and after his presidency, Lee had consistently stated that there was no need to declare independence because the Republic of China had been a sovereign state since it was founded in 1912. His statement based upon continuity of a constitutional system of “China” only led Taiwan to become trapped by the ongoing civil war between the Republic of China and the People’s Republic of China. This statement, therefore, is inconsistent with his declaration in 1999 that the relations between Taiwan and China are simply state-to-state relations of the normal international kind. It is no wonder then that Crawford (2006: 217-221), a specialist in the international law, concluded that the Republic of China is not a “State.” Crawford’s conclusion is consistent with formal Secretary of State of the U.S., Colin Powell whose open statement in October 2004 indicated that neither Taiwan nor the Republic of China enjoys sovereignty as a nation.

It is clear that from Crawford’s perspective and the American political stance, Taiwan’s sovereignty is still undetermined. Taiwan independence, therefore, must gain this from its occupant, the Republic of China. Unfortunately, Lee amended the Constitution six times during his 12 years in office in order to reinforce the legitimacy of the phantom state and consolidate his personal authority. Regretfully, Chen and his DPP did not theorize to underline that the Republic of China is a colonial system and unmask

the colonial syndromes. What they did have was a vague theory that the 23 million residents in Taiwan hold the final decision to determine Taiwan's future (self-determination), due to Taiwan's uncertain international status<sup>21</sup>. However, as they had constantly played the China factor to boost support during campaigns, their short-sighted campaign strategies had shaped a false image of Taiwan independence, meant to gain independence from the PRC.

Moreover, the biggest problem of the liberal camp is that they have not proposed post-colonial visions to solve sovereignty problem and the relations to China in Taiwan's favor. For example, declaring the intent to establish diplomatic relations with China, proposing a political confederation model to coexist with China, or envisioning a political-economic integration model similar to the European Union to include some Asian countries, with which they formed a political and economic membership (co-prosperity zone), were not necessarily helpful in envisioning Taiwan independence. These proposals certainly are not acceptable to China, as they contradict the "One China" principle. However, the point is that Taiwan should present better visions to confront the "One China" principle and achieve its state sovereignty through gaining both internal and external legitimacy.

As a rising hegemonic global power, the PRC has a bigger say in what Taiwan's future will be. China has constantly claimed that Taiwan independence is equivalent to war. This absurd message could lead the Western world to believe that Taiwan is a trouble maker. As a result, this belief has overshadowed the fact that Taiwan has been

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<sup>21</sup> The self-determination argument is based on the fact that because of the imperialistic nature of Taiwan seized by Japan, the status of Taiwan's sovereignty was left unsolved after Japan renounced sovereignty. See Chu (2000).

bullied by China for decades. When the Western world keeps silent and lends no support to help Taiwan achieve its international status, their intolerance only begets more Chinese violence against Taiwan. The diplomatic-battle and military-threat consequences lead to Taiwan's international image of being a combative ideologue, but in reality, most Taiwanese are striving for peace. While China enjoys superior international status over Taiwan, this does not mean that Taiwan should be voiceless. With outlining better visions of the future for Taiwan in relations to China, Taiwan can end this vicious circle. These visions will help wash Taiwan's bad image of being bellicose in the international community.

In 2000, Chen did initiate the formation of domestic consensus, searching for possible scenarios in Taiwan's best interests. His pursuit, nevertheless, was soon given up because of objection from the fundamentalist faction within the DPP. In response to Chen's attempt, the KMT's chairman, Lien Chan, proposed an "American confederation model" (Bush 2005: 272-273). However, his elaboration of the confederation model actually was a federation system that downgraded Taiwan to a province of China. When consensus became impossible, Chen quickly abandoned the idea to outline the visions of future Taiwan. Presumably, this opportunity would help establish a strategic position for Taiwan independence, but Chen simply let the opportunity to slip away.

As a myopic politician, Chen found a short cut to win his reelection by manipulating the anti-China resentment, in order to boost his popular support. The growing Taiwanese consciousness therefore had been based on anti-Chinese nationalism (Schubert 2004). However, without a vision to deal with the increasingly hostile relations between Taiwan and China, Taiwanese nationalism could not be successful. Seemingly,

many centrist swing middle-class voters found that maintaining the status quo served their comfort level best.

The regime transition in the early 2000s called for a radical political change for Taiwan. However, change became less appealing when anxiety, rather than prosperity, spread over Taiwanese society. The shift of the social psychological mindset further reassured the conservative constituencies' political position, as they became more obsessive their power strategies. In the end, the colonial system continued to alienate its people and sharpen the hostility among alienated groups. However, strangely, the liberal, centrist, and the conservative constituencies all denied that the colonial system remained. The more they denied, the deeper they suffered. The problematic constitutional sovereignty, therefore, became an iron cage that imprisoned Taiwanese. The only escape opened to be a "One China" principle, which led to fear about a new colonialism coming from China. Without a vision about a way out of the predicament, the specter of a phantom state continued to haunt Taiwanese society by producing ethnic tension, class antagonism, and middle class crises.

The collective sense of social stress and frustration deepened day by day, in part because overinvestment in China had led to asymmetric dependence on China since the regime transition. This asymmetric dependence created Taiwan's political vulnerability, and may eventually have created opportunities for military coercion (Saunders 2005). The investment of Taiwanese firms in China originated from the practice of economic rationalization by exploiting Chinese cheap labor and reaping economic rents to diversify their production costs. After their arrival, however, chasing the industrial reserve army, striving for favorable industrial policies, and exploiting the emerging Chinese market

have driven their operations to move from coastal provinces to inland areas. Thus, firm rationality appears to solve their old problems, but the rationality itself produces new irrationalities at home and abroad.

Public spending and private-sector investment are the motors of economic growth and job creation. Unfortunately, guest workers have occupied the activities of many large public construction projects and factory positions since the 1990s. Even the Three-D jobs, dirty, dangerous, and difficult work, have become less available for local workers. The effect of public spending to create jobs has diminished overtime. With so many manufacturing and service sector firms bringing about a large amount of investment funds in China, the increasing outflow of investment funds has led to a hollowing-out manufacturing base, shrinking tax revenues, soaring government deficits, and escalating job drains at home. The gain of individual firms has become the pain of Taiwanese society.

These developments have also led to a more complicated predicament for the younger generation Taiwanese, who are now eager to pursue their career path and business success in China. In the past, Taiwanese business people could only produce off-branded products for local markets. With the vast new markets of millions of emerging middle-class consumers in China, Taiwanese business people envision their business kingdoms with branded commodities in China, which was not always possible in Western markets. Based upon the potential huge profits in China, business people just cannot resist the temptation. By the mid-2000s, more than one million Taiwanese had become long-term sojourners in China, and the number is still growing. It is impossible to predict how long this expatriate trend will continue. When so many Taiwanese can no



longer thrive at home, they have placed their hopes in China. It calls into question whether economic rationalization practice is forming a tightening noose around Taiwanese society, and it could eventually pull Taiwan into China?

The new strains caused by economic rationalization practice lead to pressing debates on how political processes could help Taiwanese society get out of the crisis. Seemingly, the Chen administration's policies, which discouraged overinvestment in China and redirected Taiwan's industrial development to vertical division of labor, could potentially ease the crisis. However, capital- and technological-intensive high-tech industries do not necessarily equal high profits. Instead, these knowledge-based industries are high-risk business, which means that they could suffer great losses in a bad year.

Moreover, these industries create fewer jobs than expected. Economic rationalization practices are not like a cloak that firms and individual investors can throw aside at any moment. These debates thus go to favor the old colonial forces' agenda. Because of their inseparable relations with Chinese authorities, their embrace of the "One China" principle could instantly tighten the noose. After all, once the momentum of the liberal camp stopped rolling in 2005, the political transition featured a perfect timing, which called for the old colonial forces to return to power.

### **The change of mindset**

The regime transition since 2000 has produced a long list of woes in Taiwan, powered by the sagging economy, increasing ethnic tension, rising class antagonism, and intensifying ideological confrontation. The DPP and Chen administration's policies, which encouraged Taiwanese to regain new identities and annihilate the colonial system, certainly were incompatible with the old colonial forces' faithful ideology and political

stance. Not surprisingly, the conservative forces employed negativism to denigrate the characters of their political rivals in the liberal camp.

Although the old colonial forces did not hold power in the new administration, they still were dominant in the media, parliament, and judicial system. These three institutions were a perfect combination to demonize the liberal camp. As they had done before, they surely were capable of doing it again. After just half a year, Chen was sworn into office, and the conservative media launched its first one-stone-two-birds attack in November 2000. *The Journalist* (or *New News Magazine*), a Mainlander-owned tabloid, broke news of President Chen's alleged affair with his 29-year-old advisor, Hsiao Bi-Khim, and it claimed that Vice President Annett Lu was the source behind the story. No evidence supported the alleged affair. While Chen and Hsiao ignored the issue, Vice President Lu sued the magazine for libel in civil court. After more than a two-year trial, the court eventually ordered the magazine to apologize and issue corrections, admitting that it had fabricated the story. Although Vice-President Lu won the case, the damage was done.

In May 2001, *Next Magazine Ltd.*, a Hong Kong-based journal, began to issue its Taiwanese version of the tabloid with gossip-style articles and paparazzi pictures. Gossip-filled stories exploded in popularity among the Taiwanese middle class. Two years later, this media group expanded its turf to publish the *Apple Daily*, a newspaper emphasizing celebrity gossip and political scandal, and it has continued to enjoy strong readership and advertisement revenues. As a result of isomorphism, the success of the *Next Magazine* and the *Apple Daily* has brought about a new round of fiercer competition within Taiwan media, which in turn has driven Taiwan's TV channels, radio stations,

magazines, and newspapers, toward down-market reports and broadcasts with a low standard of journalism (Rawnsley 2007).

When sensationalism, scavengerism, and scandal dominate the media, these negative views lead to the rise of leaked sources with little veracity. The change of media culture thus invites more willing informants and whistleblowers into the bureaucracy. In the previous section, I stated that partisanship had become an important criterion in determining the promotion in the Chen administration, resulting in a large amount of disappointed conservative civil servants. Encouraged by this dramatic change of media culture, many disappointed conservative bureaucrats simply agreed to be tipsters, leaking inside information to the conservative media, the prosecutors, and opposition legislators in revenge. The change of mindset had initiated a negative campaign against Chen Government.

The daily political drama began when the opposition legislators held news conferences, denouncing Chen administration's wrongdoings on a daily basis, and then they demanded prosecutors to pursue these cases, despite very little concrete evidence. The prosecutors, in turn, would tip details of their criminal investigations to feed the media, resulting in media trials. These three institutions thus formed a huge rumor mill, smearing the Chen government and the DPP politicians. The smear politics eventually paid off in August 2005, when Thai construction guest workers, hired by Kaohsiung mass rapid transit system project, rioted to protest that their working and living conditions had been doubly exploited by their employers and labor brokers.

As tips kept coming in President Chen's Deputy Secretary-General Chen Tse-nan was accused of playing a role in bending rules to issue permits for importing foreign

workers. Mr. Chen Tse-nan was indicted for allegedly receiving bribes and a gambling trip to South Korea. He was found not guilty in this indictment. Nevertheless, he was later charged with multiple crimes, relating to an influence peddling scandal in the Judicial Yuan, the sale of official positions, and the SOGO department store proxy scandal. In exchange, the DPP accused several KMT politicians, including its chairman, Ma Ying-jeou and Taichung mayor Jason Hu, for alleged embezzlements, forgeries, and breaches of trust. Nevertheless, most prosecutors were not interested in the DPP's accusations.

The promise of a clean government used to be the hallmark of the DPP. Unfortunately, a series of alleged scandals had shattered the DPP's social image (Rigger 2005). The DPP's campaign momentum had already cooled down after the December 2004 parliamentary election. These corruption scandals further eroded the DPP's electoral base, and they put the ruling DPP in a difficult situation during the December 2005 county magister campaign. Moreover, during the campaign, President Chen proposed to cancel the 18% interest rates subsidies of special fixed deposit accounts, which were designed for civil servants and military employees. This campaign promise had special meaning because it aimed to destruct the overdeveloped state and bring about a more equitable distribution of income. However, this proposal resulted in tremendous backfire from the public employees. As a result, the DPP suffered a serious setback, winning only 6 of 23 seats (see Table 6-3).

In 2006, the conservative forces launched another wave of relentless attacks on President Chen's family and advisors. Chen's in-laws, including his son-in-law were detained for suspicion of insider trading. The indictment of President Chen's in-laws

caused many DPP legislators to issue a joint statement, saying that they no longer had confidence in President Chen's leadership. Following the indictment, more corruption allegations were on the way, targeting the First Lady and several ministers in the cabinet. Many of these investigations were associated with Chen's policies to encourage mergers and acquisitions (Chu 2007). In September, these snowballing scandals eventually caused Shih Ming-teh, the former DPP's chairman (1994-1996), to rally thousands of urban middle class and pan-blue supporters in front of presidential office, demanding President Chen to step down.

In November, Chen's wife was formally indicted for embezzlement and forgery of mishandling the state affairs fund, but presidential immunity prevented prosecutors from charging Chen himself, while he was in office. Several ministers in the cabinet were also indicted later for alleged bribe-taking and corruption. President Chen, nevertheless, escaped the recall crisis, in part because a Taiwanese prosecutor seriously investigated the KMT chairman, Ma Ying-jeuo's, corruption scandal. Ma was indicted in February 2007 for pocketing mayoral funds into his personal account. After the indictment, Ma immediately resigned as KMT chairman and then announced that he would run the 2008 presidential campaign.

In the first three years of his second term, President Chen had the misfortune of being under the shadow of constant legitimacy crises. Because of these ideological confrontations, Chen's government had been sunk in dysfunction for years. After the smear politics turned into topsy-turvy politics in 2007, President Chen finally got a break to build his legacy. With his approval ratings lower than 20%, he was determined to manipulate the anti-China resentment again, and he hoped to rally enough swing middle-

class voters behind him. He pushed hard for his desinicization campaign, demanding high-school textbooks to erase all references implying that Taiwanese is Chinese and that Taiwan's history is part of Chinese history. In addition, post offices and many state-owned enterprises with titles of China or Chunghwa (equivalent to Chinese) were required to change their name to Taiwan (Chu 2008).

As the 2008 parliamentary and presidential elections were approaching, Chen decided to place his name on the ballot, not as a candidate but as the kingmaker. He initiated a referendum bill, concerning whether the nation should apply for the United Nations as "Taiwan." Chen then forced the DPP's presidential election candidate, Frank Hsieh, to change his running mate. He also pushed the DPP's congress to pass the "normal country resolution," which stipulates that the nation should rectify the name "Taiwan" and enact a new Constitution. This resolution also highlighted the need for a referendum to emphasize Taiwan's independent statehood at an appropriate time.

While Chen's political maneuvers pleased the pro-independent fundamentalists, this time the shoe was on the other foot. His manipulations did not gain any electoral momentum, but he did bring about a divided DPP. Under the influence of a powerful negativism campaign and media trials, the majority of swing middle-class constituencies simply turned their backs against the Chen administration and the DPP. Chen's waning popularity even led to many DPP's parliamentary election candidates keeping a distance from him to save their bids. The once impenetrable politician had become the unbearable burden of the liberal camp.

In contrast, the wind of fortune had shifted to favor the KMT. While the KMT's presidential election candidate, Ma Ying-jeou, was indicted for embezzlement of mayoral

special funds, he was found not guilty in August 2007 because a Taiwanese district judge cited an absurd case from the Song Dynasty (960-1279). During this historical time period, embezzlement of public funds within the bureaucracy was rampant. The prevalence of pocketing public funds became ungovernable though it remained illegal. As a result, most bureaucrats simply perceived public funds as the special allowance for them. The judge did not explain why Ma's case had anything to do with what happened a thousand years ago. Moreover, why would a judge not only misinterpret history but also ignore the fact that embezzling public fund in the Song Dynasty remained an illegal activity?

Seemingly, double illegitimacy was likely the key that Ma should be a privileged being, not only in the eyes of a Taiwanese judge, but in his own as well. After Ma was acquitted, the KMT had regained unity under his leadership, as those extremist right-wing politicians in the NP and PFP had soon rejoined the party. The KMT even formed a tactical alliance with some non-partisan and independent politicians in order to run in the upcoming parliamentary election.

Hence, after Mr. Ma came out of the corruption scandal unscathed, the parliamentary election in January 2008 was virtually a two-man show. The media had been entirely devoted to the photogenic Ma's apotheosis, and alternately to Chen's deviltry for years. The sharp social image difference between these two politicians rendered the liberal camp defenseless. The DPP already lost support from business community and swing middle-class constituencies. One of its important electoral bases, the farming class, also had showed sign of shifting its political stance because Chinese authorities had constantly requested Taiwan's agricultural products to distribute in the

Chinese market since 2005. Affected by China's united front tactic, many farmers were convinced that the KMT's close association with China would help improve their income and standard of living.

As expected, the DPP suffered a setback in the January 2008 parliamentary race. However, it was a stunning defeat, more than any political observer could imagine. Under the new voting system, the DPP received 38% of the vote share, but only captured 27 of 113 seats. In contrast, the KMT's vote share rose to 53.5% from 32.8% in 2004 (46.9% if it includes the vote shares of the NP and PFP), but the seat share of the KMT and its nonpartisan allies boosted from a slim majority to supermajority, with more than three-fourths of all seats. The DPP's political strength boomeranged, having its status two decades prior.

Two months later, the KMT delivered another sweeping victory in the presidential election, winning by almost 17%. While the liberal forces doffed their hats with respect to the KMT, these two devastating outcomes were serious defeats that would entail a difficult recovery. The DPP came to power with a reputation of clean government. Ironically, after eight years in power, they came to an ignominious end with notoriety. In order to have any kind of breakthrough in the future, the liberal camp needed to overcome these crushing defeats.

After words, Tsai Ing-wen, a female law professor who served as chairperson of the Mainland Affairs council (2000-2004) and vice premier of the Executive Yuan (2006-2007) was elected as the DPP chairperson. After Tsai assumed the DPP chairpersonship, nine KMT's legislative were disqualified because of vote-buying. The DPP won seven out of nine seats of the special Legislative Yuan elections. In the 2009 local elections for



seventeen posts of county magistrates and city mayors, although the DPP only won control of four counties, it maintained its strongholds of southern Taiwan.

In the 2010 municipal elections, while the election outcomes did not change the political topography, the DPP won 400,000 more votes than the KMT. Under Tsai's leadership, the DPP regained its electoral momentum. In the 2012 presidential election, Ms. Tsai, the DPP candidate, became the first woman to bid for Taiwan's presidency. Meanwhile, President Ma had poor ratings for four years, as Taiwan's economy remained lackluster. Unfortunately, the poor economic performance and people's dissatisfaction were not enough to defeat President Ma. The 2012 presidential election outcome indicates that Taiwan maintains a divided society, and middle-class crisis is an issue.

### **Summary**

Democratization and globalization have been at odds concerning Taiwan's future in the past two decades. On the one hand, democratic consolidation is about whose political values are to be institutionalized. Democratic transition, therefore, became an ideological issue, leading to a desire for independence, which was supported by the liberal camp but opposed by the conservative bloc. This ideological tension was particularly sharp in the mid-2000s, when the liberal forces placed their hope on the Chen government, who was willing to enact the decolonization movement by redrafting a new Constitution and renaming the national title.

The large scale ethnicity-based and ideology-driven electorate mobilization in the 2004 presidential and parliamentary elections, nevertheless, spread deep fear in the minds of middle-class people. The strong decolonization momentum further caused the conservative middle-class electorate to worry that a historical break with China might

lead to a destructive war. As a result of political chaos, most of them turned apathetic and apolitical.

On the other hand, globalization has bound the Taiwanese and Chinese economies closely together in terms of mutual advantage for large amount of business community and middle-class people. Taiwanese firms needed Chinese labor and consumer markets for their business expansion and survival, and many Taiwanese middle-class people found their better career pursuit in the emerging Chinese economy. However, the great migration of capital and talents to China cost Taiwan devastating losses in capital investment and unemployment.

In contrast, the strong economic growth and fast-rising incomes in China had created bitter and polarized responses in Taiwan. The liberal camp had felt that the overinvestment in China caused a hollowing-out industrialization, and it hindered job growth in Taiwan. They had demanded protectionist measures, in order to prevent the influx of Chinese commodities and tighten regulations to restrict vast outflows of capital. However, the conservative bloc favored a more open policy to improve the relations with China, as they expected economic integration might bring political conciliation.

The divided Taiwanese society allowed four major political players, Chen, Lee, Lien, and Soong, to gain their power and influence by maneuvering contingent unity. Nevertheless, their capricious characters only showed that they were political manipulators rather than visionary leaders, as all of them lost their political credence after the contingent unity broke. These developments, together with apolitical middle-class voters, weakened the DPP's political strength. A series of corruption scandals further

accelerated the DPP's electorate strength in a downward spiral, and it eventually ushered the KMT to regain power.

The 2007 and 2008 legislative and presidential elections saw the biggest swing in favor of the KMT, as it picked up almost three fourths of the seats in the parliament. With supermajority, the KMT totally controlled the Legislative Yuan. However, these two overwhelming victories did not bring about a united Taiwanese society. The ideological confrontation due to colonialism has continued, and Taiwan has maintained a divided society. As a result, the middle-class crisis remains, and it is still a main factor determining political outcomes.

**Table 6-1 Indicators of Taiwan's economy (2000-2007)**

Indicators\Year	Chen's first term				Chen's second term			
	2000	2001	2002	2003	2004	2005	2006	2007
Economic growth rate (%)	5.8	-2.2	4.6	3.5	6.2	4.2	4.9	5.7
Per capita GNP (US\$)	14,721	13,348	13,604	14,012	15,156	16,113	16,494	17,252
Unemployment rate (%)	2.99	4.57	5.17	4.99	4.44	4.13	3.91	3.91
Competitiveness rankings by IMD*	20th	16th	20th	17th	12th	11th	18 <sup>th</sup>	13th
Foreign exchange holding (US\$ billion)	106	122.2	161.7	206.6	241.7	253.3	266.1	270.3

Sources: Taiwan Statistical Data Book (2008)

\*:www.moea.gov.tw

**Table 6-2 Indicators of Taiwan's foreign trade (2000-2008)**

Indicators\Year	Chen's first term				Chen's second term				
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Imports (US\$ billion)	140.7	108.0	113.2	128.0	168.8	182.6	202.7	219.2	240.8
Export (US\$ billion)	151.9	126.3	135.3	150.6	182.4	198.4	224.0	246.6	255.6
Export order received (US\$ billion)*	153.4	135.7	151.0	170.0	215.1	256.4	299.3	345.8	351.7
Offshore production ratio (%)*	13.3	16.7	19.3	24.0	32.1	39.9	42.3	46.7	47.0
Main China in Taiwan's Offshore Production ratio (%)*	70.3	74.4	79.5	87.7	84.8	89.6	90.9	90.9	87.3
Export dependency on China (%)	24.4	26.6	32.1	35.7	38.0	39.15	39.8	40.7	39.0
Foreign exchange reserve (US\$ billion)	106.0	122.2	161.7	206.6	241.7	253.3	266.1	270.3	291.7

Sources: Taiwan Statistical Data Book (2010) \*:www.moea.gov.tw

**Table 6-3 Electoral support of major parties after 2005**

		Pan-blue parties			Pan-green parties		Others
		KMT	NP	PFP	DPP	TSU	
2005	Magistrates/Mayors	50.96 (14)	0.20 (1)	1.11 (1)	41.95 (6)	1.13 (0)	4.65 (0)
2008	Legislative Yuan	53.48 (81)	0 (0)	0.02 (1)	38.65 (27)	0.96 (0)	6.98 (4)
2008	Presidential Election	58.45 (1)	-----	-----	41.55 (0)	-----	-----

Source: www.cec.gov.tw, seats in parenthesis.

## **Chapter 7: The Survey Research Evidence**

The role of the middle class in the democratic transition has achieved a degree of prominence in politics of many Asian countries in the recent decades. In 1984, Philippine urban middle class participated in the Yellow Revolution and overthrew the Marcos regime (Huntington 1991: 67; McAdam et al., 2001: 107-117). In 1985, the Korean middle class, especially those professionals, rallied students and workers in demanding the end of authoritarian rule (Koo 2002: 109-120). In May 1992, the street battles between the military and the demonstrators in Bangkok, Thailand, were widely characterized as a middle-class revolt, and it resulted in that the military leader Suchinda lost his power (Englehart 2003; Robison and Goodman 1996: 7-8).

In Taiwan, during the years between the mid-1980s and the early 1990s, main actors of the political transformation were the newly emerged middle-class intellectuals and professionals, who pressured the KMT to reform. The major reforms included the lifting of Martial Law, the ending to ban on political party activities, reelection for congresses, and constitutional reform (Huntington 1991: 67; Chao and Myers 1998). Those cases in the Asian countries seemingly point to a correlation between the expansion of middle class and the democratic transition, and support Huntington's third wave democratization argument that the urban middle-class people are the most active supporters of democratization.

However, when so many sociologists and political scientists use the middle class as a homogeneous unit, equate them a correlation model with a causal mechanism, their claim that the middle-class in democratizing countries are pro-liberal is vague. If sociological studies are to enhance our theoretical understanding of the relationship

between the third wave democratization and the role of middle class, then what is needed is support for theoretical arguments with micro-foundational evidence. Unfortunately, to this date, no empirical data has been offered to specify class politics in Taiwan and support the notion that the middle class is pro-liberal. In the following section, I use survey data to clarify this notion.

### **Evidence and analysis for the first wave middle-class crisis, 1989-1995**

I use data collected from 1991 TSCS series II-part I, 1993 series II-part IV, and 1996 TSCS series III-part II to uncover the myths of class and ethnic politics by decomposing party support by class, education, and ethnic groups. Table 7-1 presents popular vote share by social class in the 1989, 1992, and 1995 Legislative Yuan elections. The values of Chi-Square show that popular votes did vary by social classes in three elections, and the degree of variation intensified overtime.

The distribution within the KMT's vote shares by class in three elections was stable, well reflecting class configurations. However, percentages within social class tell a different story. In 1989, the KMT received the majority of new middle-class people's support, in particular, the lower middle class. Following the democratic transition, the KMT lost its valuable support from the new middle class. By 1995, the KMT could only obtain a third of the upper class's support, and its support from the lower middle class had dropped nearly 30%, from 72.2% to 43.5% in 1989. The votes that the KMT lost within the new middle class went to the NP. According to 1995 election outcome, the percentage within the NP vote share suggests that the NP was a true middle-class-based party.

The distribution of the DPP's vote share in 1989 election indicates that it was not a major middle-class party at that time because its major supporters came from working-class people who made up nearly 40 percent of the DPP's popular votes. The 1989 Legislative Yuan election result indirectly answers the long-term myth of the DPP's supporters. In the early 1980s, Domes (1981) argues that the DPP's predecessor organization, the *Tangwai* opposition forces draws major supports from old urban upper class, landlord families, urban lower class (shopkeepers and craftsmen), and young well-educated new upper middle class. Wu (1989) points out that the DPP depends on middle class support. Ling and Myers (1992) specify that the DPP's leadership mainly consists of intellectuals and a few middle-class people. The party's major supporters are the intellectuals, the lower class, and marginal groups.

Accordingly, the distribution of the DPP's vote share during the first wave middle-class crisis suggests that Ling and Myers's observation is much closer to the election outcome. Within the five class categories, the proprietor and working classes prove to be the most heterogeneous groups. Many small proprietors, who supported the DPP, were owners, conducting physical or manual jobs, such as subcontractors and craftsmen. Considering that some proprietors were somewhat blue-collar class in nature, the DPP was more like a working-class party at that time. However, this does not mean the DPP did not receive support from the new middle class. Actually, about a third of the upper class people were steady supporters of the DPP, and the new middle class constituted more than 40% of the DPP's popular support. By 1995, percentage within the DPP's vote share also well reflected the class structure.



If considering the proprietor group as the old middle class, then the DPP surely was a middle-class based party. However, because these surveys only sampled respondents who were between 20 to 64-year old at the time when these surveys were conducted, the age composition seemingly excluded many elderly citizens most of whom presumably had either working or farming origins. The class configuration in the survey data did not fully reflect voters' class background. In this spirit, I could only specify that the NP was a middle-class based party.

Table 7-2 takes a different look at vote choice by education, an important dimension related to social class. In 1989, the KMT's major supporters were those well-educated constituents. As democratization proceeded, however, the KMT alienated itself from these well-educated voters. In the 1995 election, voters with college education not only turned their backs against the more democratic KMT, but they also shifted their support to the more conservative NP. The political shift of the new middle class in 1995 resulted in the KMT's major supporters coming from those with elementary school education. In contrast, the distribution within the NP's vote share indicates that more than one half of its supporters had at least obtained some college degrees. By analyzing voter's education, the 1996 TSCS data again proves that the NP was either a true middle class based or even an elite class party. This outcome coincides with Tien and Chu's (1998: 115) description for the NP's electoral support. It is interesting to note that although the DPP was well recognized as a working-class-based party in the late 1980s, this social image was somewhat misleading according to voter's education background. Actually, the DPP had stabilized its popular support from the better educated groups, in particular voters with high school diplomas and college degrees since 1989.

Table 7-3 reports the vote choice differences among three ethnic groups. Ethnicity is the most distinguishable social cleavage in Taiwan, and the values of Chi-Square in table 7-3 affirm this distinction. The three election outcomes show that the DPP fully depended on mobilization within the Minnan ethnic group to achieve election victories. It is understandable that Mainlanders did not support the DPP because their pro-reunification position was ideologically opposite to the DPP's pro-independent political stance, but why did the DPP have difficulty obtaining support from the Hakka?

Perhaps, this has something related to history and the development of Taiwanese consciousness. Historically, there had been several dozens of wars and battles between these two ethnic groups due to struggles over land on the island. As a result, these two have developed prejudices and resentments against each other. When Taiwanese nationalism began to emerge in the 1970s, the Minnan ethnic group had been particularly willing to identify themselves as Taiwanese rather than Minnan. Consciously or unconsciously, when the ethnic Minnan constructed their new ethnic identity as Taiwanese, they unintentionally marginalized the Hakka in the category of Taiwanese. In this way, the Hakka were less enthusiastically backing the pro-Taiwan DPP, and maintained inertia to support the KMT.

Nevertheless, the democratic transition was a burden rather than an asset to the KMT. The Lee administration's political reforms only resulted in its ethnic support in disarray. After the formation of the NP, Mainlanders largely shifted their support to this pro-reunification party. Putting class, education, and ethnic group factors together, it could be concluded that the NP largely skimmed off the well-educated Taiwanese new middle class from the KMT. Even so, the results still corroborate my fifth research

hypothesis that Mainlander voters would be deeply supportive of the conservative NP, while the DPP could receive ethnic Taiwanese support only.

What can be learned from this analysis of voter's class standing, education and ethnic group membership from 1989 to 1995. First, if positioning the three major parties' political spectrum according to their party platforms as the liberal DPP, the centrist KMT, and the conservative NP, then it is clear that the three new middle-class constituents were almost equally divided. The democratic reforms during the late 1980s and mid-1990s always repeated the scenario that the DPP proposed the reforms, the KMT resisted first but then compromised, and the NP (including the ex-New KMT Alliance) always opposed them and defended Mainlanders' privileges. The new middle-class politics understood in this somewhat revise way (i.e., with three divisions) could only lend some support to the third wave democratization's vague claim that the expansion of middle class coincides with the democratization, but did not specifically verify the causation of the key role that the urban new middle-class people play in pushing the democratization movement.

Contrary to common understanding, the micro foundation evidence indicates that the urban middle-class people were not liberal at all, and they always played the role to impede political reforms. Accompanied with my demonstration in chapters 3 and 4 that the colonial regime in Taiwan had systematically attempted to weaken, if not to totally destroy the liberal opposition forces, these scenarios consistently contradict the third wave democratization argument because the colonial regime did receive the majority middle-class people's political support. The examinations of evidence thus were robust enough to reject the third wave democratization's claim that the urban middle class plays

the key role to advance the democratization in developing countries. At least, it was not the case in Taiwan.

Second, in fact, the data analyses show that the Taiwanese new middle class was not an internally homogenous pro-liberal social unit. The democratic transition only accelerated this middle class to differentiate into three fractions: the conservative fraction attaching to NP, the contingent fraction staying with the KMT, and the liberal fraction supporting the DPP. Thus the data analysis confirms my fourth research hypothesis.

Third, since working-class people always posited itself as the most important supporters of the liberal DPP, it implies at least proportionately that the working class rather than middle class played the most active role in the democratic transition. This outcome confirms that the working class is more important than the middle class as the source of sociopolitical progressivism.

Third and finally, as a consequence of internal differentiation process, class dynamics interacting with the ethnicity/national identity issues and globalization forces as catalysts for election outcomes in the decade between late 1980s and mid-1990s shows that the middle class itself was both the stabilizer and spoiler of the democratic transition. The dynamics of Taiwanese middle class formation and expansion did produce a middle-class crisis that resulted in a politics of polarization threatening democratic consolidation. The liberal fraction of the middle class deserves the credit to entitle the promoter of the democratization, the centrist fraction the free-rider, and the right-wing fraction the spoiler. In the end, it was ethnicity factor brought the left-wing fraction middle class to the centrist ground, emphasizing political interests of Taiwan priority.

## **Evidence and analyses for the second wave middle-class crisis**

In previous chapters, I have demonstrated how political economy transition triggered the middle class in crisis, causing serious class differentiation, and how this middle class differentiation affected election outcomes. In this section, I analyze survey data sets of the Taiwan's Election and Democratization Survey (TEDS) by using multinomial and logistic regression odds likelihood models to collaborate stories of the second wave middle-class crisis. In chapter one, I mentioned that vote share for three major candidates disproportionately overrepresented the winner and underrepresented the two losers in 2001 TEDS survey. To adjust for this problem, I weigh the dependent variable, voter decision, in the four elections I analyze so that the vote shares in the survey would match the actual election outcomes.

I present my weighing scheme in table 7-4. After adjusting the data, I present vote choice by independent variables for each election in table 7-5 to table 7-8. In the early 1990s, the emerging Mainlander-led New Party challenged President Lee's leadership and it slackened the urban middle-class voters' support to the KMT. This development led to the beginning of polarization tendency in Taiwan's democratic transition. Similar tendency but more pronounced development can be seen in the early 2000s. In table 7-5 variables, such as social class, region, education, ethnic group, economic perspective, ethnic identity, and voter's political stand all show signs of polarization tendency. The new-middle-class voters were more supportive of the independent candidate James Soong, who represented the conservative forces, while the blue-collar oriented proprietor, working class, and farmer voters favored the liberal DPP. The same result also appears clear in the region, education and ethnic group variables.

This enhanced version shows that Mainlanders remained fervent supporters of the Mainlander-elite-led leadership. Moreover, the results indicates that independent candidate James Soong, the ex-governor's personal popularity helped him defeat the KMT. The split of the conservative forces, however, led to that James Soong fell short in the 2000 presidential race. And furthermore, the most striking figures in table 7-5 appear in the three identity variables. On the one hand, voters who identified as ethnic Chinese, favored reunification, and distinguished themselves as conservative constituents aligned with the right-wing candidate James Soong. On the other hand, voters who perceived as Taiwanese, preferred independence, and regarded themselves as liberal constituents were associated with the left-wing DPP.

This polarization development continued in the 2001 Legislative Yuan election. Class related variables, such as new middle class, public employees, better educated constituents, and Mainlanders were more bounded to the two pan-blue parties. Mainlander voters' inertia to the most conservative party again corroborates my fifth research hypothesis. On the contrary, working class, farmers, and less educated voters aligned with the pan-green parties. The most salient figures again were identity variables. Voters leaned towards Chinese, reunification, and conservatives were affiliated with the pan-blue parties, while voters identified as Taiwanese, independence supporters, and liberals went along with the pan-green parties.

In the 2004 presidential election, the pan-blue coalition and the DPP almost evenly divided the vote share. However, table 7-7 shows that class, job sector, education, ethnicity, economic perspectives, ethnic group, ethnic identity, state identity, and self-reported political stance continued to make differences in vote choice. This polarization

trend maintained consistent in the 2004 LY election, indicating a binary opposition structure, even though around 2 million regular voters were absent at polling booths.

In order to better apprehend the voting behavior in Taiwan, this research uses logistic regression model to examine the effects of social class on the 2000 presidential election. In table 7-9a, model 1 indicates significant effects of social class on voting behavior. Upper and lower middle-class voters were more likely to vote for the PFP or KMT candidates, while working class respondents and farmers were more likely to support the DPP's Chen Shui-bian.

This outcome suggests a more conservative bent to the Taiwanese middle class, which is consistent with my arguments that the colonial system has remained influential on the middle-class people's political stand. This finding varies with some of the modernization studies in political sociology arguing that middle class expansion produces middle-of-the-road political proclivities (C. Clark 2002; Hsiao 2001; Hsiao and Koo 1997). The coefficients of the upper and lower middle-class fractions are significant and they are positively associated with the two pan-blue parties, the KMT and PFP, indicating an important middle class split in the 2000 presidential election. Moreover, the proprietor fraction of the middle class seems more heterogeneous in its voting preferences, indicating the kind of middle class differentiation that this study has argued characterized the Taiwanese class structure. Two coefficients of farming class are negative, indicating that the DPP's pro-welfare stand strongly won farmers' popular support.

When the six control variables were entered into the analysis (model 2 of table-7-9a), these control variables overshadow the upper and lower middle-class fractions' support for both PFP and KMT. The result indicates that class effects on voting behavior

are strongly mediated by other factors. For the PFP, Mainlander ethnic variable turned out to be the most important predictor of support; and for KMT, its electoral advantages were found among those voters with high school diplomas and among ethnic Mainlanders. Application of Wald Chi Square analysis indicates that the most powerful variable in model 2 is ethnicity, indicating the ongoing importance of ethnic stratification in Taiwanese politics.

Because the ethnic Minnan population accounts for over 70% of Taiwan's population and many Minnan are positioned at the bottom of Taiwanese class structure in the worker and farmer class categories, model 2 suggests that the 2000 presidential election revolved around ethnic rather than class issues. This strength of ethnic stratification finding indicates that social class is an intervening variable between ethnicity and voting decisions.

In model 3 of table 7-9b, this study adds the political economy perception variables (attitudes about recent economic conditions and about the state identity question). With this specification, the value of pseudo R-square increases significantly, showing that these two variables are more important than control variables in explaining the 2000 presidential election outcome. Surprisingly, these political economy perception variables reduce the coefficient value of Minnan ethnicity, rendering it statistically insignificant. Voters who believed that national economic conditions were deteriorating were more likely to vote for the PFP and KMT, pointing to more confidence in the pan-blue parties' ability to deal with the economy. On the other hand, attitudes about the household economic situation did not seem to influence vote choice as these coefficients are statistically insignificant.



With regard to the ethnic identity variable, those voters identifying themselves as Chinese were most likely to support the PFP. Those self-identifying as both Taiwanese and Chinese were more likely to support the two pan-blue parties. Moreover, this variable indicates that the ethnic background (based on father's ethnic group) has deepened into ethnic identity politics, indicating the heightened attention paid to the ongoing separation of Taiwan and China in voters' minds. Those identifying themselves as Taiwanese were most likely ethnic Minnan, who seemingly favored to cast votes for the pro-Taiwan DPP in the 2000 presidential election.

In model 3 (table 7-9b), the state identity variable outweighs other variables and marks the most determining factor for voting likelihood. What the variable suggests is that voters viewed the 2000 presidential election as an election to determine Taiwan's future. The PFP and the KMT split votes among those favoring reunification or permanent status quo, while the DPP picked up those favoring the independent state status.

In reviewing findings from these three models, the first model shows that class matters. However, once this study added the control variables, class effects are subsumed by ethnic politics. Furthermore, as this research looks deeper, this study finds that ethnic politics revolve around economic perceptions and the national identity question. The former suggests that there was a collective anxiety about Taiwan's economic future early in the new millennium. The latter refers to how voters' ethnic identity influenced how they thought about Taiwan's state identity question. In model 4 (table 7-9b), this study examines whether these patterns had been transferred into voters' political stands. With the entry of the self-reported political stand variable into the equation, the significance of

the ethnic identity coefficients become statistically insignificant. Moreover, the value of reunification variable is reduced and its statistical significance also vanishes. The pan-blue variable has the largest coefficient value and is statistically significant. Like pan-blue voters, the self-reported contingent swing voters as a whole were more likely to support both PFP and KMT candidates.

Because the self-reported political stand variables have the largest values in model 4, and because the pseudo R-square increases dramatically, this study concludes that class politics have been consolidated into voters' political stands in the political spectrum that has evolved in the course of the Taiwanese political party development. In particular, after comparing coefficients between the PFP and KMT, this study found that the more conservative middle-class fraction was more likely to support the PFP. In contrast, the KMT only received the contingent middle class's support in the 2000 election. As expected, the DPP's political strength was mainly from working class and farmers. Because the nature of the 2000 presidential election was a war between the liberal and conservative positions, there was not much space for the KMT, who took a moderate political stand during the campaign. This explains why the vote share of the KMT was the least among the major three contenders in the 2000 presidential election.

Are these voting patterns sustained in subsequent elections? This study examines this question in 2001 Legislative Yuan election by using the same models and survey data. This study compared the pan-blue forces vs. the pan-green bloc in particular. A close look at model 1 of table 7-10a shows that the pan-blue parties won the majority of the upper and lower middle class' support, consistent with previous results in the model 1 of table 7-9a. In model 2, after adding control variables in the model, the class effect of the

upper middle-class fraction partially transforms into the ethnicity factor, with the ethnic Minnan favoring the pan-green forces and Mainlanders embracing the pan-blues.

However, the lower middle class' support for pan-blue parties remained strong. Another class related variable, job sector, shows positive sign for the pan-blues, indicating that public employees favored the pan-blue parties. This outcome cooperates with my arguments in dependency complex that the overdeveloped state produced assimilated middle class. In addition, this study noticed that the young age cohort is statistically significant, indicating that many first-time voters and younger generations, who grew up under the impacts of decolonization process were more likely to vote for the pan-greens.

In model 3 of table 7-10b, while newly entered variables related to political economy perceptions overshadow the effects of job sector, they do not wash out the effects of the class and ethnic variables on vote choice. The two middle-class fractions and Mainlanders maintained their faithful support for pan-blues. This outcome shows that voters viewed the Legislative Yuan election somewhat differently from the 2000 presidential election. Nevertheless, the political economy perception variables have larger effects on voting decisions, and the patterns are quite similar to those in the 2000 presidential election. In model 4 of table 7-10b, after this study entered the political stand variable, the significance of the two political economy perceptions, the macro level economic perspective and state identity all disappear but the effect of the ethnic variable resurfaces. In addition, what stands out are the middle-class fraction, micro level economic cognition, ethnic identity, and political stand variables.

The lower and upper middle-class fractions still favored pan-blue parties. The sagging economy helped pan-blues sustain their electoral advantages as indicated by the weight of the micro level economic perception variable. Voters facing deteriorating household economic conditions favored the pan-blue forces. The ethnicity variable tends to be an intervening variable between ethnic identity and vote choice. This ethnicity variable, accompanied by the macro level economic perception and state identity variables, intervene between self-reported political stand and vote choice.

Overall, independent politicians shared some similar electoral advantages with the pan-blues. Nevertheless, their electoral advantages have limitations. This is because when comparing values of intercept, all the values of significant variables are far less than that of the intercept. Together with the findings from the analysis in the 2000 presidential campaign, these statistics indicate that pan-green forces were a political minority in the Taiwanese political spectrum. Therefore, Chen Shui-bian's victory in the presidential election was indeed somewhat of a fluke due to a serious leadership split in the conservative camp in 2000. In the next section, this study examines a united pan-blues vs. the DPP in the 2004 presidential campaign by using the same models to better interpret the middle class differentiation dynamics and continuing political confrontation.

Since the 2004 presidential campaign is a matched race between two major candidates, as stated earlier, the research needed to switch to logistic regression techniques. In model 1 of table 7-11, the white-collar classes overwhelmingly favored the pan-blue joint ticket. Looking at class effects alone, the 2004 presidential election seems to be a clear-cut case of electoral divisions between the white-collar middle classes and the blue-collar working and farming classes. However, after adding control variables into

the model, the middle-class fraction's support for the pan-blues totally disappears. Pan-blues were able to obtain decisive electoral advantages from only the Mainlander community. On the contrary, the DPP candidate, Chen Shui-bian took clear-cut advantages among ethnic Minnan, male, and young voters. Values of coefficients for these variables indicate that Chen's reelection victory was due to solid support from ethnic Minnan and male voters.

Like previous findings, after entering political economy perception variables in model 3 of table 7-11, the ethnic identity variable washes out the ethnic Minnan's effect. However, two variables warrant my attention. First, the effect of gender variable against the pan-blues consistently stands up, indicating that male voters were more supportive of a liberal agenda. Second, in the 2000 presidential election models, the micro level economic perception variable had no effect on the likelihood of vote choice. In the 2004 presidential election, both micro and macro level economic perception variables show greater effects on vote choice. This finding suggests that the economic issue polarized voters. On the one hand, voters who felt that Taiwan's economy was sagging aligned with the pan-blues. On the other hand, voters who believed that Taiwan's economy was getting better supported for the DPP.

In general, the pan-blues took advantage of both economic and ethnic identity issues in the 2004 presidential election. Nevertheless, after four years, voters who identified themselves as Taiwanese increased from 32.4% to 44.3% (see table 7-5 and table 7-7). Accompanied by the strong support of the farming class, male voters, and voters who were in their 30s, the 12% net increase in those who claim Taiwanese ethnic

identity helped offset the DPP's electoral disadvantage on the political economy perception variables.

Nevertheless, both camps' electoral advantages largely disappeared, including pan-blue's economic and ethnic Mainlander variables and pan-green's farming class, male voter and age cohort variables, once the self-reported political stand was loaded in the equation. In model 4 of 8-11b, the most powerful variables explaining vote choice for 2004 presidential election come from the political stand variable, followed by the ethnic and state identity variables. These results provide pivotal evidence for this study's claim that for the liberal fraction of the middle class, problems associated with the transplanted state remained pressing. In contrast, the conservative middle class elements were unsuccessful in defending the structure of transplanted state, while self-reported swing voters tended to favor the pan-blues in model 4. When this study changed the reference category, self-reported swing voters were also supportive of the DPP and that variable's effect is statistically significant. Thus, research findings confirm my seventh hypothesis, as identity variables played more determining role in vote choice.

In the 2000 presidential election, the two candidates of the pan-blue parties won 60% of the self-reported swing voters' support. However, in the 2004 campaign, the DPP won nearly 60% of contingent voters' support (see table 7-5 and table 7-7). This reversal indicates that significant numbers of the middle-class people shifted from centrist-right to left in their voting behavior. This shift is the key to explaining why Chen won his reelection under the deteriorating economic condition favoring the pan-blue coalition.

After the vigorous 2004 presidential campaign, the political climate seemingly favored the pan-greens' agenda to dismantle the transplanted state and move Taiwan to a

more independent state profile. Nevertheless, they failed to win a majority seats in the parliamentary election. This study examined what changed in the 2004 Legislative Yuan election. In model 1 of table 7-12a, the pan-blues retained their electoral advantages among the upper and lower middle-class fractions. However, in model 2 of table 7-12a, their electoral advantages among these middle-class fractions vanished. Coefficients in model 2 suggest that pan-blues' support from public employees, voters with higher education, and Mainlanders variables overshadowed middle class effects. These were minor factors in the Legislative Yuan election because these groups of people comprised rather small proportions of the survey sample (which was representative of the general population). In contrast, the pan-greens increased their support from the ethnic Minnan group, which made up more than 70% of the sample.

In model 3 of table 7-12b, the pan-green parties' electoral advantage was manifested in the state identity favoring independence agenda and male voters, while pan-blues remained strong among ethnic Mainlanders, on economic perception issues, and on the ethnic identity variable. The coefficient values on the economic related variables implied that voters displayed increasing interest in pan-blues' ability to deal with economic problems. In model 4, the most important variable in the equation is again self-reported political stand. However, this time swing voters turned their backs against the pan-green parties. A large amount of contingent voters who supported Chen Shui-bian in his reelection bid were absent in the Legislative Yuan election. Since multinomial regression analysis is based upon odds ratios, swing voters' absence in 2004 Legislative Yuan election apparently affected the frequency distribution resulting in significant weaknesses in the pan-green-forces' electoral advantages. In table 7-8, the cross-

frequency table of the swing voters' vote choices indicates that the pan-greens won only 38% of contingent voters' support, around 20% shortage in comparison with 57.1% in 2004 presidential election (see table 7-7).

One possible reason for these changes in those contingent voters' participation in the 2004 parliamentary election is that the pan-green bloc proposed a political agenda to fundamentally solve the transplanted state problem. Their platform was to enact a new Constitution that would further "Taiwanize" the state by rectifying the country's name from the "Republic of China" to the "Republic of Taiwan," if they reached majority status in the parliament in the 2004 Legislative Yuan election. In the previous models, this study discovered somewhat different dynamics between Legislative Yuan and presidential elections. Using the same strategy in the presidential election to run the Legislative Yuan campaign may have been a mistake for the pan-greens, as it apparently scared the swing voters.

Another reason why the pan-greens failed to win the 2004 Legislative Yuan election is that Taiwanese society had been totally divided into either pan-blue bloc or pan-green camp after 2004 presidential campaign (Chu 2005). Although the DPP won the presidential election, media supporting the pan-blues have accused that the pan-greens of polarizing Taiwanese society. Citizens in Taiwan seemed somewhat weary of how this polarization had overpoliticized daily life. After all, for many centrist middle-class voters, not all things are equal, and politics should not outweigh life itself. A route of escape was to become apolitical. This accounted for the lack of swing voters' support for the pan-greens after their victory in the presidential election, with the outcome that the Chen administration maintained minority government and Taiwan remained politically



deadlocked. Research findings and implications about the centrist middle-class voters therefore back up my sixth hypothesis that outcomes of volatile elections hinge on middle-class swing voters.

### **Middle class differentiation and class politics**

In previous chapters, I have argued that the expansion of Taiwan's middle class has taken place within the context of an overdeveloped state (colonialism) and developmental state (economy). After two decades of involvement in the political economy transition, democratization movement tended to redirect the rightwing-oriented middle class toward centrist or political left position, but globalization process seemed to pull back the middle class in the more conservative stand. This context has affected a degree of middle class differentiation impacting on recent electoral politics in Taiwan.

This interpretation challenges the conventional wisdom of modernization and third wave democratization theories regarding the stabilizing influence of middle class politics in the consolidation of democratic institutions. Based on research findings, this study argues that the democratic transition in Taiwan is occurring in a society with a differentiated middle class, and that a minority liberal middle-class fraction combined with progressive working-class forces, have democratized Taiwanese politics. In addition, research findings suggest that the death of class politics thesis is premature and that, in the Taiwanese case, class interacts with identity politics in quite nuanced ways.

As this study indicates, voting behavior in Taiwan has a multidimensional structure. First, class politics appeared with a rift in voting preferences between white-collar class fractions and a coalition of working class and farmers. In its second dimension, class politics transformed into ethnic politics, meaning that the majority

ethnic Minnan citizens (with an overrepresentation of workers and farmers) were often countered politically by a coalition of other ethnic groups, with Mainlanders anchoring at the core of this coalition. In its third dimension, class politics in Taiwan implied divisions based upon political economy perceptions. Voters dissatisfied with Taiwan's economic performance have consistently aligned with the pan-blue parties. On the other hand, on the political identity side, the survey data show that voters were increasingly dissatisfied with Taiwan's status quo, being neither a state nor a province. The liberal pan-green parties were determined to solve the problem left by the transplanted state, although the conservative parties favored a reunification agenda. Both sides have distinct class bases, with the working and farming classes supporting rectification, and the upper and lower middle-class conservative fractions favoring status quo or reunification.

Because the national identity politics variable washes out the ethnic Minnan factor's effect on vote choice, the ethnic Minnan factor is an intervening variable between identity politics and vote choice. Although the pan-blues in general had greater advantages in the political economy perception factors, they were unable to win the elections. This is because the contingent middle-class fractions shift voting allegiance. Identity politics became the major concern among swing voters in national level elections if party platforms and candidates forced voters to take sides. After the vigorous 2004 presidential election where swing middle-class voters helped elect Chen, many of these voters seemed to be tired of identity politics and became apolitical.

While Chen's reelection victory sustained political momentum for Taiwan's future independence from the transplanted state, the political goals of liberal middle-class and other progressive forces aimed at "enacting a new Constitution" and renaming the

national title from the “Republic of China” to the “Republic of Taiwan” seemingly terrified many swing middle-class voters. The conservative and contingent Taiwanese middle class feared that a further step toward *de jure* independence might provoke a war across the Taiwan Straits and it might therefore destroy what Taiwan has achieved in terms of economic development and democratic consolidation.

During Chen’s first term, many political analysts suggested that Taiwan and China were moving toward separate and distinct destinies, and that a war across Taiwan Strait was increasing probable (Chu, 2004; Corson, 2004; Lynch, 2004; Peterson, 2004). As long as Chen did not formalize a change Taiwan’s status quo, the contingent middle class was willing to cast their ballots for pan-greens. However, in the 2004 Legislative Yuan election, enacting a new Constitution and rectifying national title became a united campaign platform of the pan-greens. This platform apparently terrified and discouraged many swing voters.

Without swing voters’ support, the pan-greens’ electoral strength significantly weakened after the 2004 LY election. This outcome highlights the importance of middle class’ political values in the Taiwanese political arena. Since the middle class differentiation has resulted in a strong middle-class conservative bloc, the pan-greens’ pursuit of Taiwan’s *de jure* independence is less likely to happen. Given the political limitations imposed by existing middle class differentiation, Taiwanese democratic consolidation and decolonization effort are still in the making.

What can be learned from the data analysis for the second wave middle-class crisis? First, regime transition initiated the second wave middle-class crisis. The middle-class crisis began with the split of the KMT leadership, as it gave the DPP a rare

opportunity to win the 2000 presidential election. This development suggests that leadership played the central role to win popular support. The data analysis of the 2000 presidential vote choice shows that the split of the KMT leadership caused a rightward shift in the new middle class and leftward shift among blue-collar voters. As a result of these significant shifts, the KMT's vote share plummeted to all-time low.

In the 2004 presidential election, although the KMT and PFP's formed a joint ticket headed by Lien, Lien's unpopularity deterred many middle-class voters' support. In contrast, with strong leadership and identity campaign issues, the DPP was able to bend enough conservative-oriented middle-class voters to its favor. Despite the important leftward shift of the middle-class voters, however, the DPP's campaign momentum faded sharply because the centrist middle-class voters became apolitical in the 2004 legislative Yuan election.

A series of alleged corruption scandals beginning in 2005 further damaged the DPP leadership's reputation of being a clean government. The DPP's political strength had been at the ebb since then. Meanwhile, after Ma Ying-jeou chaired the KMT, Mainlanders' superiority complex resurged. This development brought colonial syndrome into play in Taiwan's political arena. With inferiority complex attaching to the DPP and the resurging Mainlanders' superiority complex annexing to the KMT, the sharp difference between Taiwan's two major parties brought a rightward shift of the centrist middle-class voters. As a result, it ushered the KMT to return to power.

Second, ideological conflict was one of the major causes of the middle-class crisis. The state was an ideological and cultural construct. In the Taiwanese case, the foundation of the transplanted state was based on colonial ideology and Mainlanders' political values.

After the DPP took power, civil loyalty and political cohesion in Taiwan became problematic because the DPP's political values and moral claims were incompatible with the transplanted state.

As the national leadership signaled a determining role for the future of the Taiwan, the decolonization movement led by the DPP initiated a large scale ethnic mobilization and identity struggle during the campaigns in the mid-2000s. The decolonization movement then led to persistent political stalemate and social chaos. The identity struggle in Taiwan manifested the dilemma of the transplanted state. On the one hand, reform for the transplanted state had its limit, as it could not improve Taiwan's uncertain status in the international community. On the other hand, a radical change of the transplanted state was not acceptable for the conservative-oriented middle-class voters. As a result, democratic consolidation did not change Taiwan's colonial status.

Third, globalization has multiple impacts on the development of the middle-class crisis. First, after two decades of outward investment in response to globalization pressure, corporate rationalities caused hollowing-out industrialization in Taiwan. And firms' rationality practice gave rise to serious fluctuation and polarization movement in the white-collar job market. Moreover, as the growth and maintenance of the middle class became problematic, it caused the white-collar people's resentment against the DPP government. This is mainly because while Taiwan's development trajectory had gradually shifted to institutionalist development model, the developmental state paradigm was still deeply enshrined in the mind of the majority of the middle-class people.

Furthermore, globalization brought to China threats into play in determining vote choice. On the one hand, Taiwanese firms needed Chinese market for business survival

and more than one million middle-class people pursued their career in the Chinese job market. This dependency allowed China to bend Taiwanese voters to its favor, as it stabilized the middle class' conservative-oriented tendency. On the other hand, the inseparable dependency created more China threats. As a global power, the emerging China may coerce Taiwan for political reconciliation in a near future. This setting gave rise to Taiwanese nationalism which was based on anti-China ideology. Thus, China threats polarized Taiwan's middle-class voters, and the division, in turn, deepened the sense of middle-class crisis.

Finally, while my data analysis does not include any "colonial variable," the interpretation and implication of each variable, however, does converge into colonialism. This indirectly supports my first hypothesis that the KMT established a colonial relationship over the Taiwanese ethnic groups. As the emerging China posed to be another colonial power threatening to Taiwan, Taiwan's colonial status deserves more attention in future study.

### **Summary**

This chapter uses several post-election survey data sets to examine important hypotheses. The data analyses show that the Taiwanese new middle class was not an internally homogenous pro-liberal social unit. The democratic transition during the first wave middle-class crisis only accelerated this middle class to differentiate into three fractions: the conservative fraction attaching to the NP, the contingent fraction staying with the KMT, and the liberal fraction supporting the DPP.

As the DPP always proposed reforms ahead of the KMT during democratic consolidation, in this regard, the liberal middle-class fraction and the DPP's major

supports, the progressive working class, were the carriers of Taiwan's democratization. The majority of the middle-class people seem to be simply riding their coattails. The micro foundation evidence thus indicates that the urban middle-class people were not liberal at all, as they always played the role to impede political reforms. This finding rejects the third wave democratization's claim that the urban middle class plays the key role to advance the democratization in developing countries.

My analyses of Taiwan's electoral politics show that class intertwined with ethnicity factor and identity politics. First, class politics appears with a rift in voting preferences between white-collar class fractions and a coalition of working class and farmers. The white-collar class fractions were more conservative-oriented, who preferred to support the centrist and conservative parties. The working class and farmers were more liberal, who attached left wing parties.

Moreover, class politics transforms into ethnic politics, meaning that the majority ethnic Minnan citizens (with an overrepresentation of workers and farmers) were often countered politically by a coalition of other ethnic groups, with Mainlanders anchoring at the core of this coalition. Data analyses confirm that Mainlander voters were more supportive of the most conservative parties, for example, the NP and the PFP, and ethnic Minnan were steady backers of liberal parties, for example, the DPP and the TSU.

Furthermore, class interacts with identity politics in a quite nuanced way, with the working and farming classes more likely supporting independence movement, and the upper and lower middle-class conservative fractions favoring status quo or reunification. In contrast to previous analyses of Taiwanese politics that focus mainly on ethnic division and national identity differences, my analysis of voting behavior emphasizes

how class dynamics interact with the ethnicity/national identity issues as catalysts of electoral outcomes. My findings suggest that “the death of class politics thesis” is premature and the majority Taiwanese middle-class people remain in the conservative camp.

Finally, my story and argument in previous chapters about the impact of colonial syndromes are more interpretations of comparative historical evidence, and the data in this chapter do not directly prove my first hypothesis that the KMT established a colonial relationship over the Taiwanese ethnic people (Minnan and Hakka groups) who just previously suffered under a colonial relationship under the Japanese for 50 years.

However, some of the evidence in the quantitative data analysis backs up my parts of my claims about the impact of colonialism on Taiwanese people.

First and most importantly, large percentages of Taiwanese voters shifted their ‘self-reported’ identity from Chinese to Taiwanese from 1994 to 2004 (see table 5-4). And “self-identified” Taiwanese voters were more likely to favor Taiwan independence and vote for the DPP. Why would these identity shifts occur? This is exactly the shift one would expect from a colonial (i.e., Chinese) identity to a more specific pre-KMT occupation identity (i.e., Taiwanese consciousness with some Hakkan and Minnan influences). There is no denying that this shift in identity occurred because it is backed up by large survey data occurring in a number of election cycles. My contribution is in interpreting this shift. If this were due to nation-building and opposition to China, one would expect relatively smooth political processes toward democracy. However, this identity change was accompanied by considerable political conflict on this very issue.



A second factor, which I do not discuss in detail in this chapter, is that politicians actively campaigned with identity politics in mind. DPP politicians in particular have been very actively promoting the ideas of decolonization, which of course, one cannot be decolonized if they are not already colonized. In 1991, the DPP suffered a severe blow in the National Assembly election because DPP politicians placed Taiwan independence at the center of its party charter. Its vote share dropped to 23% from 35.3% in the 1989 Magistrates and Mayors election (see Table 4-3). In 1994, the DPP suffered another defeat because its candidate Chen Ding-nan used the slogan “Taiwanese voting for Taiwanese” to campaign the first ever Taiwan governor election.

In 1996, the first ever direct president election, the DPP suffered a devastating setback, and its vote share dropped to 21%, an all-time low because its candidate, Pen Ming-min made the campaign into a referendum concerning Taiwan independence. In 2004, the DPP and the TSU campaigned on a decolonization platform using slogans like “love for Taiwan,” “rectifying the national title,” and “redrafting a new constitution.” While President Chen won his reelection, the two pro-Taiwan Parties, the DPP and the TSU together failed to obtain a majority of the seats in the 2004 Legislative Yuan election. So all of these points in my data analysis partially suggest that Taiwan moved away from and then back to a society with considerable concerns about colonization by the Mainlanders (KMT) and a desire for much more ethnic Taiwanese influence and power.

This change is then shown in the behavior of Taiwanese voters. First, the majority Taiwanese new middle class, public employees, and well-educated voters’ inertia support for the KMT or the most conservative parties indicates my argument

regarding dependency complex as a reasonable explanation. The interwoven relations between class and ethnicity variables further corroborate my argument about dependency complex.

Second, Mainlander voters' firmly support for the most conservative parties and reunification agenda shows that the KMT's colonial ideologies remain resilient to prevent Taiwan's democratic consolidation moving toward independence. This development reflects Mainlanders' superiority complex as a possible answer for the endurance of the colonial political values. Third, the lower classes and less-educated voters' steady support for the DPP, which has been labeled as a party of violence and pro-independence, implies the fundamental nature of the indistinct inferiority complex among the lower strata ethnic Taiwanese.

And fourth, the emerging identity issues as the most decisive variables mattering Taiwan's election outcomes suggest that Taiwanese society has been experiencing a socio-psychological struggle since the outbreak of the first wave middle-class crisis in the late 1980s. As the decolonization movement appears to be the major concern of the identity struggle, the ongoing identity politics directly points out that the binary opposition colonial structure maintains the core problem in Taiwan. Therefore, colonial perspectives serve as a nuanced approach to better comprehend Taiwan's political economy transition in the future study.

**Table 7-1 Distribution of vote shares by class in LY elections (1989-1995)**

			Social class					Total	
			Upper middle	Lower middle	Proprietor	Working class	Farmers		
1989	KMT Legislative Yuan election vote share	Cases	112	208	90	257	70	737	
		KMT vote share	15.2%	28.2%	12.2%	34.9%	9.5%	100%	
		% in class	62.2%	72.2%	54.2%	53.0%	64.2%	60.0%	
		DPP	Cases	57	64	61	135	28	345
			DPP vote share	16.5%	18.6%	17.7%	39.1%	8.1%	100%
			% in class	31.7%	22.2%	36.7%	27.8%	25.7%	28.1%
		Others	Cases	11	16	15	93	11	146
			Others' vote share	7.5%	11.0%	10.3%	66.7%	7.5%	100%
			% in class	6.1%	5.6%	9.0%	19.2%	10.1%	11.9%
Total	Cases		180	288	166	485	109	1228	
	Total vote share		14.7%	23.5%	13.5%	39.5%	8.9%	100%	
	% in class		100%	100%	100%	100%	100%	100%	
Chi-Square: 59.41***									
1992	KMT Legislative Yuan election vote share	Cases	117	220	71	224	44	676	
		KMT vote share	17.3%	32.5%	10.5%	33.1%	6.5%	100%	
		% in class	54.4%	59.8%	39.2%	48%	42.3%	50.6%	
		DPP	Cases	79	108	80	145	30	442
			DPP vote share	17.9%	24.4%	18.1%	32.8%	6.8%	100%
			% in class	36.7%	29.3%	44.2%	31.0%	28.8%	33.1%
		Others	Cases	19	40	30	98	30	217
			Others' vote share	8.8%	18.4%	13.8%	45.2%	13.8%	100%
			% in class	8.8%	10.9%	16.6%	21.0%	28.8%	16.3%
Total	Cases		215	368	181	467	104	1335	
	Total vote share		16.1%	27.6%	13.6%	35.0%	7.8%	100%	
	% in class		100%	100%	100%	100%	100%	100%	
Chi-Square: 54.17***									
1995	KMT Legislative Yuan election vote share	Cases	104	259	118	291	76	848	
		KMT vote share	12.3%	30.5%	13.9%	34.3%	9.0%	100%	
		% in class	34.7%	43.5%	47.2%	46.6%	66.7%	45.0%	
		DPP	Cases	94	191	87	234	31	637
			DPP vote share	14.8%	30.0%	13.7%	36.7%	4.9%	100%
			% in class	31.3%	32.0%	34.8%	37.5%	27.2%	33.8%
		NP	Cases	84	101	23	43	0	251
			NCP vote share	33.5%	40.2%	9.2%	17.1%	0%	100%
			% in class	28.0%	16.9%	9.2%	6.9%	0%	13.3%
		Others	Cases	18	45	22	56	7	148
			Others' vote share	12.2%	30.4%	14.9%	37.8%	4.7%	100%
			% in class	6.0%	7.6%	8.8%	9.0%	6.1%	7.9%
Total		Cases		300	596	250	624	114	1884
		Total vote share		15.9%	31.6%	13.3%	33.1%	6.1%	100%
		% in class		100%	100%	100%	100%	100%	100%
Chi-Square: 120.34***									

\*Sources: 1991 TSCS series II-part I, 1993 TSCS series II-part IV, and 1996 TSCS series

III-part II.

\*\*\*Figures in cells adjusted by: vote share in election outcome/ vote share in data

\*\*\*p<.001

**Table 7-2 Distribution of vote shares by education in LY elections (1989-1995)**

			Voter's education				Total	
			Elementary and below	Middle school	High school	College and above		
1989 Legislative Yuan election vote share	KMT	Cases	242	133	285	241	890	
		% in KMT vote share	26.9%	14.8%	31.7%	26.7%	100%	
		% in educational group	58.9%	53.0%	68.3%	62.3%	61.5%	
	DPP	Cases	115	84	90	124	413	
		% in DPP vote share	27.8%	20.3%	21.8%	30.0%	100%	
		% in educational group	28.0%	33.5%	21.6%	32.0%	28.2%	
	Others	Cases	54	34	42	22	152	
		Others' vote share	35.6%	22.4%	27.6%	14.5%	100%	
		% in educational group	13.1%	13.5%	10.1%	5.7%	10.4%	
Total		Cases	411	251	417	387	1466	
		% in total vote share	28.0%	17.1%	28.4%	26.4%	100%	
		% in educational group	100%	100%	100%	100%	100%	
Chi-Square: 31.33***								
1992 Legislative Yuan election vote share	KMT	Cases	233	140	294	201	868	
		% in KMT vote share	26.8%	16.1%	33.9%	23.2%	100%	
		% in educational group	42.4%	49.3%	59.6%	55.5%	51.4%	
	DPP	Cases	163	99	149	119	530	
		% in DPP vote share	30.8%	18.7%	28.1%	22.5%	100%	
		% in educational group	29.7%	34.9%	30.2%	32.9%	31.4%	
	Others	Cases	153	45	50	42	290	
		% in others' vote share	52.8%	15.5%	17.2%	14.5%	100%	
		% in educational group	27.9%	15.8%	10.1%	11.6%	17.2%	
Total		Cases	549	284	493	362	1688	
		% in total vote share	32.5%	16.8%	29.2%	21.4%	100%	
		% in educational group	100%	100%	100%	100%	100%	
Chi-Square: 76.15***								
1995 Legislative Yuan election vote share	KMT	Cases	309	172	245	174	900	
		% in KMT vote share	34.3%	19.1%	27.2%	19.3%	100%	
		% in educational group	56.4%	50.3%	42.8%	35.4%	46.1%	
	DPP	Cases	194	124	184	147	649	
		% in DPP vote share	29.9%	19.1%	28.4%	22.7%	100%	
		% in educational group	35.4%	36.3%	32.2%	29.9%	33.2%	
	NP	Cases	9	15	87	141	252	
		% in NP vote share	3.6%	6.0%	34.5%	56.0%	100%	
		% in educational group	1.6%	4.4%	15.2%	28.7%	12.9%	
	Others	Cases	36	31	56	29	152	
		% in others' vote share	23.7%	20.4%	36.8%	19.1%	100%	
		% in educational group	6.6%	9.1%	9.8%	5.9%	7.8%	
	Total		Cases	548	342	572	491	1953
			% in total vote share	28.1%	17.5%	29.3%	25.1%	100%
			% in educational group	100%	100%	100%	100%	100%
Chi-Square: 208.38***								

\*Sources: 1991 TSCS series II-part I, 1993 TSCS series II-part IV, and 1996 TSCS series III-part II.

\*\*Figures in cells adjusted by: vote share in election outcome/vote share in data

\*\*\*p<.001

**Table 7-3 Distribution of vote shares by ethnic groups in LY elections (1989-1995)**

			Ethnic Group			Total
			Minnan	Hakka	Mainlander	
1989	KMT	Cases	567	149	176	892
Legislative		% in vote share	63.6%	16.7%	19.7%	100%
Yuan		% in ethnic group	53.6%	73.0%	90.3%	61.2%
election	DPP	Cases	360	40	12	412
vote		% in vote share	87.4%	9.7%	2.9%	100%
share		% in ethnic group	34.0%	19.6%	6.2%	28.3%
	Others	Cases	131	15	7	153
		% in vote share	85.6%	9.8%	4.6%	100%
		% in ethnic group	12.4%	7.4%	3.6%	10.5%
Total		Cases	1058	204	195	1457
		% in total vote share	72.6%	14.0%	13.4%	100%
		% in ethnic group	100%	100%	100%	100%
Chi-Square=107.47***						
1992	KMT	Cases	561	118	182	861
Legislative		% in vote share	65.2%	13.7%	21.1%	100%
Yuan		% in ethnic group	44.7%	54.1%	88.8%	51.3%
election	DPP	Cases	453	66	97	528
vote		% in vote share	85.8%	12.5%	1.7%	100%
share		% in ethnic group	36.1%	30.3%	4.4%	31.4%
	Others	Cases	242	34	14	290
		% in vote share	83.4%	11.7%	4.8%	100%
		% in ethnic group	19.3%	15.6%	6.8%	17.3%
Total		Cases	1256	218	205	1679
		% in total vote share	74.8%	13.0%	12.2%	100%
		% in ethnic group	100%	100%	100%	100%
Chi-Square=139.81***						
1995	KMT	Cases	645	99	111	855
Legislative		% in vote share	75.4%	11.6%	13.0%	100%
Yuan		% in ethnic group	45.0%	54.7%	39.6%	45.1%
election	DPP	Cases	570	44	30	644
vote		% in vote share	88.5%	6.8%	4.7%	100%
share		% in ethnic group	39.7%	24.3%	10.7%	34.0%
	NP	Cases	105	20	126	251
		% in vote share	41.8%	8.0%	50.2%	100%
		% in ethnic group	7.3%	11.0%	45.0%	13.2%
	Others	Cases	114	18	13	145
		% in vote share	78.6%	12.4%	9.0%	100%
		% in ethnic group	7.9%	9.9%	4.6%	7.7%
Total		Cases	1434	181	280	1895
		% in total vote share	75.7%	9.6%	14.8%	100%
		% in ethnic group	100%	100%	100%	100%
Chi-Square=325.695***						

\*Sources: 1991 TSCS series II-part I, 1993 TSCS series II-part IV, and 1996 TSCS series III-part II.

\*\*Figures in cells adjusted by: vote share in election outcome/vote share in data

\*\*\*p<.001

**Table 7-4 Adjustments for dependent variables**

	Valid cases and percentage in original data	Vote share in election outcome	Total cases and percentage in adjusted data	Weights
2000 Presidential election				
PFP	355(29.8)	36.84	355 (37.1)	1.00
KMT	197(16.5)	23.1	223 (23.3)	1.132
DPP	639(53.7)	39.30	379 (39.6)	.5931
Total	1,191(100%)	99.24%	957 (100%)	---
2001 LY election				
Pan-Blue parties	449(44.8)	49.97	542 (50.0)	1.207
Pan-Green parties	446(44.5)	41.14	446 (41.1)	1.00
Independent candidates	107(10.7)	8.89	96 (8.9)	0.897
Total	1,002(100%)	100%	1,084(100%)	---
2004 Presidential election				
Pan-Blue coalition	725(45.4)	49.89	867(49.9)	1.196
DPP	871(54.6)	50.11	871(50.1)	1.00
Total	1,596(100%)	100%	1,738(100%)	---
2004 LY election				
Pan-Blue parties	640(49.2)	46.91	650(46.9)	1.016
Pan-Green parties	603(46.4)	43.52	603(43.5)	1.00
Independent candidates	57(4.4)	9.57	132(9.6)	2.316
Total	1,300(100%)	100%	1,385(100%)	---

**Table 7-5 Vote choice in 2000 presidential election by independent variables**

Independent Variables\ Political Party	PFP	KMT	DPP	Subtotal
<b>Social Class</b>				
Upper middle class	63(43.4)	42(29.0)	40(27.6)	145(15.2)
Lower middle class	131(43.5)	76(25.3)	94(31.2)	301(31.5)
Proprietor	35(31.8)	22(20.1)	53(48.1)	110(11.5)
Working class	114(35.4)	67(20.8)	141(43.8)	322(33.6)
Farmer	12(15.2)	17(21.5)	50(63.3)	79(8.2)
<b>Job Sector</b>				
Public	59(37.8)	55(35.3)	42(26.9)	156(16.3)
Private	296(37.0)	168(21.0)	337(42.0)	801(83.7)
<b>Region</b>				
North	231(41.7)	127(22.9)	196(35.4)	554(57.9)
South	124(30.8)	96(23.8)	183(45.4)	403(42.1)
<b>Gender</b>				
Male	185(35.4)	119(22.7)	219(41.9)	523(54.6)
Female	170(39.2)	104(24.0)	160(36.9)	434(45.4)
<b>Education</b>				
Elementary	33(16.8)	46(23.5)	117(59.7)	196(20.6)
Middle school	53(37.9)	22(15.7)	64(46.4)	140(14.6)
High school	140(44.4)	77(24.4)	98(31.2)	315(32.9)
More than college	129(42.3)	78(25.6)	98(32.1)	305(31.9)
<b>Ethnicity</b>				
Hakka	47(41.2)	28(24.6)	39(34.2)	114(11.9)
Minnan	204(29.0)	167(23.6)	333(47.4)	704(73.5)
Mainlander	104(74.8)	28(20.1)	7(5.1)	139(14.5)
<b>Age Cohort</b>				
20s	62(39.5)	31(19.7)	64(40.8)	157(16.4)
30s	130(48.0)	52(19.2)	89(32.8)	271(28.3)
40s	100(39.7)	51(20.6)	100(39.7)	251(26.3)
50s	33(24.6)	41(30.6)	60(44.8)	134(14.0)
60s and above	30(20.8)	48(33.3)	66(45.8)	144(15.0)
<b>Perspective over Taiwan's economy</b>				
Worse	86(43.4)	57(28.8)	55(27.8)	198(20.6)
No change	197(38.8)	116(23.1)	193(38.1)	506(46.9)
Better	72(28.3)	50(19.7)	131(52.0)	253(26.5)
<b>Household economic condition</b>				
Worse	73(44.5)	38(23.2)	54(32.3)	165(17.1)
No change	236(37.0)	148(23.2)	253(39.7)	637(66.6)
Better	46(29.9)	37(23.3)	72(46.8)	155(16.1)
<b>Ethnic identity</b>				
Taiwanese	50(16.1)	65(21.0)	195(62.9)	310(32.4)
Both Taiwanese and Chinese	253(45.2)	135(24.3)	171(30.5)	559(58.5)
Chinese	52(59.1)	23(26.1)	13(14.8)	88(9.1)
<b>State identity</b>				
Reunification	144(52.4)	70(25.5)	61(22.1)	275(28.7)
Independence	11(7.9)	25(18.0)	103(74.1)	139(14.5)
Undecided	153(35.5)	97(22.5)	181(42.0)	431(45.1)
Permanent status quo	47(42.0)	31(27.7)	34(30.3)	112(11.7)
<b>Self-reported political stand</b>				
Conservative parties voter	243(63.3)	121(31.5)	20(5.2)	384(40.0)
Liberal parties voter	13(4.6)	26(9.1)	246(86.3)	285(29.8)
Contingent/swing voter	99(34.3)	76(26.3)	113(39.4)	288(30.2)
<b>Sample Size</b>	<b>355 (37.1)</b>	<b>223 (23.3)</b>	<b>379 (39.6)</b>	<b>957(100%)</b>

**Table 7-6 Vote choice in 2001 LY election by independent variables**

	Pan-blue parties	Independent candidates	Pan-green parties	Subtotal
<b>Social class</b>				
Upper middle class	99(60.7)	14(8.6)	50(30.7)	163(15.0)
Lower middle class	187(57.2)	33(10.1)	107(32.7)	327(30.2)
Proprietor	53(38.4)	13(9.4)	72(52.2)	138(12.7)
Working class	164(45.2)	30(8.3)	169(46.5)	363(33.5)
Farmer	39(41.9)	6(6.5)	48(51.6)	93(8.6)
<b>Job sector</b>				
Public	117(62.9)	19(10.2)	50(26.9)	186(17.1)
Private	425(47.3)	77(8.6)	396(44.1)	898(82.9)
<b>Region</b>				
North	316(52.7)	58(9.7)	225(37.6)	599(55.3)
South	226(46.6)	38(7.8)	221(45.6)	485(44.7)
<b>Gender</b>				
Male	298(48.6)	62(10.1)	253(41.3)	613(56.5)
Female	244(51.8)	34(7.2)	193(41.0)	471(43.5)
<b>Education</b>				
Elementary	95(41.1)	16(7.0)	120(51.9)	231(21.4)
Middle school	71(43.0)	17(10.3)	77(46.7)	165(15.3)
High school	188(54.7)	32(9.4)	123(35.9)	343(31.5)
More than college	188(54.5)	31(9.0)	126(36.5)	345(31.8)
<b>Ethnicity</b>				
Hakka	74(58.7)	8(6.4)	44(34.9)	126(11.6)
Minnan	351(43.3)	75(9.3)	384(47.4)	810(74.7)
Mainlander	117(79.0)	13(8.8)	18(12.2)	148(13.7)
<b>Age cohort</b>				
20s	69(43.1)	18(11.3)	73(45.6)	160(14.7)
30s	161(54.2)	26(8.8)	110(37.0)	297(27.4)
40s	152(50.5)	26(8.6)	123(40.9)	301(27.8)
50s	77(47.8)	13(8.1)	71(44.1)	161(14.9)
60s and above	83(50.3)	13(7.9)	69(41.8)	165(15.2)
<b>Perspective over Taiwan's economy</b>				
Worse	132(65.3)	21(10.4)	49(24.3)	202(18.6)
No change	298(52.1)	44(7.7)	230(40.2)	572(52.8)
Better	112(36.1)	31(10.0)	167(53.9)	310(28.6)
<b>Household economic condition</b>				
Worse	114(61.4)	22(12.0)	49(26.6)	185(17.1)
No change	363(50.2)	57(7.9)	303(41.9)	723(66.7)
Better	65(36.9)	16(9.1)	95(54.0)	176(16.2)
<b>Ethnic identity</b>				
Taiwanese	115(30.3)	27(7.1)	238(62.6)	380(35.1)
Both Taiwanese and Chinese	351(58.0)	60(9.9)	194(32.1)	605(55.8)
Chinese	76(76.8)	9(9.1)	14(14.1)	99(9.1)
<b>State identity</b>				
Reunification	196(68.1)	22(7.6)	70(24.3)	288(26.5)
Independence	53(27.2)	16(8.2)	126(64.6)	195(18.0)
Undecided	236(48.9)	43(8.9)	205(42.2)	484(44.7)
Permanent status quo	57(48.7)	15(12.8)	45(38.5)	117(10.8)
<b>Self-reported political stand</b>				
Conservative parties' voter	321(82.3)	29(7.4)	40(10.3)	390(36.0)
Liberal parties voter	53(13.7)	30(7.8)	303(78.5)	386(35.5)
Contingent/swing voter	168(54.4)	37(12.3)	103(33.3)	308(28.5)
Sample Size	542(50.0)	96(8.9)	446(41.1)	1,084(100%)



**Table 7-7 Vote choice in 2004 presidential election by independent variables**

	Pan-blues coalition	DPP	Subtotal
<b>Social class</b>			
Upper middle class	172(61.6)	107(38.4)	279(16.1)
Lower middle class	306(53.0)	271(47.0)	577(33.2)
Proprietor	124(56.9)	94(43.1)	218(12.6)
Working class	228(42.5)	309(57.5)	537(30.9)
Farmer	37(28.6)	90(71.4)	127(7.2)
<b>Job sector</b>			
Public	129(63.2)	75(36.8)	204(11.7)
Private	738(48.1)	796(51.9)	1534(88.3)
<b>Region</b>			
North	545(53.6)	472(46.4)	1017(58.5)
South	322(44.7)	399(55.3)	721(41.5)
<b>Gender</b>			
Male	434(48.1)	469(51.9)	903(52.0)
Female	433(51.9)	402(48.1)	835(48.0)
<b>Education</b>			
Elementary	126(35.7)	227(64.3)	353(20.3)
Middle school	97(42.4)	132(57.6)	229(13.2)
High school	273(51.6)	257(48.4)	530(30.5)
More than college	371(59.3)	255(40.7)	626(36.0)
<b>Ethnicity</b>			
Hakka	146(55.3)	118(44.7)	264(15.2)
Minnan	527(42.3)	720(57.7)	1247(71.7)
Mainlander	194(85.5)	33(14.5)	227(13.1)
<b>Age cohort</b>			
20s	161(48.1)	174(51.9)	335(19.3)
30s	214(52.7)	192(47.3)	406(23.4)
40s	233(55.7)	185(44.3)	418(24.0)
50s	145(49.2)	150(50.8)	295(17.0)
60s and above	114(40.1)	170(59.9)	284(16.3)
<b>Perspective over Taiwan's economy</b>			
Worse	267(73.6)	96(26.4)	363(20.9)
No change	512(49.3)	526(50.7)	1038(59.7)
Better	88(26.1)	249(73.9)	337(19.4)
<b>Household economic condition</b>			
Worse	164(71.6)	65(28.4)	229(13.2)
No change	594(49.1)	617(50.9)	1211(69.7)
Better	109(36.6)	189(63.4)	298(17.1)
<b>Ethnic identity</b>			
Taiwanese	141(19.2)	595(80.8)	736(42.3)
Both Taiwanese and Chinese	643(71.6)	255(28.4)	898(51.7)
Chinese	83(79.8)	21(20.2)	104(6.0)
<b>State identity</b>			
Reunification	259(78.5)	71(21.5)	330(19.0)
Independence	48(12.8)	328(87.2)	376(21.6)
Undecided	395(53.6)	342(46.4)	737(42.4)
Permanent status quo	165(55.9)	130(44.1)	295(17.0)
<b>Self-reported political stand</b>			
Conservative parties' voter	721(92.4)	59(7.6)	780(44.9)
Liberal parties' voter	22(3.3)	647(96.7)	669(38.5)
Contingent/swing voter	124(42.9)	165(57.1)	289(16.6)
<b>Sample Size</b>	<b>867(49.9)</b>	<b>871(50.1)</b>	<b>1738(100%)</b>

**Table 7-8 Vote choice in 2004 LY election by independent variables**

	Pan-blue parties	Independent candidates	Pan-green parties	Subtotal
<b>Social class</b>				
Upper middle class	113(54.6)	19(9.2)	75(36.2)	207(145.0)
Lower middle class	223(49.8)	43(9.8)	181(40.4)	447(32.3)
Proprietor	84(44.4)	28(14.8)	77(40.7)	189(13.6)
Working class	189(43.7)	28(6.5)	215(49.8)	432(31.2)
Farmer	41(37.3)	14(12.7)	55(50.0)	110(7.9)
<b>Job sector</b>				
Public	92(58.6)	16(10.2)	49(31.2)	157(11.3)
Private	558(45.4)	116(9.5)	554(45.1)	1,228(88.7)
<b>Region</b>				
North	401(50.7)	63(8.0)	327(41.3)	791(57.1)
South	249(41.9)	69(11.6)	276(46.5)	594(42.9)
<b>Gender</b>				
Male	327(43.8)	83(11.1)	337(45.1)	747(53.9)
Female	323(50.6)	49(7.7)	266(41.7)	638(46.1)
<b>Education</b>				
Elementary	120(40.8)	28(9.5)	146(49.7)	294(21.2)
Middle school	82(41.6)	9(4.6)	106(53.8)	197(14.2)
High school	193(45.8)	51(12.1)	177(42.1)	421(30.4)
More than college	255(53.9)	44(9.3)	174(36.8)	473(34.2)
<b>Ethnicity</b>				
Hakka	110(53.1)	19(9.2)	78(37.7)	207(14.9)
Minnan	408(40.9)	94(9.5)	495(49.6)	998(72.1)
Mainlander	132(73.3)	19(10.6)	29(16.1)	180(13.0)
<b>Age cohort</b>				
20s	108(43.2)	30(12.0)	112(44.8)	250(18.1)
30s	148(49.0)	30(9.9)	124(41.1)	302(21.8)
40s	171(50.7)	32(9.5)	134(39.8)	337(24.3)
50s	115(45.5)	16(6.3)	122(48.2)	253(18.3)
60s and above	109(44.9)	23(9.5)	111(45.6)	243(17.5)
<b>Perspective over Taiwan's economy</b>				
Worse	185(64.7)	37(12.9)	64(22.4)	286(20.7)
No change	390(47.8)	76(9.3)	350(42.9)	816(58.9)
Better	75(26.5)	19(6.7)	189(66.8)	283(20.4)
<b>Household economic condition</b>				
Worse	114(61.6)	33(17.3)	39(21.1)	186(13.4)
No change	458(47.7)	83(8.6)	420(43.7)	961(69.4)
Better	78(32.8)	16(6.7)	144(60.5)	238(17.2)
<b>Ethnic identity</b>				
Taiwanese	135(22.0)	42(6.9)	436(71.1)	613(44.3)
Both Taiwanese and Chinese	457(65.9)	81(11.7)	156(22.4)	694(50.1)
Chinese	58(74.4)	9(11.5)	11(14.1)	78(5.6)
<b>State identity</b>				
Reunification	180(68.0)	30(11.3)	55(20.7)	265(19.2)
Independence	44(13.5)	23(7.0)	260(79.5)	327(23.6)
Undecided	300(52.6)	67(11.7)	204(35.7)	571(41.2)
Permanent status quo	126(56.8)	12(5.4)	84(37.8)	222(16.0)
<b>Self-reported political stand</b>				
Conservative parties' voter	499(82.8)	67(11.1)	37(6.1)	603(43.6)
Liberal parties' voter	44(7.6)	46(8.0)	488(84.4)	578(41.7)
Contingent/swing voter	107(52.5)	19(9.3)	78(38.2)	204(14.7)
Sample Size	650(46.9)	132(9.6)	603(43.5)	1,385(100%)

**Table 7-9a Multinomial regression model for 2000 presidential election by adjusted data**

	Model 1		Model 2	
	Panel 1: PFP vs. DPP	Panel 2: KMT vs. DPP	Panel 1: PFP vs. DPP	Panel 2: KMT vs. DPP
Social class:				
Upper middle class	.660(.238)**	.786(.149)**	.245(.337)	.278(.362)
Lower middle class	.549(.185)**	.537(.214)*	.194(.233)	.126(.256)
Proprietor	-.208(.251)	-.161(.295)	-.328(.282)	-.371(.314)
Farmer	-1.222(.345)**	-.340(.317)	-.544(.375)	-.244(.342)
Working class	---	---	---	---
Job Sector (Public sector=1)			.118(.264)	.437(.263)
Region (North=1)			.201(.172)	.035(.185)
Gender (Male=1)			-.176(.169)	-.249(.181)
Education:				
Elementary school			-.854(.308)**	-.139(.334)
Middle school			---	---
High school			.285(.253)	.876(.311)**
More than college			-.099(.303)	.656(.358)
Ethnicity				
Hakka			---	---
Minnan			-.651(.247)**	-.384(.276)
Mainlander			2.281(.457)**	1.424(.498)**
Age Cohort				
20s			-.244(.262)	-.389(.299)
30s			.164(.223)	-.102(.259)
40s			---	---
50s			-.173(.285)	.542(.285)
60s and above			-.478(.330)	.660(.310)*
Perspective over Taiwan's Economy				
Worse				
No change				
Better				
Household economic condition				
Worse				
No change				
Better				
Ethnic identity				
Taiwanese				
Both				
Chinese				
State identity				
Reunification				
Independent				
Undecided				
Permanent status quo				
Self-reported political stand				
Conservative parties' voter				
Liberal parties' voter				
Contingent/swing voter				
Intercept	-.214(.126)	-.748(.149)**	.298(.353)	-.821(.417)*
Pseudo R-Square (Nagelkerke)		.055		.246
Sample Size		957		957

Standard errors in parentheses. \*p&lt; .05, \*\*p&lt;.01

**Table 7-9b Multinomial regression model for 2000 presidential election by adjusted data**

	Model 3		Model 4	
	Panel 1:	Panel 2:	Panel 1:	Panel 2:
	PFP vs. DPP	KMT vs. DPP	PFP vs. DPP	KMT vs. DPP
Social class:				
Upper middle class	.505(.366)	.476(.378)	.601(.471)	.552(.465)
Lower middle class	.225(.252)	.128(.267)	.206(.316)	.125(.318)
Proprietor	-.260(.309)	-.274(.327)	.272(.388)	.204(.378)
Farmer	-.534(.402)	-.276(.355)	-.608(.460)	-.407(.406)
Working class	---	---	---	---
Job sector (Public sector=1)	.213(.290)	.528(.281)	.241(.356)	.551(.336)
Region (North=1)	.188(.189)	.029(.195)	.290(.233)	.113(.228)
Gender (Male=1)	-.299(.188)	-.336(.194)	-.069(.231)	-.147(.227)
Education:				
Elementary school	-.984(.237)**	-.292(.350)	-1.12(.405)**	-.516(.403)
Middle school	---	---	---	---
High school	.186(.278)	.815(.322)*	.033(.350)	.654(.372)
More than college	-.224(.333)	.609(.373)	-.492(.434)	.391(.446)
Ethnicity				
Hakka	---	---	---	---
Minnan	-.468(.267)	-0.26(.286)	-.182(.339)	-.035(.339)
Mainlander	2.038(.478)**	1.199(.515)*	1.836(.584)**	1.008(.601)
Age cohort				
20s	-.162(.284)	-.358(.312)	.421(.363)	.125(.365)
30s	.117(.244)	-.176(.271)	.005(.309)	-.299(.323)
40s	---	---	---	---
50s	-.017(.314)	.674(.301)*	-.158(.381)	.553(.357)
60s and above	-.335(.366)	.856(.331)*	-.343(.423)	.873(.380)*
Perspective over Taiwan's economy				
Worse	.897(.303)**	1.195(.311)**	.455(.380)	.777(.372)*
No change	.495(.230)*	.597(.241)*	.377(.288)	.487(.281)
Better	---	---	---	---
Household economic condition				
Worse	.480(.354)	-.137(.362)	.184(.433)	-.378(.423)
No change	.040(.267)	-.180(.266)	-.073(.330)	-.254(.311)
Better	---	---	---	---
Ethnic identity				
Taiwanese	---	---	---	---
Both	1.059(.212)**	.440(.206)*	.551(.262)*	.004(.243)
Chinese	1.669(.407)**	.777(.420)	.831(.499)	.016(.502)
State identity				
Reunification	.607(.217)**	.550(.235)*	.407(.272)	.356(.279)
Independent	-1.669(.369)**	-.697(.282)*	-1.17(.436)**	-.257(.330)
Undecided	---	---	---	---
Permanent status quo	.521(.289)	.642(.299)*	.616(.352)	.701(.349)
Self-reported political stand				
Conservative parties voter			4.884(.396)**	3.865(.347)**
Liberal parties voter			---	---
Contingent/swing voter			2.691(.345)**	1.868(.286)**
Intercept	-1.111(.485)*	-1.64(.52)**	-3.43(.666)**	-.308(.635)**
Pseudo R-square (Nagelkerke)		.377		.587
Sample Size		957		957

**Table 7-10a Multinomial regression model for 2001 LY election by weighted data**

	Model 1		Model 2	
	Panel 1	Panel 2	Panel 1	Panel 2
	pan-blues vs. pan-greens	independent vs. pan-greens	pan-blues vs. pan-greens	independent vs. pan-greens
Social class:				
Upper middle class	.712(.205)**	.494(.360)	.484(.282)	.506(.468)
Lower middle class	.588(.163)**	.571(.281)*	.413(.201)*	.520(.330)
Proprietor	-.275(.211)	-.004(.365)	-.304(.180)	.079(.379)
Farmer	-.188(.242)	-.292(.469)	.080(.227)	.036(.489)
Working class	---	---	---	---
Job sector (Public sector=1)			.439(.212)*	.475(.337)
Region (North=1)			.097(.142)	.361(.243)
Gender (Male=1)			-.051(.717)	.420(.241)
Education:				
Elementary school			-.160(.236)	-.364(.406)
Middle school			---	---
High school			.324(.220)	.001(.354)
More than college			-.029(.259)	-.427(.416)
Ethnicity				
Hakka			---	---
Minnan			-.592(.211)**	.175(.411)
Mainlander			1.230(.324)**	1.263(.538)*
Age Cohort				
20s			-.496(.231)*	.054(.365)
30s			.022(.190)	-.019(.321)
40s			---	---
50s			.113(.219)	-.105(.386)
60s and above			-.009(.239)	-.092(.408)
Perspective over Taiwan's economy				
Worse				
No change				
Better				
Household economic condition				
Worse				
No change				
Better				
Ethnic identity				
Taiwanese				
Both				
Chinese				
State identity				
Reunification				
Independent				
Undecided				
Permanent status quo				
Self-reported political stand				
Conservative parties voter				
Liberal parties' voter				
Contingent/swing voter				
Intercept	-.029(.110)	-1.74(.20)**	.263(.312)	-2.31(.58)**
Pseudo R-square (Nagelkerke)		.037		.135
Sample Size		1,084		1,084

Standard errors in parentheses. \*p&lt; .05, \*\*p&lt;.01

**Table 7-10b Multinomial regression model for 2001 LY election by weighted data**

	Model 3		Model 4	
	Panel 1 pan-blues vs. pan-greens	Panel 2 independent vs. pan-greens	Panel 1 pan-blues vs. pan-greens	Panel 2 independent vs. pan-greens
Social class:				
Upper middle class	.687(.303)*	.681(.476)	.745(.359)*	.779(.500)
Lower middle class	.449(.216)*	.577(.337)	.547(.252)*	.708(.351)*
Proprietor	-.315(.247)	.119(.390)	-.115(.285)	.302(.399)
Farmer	.137(.279)	-.009(.503)	-.037(.315)	-.134(.516)
Working class	---	---	---	---
Job sector (Public sector=1)	.354(.229)	.466(.347)	.391(.266)	.500(.358)
Region (North=1)	.121(.155)	.456(.251)	.133(.179)	.507(.258)*
Gender (Male=1)	-.151(.153)	.370(.250)	.074(.177)	.528(.258)*
Education:				
Elementary school	-.221(.258)	-.460(.419)	-.177(.298)	-.488(.430)
Middle school	---	---	---	---
High school	.249(.237)	-.026(.365)	.107(.276)	-.103(.377)
More than college	-.042(.279)	-.443(.428)	-.303(.271)	-.597(.499)
Ethnicity				
Hakka	---	---	---	---
Minnan	-.417(.228)	.343(.422)	.303(.271)	.367(.435)
Mainlander	.847(.345)*	1.007(.553)	.229(.396)	.625(.577)
Age cohort				
20s	-.397(.247)	.101(.374)	-.152(.290)	.223(.387)
30s	-.052(.204)	-.051(.329)	-.201(.240)	-.186(.340)
40s	---	---	---	---
50s	.192(.240)	-.092(.396)	.031(.296)	-.224(.407)
60s and above	.166(.264)	.055(.419)	-.030(.296)	-.163(.428)
Perspective over Taiwan's economy				
Worse	.962(.251)**	.410(.382)	.415(.293)	.123(.397)
No change	.508(.182)**	-.042(.287)	.216(.212)	-.211(.294)
Better	---	---	---	---
Household economic condition				
Worse	.772(.289)**	.958(.436)	.818(.333)*	1.022(.449)*
No change	.270(.215)	.075(.335)	.297(.248)	.092(.343)
Better	---	---	---	---
Ethnic identity				
Taiwanese	---	---	---	---
Both	.839(.163)**	.744(.273)**	.408(.193)*	.459(.285)
Chinese	1.569(.342)**	1.34(.510)**	.912(.389)*	.889(.534)
State identity				
Reunification	.525(.189)**	.026(.313)	.231(.223)	-.085(.326)
Independent	-.612(.213)**	-.213(.339)	.006(.248)	.115(.353)
Undecided	---	---	---	---
Permanent status quo	.027(.246)	.538(.359)	-.087(.282)	.470(.372)
Self-reported political stand				
Conservative parties' voter			3.333(.25)**	1.727(.360)**
Liberal parties' voter			---	---
Contingent/swing voter			2.04(.215)**	1.329(.307)**
Intercept	-1.16(.407)**	-3.23(.71)**	-2.41(.49)**	-3.776(.745)**
Pseudo R-square (Nagelkerke)		.275		.461
Sample Size		1,084		1,084

**Table 7-11 Logistic regression model for 2004 presidential election by weighted data**

	Model 1 pan-blues vs. DPP	Model 2 pan-blues vs. DPP	Model 3 pan-blues vs. DPP	Panel 4 pan-blues vs. DPP
Social class:				
Upper middle class	.778(.151)**	.262(.185)	.175(.228)	.059(.335)
Lower middle class	.424(.121)**	.160(.140)	-.011(.171)	-.084(.249)
Proprietor	.582(.162)**	.322(.179)	.225(.227)	-.010(.346)
Farmer	-.618(.216)**	-.348(.239)	-.623(.292)*	-.232(.422)
Working class	---	---	---	---
Job sector (Public sector=1)		.329(.180)	.278(.224)	-.138(.335)
Region (North=1)		.138(.109)	.102(.134)	-.032(.195)
Gender (Male=1)		-.256(.107)*	-.375(.132)**	-.335(.191)
Education:				
Elementary school		-.063(.202)	-.324(.247)	-.295(.385)
Middle school		---	---	---
High school		.281(.174)	.099(.215)	.275(.307)
More than college		.451(.192)	.332(.238)	.690(.344)*
Ethnicity				
Hakka		---	---	---
Minnan		-.535(.145)**	-.248(.185)	-.107(.267)
Mainlander		1.353(.232)**	1.10(.279)**	.685(.387)
Age cohort				
20s		-.361(.175)*	.068(.218)	-.110(.312)
30s		-.250(.154)	-.383(.190)*	-.258(.277)
40s		---	---	---
50s		-.129(.170)	.153(.213)	.023(.312)
60s and above		-.200(.199)	.341(.252)	-.155(.358)
Perspective over Taiwan's economy				
Worse			1.62(.225)**	.881(.334)**
No change			.849(.178)**	.209(.267)
Better			---	---
Household economic condition				
Worse			.524(.258)*	.214(.370)
No change			.018(.182)	-.016(.274)
Better			---	---
Ethnic Identity				
Taiwanese			---	---
Both			1.848(.137)**	1.383(.199)**
Chinese			1.866(.303)**	1.200(.420)**
State Identity				
Reunification			.759(.181)**	.537(.272)*
Independent			-1.53(.194)**	-1.11(.286)**
Undecided			---	---
Permanent status quo			.166(.170)	.218(.239)
Self-reported political stand				
Conservative parties' voter				5.302(.277)**
Liberal parties' voter				---
Contingent/swing voter				2.839(.272)**
Intercept	-.302(.087)**	.115(.231)	-1.85(.361)**	-4.09(.554)**
Pseudo R-square (Nagelkerke)	.044	.161	.507	.793
Sample Size	1,596	1,596	1,596	1,596

Standard errors in parentheses. \*p&lt; .05, \*\*p&lt;.01

**Table 7-12a Multinomial regression model for 2004 LY election by weighted data**

	Model 1		Model 2	
	Panel 1 pan-blues vs. pan-greens	Panel 2 independent vs. pan-greens	Panel 1 pan-blues vs. pan-greens	Panel 2 independent vs. pan-greens
Social class:				
Upper middle class	.537(.179)**	.648(.329)*	.069(.216)	.439(.381)
Lower middle class	.340(.141)*	.632(.262)*	.088(.163)	.506(.291)
Proprietor	.220(.238)	1.027(.299)**	0.34(.203)	1.196(.323)**
Farmer	-.174(.230)	.670(.362)	-.027(.252)	.766(.406)
Working class	---	---	---	---
Job sector (Public sector=1)			.436(.215)*	.629(.349)
Region (North=1)			.135(.126)	-.418(.208)*
Gender (Male=1)			-.273(.123)*	.332(.208)
Education:				
Elementary school			.123(.223)	1.081(.45)*
Middle school			---	---
High school			.247(.193)	1.023(.395)*
More than college			.441(.214)*	.646(.430)
Ethnicity				
Hakka			---	---
Minnan			-.523(.170)*8	-.433(.298)
Mainlander			1.031(.260)**	.743(.409)
Age cohort				
20s			-.363(.207)	.281(.333)
30s			-.132(.180)	-.039(.298)
40s			---	---
50s			-.271(.190)	-.814(.350)*
60s and above			-.145(.218)	-.410(.377)
Perspective over Taiwan's economy				
Worse				
No change				
Better				
Household economic condition				
Worse				
No change				
Better				
Ethnic Identity				
Taiwanese				
Both				
Chinese				
State Identity				
Reunification				
Independent				
Undecided				
Permanent status quo				
Self-reported political stand				
Conservative parties' voter				
Liberal parties' voter				
Contingent/swing voter				
Intercept	-.129(.194)	-2.05(.202)**	.248(.260)	-2.44(.509)**
Pseudo R-square (Negelkerke)		.022		.122
Sample Size		1385		1385

Standard errors in parentheses. \*p&lt; .05, \*\*p&lt;.01



**Table 7-12b Multinomial regression model for 2004 LY election by weighted data**

	Model 3		Model 4	
	Panel 1 pan-blues vs. pan-greens	Panel 2 independent vs. pan-greens	Panel 1 pan-blues vs. pan-greens	Panel 2 independent vs. pan-greens
Social class:				
Upper middle class	-.246(.260)	.167(.403)	-.426(.341)	.073(.424)
Lower middle class	-.175(.197)	.298(.307)	-.179(.251)	.295(.319)
Proprietor	-.169(.249)	1.112(.349)*	-.681(.325)*	.817(.378)*
Farmer	.066(.300)	.815(.435)	.955(.374)*	1.178(.447)**
Working class	---	---	---	---
Job sector (Public sector=1)	.476(.264)	.728(.377)	.396(.350)	.693(.410)
Region (North=1)	.102(.150)	-.522(.244)*	.138(.192)	-.547(.236)*
Gender (Male=1)	-.397(.149)**	.225(.223)	-.225(.191)	.359(.233)
Education:				
Elementary school	.029(.266)	.969(.474)*	.032(.340)	.999(.491)
Middle school	---	---	---	---
High school	.151(.235)	.934(.414)*	.112(.297)	.968(.429)*
More than college	.377(.262)	.498(.451)	.436(.330)	.565(.468)
Ethnicity				
Hakka	---	---	---	---
Minnan	-.145(.210)	-.123(.323)	.141(.272)	.024(.341)
Mainlander	.649(.307)*	.430(.441)	.072(.383)	-.023(.479)
Age cohort				
20s	-.063(.250)	.582(.359)	-.434(.317)	.397(.376)
30s	-.218(.218)	-.072(.319)	.179(.276)	.180(.335)
40s	---	---	---	---
50s	-.051(.232)	-.630(.376)	-.183(.300)	-.684(.396)
60s and above	.407(.267)	.113(.403)	.017(.337)	-.108(.428)
Perspective over Taiwan's economy				
Worse	1.249(.250)**	1.103(.368)**	.424(.322)	.627(.391)
No change	.655(.192)**	.513(.301)	.244(.249)	.310(.310)
Better	---	---	---	---
Household economic condition				
Worse	.715(.294)*	1.25(.403)**	.357(.368)	1.088(.425)*
No change	.159(.201)	.205(.316)	.101(.260)	.203(.327)
Better	---	---	---	---
Ethnic identity				
Taiwanese	---	---	---	---
Both	1.743(.156)**	1.357(.239)**	.908(.205)**	916(.256)**
Chinese	1.934(.378)**	1.677(.522)**	1.179(.47)*	1.304(.585)*
State identity				
Reunification	.450(.205)*	.070(.291)	.160(.267)	-.107(.320)
Independent	-1.60(.206)**	-.950(.284)**	-.01(.263)**	-.706(.295)**
Undecided	---	---	---	---
Permanent status quo	-.102(.196)	-1.14(.363)**	-.113(.252)	-.17(.376)*8
Self-reported political stand				
Conservative parties' voter			4.48(.262)**	2.262(.309)**
Liberal parties' voter			---	---
Contingent/swing voter			2.438(.24)**	.681(.332)*
Intercept	-1.37(.392)**	-3.592(.66)**	-.91(.516)**	-3.92(.692)**
Pseudo R-square (Nagelkerke)		.427		.636
Sample Size		1,385		1,385

Standard errors in parentheses. \*p&lt; .05, \*\*p&lt;.01

## **Chapter 8: Factors That Contribute to Middle-Class Crisis**

After analyzing quantitative data to examine my research hypotheses, this section highlights important factors and issues from chronicle developments and it compares the causes and consequences of these two waves of middle class crises by using historical comparative method.

**Factor 1: The growth and maintenance of middle class: Overall, the growth and maintenance of middle class became difficult as economic landscapes shifted.**

Modernization theorists (Huntington, 1991; Lipset, 1959 and 1981) have long argued that economic development is the root of growth and the maintenance of middle class because the creation of middle-class jobs is an outcome of economic expansion. Following this perspective, one could expect that changes of economic landscape could lead to pessimism and therefore they could foster the sense of crisis within the minds of middle-class people. During the first wave middle-class crisis, three important features related to the growth and maintenance of middle class include:

(1) Under the impact of the rapid appreciation of New Taiwan Dollar as a result of Plaza Accord and the increasing pressure from American trade protectionism, anxiety and pessimism about Taiwan's economic future became pervasive. In the late 1980s, Taiwan's economy was riddled with problems, such as soaring wages, increasing labor shortage, mounting industrial conflicts, growing environmental movements, rising difficulties for industrial upgrading, emerging impact from Walmartization, worsening trade conflicts with the United State, and most important of all, the growing challenges from the industrialization late comers in the southeast Asian countries, such as Malaysia, Thailand, the Philippines, and Indonesia. These problems not only deteriorated

investment environment, but they also posed challenge to Lee's leadership. There was reasonable ground of doubt as to whether Taiwan's export-led industrialization was sustainable.

(2) Lee administration's major economic policies during the first wave middle-class crisis included large infrastructure spending, deregulation of licensing systems, expanding higher education, opening capital market, promotion of capital- and technology-intensive industrialization, and implementation of guest worker program. These policies had substantially transformed Taiwan's economic landscape from manufacturing-based to service-oriented economy. In 1987, industry and service sectors accounted 46.7% and 48% of the GDP, respectively. In 1996, these figures changed to 35% for industry sector and 61% for service sector (CEPD 1998: 14). While Taiwanese society abounded with economic pessimism during this transformation, the size of middle class did not shrink but it continued to grow.

(3) While a lot of corporations took advantage of Lee's policies during the economic structural adjustment, many small and medium-sized enterprises were forced to close or began to shift their operations overseas during the economic transformation. As the shift of economic landscape occurred, liberal fraction of middle class began to feel glum about the deindustrialization. They were worried about that it would slow down domestic investment and bring about hollowing-out industrialization. Particularly, Taiwan's outward investment, which has over concentrated in China, would erode Taiwan's future gain both politically and economically. In contrast, though the right-wing middle class found them were marginalized by the leadership change, they expected the

booming Chinese economy could shrink the gaps across the Taiwan Strait and bring about future political reunification.

In spite of rapid changes of Taiwan's economic landscapes and the heated debates about the hollowing-out effect due to booming economy in China, the growth and maintenance of the middle class remained robust in Taiwan. This partly contributed to Lee's victory in his reelection. As the first wave middle-class crisis ended, following Lee's reelection victory, Taiwan's economy continued to make structural adjustments. During the interlude, there are three important features related to growth and maintenance of middle class:

(1) The advocacy for investment in China became stronger during the interlude. First, the 1997 Asian financial crisis raised fears among Taiwanese business class to invest in Southeast Asian countries. Moreover, the high expectation for the growing demand from the West, due to the internet bubble and new millennium effect, boosted Taiwanese corporations to expand their production scale in China. Corporate executive officers and top managers in Taiwan spoke highly of their new millennium visions. They advocated the importance of global strategic alliance with the West to exploit Chinese market. And finally, the 1999 earthquakes in central Taiwan expedited more companies to relocate their production facilities to China.

(2) In the late 1990s, market forces simply drove Lee's government to make compromises with Taiwanese business community, modifying its restrictive policies several times. Since Lee administration loosened the policy restrictions, investment in China has reached point of no return, allowing more Taiwanese capital flow to China.

The outward investment in China had created almost half million transnational middle class by the late 1990s.

(3) Meanwhile, the internet bubble started, and new millennium effect brought to thriving business in information-technology related industries. As business people were excited about the coming era of the new economy, companies were eager to develop their millennium visions and made big investments. These developments led to the size of middle class continue to expand.

Unfortunately, while the advocacy of investment in China was still warm and the creation of middle class job remained strong in the year of 1999, an unexpected outcome of presidential election in 2000 initiated second round of middle-class crisis. After Chen Shui-bian took the power, his minority government led to a long-term political deadlock. Even worse, the bubble of the new millennium boom soon burst in the early 2001, and it caused a serious economic recession. The economic recession and political deadlock made the changes of economic landscaping even more dramatic during the second wave middle-class crisis. There are four important points:

(1) Presumably, the growth and maintenance of middle class veers up and down with economic cycles. However, the economic recovery during the second wave middle-class crisis no longer promised job creation in Taiwan. This was because market forces continued to drive large amount of investment capital and talents to China. While capital migration produced increasing transnational middle class, who became long-term residents in China, growing among of firm closures, pay cut, and lay-off white-collar workers in Taiwan overshadowed such prosperous scenario.

(2) In addition to falling estate and stock markets in the early 2000s, the suddenly ebbing domestic consumption market because of SARS, an epidemic in 2003, made recovery sluggish and enduring. Though post SARS GDP growth rates averaged almost 5.6% (CEDP 2010: 1) during four-year span 2004-2007, which was much better than 5.1% during the interlude 1996-1999 (ibid., P. 19), economic pessimism was still pervasive.

(3) The DPP government's industrial policy, which focused on the technology and capital-intensive industries, such as semi-conductor, thin flat panel, nano-tech, and bio-tech, doubled the trade volumes to 465 billion US\$ in 2007 from 234 billion US\$ in 2001 (CEDP 2010: 224). However, increase of productivity and growth of trade produced fewer valuable middle class jobs than expected.

(4) The increasing supply of college graduates because of rapid expansion of higher education in the past decade had grown to the extent that the entry to the white-collar labor market for these middle-class would-bes became fiercer and less achievable. The difficulties facing the young led to a new trend to develop. The younger generation had to stay in school longer to avoid jobless. They also started their families later, and some became voluntarily childless. As economic growth resulted in worse-off job market, Taiwan was in the process of immiserizing growth. Consequently, wage level maintained stagnant, and the growth and maintenance of the middle class have become difficult since the new millennium, although statistical figures indicated that Taiwan's economy had come out from recession and regained its momentum.

**Factor 2: Change of developmental state model: Economic development shifted significantly from the developmental state model to institutional development, which undermined middle-class people's faith in government.**

In the early 1980s, developmental state theory emerged in the sociology of development. As an antagonistic perspective against the dominant dependency and world system theories, developmental state theory does not focus on the failures in the Third World or attribute these failures to the exploitation from the West. Instead, it weighs the incursive Western capitalism as a positive force to create the East Asian Miracle, where countries, such as Japan, South Korea, Taiwan, and Singapore, have overcome barriers to transform themselves to highly industrialized societies.

In explaining these successful cases, leading scholars in this theory, such as Amsden (1989), Evans (1995), Gold (1986), Johnson (1982), Wade (1990), and Woo-Cumings (1999) assume that state managers, including politicians, administrators, and top bureaucrats, have an interest to take control of the development of political economy. They are sensitive to economic management and social development overall because the degree of economic prosperity determines the volume of revenue feedback and the strength of public support to a regime. This dependency forces state managers to take care of macroeconomic decision-making for capital accumulation. The goals of planning economy could be better achieved under an authoritarian rule with capable bureaucrats, where a weak civil society and a docile private sector always pose no challenge for policy-making. As such, this theory gives credits of Asian Miracle to the authoritarian regimes.

This perspective ignores the fact that private institutions have their shares in the economic investment, as argued by institutional development theorists (see, for example, Friedman 1998). Nevertheless, the developmental state view became the mainstream explanation of state-led economic growth in Taiwan. With the endorsement from the statist development scholars, the Taiwan Miracle became the best propaganda for the KMT under Chiang regime. The KMT used this economic achievement for political control and ideological consolidation. However, this propaganda, turned out to be a big problem, when Lee Teng-hui, a Taiwanese politician, succeeded as President.

During the first wave middle-class crisis, the five most important points about the shift of economic trajectory from the statist-development model to institutional development paradigm include:

(1) When Lee came to power, Taiwan's political economy transition was in chaos due to impacts from Plaza Accord and democratic movement. On the political front, President Lee spent his first two years battling with the old guards of the KMT, the conservative Mainlander politicians who resisted Lee's leadership. In order to win his bid for the appointed presidential race in 1990, he formed a contingent alliance with a four-star military general, Hau Pei-Tsun, who was the heavyweight in the military. After Lee won the election, he returned the favor to Hau by appointing him as the premier of the Executive Yuan. In order to maximize his tenure in Lee's administration, premier Hau then proposed a six-year large infrastructure spending project, a typical state-led development strategy which would transform Taiwan for growth. After Lee completed his version of parliamentary reforms and constitutional amendments, Lee fired Hau in mid 1992.



(2) The six-year infrastructure spending project, nevertheless, quickly turned to be pork politics and corrupt political-business connections. This is because Lee government was facing relentless challenges from both ends of the political spectrum, the liberal opposition DPP and the conservative Mainlander community. As a result of these challenges, Lee's party, the KMT, began to lose ground in terms of vote shares in every single election, both locally and nationally. The infrastructure spending project became the best handouts for the Lee administration to gain support from the local factions, Taiwanese politicians, and business community, even though many of them had criminal backgrounds (Chin 2003:125-128). In particular, transport infrastructure always led to city-planning and zoning. It attracted elected deputies and representatives to get involved in rezoning cheap farmland to become expensive commercial and residential lots, as they could make lucrative profits from the high-rise real estate market.

(3) When the interests of politicians, business people, and career criminals began to mold these infrastructure spending projects, their interest networks resulted in poor construction quality, corrupt government officials, and dishonest elected deputies. And most importantly, as interest networks gained more power and resources in the democratizing process, it led to a weaker state. These problems, in turn, triggered middle-class people to fret that the development trajectory was on the wrong track because it favored business conglomerates and corrupt elected politicians over the hard-working middle-class people.

(4) In the late 1980s, Taiwan's export-led industrialization faced obstacles for industrial upgrading, and state-owned enterprises' contribution to economy declined. Lee government's main economic policies, including liberalization of capital market,

deregulation of licensing system, and privatization of state-owned enterprises, had substantially transformed Taiwan from manufacturing-based to service-oriented economy. The reforms of stock market and banking industry in the financial sector had profound impacts on industrial upgrading, as it encouraged hundreds of companies to go public. With decreasing credit controls and loosened lending standards, the business community had more channels available to raise capital in the open market for business expansion.

(5) Under Lee's government's financial reforms, growing numbers of technology- and capital-intensive manufacturing firms began to spring up and move up the value chain in the early 1990s. Most newly founded hi-tech firms focused on information-technology related industries. As corporations and hi-tech firms took advantage of Lee's financial reform and industrial policies, business conglomerates began to emerge. However, the public's faith in the developmental state remained strong. The public believed that the state had the magic power to control the economic transformation under the guideline growth with equality. As Lee government's economic transformation led to the rich getting richer, both liberal and conservative camps denounced Lee's government steering the Taiwanese society toward a plutocracy. Harsh criticisms eroded the KMT's electoral base, but did not damage Lee's political popularity, as he won the 1996 presidential race by a huge margin.

During the interlude, the economic development trajectory continued to slip into institutional development paradigm. This happened on two ways:

(1) In Lee's second term, the state and society in transition continued during an ongoing economic boom. As private institutions benefited from financial reforms and took advantage of the business-politics connections, they grew bigger and gained more

autonomy in business decision-making. Large corporations and business conglomerates firmly stood on their decisions to invest in China against the Lee government's suggestions to invest in Southeastern Asia. Firms and investors used shell companies to bypass policy restrictions for China-bound investment. Eventually, Lee's administration had to compromise with these corporations' requests, and it revised restrictive policies for investment in China.

(2) The conservative forces with strong urban middle-class support kept on attacking Lee government's political-business connections, but they were very supportive of corporate investment in China. This left the liberal camp the only voice against overinvestment in China.

After the DPP won the 2000 presidential election, the second wave middle-class crisis began. There are five important features about the shifts of the economic developmental trajectory after this election:

(1) The shift of economic developmental trajectory started with a big bang in October 2000, when the DPP government cancelled the construction of the fourth nuclear power plant. The construction of three nuclear power plants was one of iconic infrastructure achievements of the statist development under Chiang regime. The cancellation of a fourth nuclear power plant immediately led to business community and the public to believe that the DPP government was essentially anti-business. To change its social image, the DPP government loosened restrictions for investment in China, which accelerated capital migration to China and deindustrialization in Taiwan.

(2) After the internet bubble burst, an economic recession began. The unemployment rate rose to 4.6% in 2001, and continued to hover above 5.0% for another

two years. As a left-wing political party, the priority of the DPP government during the economic hardship was to establish a national social security system, including national pensions, senior farmers' allowances, and unemployment insurance. Under the pressure to win elections, the DPP had to spend more of its budgets on reducing the unemployment rate. Spending on welfare state made the already tight financial situation more critical. To realize its campaign promises to welfare state programs, the DPP raised funds by selling state-owned assets and borrowing. The expenditures on welfare programs brought rising government debts, which, in turn, placed heavy burden on middle-class families.

(3) The Lee administration left several major but lingering infrastructure spending projects to the DPP government, such as high-speed rail, the second national highway system, and the Taipei metropolitan rapid transit system. In addition to completing these projects, the recovery from the 1999 earthquake also demanded special budget allocations for reconstruction. These infrastructure spending projects consumed large amount of revenues to be completed. This prevented the DPP government proposing their own version of long-term large infrastructure spending projects.

(4) Unlike the KMT government who always was the both participant and director of the establishment of strategic industries under the developmental state model, the DPP withdrew from that position to be a facilitator. In the DPP's three major strategic high-tech industries, the semi-conductor, the TFT-LCD, and the nano-tech industry, the DPP government did not throw a great amount of investment capital at these three industries.

(5) To enhance banking industry's international competitiveness, the Chen government carried on two financial reforms. In Chen's first term, his government

earmarked 140 NT billion to write off banks' bad loans. In Chen's second term, his government encouraged banks to form financial holdings (Gobel 2006: 76). After these mergers and acquisitions, the financial conglomerates have become more formidable. The legacy of the statist-development model almost came to an end.

**Factor 3: Squeezing middle class: The distribution of wealth became more unequal, as deindustrialization polarized the class structure making the middle class more fractionated.**

Economic egalitarianism is one of characteristics of Taiwan miracle. This egalitarian income distribution had its roots in postwar economic development. The KMT's land reform policies had produced 733,000 farm families, with around 2.5 acres of land per household by 1955. The farming population totaled 4,603,000. This was a half of Taiwan's population in the 1950s, all of whom benefited from land reform but they situated at the bottom of class structure. In the late 1960s, when agricultural production reached its potentials for growth, and exploitative policy measures, such as heavy land tax, rice-fertilizers barter system, and low food price, made Taiwanese farmers suffer.

Nevertheless, this crisis abated because of industrialization take-off and abolishment of land tax and barter system. After industrialization was initiated, farming families began to send their less-educated children to factories, and depended on remittances from relatives abroad to improve their standards of living. As incomes from agricultural production continued to decline, more farmers were forced to make a living by finding jobs in industrial sector in the 1970s. These transitions produced large amount of working-class Taiwanese, whose livelihood highly depended on prosperity of industrial sector. Nevertheless, because Taiwan's export-led industrialization continued

to roll, the principle of economic egalitarianism was well sustained. In 1970, the ratio of top fifth's income was 4.58 of the bottom fifth, and the Gini coefficient was .294. In 1987, the ratio and Gini coefficient only slightly increased to 4.69 and .299, respectively (CEDP 2010: 22).

However, after the Plaza Accord forced Taiwan's currency to appreciate, economic inequality in income distribution increased and this coincided with the first wave middle-class crisis. Four important issues are involved with this rising inequality.

(1) Under the impact of rapid currency evaluation and American trade protectionism, thousands of labor-intensive manufacturing firms gradually lost their international competitiveness. Firm closures, large-scale layoffs, and deindustrialization became prevalent, and production increasingly large displaced working class. Meanwhile, at the bottom of class structure, the majority of farm families, who averaged less than 2.5 acres of land, continued to suffer. The expansion of income inequality created a main issue for the DPP and they spoke for these economic minorities. Those marginalized working-class people and farmers became steady supporters of the DPP.

(2) The economic boom, money games, and rising housing market produced many affluent middle-class people. The appearance of status shopping marked the beginning of widening income distribution. The ratio of top fifth's income to the bottom fifth increased from 4.58 in 1988 to 5.38 in 1996, and Gini coefficient went up from .303 in 1988 to .317 in 1996 (CEDP 2012: 22). As inequalities in income distribution expanded, the country deviated from the principle of economic egalitarianism. The earlier economic egalitarianism not only was a significant achievement of the KMT, but it also was an important political ideology deeply rooted in the Three Principles of the People

based on the political philosophy of the Sun Yat-sen. The apparent abandonment of economic egalitarianism irritated the conservative middle-class people, who were loyal believers of the Sunism. The NP represented these conservative forces and spoke for urban middle-class, who did not benefit from the economic boom.

(3) Despite the large amount of displaced workers and marginalized farmers, Lee government's economic policies, such as industrial upgrading plans, large-scale public spending projects, and the transformation from industrial-based to service-oriented economy, had created an abundant number of new jobs both in the industrial and service sectors. As a result of this job creation, the averaged unemployment rate during the first wave middle-class crisis was only 1.72% (CEDP 2010: 35). The low unemployment rate indicated that those economic minorities were eventually able to reenter the job market.

(4) Although income egalitarianism showed sign of deterioration, per capita GNP actually doubled from US\$ 6,318 in 1988 to US\$ 13,614 in 1996 (CEPD 2010: 19). The increase of per capital GNP and expanding size of middle class showed that polarized class structure or the squeezing middle class was reversed.

During the interlude, Taiwanese society experienced another wave of deindustrialization. However, Taiwan also underwent an economic boom due to emerging internet bubble and high expectation on millennium effect. The economic prosperity offset the trend in worsening income distribution, as the ratio of the top fifth's income to the bottom fifth's only slightly increased to 5.50, and the Gini coefficient went up a bit to .325 in 1999 (CEPD 2010: 19). Because the size of the middle class kept on expanding, and there were abundant opportunities for upward mobility both in Taiwan and mainland China. The squeezing of the middle class thesis did not happen.

In 2000, the second wave middle-class crisis started with a surprising election outcome, when the DPP candidate, Chen Shui-bian won the presidential election. In the early 2001, the bursting of internet bubble began, and it smashed the vision of a millennial boom. As the economic downturn went on, income distribution soon worsened. This development not only deteriorated class configurations, but it also further polarized the class structure. Three important features of this decline are:

(1) After Chen Shui-bian took the power, business communities were frustrated by the DPP government's anti-business attitude because of the cancelation of the fourth nuclear power plant. This development forced the DPP to shift its political stance to central right, modify its policy restrictions for investment in China, and embrace a free economy agenda. However, this policy modification only encouraged more outward investment to China. The trend for deindustrialization continued. Companies in service industries, such as retailers, also followed the trend to make their investments in China. The continuing deindustrialization and newly emerging investment from services industries during the economic downturn only led to a worsening job market.

(2) On the upper end of the job market, the DPP's industrial policies, which focused on a few technology- and capital-intensive industries, produced decent professional and managerial positions. However, they were small in number. During the economic recession, many well-to-do companies had operations in China. In this way, transnational manufacturing firms continued to produce newly rich owners in the high tech industries. On the middle and low end of the job market, however, workers faced firm closures, layoffs, pay cuts, and downsizing. Because of China-bound investment and deindustrialization, the job market



deteriorated. As a result, the creation of white-collar jobs became tighter. The deteriorating job market not only affected factory workers, but it also impacted many white-collar job holders. Life's struggles became a daily reality among the many jobless people.

(3) As the job market went into a downward spiral, unemployment went up from 3.0% in 2000 to 4.6% in 2001, and continued to jump above 5.0% for another two years. The lack of growth maintained the unemployment rate at 4% or more from 2004 to 2008 (CEDP 2010: 35). The deteriorating employment condition widened the income gap between the rich and the poor. In 2000, the ratio between the top fifth's income to bottom fifth's was 5.5, it went to 6.39 a year later, and continued to hang at 6.0 during the rest years of the second wave middle-class crisis (CEDP 2010: 19). These figures indicated that class configuration was experiencing a squeezing-middle effect, which led to polarized class structure and widening income inequalities.

**Factor 4: Status fluctuation: Dramatic changes in political economy caused serious fluctuations of status that caused a strong sense of relative deprivation within the middle-class.**

In chapter two, I used the concept of "continuum class structure" from the Weberian tradition to construct a middle-class crisis theory by arguing that serious fluctuation of status may lead to a strong sense of relative deprivation within middle-class people. In the first wave of middle-class crisis, this study shows how this occurs in four ways.

(1) Under the KMT's colonial rule, ethnic discrimination practices heavily determined the white-collar job placement in public sector. The majority of Taiwanese

could only find jobs in the lower echelons of public service. These ethnic divisions of labor continued to give Mainlanders a better chance of life with their middle and top positions in the public sector. However, this condition changed dramatically. After Lee Teng-hui came to power and then initiated his Taiwanization project, he promoted many in the Taiwanese elite to top posts to enhance his power. This reversed the ethnic power relationship and caused Mainlanders' status to fall. As Mainlanders' privileges gradually diminished in the public sector, meritocracy replaced the previously discriminatory ethnic practices. More Taiwanese civil servants were able to get jobs in managerial positions. This transition created a sense of relative deprivation among Mainlander public employees.

(2) After Lee completed his version of democratization by reelecting a more balanced ethnic group of proportion to three parliaments, the new parliaments has well reflected the true ethnic composition of population. However, democratization also encouraged many career criminals to get involved in politics. When so many politicians with law-breaking past became elected official and deputies, their rising status produced resentments against Lee government.

(2) The Lee government's policy to privatize large sections of the state-owned companies led many employees in the previously state-own companies to panic, as they worried that layoffs might follow privatization. As privatization projects were plagued by a lack of transparency, they caused many painful adjustments for thousands of public employees as they went through the ups and downs of their careers.

(3)The crazy money games during the first wave middle-class crisis produced more losers than winners. When underground firms' ponzi schemes were at their pinnacle

and the stock market was on an upward trend, they made millions of middle-class investors feel rich and invincible. After the red-hot money game came crashing down, the majority of large market players and courageous investors all became losers. Because most ponzi schemes started from Mainlander community, the collapse of ponzi scheme tended to deplete Mainlander families wealth most.

(4) Although there was pessimism over the economic future due to deindustrialization and American trade protectionism, Taiwan's economy continued to grow. Lee's economic policies not only allowed business conglomerates to thrive, but also fostered an expanding middle class. As corporations grew larger, they started to make investments overseas. Increasing Taiwanese middle-class people began to globalize. There were opportunities for upward mobility in the private sector, both in domestic Taiwan and overseas. The emerging new rich and affluent new middle class from thriving private sector on high-tech industries demonstrated that private sector jobs' prestige and rewards were on the rise.

During the interlude, Taiwanese society still underwent serious changes in the white-collar job market. Taiwan's outward investment continued to concentrate in mainland China. This trend led to increasing transnational middle class. Meanwhile, an economic boom in high-tech related industries facilitated the expansion of the middle class. While the continuing deindustrialization produced displaced workers, the growing business conglomerates generated more upward opportunities. This economic prosperity, however, quickly ended, when the DPP took the power. During the second wave middle-class crisis, five important features include:

(1) After President Chen took the power the DPP government began to reshuffle hundreds of top posts. Because the Chen administration distrusted the established bureaucracy, meritocracy and partisanship became important factors to hold these top positions. Under this guideline, the Chen government largely promoted non-KMT junior bureaucrats to fill in those top positions or recruited social elite as appointees (Lee and Chu 2008: 155-156). The reshuffling of top position jobs therefore made many KMT-affiliated senior officials and technocrats believe that their careers in the bureaucracy were over. There was a strong sense of doom among the KMT-affiliated officials and bureaucrats.

(2) Soon after the regime transition, Taiwanese society faced the looming economic challenge, due to economic recession, continuing deindustrialization, and ongoing China-bound investment. After more than a decade of increasing foreign investment in China, the new corporatist operations in the global economy began to put the prosperity of many white-collar job holders at risk. During the economic downturn, many transnational companies expanded their operations in China, but conducted cost saving measures for survival in Taiwan. These measures led to layoffs, stagnant wages, dropping benefits, and rising job insecurity. Many white-collar office workers found themselves vulnerable in the private sector.

(3) The suddenly deteriorating job market made credentialism much more important. However, the oversupply of college graduates not only made the job market go from bad to worse, but it also depreciated the value of college degree. Many younger students now have to pursue at least a master degree, achieve some kind of certificate, or pass some sort of license exam in order to make themselves competitive in the job market.

In comparison with the rising job insecurity and stagnant wages in the private sector, many job seekers seriously sought public sector jobs. This decreased the acceptance rates of the public servant exams because of the rising status of the public employees during the economic downturn.

(4) While Taiwan's exports continued to grow, the percentage of export orders manufactured in China continued to rise. By 2005-2008, almost a half of export orders were actually made in China. This situation reflected the continuing expansion of Taiwanese manufacturing firms. Consequently, there were rising demand for Taiwanese talent in China, but not inside Taiwan. Many job seekers therefore had to place their hopes on the Chinese job market.

(5) The Chen government's second financial reform, which encouraged banks to form financial holdings, caused relentless mergers and acquisitions. As layoffs and buyouts always follow mergers and takeovers, job insecurity also rose in the financial sector. Moreover, after mergers and takeovers, many of the surviving holders find it difficult to adjust to the new company's culture and get promotions.

**Factor 5: The impact of leadership change: Leadership changes alienated the sense of belonging within conservative fractions of middle-class people.**

The Republic of China is a transplanted state and a colonial system. Prior to the late 1980s, although Taiwanese made up more than 85 % of the population, they had no representatives in the state apparatus. The ruling KMT's leadership was composed of senior conservative Mainlander elites. As they were governed by Mainlanders, Taiwanese were brainwashed to believe that the leadership must remain in the hands of Mainlanders.

When the loosely organized opposition forces, the *Tangwai*, came to challenge the KMT, the KMT modified the structure of the transplanted state in the 1970s and began to recruit a handful of Taiwanese elite into the inner circle of its leadership. These Taiwanese elite only served the function of ceremony to camouflage the colonial regime's dictatorship. However, when the leadership unexpectedly fell into Taiwanese in 1988, it immediately caused infightings within the KMT, and led to middle-class crisis to explode. The most important highlights of the first wave middle-class crisis include:

(1) Leadership was the key for ideology control and goal attainment. With leadership being firmly controlled by the Taiwanese, the embedded crisis based on ethnic distrust began to manifest itself.

(2) President Lee's political reforms, including the reelections for all parliaments, constitutional amendments, and promotion of Taiwanese politicians undermined the political values of the transplanted state, and these reforms alienated Mainlanders' sense of belonging.

(3) President Lee's dominance in the ruling KMT caused conservative camp to divide. This differentiation led to the establishment of the New Party and eroded the KMT's electoral base. The New Party's supporters came from urban-based Mainlanders and well-educated middle-class Taiwanese in northern Taiwan.

In the 1996 presidential election, the conservative camp had two sets of candidates to challenge Lee, but they combined for only 25% of the overall vote. The large margin of Lee's victory silenced the conservative forces. As the conservative forces were in disarray, the first middle class ended. During this interlude period two observations are important:

(1) After the 1996 presidential election, Lee's leadership was unchallengeable. The NP moved toward the middle ground of the political spectrum and it cooperated with the DPP in the legislative Yuan to check Lee's power. This conservative cooperation with its ideological opposite in the DPP dissatisfied many of the NP's regular supporters. The NP suffered a devastating defeat in the 1998 legislative Yuan election, and it has had little influence in the political arena since then.

(2) The Lee administration proposed a two-state theory to illustrate the relationship between the transplanted ROC and the PRC. This special state status for Taiwan irritated the conservative forces in the summer of 1999. Meanwhile Lee's decision to nominate Lien Chan as the KMT's presidential candidate split the KMT. James Soong challenged the nomination, but he was expelled. The conservative forces regrouped in the summer of 1999, and they supported James Soong as an independent candidate.

The split of the KMT marked the prelude of the second wave middle-class crisis. While polls expected James Soong to win the 2000 presidential election, the DPP candidate, Chen Shui-bian, nevertheless, unexpectedly won the race. The election result disappointed many middle-class people, and the second wave middle-class crisis began. There are four points related to this leadership change:

(1) Angry Mainlanders requested Lee to step down from the KMT chairmanship, and Lee was expelled by Lien Chan, his appointed successor, in November 2000. The Mainlanders and conservative middle-class Taiwanese realigned with James Soong's People First Party. This realignment further damaged the KMT's popular support.

(2) The Chen government replaced Lee's two-state theory and moved one more step toward separating Taiwan from the PRCs one-China claim by announcing one country on each side of the Taiwan Strait. This announcement provoked the conservative middle-class people's sense of belonging to the ROC.

(3) Lee reentered the political arena by establishing Taiwan Solidarity Union. Moreover, Lee jointed the liberal camp and he initiated the decolonization movement by calling drafting a new Constitution and rectifying the ROC to Republic of Taiwan. This movement forced voters to choose a political stance between pro-Taiwan or pro-China in the 2004 presidential election. The decolonization campaign successfully bent the centrist middle-class people's political stance to the liberal camp, and it helped President Chen win his reelection bid by a slim margin.

(4) Despite vicious competition between the KMT and the PFP, conservative forces eventually pressured Lien and Soong to form a joint ticket for running 2004 presidential election. They lost the race by a small margin. This stunning loss led to distress spread among the minds of many conservative middle-class people.

**Factor 6: The impact of the decolonization movement: Democratization**

**accompanied with the development of decolonization movement led to emerging identity politics, rising ethnic tensions, middle class differentiation, and statehood crisis.**

In many developing countries, democratization acts as the catalyst for political change, and it could be reduced to a transition from an authoritarian regime to a democratic political system. In Taiwan, however, democratization has been accompanied with the development of decolonization movement. These two movements not only have



ushered the colonial system to produce a complex dynamics of identity conflicts through routine elections, but they also have had profound effects on citizens' daily lives. As citizens get involved in the tension of identity politics on a daily basis, the complex dynamics of identity conflicts inevitably lead to rising ethnic hostility, middle class differentiation, and statehood crisis, which in turn, reinforces a sense of middle-class crisis. This research takes into account several important features related to these issues during the first wave middle-class crisis:

(1) After the *Tangwai* formalized its organization to become the Democratic Progressive Party in 1986, the DPP set a clear political goal to establish the Republic of Taiwan through democratic and peaceful ways. However, Taiwan independence was incompatible with the political values of the Republic of China, as the Constitution pursued reunification with mainland China. Meanwhile, Lee's dominance in the KMT split the party into mainstream and non-mainstream factions. After the conservative forces lost the infighting battles within the KMT, non-mainstream elite left the KMT and they established the New Party in 1993.

(2) The DPP pushed hard on the Lee government to accomplish democratization. After Lee completed his version of democratization and he won his reelection in 1996 through the first ever direct election, he gained the honor of Mr. Democracy. In Lee's wishful thinking, the ROC equated to Taiwan, and Taiwan was the Republic of China. Lee had no interest to pursue future reunification with mainland China or Taiwan independence. Lee used the ROC on Taiwan to name the country. However, both "the ROC" and "the ROC on Taiwan" gained no international recognition. In most international organizations, "Chinese Taipei" or "China, Taiwan" was the island's formal

title. The achievement in democratic transition did not change the fact that the ROC was neither a country nor a province. It simply remained a defunct country with an active government. This international reality facing Taiwan caused continuing debates over identity issues, such as independence vs. reunification and Taiwanese vs. Chinese, and these debates only provoked more ethnic hostility and class antagonism.

(3) The interaction of democratization and decolonization brought ethnic tensions, middle class differentiation, and statehood crisis. In the early 1990s, three major parties strived with different identity appeals to gain their share in the political market. The NP stood on the right side of the political spectrum, appealing for being Chinese and pursuing for reunification. The NP's supporters came from conservative urban-based Mainlanders and well-educated Taiwanese middle-class people. The KMT under Lee's leadership held the centrist position. The KMT portrayed the idea that all residents in Taiwan were both Chinese and Taiwanese. The KMT's state identity was to maintain the status quo. The KMT gained support from moderate middle class, and a coalition of farmers and working class. The DPP represented the left wing forces. It sought to solve Taiwan's uncertain international status by establishing the Republic of Taiwan. The DPP had a distinct position to separate the Taiwanese from the category of Chinese, though most Taiwanese had some Chinese origins. In the early 1990s, the DPP's regular voters were liberal middle-class and working-class people, but their electorate base gradually extended to farmers.

(4) During the first wave middle-class crisis, identity movement was politically motivated rather than socially constructed. This political motivation brought to fragmented ethnic identities and statehood identities, which well reflected major political

parties' political strength. In 1996, according to a survey conducted by National Chengchi University, 22.85% residents reported they were Chinese, 49.3% recognized themselves as both Chinese and Taiwanese, and 27.9% identified themselves as Taiwanese. This survey also showed similar result for the statehood identity, as 29.6% favored reunification, 53.0% preferred maintaining the status quo, and 17.4% wanted Taiwan independence.

In the interim, political motivation for identity movement continued. However, because of Lee's landslide victory, the conservative camp became silent. There are three major transformations in the identity politics:

(1) Pushed by the DPP, Taiwan's educational system became more open and focused on Taiwanese culture. Beginning in 1997, middle-school students were required to learn a new course, *Knowing Taiwan*. This educational reform ushered the younger generation to reconnect to Taiwanese history, geography, and culture.

(2) In 1998, in order to solve the increasing ethnic hostility between Taiwanese and Mainlanders, President Lee proposed a concept of "new Taiwanese" to include Mainlanders into the category of Taiwanese. The endorsement of the New Taiwanese helped the KMT deliver a victory in the Legislative Yuan election. After the election, the right-wing NP suffering a major defeat and it became an irrelevant factor in political arena. With the DPP gaining ground in that election, Taiwanese society seemingly headed toward a healthy two-party system.

(3) Ethnic and statehood identities were contingent and changeable in Taiwan. With leadership in disarray, the conservative forces' ethnic and statehood identities greatly changed. According the National Chengchi University's survey in 1999, only

11.4% residents reported they were Chinese, 46.8% recognized themselves as both Chinese and Taiwanese, and 41.8% thought they were Taiwanese. The survey question for statehood identity indicated that 22.9% of residents favored reunification with China, 54.8% preferred the maintenance of the status quo, and 22.3% wanted independent Taiwan.

While President Lee's landslide reelection victory in 1996 abated the middle-class crisis, this situation did not last long. After the 2000 presidential election, the unexpected election outcome triggered the second stage middle-class crisis. The six most important developments of the second wave middle-class crisis include:

(1) Although the DPP won the presidency, it quickly found itself to be a ruling party who could not rule because it had a minority status in the Legislative Yuan. This condition forced President Chen to switch the DPP's political position to centrist left by moderating the DPP's pro-independence stand. However, the political tensions with the KMT remained. A long-term political deadlock thus began.

(2) After the 2000 presidential election, democratic consolidation moved from a seemingly prominent two-party system to a fragmented four-party power struggle. After his failed independent bid for presidency in 2000, James Soong founded the People First Party. The PFP was a right-wing party, its political goal aimed to steer Taiwan toward reunification through cultural and economic interactions with china. The PFP firmly opposed future Taiwan independence. The establishment of the PFP gave the KMT a greater pressure to recruit support from conservative middle-class constituencies. The fierce competition drove the KMT toward the far right of the political spectrum, pursuing reunification with China.

(3) In the summer 2001, the former President Lee established the Taiwan Solidarity Union. The goal of this party was to redraft a new Constitution and rename the country's name. With the help from the far-left TSU, decolonization movement became prominent. Many subjects, symbols, and emblems with aspect connecting to Chineseness were either eliminated or replaced by Taiwanese ones. For example, many statues of Chiang Kai-shek and Sun Yat-sen had been taken down from the public spaces. The newly issued NT\$ 500 banknote features Taiwan's Red Leaf baseball team, and NT\$ 1,000 banknote has a group of elementary school students on the front side. The portraits of Chinese leaders were gone. Taiwanese history and culture also became popular in the academic scholarship. In 2002, former President Lee openly advocated to redrafting a new Constitution. In 2003, Lee went further to push a rectification movement, declaring that the country's name ought to be called Republic of Taiwan. Decolonization movement nevertheless caused anxiety and social unrest to permeate in the minds of many conservative middle-class people. This development led to a more united conservative forces and persistent political stalemate as a result.

(4) The pan-green parties were excited about the presidential election victory and they expected to win the majority seats in the 2004 Legislative Yuan election, so they could enact a new Constitution to realize the Taiwan independence. However, things did not turn out as they wished. The pan-green camp only obtained 101 out of 225 seats. The decolonization movement caused extreme ethnic tensions and high anxiety among the middle-class voters during the two campaigns. After the two elections, the feelings of deep frustration developed within the supporters of the two ideologically opposite political camps. The political deadlock persisted and the Taiwanese society divided.

**Factor 7: Change of colonial syndromes: Decolonization undermined the prevalence of colonial syndromes, including the Mainlanders' superiority complex, Taiwanese middle-class people's dependency complex, and Taiwanese inferiority complex.**

Class formation in Taiwan has its root causes in colonialism and development. After the KMT conquered Taiwan, the unequal power relationship brought to the establishment of double illegitimacy. This double illegitimacy allowed the ruling Mainlanders to claim that they were privileged, and the Taiwanese gave consent to that claim. Postwar ethnic division of labor thus was composed of majority Taiwanese in the lower classes as farmers and workers, and Mainlanders in the upper and middle class. As a result of this colonial arrangement, colonialism divided Taiwanese society into two major status groups, the inferior ethnic Taiwanese and the superior Mainlanders.

This binary opposition in the ethnic/class structure had remained stable for four decades, in part because postwar land reform led to egalitarian income distribution (Campos and Root 1996: 32; Vogel 1991: 40), and in part because the KMT used reward and selection systems to recruit prominent Taiwanese as public employees and its party members. As they received resources, benefits, and opportunities from the KMT, the emerging Taiwanese middle class accepted the KMT's colonial values. The reward and selection systems created dependency complex, causing the Taiwanese middle class to serve as buffer between the Mainlanders and the rest of the Taiwanese population.

In this way, conservative Taiwanese middle-class people emerging from the colonialism bridged the sharp ethnic/class rupture, and this thereby sustained the colonial structure in a cohesive way. Seemingly, unequal power relationship made the colonial

structure sustainable. Once the leadership fell into the hands of ethnic Taiwanese, this condition reversed, causing turbulent overturn of the colonial syndromes. During the first wave middle-class crisis, four major discussions about identity include:

(1) Former President Lee's rise to power initiated the overturn of the ethnic/class structure. While meritocracy remained important, ethnicity also played a role in selecting candidates for many higher positions in the bureaucracy and within the ruling party. As Lee's Taiwanization project largely promoted Taiwanese to top posts, this project squeezed out the Mainlanders' upward mobility. After the Lee government completed democratization, the three new parliaments well reflected the ethnic composition of Taiwan's population. Changes in the political institutions made Taiwanese more self-confident, developing new superiority complex of their own. In contrast, without power and dominance, the Mainlanders' political privileges gradually diminished. After this leadership change, the Mainlanders became the dependent ethnic group in the public sector.

(2) While the double illegitimacy gradually faded away, Mainlanders' superiority complex, in terms of ideological thinking, remained strong. This was because the purpose of Lee's version of democratization was to enhance his power rather than to rebuild a new political system for Taiwan by destroying the old colonial superstructure. Consequently, the core values of the Republic of China stayed intact, pursuing a future reunification with mainland China. The continuance of colonial values kept the Taiwanese under the previous colonial identities. As long as the colonial contract continued to constrain Taiwanese pursuit for a new statehood, decolonization only made the reformed colonial state inherently problematic.

(3) While leadership change constrained the Mainlanders' political status, the colonial contract continued to confirm Mainlanders' superior political values. What Mainlanders needed to do was to continue the construction of inferiority complex of the Taiwanese. The Mainlander-controlled media condemned Lee's Taiwanization project for splitting the cohesion of ethnic relations. They criticized democratization for bringing about corrupt political-business connections. They denounced Lee government's constitutional amendments for moving toward Taiwan independence, which ushered Taiwan toward war. They also made the DPP the political party of violence. And finally, they charged Lee government's economic policies for deviating from economic egalitarianism.

(4) During the first wave middle-class crisis, Mainlander-controlled media used negative campaigns to continue the construction of inferiority complex, causing a collision between decolonization thinking and colonial mentality. Because Mainlanders portrayed themselves as the defenders of the Republic of China, the conservative Mainlanders-based New Party attracted majority well-educated Taiwanese middle class' steady support in northern Taiwan. However, with many centrist middle-class people firmly supporting President Lee, the construction of dependency complex did not succeed. These occurrences reflected the fact that leadership and decolonization did not undermine Mainlanders' superiority complex at all.

After President Lee totally defeated the conservative forces in his reelection, Mainlanders' superiority complex became latent during the interlude. However, Mainlanders' colonial mentality remained strong. With the increasing China-bound



investment, they put most of their stakes on bringing their “mother country,” the China factor into play so that the dependency complex could be rebuilt in their favor.

Mainlanders began to portray free economy that the Lee government should lift all restrictions and let the market to determine the outward investment destiny. They began to establish relations with Chinese authorities, which benefited Taiwanese investors. They expected that China’s growing economic power would bring to cross-Strait reconciliation in their favor. In March 2000, an unexpected presidential election outcome threatened the Mainlanders’ superiority complex again. During the second wave middle-class crisis, important developments of the colonial syndromes include four main factors:

(1) After the DPP came to power, the enduring economic recession and follow-up immiserizing growth gave Mainlanders the best opportunity to reconstruct their inferiority complex. The DPP’s social image worsened from a party of violence to an incompetent government. After former President Lee reentered the political arena, aiming to help the DPP government, the decolonization movement went into action calling for a redrafting of the Constitution and rectifying the country’s name to the Republic of Taiwan. This invited a counter reaction from the conservative camps. Decolonizing thinking and the colonial mentality were on a collision course again. The escalating ideological conflicts caused the largest ethnic-based political mobilization in Taiwan’s political history during the 2004 presidential election campaign. After the conservative forces lost that race, they accused the DPP and former President Lee for exacerbating ethnic conflicts.

(2) In order to compete, the leadership within the conservative camp, the KMT chairman Lien Chan and the PFP chairman James Soong, steered the two parties to the far-right. Although the KMT-PFP joint ticket failed to win the 2004 presidential race, together they still held the majority seats in the Legislative Yuan. This development gave Mainlanders a strong footing to continue the construction of inferiority complex. And their efforts paid off, after a series of high-profile corruption scandals starting in 2005, accompanied by the growing numbers of the centrist middle-class people who were disaffected by the deteriorating living standard. As a result, the DDP' public support quickly diminished.

(3) After the KMT and PFP lost their joint ticket bid for the 2004 race, the KMT chairman Lien Chan was forced to step down in May 2005, and then he immediately visited China. With the new title, the honorary KMT chairmen, Chinese authorities treated Lien like the true state leader from Taiwan. After the visit, the relationship between the KMT and the Chinese Communist party blossomed from being mortal enemies to become intimate friends. This occurrence allowed conservative forces under the new Mainlander chairman, Ma Ying-jeou to construct a set of brand new dependency complex. As the relationship with Chinese authorities improved, the KMT declare it could prevent war and deliver cross-Strait peace. The KMT also claimed it could protect Taiwan's investors and middle-class people in China. The KMT even guaranteed it could bring economic prosperity back to Taiwan with China's help.

(4) As the inferiority and dependency complex were all set to position, they bent the centrist middle-class people to the conservative camp. These developments in the mid-2000s helped the KMT win the 2007 Legislative Yuan election by a large margin,

capturing more than three fourths of the seats. In the spring 2008 presidential election, the KMT candidate Ma Ying-jeou, delivered another overwhelming victory. After conservative Mainlanders retook the power, the colonial syndrome continued to plague the ethnic Taiwanese.

**Factor 8: The impact of Chinese military threats: Democratization invited China to play an antagonistic role in the Taiwanese political arena. Constant military threats and political tensions caused Taiwanese nationalism to develop.**

Prior to the late 1980s, both the KMT regime and the PRC firmly opposed Taiwan independence because they all pursued future reunification. Under the KMT's White Terror and high-handed suppression measures, Taiwanese nationalist movement was limited in its political claims. This situation changed, after Lee took the power. Lee's dominance in the political arena allowed him to pursue a new Taiwan identity, namely the Republic of China on Taiwan. Lee's administration's commitment to complete democratization further advanced the liberal forces to promote a Taiwanese nationalism identity. These developments triggered the PRC's counter reactions, which in turn, strengthened Taiwanese identity and nationalism. Four important features during the first stage middle-class crisis are:

(1) The transplanted ROC had been diplomatically disenfranchised from international activities since 1971, when it was expelled from the UN. Although the KMT continued to portray itself as the sole legitimate government in China, the transplanted ROC gained limited international recognition. After Lee assumed the presidency, his commitment to democratization not only made Taiwan's achievement of a democratic

transition more visible in the international community and academic scholarship, but it also allowed the DPP to advance Taiwan's independence in the political market.

(2) The Lee government initiated a search for Taiwan identity by employing pragmatic diplomacy to actively participate in the international activities, including seeking to reenter the UN. As a new Taiwan identity developed under the name the Republic of China on Taiwan, most Taiwanese began to embrace the concept of "Taiwan priority." These developments caused the PRC to conclude that Lee was the leader promoting Taiwan independence, and they began to react negatively by using coercive diplomacy to block Taiwan's participation in the international arena. While the PRC's coercive diplomacy had successfully suffocated Taiwan's participation in the international activities, Taiwan's diplomatic setback only caused deeper antagonism against the PRC in the minds of the Taiwanese.

(3) In early 1995, the National Assembly amended the Constitution for direct presidential election and the Legislative Yuan finalized the remaining details. These developments convinced the PRC leaders to believe that the democratization in Taiwan had moved toward *de jure* independence. In the summer of 1995, President Lee's visit to Cornell University, his alma mater, was considered a signature victory for Lee's pragmatic diplomacy. However, the PRC viewed President Lee's trip to the U.S. as an attempt to covertly push for Taiwan independence.

(4) As the PRC's misperceptions escalated, beginning in July 1995, the PRC in retaliation launched a series of military exercises and missile tests aimed at Taiwan. The PRC's military reactions resulted in falling real estate prices and a plummeting stock market. On March 8 and 15, the PRC again launched two-round missile tests inside

Taiwan's territory water just weeks before the first ever direct presidential election in 1996. The two missile tests aimed to intimidate Taiwanese voters into not choosing President Lee. However, it led to counterproductive effect and helped Lee win.

After Lee won his reelection by an overwhelming margin, the cross-Strait political antagonism and military confrontation eventually dissipated. However, during the interval, the PRC's verbal threats and diplomatic isolation continued. In 1999, Lee's two-state theory irritated the PRC. Nevertheless, instead of taking military action, the PRC only indefinitely postponed all cross-Strait talk and visit. The PRC further demanded other countries to gain its approval before they sent aid offers to Taiwan after the devastating earthquake struck central Taiwan in September 21 1999. These developments led to tensions as Taiwan prepared the second direct presidential election on March 18, 2000. Six issues were important

(1) The verbal threats from the PRC escalated. On February 21, 2000, Beijing issued a white paper that declared a new condition for using force against Taiwan, especially if Taiwan refused to negotiate on Beijing's terms. In other words, maintaining the peaceful status quo was considered by Beijing as a cause for war. Just a few days before the election, the PRC's Premier, Zhu Rongji, sternly intimidated Taiwanese voters by warning on television that choosing Chen meant a destructive war. These verbal threats, however, only caused more hostility against the PRC, as the pro-independence DPP's candidate Chen Shui-bian won a stunning victory.

(2) After President Chen's inauguration, the DPP government expressed its good will to the PRC in the hope to materialize cross-Strait three-link agreement. However, the PRC insisted any agreement must proceed under the "One China" principle. There was

no advancement on this issue during Chen's two-term presidency. However, the DPP government did achieve three small cross-Strait links in January 2001, which allowed for limited postal, transportation, and trade links between the islands of Kinmen and Matsu, administered by Taiwan, and Xiamen, Mawei, and Quanzhou, cities of the PRC Fujian province. As the Chen administration did not accept the "One China" principle, the PRC continued to block any Taiwan's attempt in participating international activities.

Frustrated by the PRC's "One China" principle, in August 2002 President Chen stated that there is one country on each side of the Taiwan Strait.

(3) In 2002, former President Lee initiated a political movement, aiming to redraft a new Constitution and rename the country to the Republic of Taiwan by a national referendum. The pro-Taiwan camp and most elite groups responded to the political movement favorably. In early 2003, the outbreak of the SARS, and the WHO's denial for Taiwan's application for observership, brought anti-China resentments to a fever pitch. The DPP maneuvered anti-China resentments and forced the KMT to pass the referendum act.

(4) The Chen administration was frustrated by economic recession and low approval ratings. As the 2004 presidential election was approaching, President Chen jumped on the bandwagon of decolonization movement in September 2003, calling for a new Constitution and rectifying the country's name to the Republic of Taiwan by a referendum. In the mid-2000s, political development in Taiwan seemed to move Taiwan and China toward separate and distinct destinies, and a war across the Strait was increasingly probable.

(5) President Chen's reelection victory convinced the PRC to believe that a new Taiwanese identity was emerging based on Taiwan independence. In March 2005, the PRC's National People's Congress responded to the emerging Taiwanese identity by passing the anti-secession law. The PRC formalized the conditions to use "non-peaceful means" against the "Taiwan independence movement" in the event of a declaration of Taiwan independence. In reaction to the PRC's anti-secession law, more than a half million Taiwanese marched on Taipei streets to protest the PRC on March 26, 2005.

(6) After the protest and the KMT honorary chairman Lien Chan's visited China, the decolonization movement was weakened by a series of high-profile corruption scandals in the Chen administration, and the decline in economic growth that led to immiseration. Meanwhile, under the Chinese President Hu Jintao's new leadership, China toned down its military threats after Ma Ying-jeou was inaugurated as the KMT chairmanship in mid 2005. As the cross-Strait political tensions lessened, the decolonization momentum slowed down.

**Factor 9: The impact of Chinese economic and political threats: Globalization**

**allowed China to shape Taiwanese economic development. The integration of Taiwan into the Chinese economy ushered IN the possibility of future conciliation, which pleased the conservative fraction of the middle-class.**

Globalization has been in conflict with Taiwanese politics for more than two decades. As an industrialization latecomer, Taiwan's outward investment began in the mid-1980s, when the Plaza Accord led to the fast appreciation of Taiwan's currency. By the early 1990s, Taiwan's outward investment started to concentrate in China. These

increasing cross-Strait economic interactions brought much ambivalence to Taiwanese society. During the first wave middle-class crisis, four important developments include:

(1) In 1987, President Chiang Ching-kuo lift the travel ban to China, and cross-Strait relations entered a new stage. After western countries boycotted their investments in China due to the outbreak of Tienanmen Square Massacre in 1989, Chinese authorities sweetened its investment deals to attract foreign direct investment from overseas Chinese. This policy caused Taiwan's cross-Strait travel to develop into growing commercial ties. With expanding trade and investment, China has become the favorite destiny for Taiwan's outward investment since the early 1990s.

(2) However, the increase of outward investment across the Strait intensified the pace of deindustrialization in Taiwan, and it caused a collective anxiety to develop within Taiwanese society. The liberal forces were worried that the huge Chinese market could deplete Taiwan's investment capital and skim off Taiwanese talents. And overinvestment in China will bring to hollowing-out industrialization, a scenario which, in turn, will deteriorate both Taiwan's economy and job market. As China claims to take over Taiwan by any measure, this newly developed economic threat may eventually end up Taiwan's sovereignty without a war. The liberal forces thus demanded restrictive controls to reduce the increasing China-bound investment.

(3) Taiwan's investment in China was relieved by Lee Government's guest worker project and go-south policy in the mid-1990s. However, as China's export-led industrialization took off and its economy grew at high speed, Market forces continued to drive more Taiwanese firms to relocate their production facilities in China by using shell companies to evade policy restrictions. Conservative forces in Taiwan were very



supportive of the cross-Strait investments, as they favored a reunification political agenda. They urged Lee's government to help Taiwanese investors in China.

(4) During the first wave middle-class crisis, despite the liberal forces' concerns, deindustrialization did occur, but it did not bring to hollowing-out effect. With the emergence of many high-tech manufacturing firms in Taiwan, many labor-intensive industries continued to relocate to China. This development trumped business community and conservative camp's argument that by exporting low-end and middle-range production technology to China, Taiwanese firms could move up to cutting-edge value chains for industrial upgrading.

In President Lee's second term, his government began to loosen policy restrictions, accelerating China-bound investment to reach the point of no return. Despite the liberal forces' continuing warning, the modifications of China-bound investment coexisted with a booming economy which benefited the high-tech firms in information-technology related industries most. This economic prosperity overshadowed warnings from the liberal forces. However, business community and conservative forces optimism became the nightmare of Taiwanese society, when the high-tech economic boom ended in 2001. During the second wave middle-class crisis, important cross-Strait economic integrations include five factors:

(1) After the internet bubble burst in 2001, Taiwan went into a long-term recession. This economic hardship encouraged more high-tech firms to practice economic rationalization by relocating their production facilities to China. After high-tech firms displaced factory workers, they continued to practice downsizing and de-layering. Thus, many white-collar workers were also impacted by the winds of recession, resulting in

collective sense of social stress and frustration among the middle-class people. As cross-Strait economic integration drove high-tech firms to create more jobs in China than in Taiwan, the thriving Chinese job market ushered more Taiwanese job seekers to pursue careers in China.

(2) Taiwanese firms' investment in China originated from the practice of economic rationalization by exploiting Chinese cheap labor forces and reaping economic rents to diversify their production costs. After arriving China, however, they chased the industrial reserve army, strove for favorable industrial policies, and exploited the emerging Chinese market. But they were driven from coastal provinces to inland areas. Thus, firms' rationality appears to solve their old problems, but the rationality of Chinese production itself kept producing new forces both abroad and at home.

(3) After more than a decade cross-Strait economic integration, overinvestment in China had led to asymmetric dependency on China that made Taiwan vulnerable. Because China's growing economic power and greater political influence led to smaller degree of freedom for Taiwan's outward investment, Taiwan had to play by the rules set by the Chinese authorities. This economic dependency increased the possibility that Taiwan would be coerced by China to accept future political conciliation.

(4) Overinvestment in China not only led to a shrinking tax base, but it also brought in a vicious circle. During the recession, Chen government had to rely on selling government assets and borrowing to reduce the level of unemployment. However, this public spending only saved the unemployment rate. It did not help create jobs. As the recession proceeded, it invited antagonism with China. Thus, the economic recession in

the early 2000s propelled the liberal forces to push decolonization, deepening the collective anxiety about Taiwan's political and economic future.

(5) While the decolonization movement helped President Chen win his reelection victory, the increasing post-presidential-election social unrest, exacting campaign rhetoric, and intensifying social conflicts simply encouraged voters to be apolitical. This unexpected development led to many centrist middle-class voters stay home in the 2004 Legislative Yuan election. The DPP and the TSU failed to capture the majority seats in the Legislative Yuan. The continuing political stalemate and low growth propelled the centrist middle class to search for a China-friendly policy, which might produce win-win situation to benefit Taiwan's economy. This change of mindset gave the conservatives new momentum, and eventually it brought the KMT back to power in the 2008 presidential election.

**Factor 10: Shifting political stance of the centrist middle-class voters: The tug of war between the democratization and globalization factions split middle-class voters. As a result, the centrist middle-class voters became the most important forces to determine Taiwan's future. However, their shift toward political alliance with the KMT deterred the advancement of the decolonization, causing the middle-class crisis to continue unabated.**

This study employs the concept of middle class differentiation to challenge the notion argued by modernization theorists that middle-class people in developing countries are pro-liberal and in favor of democratic rule. In the Taiwanese case, this study shows that while postwar Taiwanese middle class under the KMT's colonial rule were

homogeneous. They were conservative in nature, supporting the political values that the KMT imposed to them.

As industrialization took off and routine elections went on, liberal fraction of the middle class began to emerge in the early 1970s, demanding political reforms and economic justice. Nevertheless, under the colonial regime's suppression, its political strength was weak. The majority middle-class people remained in the conservative camp.

(1) After leadership changed in 1988, the dilemma between dependency and superiority complex became to manifest themselves. With Lee's dominance in the ruling party and the government, Mainlanders became objects of dependency. The reverse of ethnic power relations brought to the explosion of ethnically-framed conflicts within the KMT. This infighting caused the conservative middle class to split. The far-right elements eventually left the KMT and they established the New Party.

(2) During the first wave middle-class crisis, democratization and globalization played the role of catalysts to accelerate the middle class differentiations. With so many dramatic changes in the political economy transition, the middle class differentiated into three fractions: the liberal middle-class fraction favored the DPP, the centrist fraction supported the KMT, and the conservative fraction identified with the NP.

(3) By 1995, about one third of the middle-class people were liberal, about a half of them were centrist, and the rest were conservative (see table 7-1). This proportion explained why President Lee could win his reelection by a landslide in a four-way race. The large proportion centrist middle-class fraction indicated that they were stabilizers of the democratic transition, favoring moderate reforms. This political attitude prevented a radical political change, which had been advocated by the DPP and liberal forces.

After the 1996 presidential election, the right-wing NP cooperated with the ideologically opposite left-wing DPP to check President Lee's power in the Legislative Yuan. This political maneuver backfired with the NP's regular voters. Its constituents and seats were greatly reduced in the 1998 Legislative Yuan election. With the return of the conservative voters to the KMT, Taiwan's democratic consolidation seemingly transitioned toward a healthy two-party system.

However, the nomination for party candidate for the 2000 presidential election split the KMT and its middle class supporters. This development provided the DPP a rare opportunity to steal the victory, and it led to fractionized middle class in the post-2000 election politics. During the second wave middle-class crisis, important dynamics about the fractioned middle class include:

(1) The middle class continued to fractionize in the early 2000s. In the 2001 legislative Yuan election, four major parties each of them with either left/right political ideologies forced the centrist middle-class voters to split. The TSU was on the far-left of the political spectrum, the DPP central left, and the KMT and PFP on the far-right. The KMT and the PFP formed a conservative coalition, and they were majority in the Legislative Yuan. Without a political party on the middle ground of the political spectrum to mediate conflicts between two opposite ends of the political ideologies, this conservative coalition led to long-term political impasse.

(2) The political deadlock frustrated the DPP government and liberal middle-class forces. This frustration radicalized the two left-wing parties to launch the decolonization movement starting in 2002. The decolonization movement bent the centrist middle-class voters to the liberal camp in the March 2004 presidential election to help President Chen

win his reelection. However, the centrist middle-class voters' support for the DPP soon vanished a half year later in the December 2004 Legislative Yuan election. This outcome stopped the decolonization momentum and led to the DPP to remain a minority government. As a result, political stalemate continued.

(3) After Ma Ying-jeou succeeded the KMT chairman in mid 2005, many PFP politicians returned to the KMT under Ma's leadership. Meanwhile, a wave of corruption scandals involving top DPP politician, including President Chen and his families and relatives began to rock the political arena. Besides these scandals, the DPP's performance in economy disappointed most middle-class people. These factors ushered the centrist middle-class voters to support the KMT. With the diminishing support from the centrist middle-class voters, the DPP suffered devastating losses in the 2007 Legislative Yuan and 2008 presidential elections.

(4) While the KMT's return to power encouraged many conservative middle-class people, the jubilation did not last long. Impacted by the global financial crisis, Taiwan's economy has deteriorated from bad to worse. The middle-class crisis continued.

## **Summary**

This chapter compares all the factors that contribute to middle-class crisis in Taiwan. The results presented in table 8-1 show that the two waves of middle-class crisis share some similarities but they are strikingly different. During the first wave middle-class crisis, Taiwan's developmental state model was on the way shifting to institutional development paradigm due to Lee government's neoliberal reform. The rapid economic transition led to dramatic status fluctuation among the middle-class people. However, the size of the middle class continued to expand because of an economic boom. The strong

economic performance thus overshadowed the status fluctuation factor. The most determinant causes of the middle-class crisis came from political factors: democratic consolidation, decolonization appeals, and China threats. The historical comparison results indicate that the dramatic leadership change serves as primary catalyst to trigger both waves of middle-class crisis. This finding support the first part of my second hypothesis that leadership change initiates a new stage of political economy transition, and this transition will bring to political uncertainty and trigger the middle-class crisis.

During the first wave middle-class crisis, the reversed ethnic power relationship not only allowed plenty of problems latent in the colonial system to surface, but it also led to ethnic antagonism and middle class differentiation. As democratic transition went hand in hand with decolonization, Mainlanders elites were worried about that the institutional changes could erode their political values and privileges. They thus responded fiercely to the up-side-down colonial syndromes and rallied old colonial forces and conservative Taiwanese middle class to attack Lee government's reforms. The liberal forces also dissatisfied Lee's reforms, as they believed Lee's reforms of the colonial system were aimed at secure his personal power and privilege rather to seek for Taiwan's future. The dynamics and consequences thus brought to the increasingly polarized middle class and support my third hypothesis that decolonization became the crucial factor to destabilize Taiwanese society.

After President Lee won his reelection in 1996 by a large margin, both conservative and liberal camps rest their attack on the Lee government. The first wave middle-class crisis quickly became latent. During the interlude, deindustrialization passed the point of no return. Taiwan's economic development trajectory thus transited to

institutional developmental paradigm. As a result, the shift of Taiwan's economic development trajectory led to growing impacts of Chinese economic threats and more turbulent status fluctuation. Nevertheless, an ongoing economic boom in the late 1990 created more upward mobility and thus again offset impacts of status fluctuation.

While political factors that contribute to the first wave middle-class crisis became latent during the interlude, this scenario did not last long. After regime transition in 2000, the latent factors quickly resurfaced, causing political chaos and social unrest. This development again affirms the first part of my second hypothesis. The historical comparison results indicate that the second wave middle-class crisis was both economically and politically driven. There were turbulent status fluctuation and serious middle class polarization. Worsening economic conditions and persistent political stalemate undermined the middle class expansion. The chaotic transition of the political economy eventually caused anti-China resentments to explode, and the growing decolonization momentum encouraged the liberal forces to seek a radical political change.

The analysis of the historical comparison provides a new account of how middle-class crisis occurred and what were the consequences. Seemingly, leadership was the key ingredient shaping public perceptions about which possible policies were reasonable ways for dealing with the specific colonial status facing Taiwan. When leadership changed, the crisis resumed. As the public perceptions about Taiwan's future are strongly influenced by political elites, the colonial institutions, and decolonization movement, the middle class differentiation led to divided Taiwanese society. And the divided society only assured an ongoing middle-class crisis. This dynamics and consequences again support the second part of my second hypothesis and the third hypothesis.



Based on the historical comparison findings, this research concludes that the crucial source of the two waves of middle-class crisis emanated from Taiwan's colonial status. Colonial perspectives thus deserve more attention to examine the problems of Taiwan in future study.

**Table 8-1 Summary of factors that contribute to middle-class crisis**

	Wave 1 1988-1995	Interlude 1996-1999	Wave 2 2000-2008
Factor 1: difficulty for growth and maintenance of the middle class	no	no	yes
Factor 2: change of developmental state model	no	yes	yes
Factor 3: squeezing middle class	no	no	yes
Factor 4: status fluctuation	yes	yes	yes
Factor 5: impact of leadership change	yes	no	yes
Factor 6: impact of decolonization movement	yes	no	yes
Factor 7: change of colonial syndromes	yes	no	yes
Factor 8: impact of Chinese military threats	yes	no	yes
Factor 9: impact of Chinese economic threats	no	yes	yes
Factor 10: shifting political stance of centrist middle-class voters	no	no	yes

## **Chapter 9: Conclusion**

In the preceding chapters I have outlined the principle causes and consequences for the middle class crises in Taiwan by examining democratization and globalization factors within the context of a decolonization framework. To explore the two waves of long-term social unrest and anxiety, which contribute to the middle class crises, I have synthesized theories from Marx's squeezing middle class thesis, Weber's status fluctuation theory, and functionalist's cultural approach, and developed perspectives of my own to better interpret problems related to the transformation of the Taiwanese political economy.

In my discussion of the transformation of the Taiwanese political economy, I lay out my argument in chapter three that the expansion of Taiwan's middle class has taken place under a colonial rule, shaped by an overdeveloped, transplanted, and developmental state. This colonial context has impacted the differentiation of the middle class and this differentiation has had a profound influence on recent electoral politics in Taiwan. By applying the concept of middle class differentiation to an analysis of class politics in Taiwan, my interpretation challenges the more accepted explanation of modernization and third wave democratization theories, regarding the stabilizing influence of middle class politics in the consolidation of democratic institutions and the argument of the homogeneously liberal middle-class voters.

The analysis of the middle class differentiation focuses on four stages of democratic transition: stage one the pre-democratizing period from 1970 to 1987; stage two the democratic transition from 1988 to 1996; stage three the continuing democratic consolidation from 1997 to 1999; and stage four the regime transition from 2000 to 2008.

In the first stage discussed in chapter 3, I show that the transition of limited democracy opened the political window for nurturing a liberal middle-class fraction and fostering a Taiwanese-centered identity to grow. During the pre-democratizing stage, the *Tangwai* opposition force emerged in the 1970s and challenged the KMT's three-decade-long dominance. They grew into a strong presence in the early 1980s despite the KMT's relentless suppression and political persecution. The *Tangwai* politicians eventually founded the opposition DPP in 1986 and gained steady support from disadvantaged minority groups and from urban liberal middle-class voters. Their demand for freedom and democracy marked the beginning of a long-term struggle over Taiwan's identity and future.

In the second stage discussed in chapter 4, I point out that a surprised leadership change in 1988 gave rise to the first wave middle-class crisis, during which the consolidation of democratic institutions led to a power struggle over Taiwan's identity and future. The Mainlander political elites were the losers of this democratic transition because they lost control over the state machine. Nevertheless, the Mainlander-led infightings weakened the KMT's political strength. After the Mainlander elites left the KMT to establish the New Party, the conservative-oriented middle class finally split.

Intensifying ideological confrontations, rising ethnic antagonisms, prevalent patronage and corruption, and the fierce three-way party competition drove the middle class to fractionize. As a result, political instability deepened the sense of crisis among middle-class people at a time of economic prosperity. The first wave middle-class crisis eventually diminished, after ethnic Taiwanese and moderate middle-class voters helped President Lee Teng-hui win his reelection by a large margin in 1996.

In the third stage of continuing democratic consolidation discussed in chapter five, the right-wing Mainlander elites rest their personal attack on President Lee and the conservative NP reconciled with the liberal DPP. The NP's reconciliation with ideologically opposite political rivalry alienated their regular supporters, and the reconciliation led to the conservative party's self-destruction. During the interlude between the two waves of the middle-class crisis, the majority of conservative middle-class voters realigned with the KMT and this realignment led to the most conservative middle class element becoming voiceless. Meanwhile, Taiwan's strong economic performance continued. However, outward investment in China became inevitable. As the cross-Strait investment accelerated, the impact of Chinese economic threats became real and pressing. The Lee government and the DPP thus headed in the same direction to construct a transitional national identity that Taiwan and China be considered two separate and distinct countries with the Republic of China as Taiwan's formal name. As long as the "colonial statehood" remained basically unaltered, the conservative forces felt relieved about the consolidation of democratic institutions.

In the fourth stage discussed in chapter five and six, I argue that following an unexpected presidential election result in the spring of 2000, the regime transition set forth the second wave middle-class crisis. Middle class politics began to experience a long-term realignment because of fierce four-way party competition. Meanwhile, an economic recession and long-term low growth reinforced political confrontations. As political parties pointed fingers to portray one another as the real extremists, this development forced middle-class voters to choose between either liberal or conservative parties. Moderate middle-class voters became silent. The disappearance of moderate

middle-class voters led to increasing middle class polarization and continuing political deadlock. The missing moderate middle-class voters in the 2004 legislative election prevented the decolonization movement from gaining momentum. Four years later, the moderate middle-class voters reunited with the KMT, and they have been helping the Mainlander elites return to power since 2008.

The class differentiation perspective indicates that Taiwanese middle-class people are not liberal at all. In fact, there are different beliefs, diverse political values, and incompatible national identities among three distinct fractions of the middle-class people. This fractional structure of the middle class has its roots in Taiwan's colonial history. These ideological differences allow this study to connect class politics with ethnic factors in the analysis of the decolonization movement by stressing the importance of "double illegitimacy" and "inferiority/dependency/superiority complex", which have been rarely mentioned in the academic scholarship to analyze persistent problems in Taiwan's political economy transition.

In my analysis of the two waves of middle-class crisis, democratic consolidation in Taiwan seems to move toward a distinct identity, which would separate Taiwan from China. However, my analysis of globalization points in the opposite direction. I use perspectives from corporate rationalities and small economy theory to illustrate this development. The discussion of globalization starts from the KMT's developmental state paradigm, which led Taiwan to engage the world system. Under the developmental state paradigm, strong economic growth and fast-rising incomes created a sense of stability for middle-class people.

In chapter 7, I then examine the quantitative evidence as it contributes to my major hypotheses. The micro-foundation evidence was fully supported for my four hypotheses. First, class politics developed and the middle class began to fractionize during the first wave middle-class crisis. Second, mainlander voters were deeply supportive of the NP or the most conservative party, while the DPP to some extent received ethnic Taiwanese support only. Third, over time more middle-class voters did join the liberal block, while the majority of the middle-class voters remained supportive of the conservative parties. Outcomes of the volatile elections hinged on the middle class swing voters. Fourth and finally, the pro-Taiwan identities played more decisive roles in determining vote choice in favor of liberal parties. In contrast, the pro-China identities mattered most to determine support for conservative parties.

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However, under the pressure of the American-led global economic order, the rapid appreciation of currency and the emerging Walmartization in the 1980s made Taiwan's export-oriented economy difficult. The threat to Taiwan's economic prosperity hinged on how well private firms and the government upgraded Taiwan's

industrialization and exploited cheaper labor in its neighboring countries. While the Lee government's competent handling of the economy did successfully upgrade Taiwan's industrialization in the 1990s, increasing manufacturing firms and investors found resources for growth in China.

Globalization thus bonded the Taiwanese and Chinese economies intimately together. After Taiwanese firms heavily invested in China for more than a decade, Chinese markets changed the extent to which it became essential for Taiwan's economic survival in the new millennium. As the notion that cooperation with Chinese authorities would bring gains to Taiwanese society prevailed, it created a brand new dependency complex in the mid-2000s which allowed China to bend public opinions in Taiwan to its favor.

The Mainlander elites and conservative Taiwanese business community were the beneficiaries of this development because they became agents and compradors who thought that they could represent Taiwan to engage with Beijing in the cross-Strait affairs for mutual advantages. This development nevertheless provoked the liberal camp. They had every reason to be worried about overinvestment in China because it had already caused a hollowing-out of industrialization and low-growth economy making white-collar workers increasingly vulnerable. And most important of all, the cross-Strait economic integration could eventually erode Taiwan's sovereignty.

My analysis of the political economy transition in Taiwan shows that democratization and globalization have been at loggerheads over Taiwan's future. This reflects a growing interest to change Taiwan's status quo. However, the tug of war of these two forces has been perceived as a zero-sum game. Concerns over Taiwan's

identity and future thus continue to spread fears and frustrations among different fractions of the middle-class people because one fraction's gain is another's loss. As this ongoing development divides Taiwanese society, the middle-class crisis is still in the making.

### **Major findings and contribution to theories**

After democratic consolidation of institutions initiated in 1988, elections in Taiwan have offered reasons for the middle-class people to worry about Taiwan's future. As elections have consequences of leading to institutional change, the dread for political change has resulted in volatile election results. And these results are bolstered by quantitative evidence in chapter 7 showing that the election volatility emanates from the middle class sources. This does not support all the points made in chapter four to six, but my micro foundation evidence does back up various crucial arguments in the following ways.

First, in contrast to modernization and third wave democratization theories' argument that democratic consolidation processes are founded on an expanding middle class which forces "right/conservative" and "left/liberal" political parties into more centrist/moderate positions to stabilize class politics, Taiwanese case exemplified new trends in middle class differentiation and political instability whereby the middle-class fractions became pivotal factors in Taiwan's volatile election outcomes.

Moreover, my findings suggest that the democratic transition in Taiwan occurred with a differentiated middle class. The KMT's base under President Lee during the first wave middle-class crisis was more class diverse with moderate middle-class fraction as its major supporters. The NP supporter bases tended to be highly urbanized, well-educated, and middle class oriented with Mainlanders anchoring at the center. Its



supporters were more homogeneously conservative. The DPP's supporters were a coalition of a minority liberal middle-class fraction and a majority of working-class forces. As the DPP always proposed reforms ahead of the KMT during democratic consolidation, in this regard, the liberal middle-class fraction and the progressive working class were the carriers of Taiwan's democratization. The majority of the middle-class people seemed to be simply riding their coattails. My findings suggest that modernization theorists exaggerate the role of the middle class as homogeneously liberal during the democratic transition in developing countries.

Furthermore, during the second wave middle-class crisis, voting behavior in Taiwan had a multidimensional structure. First, class politics appeared with a rift in voting preferences between white-collar class fractions and a coalition of working class and farmers. In its second phase, class politics transformed into ethnic politics, meaning that the majority ethnic Minnan citizens (with an overrepresentation of workers and farmers) were often countered politically by a coalition of other ethnic groups, with Mainlanders anchoring at the core of this coalition. In its third dimension, class interacted with identity politics in a quite nuanced way, with the working and farming classes more likely supporting independence movement, and the upper and lower middle-class conservative fractions favoring status quo or reunification.

Finally, in contrast to previous analyses of Taiwanese politics that focused mainly on ethnic divisions and national identity differences, my analysis of voting behavior emphasizes how class dynamics interacted with the ethnicity/national identity issues as catalysts of electoral outcomes. My findings suggest that "the death of class politics

thesis” is premature and the majority Taiwanese middle-class people remain within the conservative camp.

The conservative nature of the Taiwanese middle class confirms my argument that as a group of well-educated people, the Taiwanese middle class are more likely possessed by a colonial ideology. Because they get used to dependency complex, the Taiwanese middle-class people tend to take on the Mainlanders’ political values. My argument helps explain the myth that although the decolonization movement once pressed the centrist middle-class voters in supporting the liberal camp to help President Chen win his reelection in 2004, their conservative nature eventually pulled them back to realign with the KMT. This ideological realignment thus presaged the KMT’s return to power since 2008.

The results of the historical comparison indicate that dramatic leadership change served as the primary catalyst for triggering both waves of the middle-class crisis. The reversed ethnic power relationship not only allowed plenty of problems latent in the colonial system to resurface, but it also led to rising ethnic antagonisms. However, both cases were distinctive in many ways. The first wave middle-class crisis occurred during an expanding economy and a period of moderate democratic reforms. While there were a lot of status fluctuations during the middle class expansion, the squeezing middle class did not happen.

The strongest force unleashed by crisis was not corruption or nepotism but a colonial ideology. Because the leadership change undermined the Mainlander elites’ superiority complex, the extremist conservative camp and old colonial forces responded fiercely to this dramatic change by inciting ethnic hatred during elections to attack Lee’s

reforms. The liberal elements of the middle class and the DPP also attacked Lee's reforms, in part because they felt that Lee's reforms only aimed to defend his personal power rather than to truly secure Taiwan's future. In this regard, the first wave middle-class crisis was more politically motivated.

During the interlude, Taiwan's increasing outward investment led to the rising impact of Chinese economic threats. As a result, deindustrialization shifted Taiwan's developmental state model to an institutional development paradigm. Private sector and corporations became the major players shaping Taiwan's economy. While these developments enhanced the status fluctuation of the middle class, an ongoing economic boom overshadowed this scenario. Meanwhile, the conservative camp led by the NP no longer defended its political stance. The adjustment of the conservative elite's colonial ideologies eased the political conflict. Consequently, it led to the weakening of the NP political strength and the first wave middle-class crisis abated.

The second wave middle-class crisis was both economically and politically driven, as it took place during an economic recession and a stage of regime transition. There were turbulent status fluctuations and serious middle class polarization. Worsening economic conditions and persistent political stalemates undermined the middle class expansion. The chaotic transition of the political economy eventually caused anti-China resentments to explode in 2003, and the growing decolonization momentum encouraged the liberal forces to seek a radical political change.

Unlike the first wave middle-class crisis that the conservative camp and old colonial forces ceased to attack President Lee after he won his reelection in 1996, the conservative camp and old colonial forces fought hard to assign inferiority complex to

the DPP and its supporters during the second wave middle-class crisis. They continued to blame the DPP President Chen and the liberal forces for splitting class and dividing ethnic groups to win reelection. With the KMT chairman Lien Chan's visit to China in 2005, the relationship between the KMT and the Chinese Communist party suddenly became much more cordial.

Seemingly, the increasing cross-Strait economic integration paved the way for the KMT to improve its relationship with China. This dramatic cross-Strait political reconciliation allowed conservative forces under the KMT's new Mainlander chairperson, Ma Ying-jeou to construct a set of brand new dependency complex. As the relationship with Chinese authorities improved, the KMT declared it could prevent war and deliver cross-Strait peace. The KMT also claimed it could protect Taiwan's investors and middle class managers and professionals in China. The KMT even guaranteed it could bring economic prosperity back to Taiwan with China's help. Attracted by these claims, the centrist middle-class voters realigned their support with the KMT. And this realignment helped the Mainlander colonial elite regain power. The results of the historical comparison show that the colonial ideology remained a powerful factor in explaining the causes and consequences of the middle-class crisis.

The historical analysis results also indicate that changes in the industrial relationship conceptualized from the classical sociological framework of Marxist theory and Weberian tradition are also important for analyzing middle class instability. Post-industrial theory postulates that wealthier countries and industrial societies can reconcile themselves to the loss of manufacturing jobs, if they keep the smart and high-paid jobs at home. Unfortunately, within the advanced countries, the middle class has been under

constant attack by corporate rationalities providing for organizational restructuring. The disappearance of many retailers, the increasing numbers of large-scale layoffs from high-tech firms and big companies, and vanishing decent positions in the financial institutions have made life for middle-class people increasingly uncomfortable. The growing recognition is that the middle-class people can no longer take their career and economic security for granted because their positions will likely be overtaken by their counterparts in other developing countries.

My findings suggest that the post-industrial theory's assertion is too optimistic, and Taiwan is not exempt from the dynamics of the "global destabilization" of the middle class. In fact, the pursuit for high-tech industrial upgrading and mergers of financial establishments create too few good jobs at too great a cost in Taiwan. In contrast, many decent jobs have been created in mainland China as a result of Taiwan's very rapid integration into the Chinese economy in the past two decades. The one million members of the Taiwanese transnational middle class demonstrate a strong demand for managers and professionals in China rather than in Taiwan.

As China-bound investment results in hollowing-out industrialization pattern, structural changes in the job market spread pain and anxiety in Taiwanese society. My analysis of the middle-class crisis supports my discussion of the classic sociological framework about Marx's macro-level emphasis on the creative destruction inherent in capitalist accumulation dynamics that capital migration spread throughout the globe. My findings are also consistent with Weber's meso-level concerns over how organizational rationalities change in response to the market adjustment imperatives necessitated by capitalism's competitive dynamism. These macro and meso-level regards have social

psychological impact on producing anxieties among the middle-class people about their status maintenance and influence on electoral politics.

### **Future study and beyond**

Political uncertainty is not the byproduct of democratic transition but the core problem of Taiwan's colonial status. In my analysis of Taiwan's political economy transition, catalysts of the two waves of the middle-class crisis are internal. However, these internal catalysts are intertwined with external global forces, namely "the China threat" resulting in the destabilizing of Taiwan's politics. As elections have consequences for change in political institutions, Taiwan's democratic consolidation may lead to a desire for independence. Thus, the dilemma facing Taiwan is that its ongoing consolidation of identity politics may lead to its self-destruction.

Within a liberal framework, wishful thinking posits that the Taiwan-China conflict can be solved by creating two separate but equal sovereign states side by side. However, the two liberal parties, the DPP and TSU, have never proposed cross-Strait visions to convince conservative-oriented middle-class voters that both peace and sovereignty can be achieved without a war. As memories held in the minds of the majority of middle-class people still reflect attachment to colonial ideology, the DPP's lack of cross-Strait visions and its social image of anti-China tactics convince many conservative-oriented middle-class voters to believe that independence means a disastrous war.

In this regard, colonial perspectives provide conceptual tools for exploring the nature of the middle-class crisis in Taiwan. Many Taiwanese are under the misapprehension that Taiwan's independence means a historical break from China. And

both liberal parties and academic scholarship in Taiwan still talk about Taiwan's independence without mentioning its relation to colonialism. By pointing out that the Republic of China is still in fact a colonial system, the concepts of "double illegitimacy" and "the plagued colonial syndromes" offers a new framework for achieving better understanding of the persistent problems within the Taiwanese society. My colonial perspective is not a mainstream view, but it definitely is not a solitary one. This approach has precedence in the colonial literature and is poised to generate new insights for decolonization movement by providing tools for exploring social psychological mindsets of Taiwan's colonial domination/subordination and ethnic relations.

My colonial perspective shows that Taiwan is under the pressing threats of two colonial forces, the ruling Mainlander colonial elites who currently control the state, and China who covets to take over Taiwan. With the reconnection of these two colonial forces since 2005, China has been patient by supplying political carrots instead of using military sticks in line with its united front strategy trapping Taiwan to embrace the "One China" principle. The "Economic Cooperation Framework Agreement" (ECFA) signed by both governments in June 2010 serves as an example that the KMT government has implicitly accommodated the "One China" principle by downgrading Taiwan's sovereign status like that of Hong Kong and Macau. Taiwan's democratic achievement has been presented as providing a hopeful beacon for China's face of democracy. Ironically, it has become increasingly probable that Taiwanese may have no alternative but to live under the sway of China.

In the January 2012, as a result of presidential and legislative elections, President Ma won his reelection by defeating the DPP's candidate Tsai Ing-wen with a comfortable

margin (51.6% vs. 45.6%),<sup>22</sup> and the KMT captured the majority seats in the Legislative Yuan. The KMT's engagement to improve cross-Strait relations proved a selling point for President Ma to win his reelection, despite his poor ratings. The DPP ran an atypical campaign without confrontation with China. However, without proposing visions to deal with cross-Strait relations, the DPP's cross-Strait stance remained its Achilles' heel.

As the size of Taiwan's middle class continues to expand due to deindustrialization, its electoral importance becomes more critical to winning elections. To prevent voting rifts from turning into permanent divides in Taiwan's class politics, the DPP and liberal forces are required to bring their alternatives to the table. They need to convince centrist middle-class voters that they too are capable of improving cross-Strait relations without sacrificing Taiwan's sovereignty and causing a disastrous war. The establishment of cross-Strait diplomatic ties and pursuits for mutual prosperities could be good visions for influencing centrist middle-class voters in future elections.

With President Ma's reelection victory and his government's accommodation record under the "One China" principle,<sup>23</sup> time is drawing near and China may tighten its noose and impose its will coercing Taiwan to accept a reunification deal. As China's economic power and political influence continue to grow, Taiwan may run out of alternatives and virtually be incorporated into it. This tendency indicates that Taiwan's

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<sup>22</sup> The third candidate, James Soong received 2.8% of the votes.

<sup>23</sup> For example, in April 2009, Taiwan was granted observer status WHO body under the One China principle. More recently, in March 2012, Ma government even proposed "one country, two areas" to correspond to the PRC's "One China" principle.



degree of freedom to deal with cross-Strait relations is becoming increasingly limited, and Taiwan may have to play entirely by the rules set by China.

My research findings support the small economy theory. The small economy theory can be applied to study other small states' degree of freedom in dealing with their larger neighbor countries, for example, the relation between Russia and its three small neighbor countries, Estonia, Latvia, and Lithuania; and the United States of America and Cuba. The Taiwanese case may generate new research interests to study these small states by using the historical comparison method.

## Appendix

### Appendix 1: List of Presidents of the Republic of China after the 1947 Constitution

No	President	Term of office	Party	Term	Vice President
1	Chiang Kai-shek (1887-1975)	May 20, 1948-January 21, 1949	KMT	1	Li Zong-ren (1890-1969)
	*Chiang was elected by the National Assembly. Chiang resigned following a succession of the defeats by the Communists in the Chinese Civil War.				
2	Li Zong-ren	January 21, 1949- March 1, 1950	KMT	1	Vacant
	*Acting President on Chiang's resignation. Li fled to the U.S. in December 1949, after the Chinese Communist Party established the People's republic of China.				
3	Chiang Kai-shek	March 1, 1950-May 20, 1954	KMT	1	Vacant
	*Chiang reinstated himself as the President after the exiled President Li rejected to carry out his duties.				
4	Chiang Kai-shek	May 20, 1954- May 20, 1960	KMT	2	Chen Cheng (1897-1965)
5	Chiang Kai-shek	May 20, 1960- May 20, 1966	KMT	3	Chen Cheng Vacant (1965-1966)
6	Chiang Kai-shek	May 20, 1966- May 20, 1972	KMT	4	Yen Chia-kan (1905-1993)
7	Chiang Kai-shek	May 20, 1972- April 5, 1975	KMT	5	Yen Chia-Kan
8	Yen Chia-kan	April 5, 1975- May 20, 1978	KMT	5	Vacant (1975-1978)
	*Yen succeeded the presidency on Chiang's death.				
9	Chiang Chin-kuo	May 20, 1978- May 20, 1984	KMT	6	Shieh Tung-min (1908-2001)
	*Son of Chiang Kai-shek.				
10	Chiang Chin-kuo	May 20, 1984- January 13, 1988	KMT	7	Lee Teng-hui (1923-)
11	Lee Teng-hui	January 13, 1988- May 20, 1990	KMT	7	Vacant (1988-1990)
	*Lee succeeded the presidency on Chiang's death.				
12	Lee Teng-hui	May 20, 1990 May 20, 1996	KMT	8	Li Yuan-zu (1923-)
	*Lee was the first President elected by direct election.				
13	Lee Teng-hui	May 20, 1996- May 20, 2000	KMT	9	Lien Chan (1936-)
14	Chen Shui-bian (1950-)	May 20, 2000- May 20, 2004	DPP	10	Annette Lu (1944-)
15	Chen Shui-bian	May 20, 2004- May 20, 2008	DPP	11	Annette Lu
16	Ma Ying-jeou (1950-)	May 20, 2008- May 20, 2012	KMT	12	Vicent Siew (1939-)
17	Ma Ying-jeou	May 20, 2012- incumbent	KMT	13	Wu Den-yih (1948-)

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