



Selling Off Dictatorship
Kuomintang Party Assets and the Taiwanese Transition to Democracy

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List of Abbreviations

AID – Agency for International Development

BMC - Business Management Committee

CDC – China Development Corporation

CFC – Central Finance Committee

CIC – Central Investment Corporation

CIPAS - Ill-gotten party assets settlement committee (of the Executive Yuan)

CPC – Chinese Petroleum Corporation

CUSA – Council on US Aid

DPP – Democratic Progressive Party

ESB – Economic Stabilization Board

GIC – Guang Hua Investment Corporation

KMT – The (Chinese) Kuomintang

NP – New Party

POE – Party-owned enterprise

PRC – People’s Republic of China

NTD – New Taiwan Dollar

ROC – Republic of China

SME – Small and medium enterprises

SOE – State-owned enterprise

TSMC – Taiwan Semiconductor Manufacturing Company

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Note on Romanisation

I follow general practice in using the preferred English names or romanizations of individuals, places, and institutions where known. For persons known under both an English and a romanised Chinese name, I use the one which seems to be most common, with the other put in brackets on first mention. For all mandarin Chinese terms, I use Hanyu Pinyin romanization, and for Taiwanese Hokkien terms the Tai-Lo standard devised by the Taiwanese Ministry of Education.

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1. Introduction

1.1. The Richest Party in the World

When, in 1999, the Chinese Kuomintang (KMT), the party that had for decades ruled the Republic of China, now reduced to Taiwan and some outlying islands, moved into its new headquarters, it had reason to celebrate. The KMT had managed to do what few would have thought possible just a decade prior: almost entirely peacefully, it had reformed itself from a staunchly repressive and authoritarian to a – more or less – freely and fairly elected democratic party, heading a multiparty democracy. The new headquarters were appropriately representative. The location alone sent a clear message: placed right at the heart of Taipei, it had a direct line of sight, over the gables of the old city wall's eastern gate, to the presidential palace. The building itself sent another: the space of its 12 floors commands would have commanded an immense premium in such a location. And construction had not been skimped on either, as evidenced by its marble-clad walls (Perrin 2002). The party's new headquarters' intended message, that the KMT was still firmly in charge, could not be missed. But it sent a second one, perhaps less intentionally: it was also immensely wealthy.

By the late 1990s, the politically interested Taiwanese public was already well aware that the KMT was wealthy, and even the sheer extent of its wealth beginning to be understood. The numbers were indeed staggering. KMT figures suggested that it might hold assets worth around eighty billion New Taiwan Dollars (NTD), but independent contemporary estimates ranged up into the hundreds of billions. The KMT was, almost certainly, the richest party in the world. And it had become so not through donations, or through simply squeezing public accounts. Rather, the party was in business. The largest part of its wealth stemmed from an expansive web of companies placed in all sectors of the Taiwanese economy, generating rents in the hundreds of millions yearly (see below).

This makes the KMT one of only a few political parties in history to run its own enterprises. And of these, it was not only the most financially successful, but also the most persistent: in some form, party enterprises had accompanied the KMT all the way from its early days as a revolutionary party working to overthrow the Qing emperors, through the turmoil of the 20th century, and into the democratic era on Taiwan. And yet, what the KMT had in the 1990s were not just holdovers from the authoritarian era, in fact, its expansion into what was at one time arguably the single largest non-publicly owned conglomerate on the island, had only really accelerated as democratization had picked up speed. While the “party assets question”, that is, how much money the Kuomintang really owned, or still owns today, is a perennial topic of

discussion in Taiwan – and a never-ending source of indignation to the Kuomintang’s political enemies – the wealth of the Kuomintang has received much less notice, particularly of a scholarly nature, outside of the island. But the topic throws up a range of interesting questions, with ramifications both for Taiwan and the world: What does it mean when a party becomes so wealthy? How does it influence democracy, and, in a country like Taiwan, how did it influence democratization? This thesis presents a foray into these questions.

Writing about Kuomintang party assets in early 2024 is, in most ways, to write a retrospective. The Ill-gotten party assets settlement committee (*budang dangchan chuli weiyuanhui*, CIPAS), instituted by the Democratic Progressive Party (DPP) government, headed by Tsai Ing-Wen, in 2016, plans to wrap up its work later this year (LTN-news 2023). Over the course of its eight-year existence, it has had the task of stripping the Kuomintang of most of what remained of the assets it had accumulated over the decades. The process has been marred by controversy, its inevitably partisan nature making it deeply humiliating for the former ruling party.¹ The Kuomintang, naturally, paints itself as the victim of a witch hunt, with the DPP wanting to strip it of property it does not have or owns legitimately (L. Chung 2016).

And indeed, the question of how much wealth there is, and was, is controversial. Even rough figures can be tricky to establish, due to the unclear ownership structures and the politically charged nature of party business. Looking just at the high point of the late 1990s, Liang and Tian estimate the overall wealth of the KMT, including all real estate, enterprises and so on, to have been around 600 billion NTD in 2000 (2000, 137)². Meanwhile, the Liberty Times in the same year quoted a figure of over 200 billion, while the Kuomintang itself claimed to own just around 80.8 billion (ibid., also see below). But the party’s figures clearly conflict with the numbers on the party’s own enterprises. Liang and Tian, tallying up just the directly owned assets of the seven major holding companies of the Kuomintang in 1998 arrive at a number of approximately 147 billion (ibid.). In terms of earning power, the pre-tax net income of these companies in 1997 was 17.2 billion, ranking at least fifth among domestic enterprise groups, while in 1998, its pre-tax net income was 18.5 billion yuan, again ranking among the very top of Taiwan’s business groups. Furthermore, they had invested in 121 companies in 1993, which

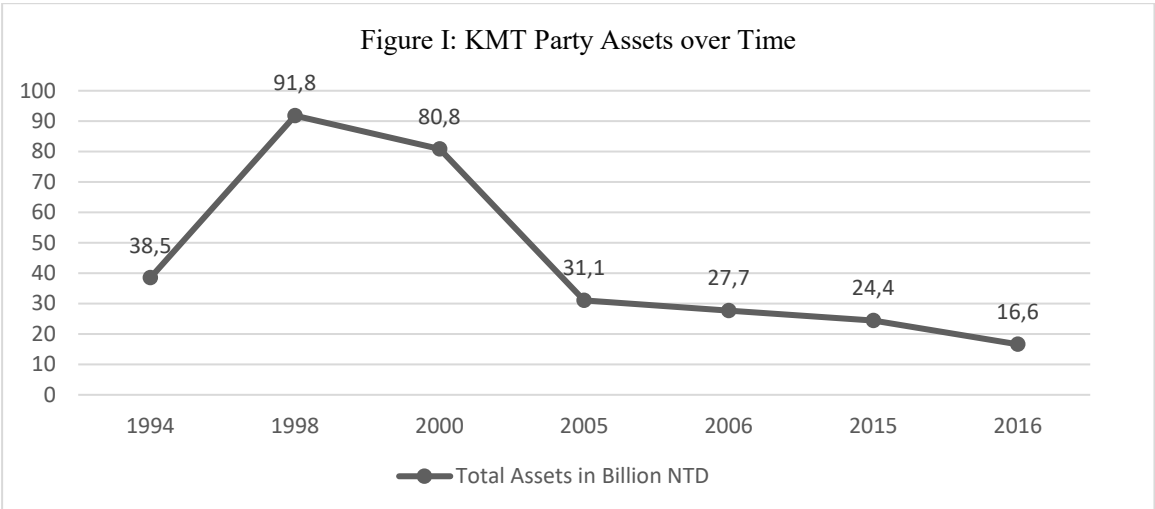
¹ CIPAS Deputy Chairman Chang Tien-chin proved particularly unhelpful in dispelling the suspicion that the DPP might have ulterior motives when he advocated for the committee acting more in the way of secret police in an internal meeting. His remarks later were leaked to the press, leading to his sacking (Hsieh 2019; Hsu 2018).

² I will not convert between currencies throughout this thesis, as exchange rate fluctuations and inflation would make this complicated. However, at the current exchange rate of around 35 NTD to 1 EUR, 600 billion NTD would be the equivalent of around 17.25 billion EUR.

had doubled to 216 in 1997, and again grew to 282 in 1998 (T.C. Chang 2008, 126; Liang and Tian 2000, 137)³.

The differences have to be explained with different reporting practices, counting methods, and the Kuomintang’s obvious incentive to hide and play down its wealth. And the disagreements continue to be vast. While the KMT claimed to own just 16.6 billion NTD in 2016, CIPAS has requested the KMT to hand over assets with a value of – it claims – almost 100 billion NTD. This includes the KMT’s remaining shares in Central Investment Corporation (CIC) – the last holding company it still controls – along with land and other assets, owned by the party directly and by associate or subordinate groups. Of course, the KMT has appealed every single one of CIPAS’s decisions, and litigation will take years (LTN-news 2023). The numbers will surely change, and the KMT may well win back some of what it has been deprived of, but the days in which the national and international press could, with good reason, describe the KMT as the “richest party in the world” (e.g. Perrin 2002; cf. Hioe 2016) are over.

Either way, perhaps more interesting even than the total numbers is the trend over time:



Adapted from KMT self-reported data, compiled by user Mattel at Thinking Taiwan (2016). Note the uneven data points on the x-axis.

Even if these numbers are (significantly) undercounted and otherwise doctored, the trend they show is reflected in other sources (such as in Chiu 1997; Liang and Tian 2000; also see Hioe 2016), too. There is little doubt that the wealth of the Kuomintang grew significantly throughout the

³ The biggest and most difficult problem with all numbers regarding party assets is establishing ownership. It is why all numbers here have to be estimates. For example, the KMT had, for a while, a policy in which it would not count in its official statistics any enterprises in which it did not own at least a 50% share, which would obviously lead to a massive undercount of its total wealth (Liang and Tian 2000, 149). This is part of a deliberate strategy of obfuscation, as section 4.3.4 will show.

1990s, peaked around 2000, and then went on a steep decline in the 2000s. What accounts for this dynamic is not real estate, but rather the ownership, partial or full, of party-owned enterprises (*dangying shiye*, POE). While, due to the far-reaching fusion of party and state in the post-war years, it is difficult to make out what were state and what were party assets, party enterprises can relatively clearly be identified even then. For these two reasons, in this thesis, I put the emphasis on party enterprises, rather than on real estate. This choice also moves the argument in a certain direction; we will return to this point in the conclusion.

As noted above, the first enterprises operated by the party now called the Kuomintang were under control of what was then still the *Tongmenghui*, Sun Yat-Sen's revolutionary party working to overthrow the Qing dynasty. Over the next century, while the Kuomintang always maintained its enterprises, ownership structures varied, as did its position in the Kuomintang organizational chart. The formal ownership structure of these companies is murky in the period before the Kuomintang registered as a legal entity in 1993. Only then did it take direct legal ownership of its enterprises. Before that, shares would be held by individuals standing in for the party, or the enterprises would own one another. Control was, however, always with the party; exercised, during the dictatorial era on Taiwan, mostly by the party's central financial committee (*caiweihui*, CFC), and during liberalization a special new body, the Party Business Management Committee (*touguanahui*, BMC, see section 4).

What distinguished party enterprise from private enterprise was its direct institutional integration into the party and the immediate command of the party inside of them, via cadres assigned to management positions. What differentiated them from state enterprises – and this is particularly important at the height of the dictatorial period, when state and party could otherwise be hard to disentangle – was the fact that they always operated as profit-seeking private companies under civil law acting as if owned and operated by regular businesspeople (Chiu 1997, 43 ff.). In international comparison, such an institutional arrangement is rare, but certainly not unheard of. In several countries, parties have operated for-profit businesses. However, in an overview article, Abegaz only finds four countries in which party-owned companies have ever played a truly significant role: Ethiopia, Malaysia, Rwanda and Taiwan (Abegaz 2013, 1472). Furthermore, Malaysia and Rwanda are rather more cases of ethnically charged institutionalized corruption, in which the ruling party distributes returns through a network of organizations and companies (*ibid.*, 1474), while in Ethiopia the ruling coalition tries to maintain the balance between different ethnic groups through its companies (*ibid.*, 1478).

And none of these cases even come close to the scale reached by the party enterprises in Taiwan: the KMT's empire was up to 35 times larger than that of the Ethiopian EPRDF (*ibid.*, 1476).

Given its sheer size, the scholarly attention the KMT's wealth has attracted has been surprisingly limited. There have, of course, been some studies of the subject, as section 2.1. will review. But what is more curious, especially in the face of the correlation between the explosion of the KMT's wealth and the democratization of Taiwan, is the far-reaching absence of the party assets discussion in the vast literature on Taiwan's transition to democracy.

This is not to say that the topic has been completely unacknowledged. Rather, scholars have shown a curious ability to state its existence, and then simply not draw any conclusions or engage with it any further. Party enterprises are often named along state enterprises as if they were the same thing (e.g. Kau 1996, 289). Sometimes they are simply mentioned without any further contextualization, as in Rigger (2002, 65), who grants them a single sentence; Thomas Gold, summing up the situation of the KMT at the end of the millennium, notes that the KMT is "still fabulously wealthy" (Gold 2000, 112), but what this wealth means, where it came from and how the KMT might use it, are questions left to the reader's imagination. T.J. Cheng (2006, 371) goes into more detail, arguing that the – probably ill-gotten – wealth of the party might finance political campaigns, but might also be a liability in the face of public scrutiny. And Kharis Templeman (2020, 84) even writes that the need for vote buying⁴ and electioneering "spurred the creation and growth of KMT-linked businesses that could help fund the party's campaign activities". In this way, they are treated as yet another curious, but ultimately inconsequential oddity of the Taiwanese political system.

But why has the party assets question been so sidelined? Beyond all of the practical constraints which make research on the issue difficult, the key issue may simply be that the questions which are usually asked lead to party enterprises falling in a gap between different research traditions (cf. Huang 2008). Scholarship on the Taiwanese political transition – from dictatorship to democracy – which treats the state as a dependent variable, can view party enterprise as essentially a private sector rent stream for an authoritarian incumbent, while accounts of the economic transitions, that is, the building and crumbling of the developmental state, of the switching between import substitution and export-oriented industrialization and so on, which

⁴ Vote buying will not be specifically dealt with in this thesis, although it seems to be a persistent phenomenon in Taiwanese politics, being liberally portrayed in media and taken as a fact of political life. Its actual extent is obviously difficult to study. As Rigger notes "It is hard to say which is more difficult: finding someone in Taiwan who denies that vote buying exists, or finding concrete evidence to prove that it does." (Rigger 2002, 94; see also C.-S. Wang and Kurzman 2007).

treat the state as an independent variable, are concerned more with the impact of state policy on the private sector, and may treat party enterprise as a part of the state. But party enterprise is neither state nor private enterprise, and so it cannot come into focus on either one of these perspectives.

What, then, is lost by ignoring party assets? Sometimes more, sometimes less explicit in the literature on path dependence and critical junctures – which we will return to below – is the notion of different paths available to actors at a given time in history, and the consideration of not only the “path taken, but also the paths not taken, although plausible at the time“ (Capoccia 2018, 90). What would such a path not taken have looked like on Taiwan? The KMT always had the option to simply sell. This is, after all, what happened to most state enterprises. Another option would have been to turn its assets over to public ownership, which is what is supposed to happen to the assets claimed by CIPAS. But what would that have meant? As we will see in the analytical section, the Kuomintang consumed enormous, and ever-increasing amounts of money as democratization progressed. If I am correct to argue, as I will do towards the end of the thesis, that it was this money which kept the party together internally, and stabilized its mobilization tactics externally, then the lack of this money would, with a significant likelihood, have resulted in the end of the Kuomintang. Breakaway parties like the New Party (NP) and James Soong’s People First Party (PFP) – not to speak of the importance party enterprise had for the foundation of both of these parties – would, along with the opposition DPP, have competed on a vastly more level playing field. Considering how close the KMT came to collapse in the history that actually took place, it is difficult to see how it would have survived in any of these scenarios. Liang and Tian put it succinctly: “That the century-old KMT, with its never-ending infighting, still manages to keep breathing, is more or less just up to the fact that “the old man’s got cash” (Liang and Tian 2000, 137, translation mine).

1.2. Research Question and Argument

The question I want to ask in this thesis is: What influence did party assets have on the Taiwanese transition to democracy? To answer the question, I would like to start from reflecting on what substantively changed in that transition to democracy. For this, I put the focus on power relations, drawing on Michael Mann’s distinction between two types of political power, infrastructural and despotic, to distinguish how the exercise of political power changed in the course of the transition. This is then combined with a historical perspective, which identifies the prerequisites of and factors shaping the transition.

I argue that the KMT dictatorship was built on a high degree of infrastructural and despotic power, exercised mostly through the state, in an arrangement specific to Taiwan. However, a variety of trends, building up throughout the post war years, began to undermine the viability of the system, leading to an inflection point in the mid-1980s. The ensuing crisis opened the window to transition. In the course of the transition, the despotic power – the capability to make unilateral decisions, even against the will of others – of the state decreased significantly, while infrastructural power was partially reshaped. Both of these trends we would expect for a democratization. But party enterprise, which had formerly occupied a relatively marginal position in the KMT party-state, provided the party leadership with the ability to appropriate a small fraction of the state apparatus' former power. Because it controlled the liberalization process by the way of its dominance in the state, it could allocate shares of privatized state institutions to its own enterprises and to crony entrepreneurs, which enabled it to appropriate some of the state's power of the authoritarian era by maintaining its party machinery and mobilization strategies. However, being now deprived of the despotic power invested in the party centre through control of the state, it lacked the ability to enforce internal coherence. Because political defection could no longer be effectively deterred, the new arrangement was inherently unstable, and could not reach a new equilibrium. This resulted in its near collapse in the wake of the 2000 presidential election.

I am limited in the scope of the argument by the fact that, for this thesis, I rely entirely on secondary sources. Although I will speculate on it slightly in the discussion section, I cannot really make claims about the intentionality of actors, i.e. the question of whether the developments here described were the result of intentional planning or rather than chance results of actors reacting to circumstances. The explanation here presented, however, works on the assumption of the second option. In that way, this thesis puts forth an exploratory, theory-building argument, providing a basis for further research. Both this and the limitations will be discussed further in 3.3. and then again in the concluding section of this thesis.

1.3. Outline of the Thesis

After this introduction, this thesis is divided into four chapters. The second chapter starts from a review of the existing literature on party enterprise. This literature identifies the division between state and society which party enterprise straddles, and the way in which the shape of party enterprise was dependent on and interacted with the political and economic developments in Taiwanese society generally. For this reason, the following two sections then review not just

the literature on the political transition, but on the economic transition – away from developmentalism –, too. This is then brought back together with the literature on party enterprise at the end.

With the existing literature as a starting point, the third chapter then sketches a theoretical framework, building on the distinction of infrastructural and despotic power, and bringing in some reflections from the path dependence literature, to approach the development over time. As this thesis presents an attempt to conceptualize and theorize the relationship between two entities, the three hypotheses then derived from this theoretical framework are there to guide the analytical section. The chapter closes with a note on the sources I have here used.

Chapter four presents the argument in a generally chronological fashion. It begins with two sections which describe the origin of party enterprise and the foundations and development of the KMT dictatorship: the first subsection identifies the origins and operational logic of the KMT regime, whereas the second subsection identifies the challenges the regime began to face in later decades, and which eventually culminated in the democratic transition. The emphasis is on the third section, which, after a brief recapitulation of key events in the transition period, puts forth the core of the argument. It shows how, starting even before the death of the last dictator Chiang Ching-Kuo, party enterprises were refashioned from an assistant role in the state-led economy into the central pillar on which the Kuomintang regime came to rest in the 1990s, how it was used to co-opt entrepreneurs and local elites, and how its growth was enabled by the political nature of the liberalization process. The section closes with an overview of the further developments from 2000 onwards. Finally, the concluding chapter 5 summarizes and discusses findings and limitations of the thesis and closes on an outlook.

2. The Politico-Economic Transformation of Taiwan

As seen in section 1.1., the general literatures on the Taiwanese transitions in both politics and society do not prominently discuss party enterprises. An analysis which starts from party enterprise, however, must by necessity return to these general literatures on the two transformations, to which their history is intrinsically linked, as we will see in the first subsection of this literature review. For this reason, section 2.2. then picks up with a review of the literature on the political transition, and 2.3. with a review of the literature on the economic transition. Having sketched both, we turn to the interplay between the two transitions, and locate party enterprise between them.

2.1. Party Assets and Enterprises as a Subject of Research

While the party enterprises of the KMT go back more than a century, actual scholarship on the subject has only been possible for barely more than three decades. As Chiu Li-Chen notes (1997, 8 ff), well into the 1990s, scholarly engagement with the Kuomintang's business dealings was the absolute exception. This was to do, of course, with the nature of the authoritarian regime, whose surveillance apparatus stifled critical inquiry, and which for its part did not publish any information on the financial situation of the party (ibid., 5). This meant that knowledge of the KMT's party-owned enterprises (POEs) had to be disseminated through the opposition press, once this became possible in the 1980s. KMT information policy changed in the 1990s, when, in the course of a restructuring of party enterprises, the KMT began to publish relevant documentation. This documentation remained flawed and fragmentary, however, which means that critical journalism continued – and continues – to play an important role in shedding light on the issue.

Scholarly engagement began in earnest with a book by Chen Shimeng et al, “Disintegrating KMT-State Capitalism” (*Jiegou Dangguo Zibenzhuyi*) (1992), a foundational text for all of the following research into the party's role in business. While the main focus of the book is on the functioning of the party-state capitalism under KMT authoritarianism, party-owned enterprises still figure. Because it describes the party's functioning still in the authoritarian years, the party-owned enterprises enter the stage only in an important, but ultimately secondary, “assistant” role; but the book is written very much with a critical intent, and the call for the transfer of party enterprise into public ownership is central (esp. chapter 8.1). The book was based on what the opposition press had been able to uncover throughout the 1990s, and while on the whole it is rather technical, it still caused a stir among the public (Qiu 1997, 2).

Still, scholarly publications on the issue remained extremely limited in number throughout the decade. That Chiu, in the literature review section of her 1997 thesis, can claim to have enumerated pretty much every single scholarly publication on the subject is extremely telling. Chiu's own thesis is the first major book-length treatment specifically of party enterprises and contains much original research. It has been much cited since its completion and remains unsurpassed especially in the thoroughness of its description of the various changes party enterprises underwent during the authoritarian era. In general, hers is a thorough history of party enterprises, showing how they changed along with the party throughout the 20th century. The second major and much-read book on the subject, even more exhaustive, albeit less scholarly in nature, is Liang and Tian's 2000 monograph "Auction off the Kuomintang" (*Paimai Guomindang*). Liang and Tian, two journalists, sum up their decade-long reporting on the KMT's party enterprises with an eye especially to their present moment, in which party enterprise was at its absolute peak in terms of both scale and spread. A significant portion of the book is dedicated to tracing the various investments made by the KMT in- and outside of Taiwan, the persons who made the decisions, and the quality and quantity of various investments. They are particularly interested in who the KMT works with, and how its enterprises blend into Taiwan's business and political spheres.

Chiu, and to a somewhat lesser extent Liang and Tian, have become the central reference points on party assets particularly for the Chinese-language literature. Regrettably, there is little mutual engagement between the English and the Chinese literature on the subject, and English-language Taiwan scholarship has been noticeably less interested in the party assets question than its Chinese-language counterpart. Matsumoto (2002), an English-language article, but actually a summary of the author's Japanese-language book, is an exception, in that the author relies mostly on Taiwanese scholarship and press coverage, examining the ways in which party enterprise was used as a tool by the Kuomintang elite around Lee Teng-Hui to strengthen his position. As far as I can tell, Xu (1997) was the earliest author in the English language to engage on a scholarly level with party enterprises, and obviously still lacked much of the information his peers just a few years later had available. His exploration of the topic is engaged with delineating state from party enterprise,⁵ enumerating companies owned by the KMT, and offering some very basic ideas on their role in politics, which we will return to below. Most influential and most frequently cited by more general accounts, (e.g. Templeman 2020; Y.-S.

⁵ Oddly, he does a worse job of this than the Chen and Chang paper he cites, writing for example that KMT enterprises have "the same characteristics, such as the ownership [!], organization, and incentive mechanisms, as state enterprises" (Xu 1997, 403), which Chen et al very much do not claim.

Wu 2007, and many others) is Karl Field's 2002 article on the subject. These three articles seem to about sum up the state of the scholarly engagement with the topic in the English-language literature, and English-language publications which take any note of party enterprises almost inevitably reference one of the three. As such, and due to the fact that all three specifically claim to examine specifically the interplay of democratization and party enterprise, their arguments are worth examining and contrasting briefly.

To Xu, the KMT's party enterprises are clearly a case of a party leeching off the economy, with party enterprises using their information advantages and close connections to the government to generate money, instead of competing fairly on the open market: "The rise of KMT party-run enterprises can be considered to be large-scale acts of corruption by the party in power" (Xu 1997, 410). However, since Xu sees the march of democracy as inevitable anyways (see *ibid.*, 407), to him, party enterprise may have a use as a tool for the transition – "an effective way to break the party-state combination" (*ibid.*, 411) –, because it weans the incumbent party off of relying on state coffers to finance itself. Matsumoto and Fields are more nuanced in their portrayal and ambiguous in their outlook on party enterprise. Both are about equally thorough, but differ in their approaches: Matsumoto, looking at POE from the party centre, focuses more on the importance of the structure of party enterprise, in particular the composition of its business management committee (BMC), for the internal power distribution of the KMT, showing how it was a crucial resource for Lee Teng-Hui's consolidation of power (Matsumoto 2002, 376). Fields does not recognize this point and instead approaches the subject from a bottom-up perspective, looking at the use of party enterprise money for co-opting local interests (Fields 2002, 128), as well as as an instrument for political goals such as development or shadow diplomacy (*ibid.*, 129). What unites all three authors is an agreement that party enterprise sustained the KMT, broadly understood, as a political entity in a way it would not otherwise have been able to do.

A small but steady stream of publications, particularly a variety of theses, were published on the subject in Taiwan and mainland China over the following years, which I will not enumerate here. Finally, a veritable wave of publications came with the Ill-gotten party assets settlement committee, which was very active in accompanying its activities with publishing all kinds of materials. It publishes a collection of primary sources (the "Select Collection of Party Assets Archive"), and a wide variety of other information material.⁶ Most important for our purposes

⁶ Most of CIPAS' publications are available online, at <https://www.cipas.gov.tw/journals/> (last checked on April 24th, 2024), but it has an eclectic variety of print publications, too, including among others a travel guide, which,

is its journal “Journal for the Study of the Party Assets” (*Dangchan Yanjiu*), which has published a variety of articles on a range of issues pertaining to party assets and enterprises. Both the scope, focus, and quality of these articles vary significantly, going from overview articles (Li 2022; Liao 2020) to case studies of single party enterprises (Lan 2021) or organizations (Hsiao 2020). Again, I will not review these in detail, but refer to them when needed.

2.2. Why did Taiwan Democratise?

Since the literature on party enterprise suggests that they interacted closely with Taiwanese politics, a brief review of the existing literature on its functioning, and especially the transition from dictatorship to democracy, is in order. This literature is of course enormous, and due to the limited scope of this thesis, I cannot make a claim to have undertaken a systematic (see Petticrew and Roberts 2006), let alone an in any way exhaustive review. Rather, to pre-view some of the theoretical reflections from chapter 3, this literature review is structured with a view to potential permissive and productive conditions in the moment of change. It aims to present a non-exhaustive sketch of commonly made claims and arguments, with the aid of and against which the argument in chapter 4 can unfold.

To the extent that there is a common thread to studies of the KMT dictatorship, it is the problematization of the extraordinary – when compared to other political systems – way it related itself to society⁷. In the political arena, this manifested itself most visibly in the maintenance of the supremacy of a class of Mainlanders ruling over native-born Taiwanese, imposing a language, identity, and so on. Different conceptualizations of this divide put the emphasis differently.

Those authors who place the most emphasis on the ethnic cleavage between native-born Taiwanese and those transplanted by the refugee-occupant regime of the KMT, naturally, present Taiwanese democratization as equivalent to the emancipation of the native-born Taiwanese population and a levelling of the ethnic division, that is to say, as a general process

according to the website of one book store, invites readers to explore how “ill-gotten party assets, hidden in plain sight, influence our lives” (Eslite.com 2024).

⁷ Of course, this is the case more for case studies that focus on Taiwan than it is for large-n comparative studies. Notably, most of the earlier authors – such as Gold (1986), Cheng (1989) and so on – write their accounts in direct rejection of simple, universalist accounts like “wealth theory” (wealth leads to democratisation).

of “Taiwanization”.⁸ This angle is the central axis, for example, of Alan Wachman’s classic (1994) and J. Bruce Jacobs newer account of democratization (2012), or Masahiro Wakabayashi’s (2016) account of modern Taiwanese history. In this reading, what democratized was the Republic of China, not “Taiwan”; but the Republic of China democratized in the boundaries of Taiwan, in the process shedding the pretence of being the legitimate government of – and thus able to be legitimated only by – all of China. The old ROC was a government, which, to maintain its nationalist project, maintained a massive military presence, making it into something of a “armed political migrant”, a “migrant-occupant” or “settler state”,⁹ had an ethnically defined societal elite lording over the majority of the politically largely disenfranchised population, i.e. a permanent ethnic conflict at its core. The history of the Taiwanization of the ROC represented the resolution of these internal contradictions; Taiwanization and democratization are inextricably linked, without being mutually reducible (a poignant summary is provided in e.g. Wakabayashi 2016, 6 ff).

Other authors place less emphasis on the ethnic dimension, and more on the structure of the political system, dominated by a ruling party structured along Leninist lines (see section 4.1.). The distance between the KMT and the rest of society then appears as an aspect of the party’s (intended) relationship with society, and the dissolution of distance a result of a negotiation process which reconfigured that relationship. Tun-Jen Cheng’s classic 1989 paper may be read in this way, for example. The starting point of his analysis is the identification of the KMT regime as “quasi-Leninist”: judging from party structure, and the relationship the party aimed to have between itself and society, the existence of party cells in military and at all levels of government and so on, the KMT ran effectively an almost Leninist regime. What distinguished it from Leninism, however, were differences in ideology and goals, as the endpoint of political development was always supposed to be multiparty democracy in a capitalist system (T.J. Cheng 1989, 477–78). Rapid economic growth created a mass of small and medium enterprises (SMEs) outside of the immediate control of the party apparatus, which could provide a material

⁸ “Taiwanization” is the term most commonly used in English for what in Chinese is usually called *bentuhua*, which would more accurately be translated as “localization”. The English term carries different connotations, however, as the term *bentuhua* specifically denotes Taiwan in Taiwanese contexts. For a discussion of the term, see the introduction in Makeham and Hsiao (2005), as well as J. Bruce Jacobs’s contribution in the same volume (2005, 17ff). I follow general practice in staying with “Taiwanization”.

⁹ The idea of Taiwan being a *colonized* country is uncontroversial for the Japanese period, but a much more awkward approach for the period of KMT rule. There were markers of colonial rule – as we will see below –, but, crucially, the country that colonized Taiwan controlled *only* Taiwan, lacking a colonial metropole. The idea of the settler state – a term coined by Ronald Weitzer (1990) to describe Zimbabwe and Northern Ireland, makes a differentiation vis-à-vis colonies – but retains the word “settler” for the occupant. In turn, the word “settler” is awkward to translate into Chinese and back without adding or losing nuances – see Huairan Wang’s (2015) discussion on the subject (also cf. Wakabayashi 2016, 91, fn. 11).

basis for an opposition movement (ibid, 482). Cheng's is an interactive approach, which "first identifies the agents of political change, then examines the bargaining situations faced by key political actors individually or in coalition, and finally assesses how democratic rules are internalized and upheld by contending political forces" (ibid., 474). In a similar vein, Shelley Rigger (2002) emphasizes the importance of the elections that the KMT routinely held, even though they were strictly controlled and managed. The KMT regime, whose mode of governance she describes as "mobilizational authoritarianism" (Rigger 2002, 3), upheld these elections for both ideological reasons, as well as strategic ones: limited elections could be controlled, but also be used to persuade the opposition to work within the confines of the system (ibid., 13). Change could happen because of the "mobile horizon", the shifting boundaries of what elections enabled: "The ruling party believed it could use elections to enhance its legitimacy in an unstable era. At the same time, it expected to control the pace and direction of reform, because it was confident of its electoral ability. The opposition saw elections as an opportunity to gain influence and to reach a larger audience. [...] And so the horizon began to move. No one anticipated, however, how fast or how far it would go." (ibid., 33). Her argument is, briefly put, that, due to learning effects, the KMT lost control – this also due to internal restructuring – of a democratic process it increasingly needed for legitimization, but which it initially thought it could control, and that this happened along the axis of ever-more contested elections.¹⁰

Also obvious in postwar Taiwanese history is the country's structural dependence on the United States. This influence is clear both economically and politically, and the break in official relations between the USA and the ROC a doubtlessly a watershed moment in Taiwanese history. It is sometimes read as a, or even the, initial trigger event of the opposition movement (e.g. by T.J. Cheng 1989), and almost always acknowledged as a background factor. Rarely, however, is it, or even Taiwan's dependence on the United States generally, interpreted as the central driver of democratization in Taiwan (of course with exceptions, e.g. Schafferer 2020).

Finally, I want to briefly acknowledge another genre which, while relatively marginal in the scholarly literature, is very prominent in public perception, namely the "great man" accounts of Taiwanese democratization, which lionize either Chiang Ching-Kuo (e.g. Chao and Myers

¹⁰ The centrality of the electoral mechanism is the starting point of research on Taiwan's notorious "local factions", seeing as they were shaped by the necessity to navigate the KMT's distanced position while affecting electoral mobilization, resulting in a system of patronage and clientelism. The locus classicus – a "must-cite" for Taiwanese scholarship (Huang 2008, 336) – of this argument is Wu Nai-Teh's doctoral dissertation (1987). This strand of scholarship does not have democratization as a dependent variable, and so I will skip discussion for now, but it is important to the argument, and we will return to it in the analytical section.

1994; Taylor 2000) or Lee Teng-Hui (e.g. Kagan 2007) as the men who brought democracy to Taiwan. The counterpoints to this are many (e.g. for Chiang: Jacobs 2019; N.T. Wu 2004); but the point lends itself to a broader, implicit or explicit, critique of the focus placed on the agency of the KMT by much of the literature, which some authors seek to counter by instead placing the focus squarely on the democratic movement (N.T. Wu 2000; 2020). We will return to this criticism in the concluding section of the thesis.

2.3. Democracy, Business and Society

Party enterprise of course still is enterprise, and just as it interacted with politics, it had to interact with the economy of which it is a part. Of course, as it happens, the literature on Taiwan's economic development also tends to emphasize the importance of politics,¹¹ and so, locating party enterprise in the economy thus must also mean locating it in the interaction between state and economy. In the literature on the economic development of Taiwan, most authors have identified the nature of the relationship between party and society as the central point of interest. The discussion is framed around concepts such as the “developmental state” and “embedded autonomy” rather than “settler state” or “quasi-Leninism”, but structurally, these discussions have obvious parallels. Again, the way this relationship is conceptualized varies by author, and more substantially even than in the democratization literature, there is disagreement on how the role of the KMT is to be judged.

This distinction between state and society is embodied by the concept of the “developmental state” with which or against which explanations of Taiwanese economic development almost inevitably find themselves arguing. Developmental state theory – originally born out of some scholars' dissatisfaction with the neoclassical and dependency theories that were popular in the 1970s and 1980s (e.g. Amsden 1979; cf. Johnson 1999) which seemingly did not explain development in Eastern Asia – tends to emphasize that positive state intervention and strategic industrial policies were critical to the economic success of countries such as Japan, South Korea, and Taiwan. This very influential, arguably even “incontrovertible” (Douglass 1994, 545)¹²

¹¹ And vice versa, of course, as even to authors critical of the wealth theory (see e.g. Tun-jen Cheng 1989, 472 for a very typical critique), wealth creates the “the arguably “necessary” conditions” for democratization (ibid., 473).

¹² Evidence of the extent to which this is true may be seen in the fact that it is how it is narrated in accounts chiefly concerned with other aspects of Taiwanese history (such as Rigger 2002, 69ff). Another curious facet of this is the personality cult around figures like economic bureaucrat K.T. Lee, whose house in Taipei's Zhongzheng district has been turned into a museum, even featuring, among a variety of paraphernalia, a marble bust of his. It may be visited digitally at <https://online.ktli.org.tw> (last checked April 30th, 2024).

perspective usually entails the identification of political arrangements which steered economic development. A key reference point here is Chalmers Johnson's "MITI and the Japanese Miracle," in which Johnson highlights the role of Japan's Ministry of International Trade and Industry (MITI) in implementing selective protectionism, strategic planning, and government-private sector cooperation, to the good of the Japanese economy (Johnson 1982, 17 ff), with his identification of almost the ideal type of an economic bureaucracy planning in a market economy (cf. Woo-Cumings 1999, 1–2) being taken up quickly by other authors (ibid., 25).

Robert Wade in a 1990 paper makes this point in a typical fashion: in this reading, the Taiwanese government helped the economy on to its feet by building factories to hand them over to businessmen or as state-owned enterprises, and protecting infant industries such as textiles, consumer electronics and later on computer technology with tariffs and other tools (Wade 1990, 239) The government "led the market": Wherever it identified gaps in the production structure, it set out to fill them. And where industries the government set up ultimately fizzled out, such as the automotive industry, in Wade's account, this was almost more due to government indecision than anything else (ibid., 241-43). In a developmental state account then, change and transformation occurs largely by the way of a politically induced transformation of the economy. Absolutely central to the idea of the developmental state is the notion of a distinctness of the state from society, and the ability to positively and independently influence society on its own terms. This notion is captured aptly in the concept of embedded autonomy put forward by Evans (1995), who argues that states have a unique form of autonomy that allows them to effectively intervene in their economies while also being embedded within society, striking a balance between state intervention and responsiveness to societal demands. This autonomy provides the key to the success of Eastern Asia, in comparison e.g. to countries in Latin America and Africa, pursuing similar strategies. Often, this autonomy is embodied in the notion of an economic bureaucracy which floats above daily politics and is not beholden to industry in making its plans (Schneider 1999). Ho, for example, credits for the success of the postwar Taiwanese economy the luck of being run by "a small group of extraordinarily able, experienced, and dedicated technocrats who helped to shape and implement its highly successful development strategy" (1987, 246). He enumerates various technocrats and highlights their contributions. Ho also notes, however, that not only was the KMT "politically able", it also "was in effect an "outsider," with no tie or commitment to the established local elites. Thus, [...] it enjoyed greater political flexibility in Taiwan than it had on the mainland" to carry out its desired reforms (Ho 1987, 241).

A view to the enormous differences between national developmental regimes (cf. Douglass 1994) brings politics to the fore. Tun-Jen Cheng, in the same 1990 volume as Wade, comparing South Korea and Taiwan, identifies military-led South Korea's approach as layered, unbalanced, and command-oriented, relying on intensive use of financial resources to cultivate and control of large business sectors run by a small group of pliable elites, and Taiwan's approach as more horizontal, balanced, and incentive-oriented, using its resources extensively (rather than intensively) to cultivate and support a diversified economy within state-defined boundaries. In Cheng's view, the difference stems from different socio-political regimes, with Taiwan being run by an coherent outsider political party imprinting different policy priorities on its country than the military dictatorship of Park Chung-Hee (T.J. Cheng 1990, 194 ff). Put differently, the independence of the economic bureaucracy is shaped by power structures. In Taiwan, what can be identified as an economic bureaucracy did not have one, constant home, as in the Johnson's MITI; rather, there was a constant shifting of agencies and personnel. But the apparatus on Taiwan was independent of regular government bureaucracy to a far larger extent than elsewhere by being placed only under executive (party) control, which may be explainable with the important role US aid agencies played there (Tun-jen Cheng, Haggard, and Kang 1998). Thomas Gold's 1986 book "State and Society in the Taiwan Miracle" seeking to understand how Taiwan was able to achieve what it did economically, and how it managed to maintain social and political stability during the process (Gold 1986, 5), also lands in this camp of the developmental statist (see Gold 2020), emphasizing the political decisions which underpinned the Taiwan miracle, and the mutual interaction of state and business structures (Gold 1986, 9). The quiescence of the population he traces to the violence enacted on the Taiwanese in 1947 (ibid., 52), and the economic success, namely the successful transition from import substitution to export orientation in the 1960s, over which so many other would-be developmentalists have stumbled, he explains with the continued unparalleled dominance of the state over society (ibid., 75–76).

Of course, these accounts are largely complementary, sharing a conviction that the actions of the Taiwanese developmental state helped bring about economic development. Others register doubts about this conceit, questioning the notion of the state's steering capacity fundamentally (Y. Wu 2004, 94). These authors tend to point out that, as most of the economic growth happened outside of the state sector in small and medium enterprises (SMEs), which, after all, made up 97% of Taiwanese enterprises as late as the mid-nineties (Howe 1996, 1178), the role of the developmental state should be viewed with caution. For example, Y. Wu takes the argument made by T.J. Cheng (1990) and turns it on its head: agreeing that state policies shaped

the industrial sector and approving of his description of the relationship between regime and society, Y. Wu however argues that the economic bureaucracy was in fact fragmented and politicized (ibid, 95ff) and its steering capacity variant (ibid., 97). Arguing that Taiwan's economic success was not a case of "state-led industrialization", but rather of a "politically inspired industrial success" (Y. Wu 2004, 114), he points to the politically imposed division of labour in Taiwanese industry, which created a "tripartite structure" with protected, but tightly policed large enterprises dominating the domestic market, and SOEs the industrial upstream; SMEs were left with the export market, neither interfered with nor supported (ibid. 108). This system only dissolved after the mid-1970s, when, with the onset of Taiwanization, the state started to abandon the division between state and private enterprise in its promotion of new industries such as IT (ibid. 112).¹³

If Y. Wu's criticism of the developmental state account can be seen as an internal critique, focusing on how internal dynamics of the KMT regime disprove the theory, criticism can come from "the outside", too. As Hamilton and Kao put it, "developmental state theories are [...] country narratives stripped of their global context" (Hamilton and Kao 2018, 13). Taiwanese SMEs after all owe their economic success to their linkages in global supply chains, and only through understanding their position in them can Taiwan's economic development be made sense of, argues e.g. Hamilton (1999). What he, with Cheng-Shu Kao, terms "demand-led capitalism" (Hamilton and Kao 2018, 2) functions on the basis of global international buyers – mostly from the US in Taiwan's case – creating a demand to which Taiwanese entrepreneurs, due to a specific social structure – shaped by political decisions, but also the "fluidity of Chinese society" – were able to respond well by creating a multitude of flexible, linked small enterprises, which were optimally suited to contract manufacturing (ibid, 58 ff.). It was Taiwanese companies that produced themselves up the value chain by taking on ever more complex manufacturing tasks, and "whatever the government measure, [...] none of them actually caused Taiwan's industrialization" (Hamilton and Kao 2018, 178). Of course, in the context of such an approach, the most important inflection point for the Taiwanese economy was not to do with the politics on the island, but rather with changes in the global economy coming after the plaza accord and with the rise of China, which made Taiwanese entrepreneurs move their production

¹³ Although Y. Wu is at pains to point out that "This is not, however, to imply that a new institutionalized steering capacity had come into existence." What he seems to have in mind instead has an odd ring of great man history: "The success of industrial promotion in both the semiconductor and computer industries was the work of two remarkable men. The leadership of strongmen remained decisive" (Wu 2004, 112).

to the mainland, in the process laying the foundation for China's own development (Hamilton and Kao 2018, chapters 8,9).¹⁴

Putting together the literature on the economic and democratic transitions, what emerges is a picture of a state party which ruled by the way of distancing and yet co-opting, suppressing and yet steering society. The transition then consisted in the reduction of the distance between the two sides and the reconfiguration of the state-society relationship, and it is also here that the existing literature on party enterprise suggests that we may have to look to understand its development. Of course, there is also a sizeable literature on the interaction between economic and political development during democratization. Many studies trying to understand the new (post-transformation) Taiwan share a sense that the formerly aloof and paternalistic KMT had a new relationship with both local and business interests (e.g. Domes 2000). This could be understood, as for example Thomas Gold does, as the KMT becoming "to an unprecedented extent captured by the business elite" (Gold 2000, 108). The KMT, "losing control" in the media and locally, as faction chiefs start to pursue their own agendas, presented a picture of general disarray (ibid., 110-112). This decline in "state capacity" has many sides: Ying-Mao Kau describes the gain in relative strength, due to economic expansion, of factional leaders, powerful clans, and even gangsters, along with the decline in the KMT's internal coherence, as the reason that the former came to rely on the latter increasingly (Kau 1996, 301ff). But the reconfiguration of the relationship between capitalists and the government has probably the most far-reaching effects.

A major contribution in theorizing this process is Wang Jenn-Huan's 1996 book, "Who governs Taiwan?" (*Shui tongzhi Taiwan?*). Wang's central contention is that the development brought about under the Kuomintang regime, kept stable by clientelism and a dominant ideology, strengthened two key forces in society – capitalists and local factions – to such an extent that the old system entered into a series of crises, unable to meet their growing demands. While at first, the regime responded with reforms, the death of Chiang Ching-Kuo brought an end to gradualism. As the Kuomintang elite fell into factional struggles, the reformist faction around Lee Teng-Hui allied with the newly strengthened social forces of local interests and capitalists to marginalize the defenders of the status quo. He could do so because he was able to provide a more favourable deal to them than the old system had. At the end of this process – Wang refers

¹⁴ I will bracket the China factor in this thesis for want of space, and because it is peripheral to the party assets question, but see Shelley Rigger (2021) and Wu Jieh-Min (2022), who pursue a similar analytical approach to Hamilton and Kao.

to this as the “erection of the new state” (*Xin Guojia Jianli*) – stood a new hegemonic project (*baquan jihua*) and a new mode of accumulation (J.H. Wang 1996, 40–41). State-business relations had transformed: whereas under the old system, entrepreneurs were excluded from the political power structure, in the new Taiwan, they were at the heart of the political system. What emerged was a “democratic capitalist nation-state” (*ibid.*, 55), in which Lee's mode of governance, directly appealing to the electorate, formed a sort of “populist authoritarianism” (*ibid.*, 75).

Finally, I want to highlight a 2008 article by Chang Tieh-Chih, which, building on J.H. Wang, highlights the role of political choices made by the KMT in shaping the process of liberalization, by fostering alliances with business interests to stabilize its own rule, establishing a new “alliance between politics and business” (*Xin Zhengshang Lianmeng* T.C. Chang 2008, 102). Party enterprise plays an important role in his, by taking over shares of state enterprises and enabling cooperation with private enterprises. The argument I present in this thesis is quite similar to Chang's but differs in its ultimate outlook. We will return to this in the conclusion.

3. Conceptualizing Power Relations in Transitory Taiwan

3.1. Dominant Party Democratization and State Infrastructural Power

If the conclusion from the above review is that the transformation process consisted of a reformulation of the relationship between state and society, the obvious next question to ask is what both of those terms actually mean, and how “their relationship” is to be understood. For this reason, before setting out to ask what role KMT party enterprise played in this process, I want to take a step back and consider the problem in more abstract terms, using this chapter to put forward a framework built on two theoretical pillars, namely, first, a reading of state, party, and society as an assembly of relationships of power, the change of which describes the process of democratization, and secondly, a historical perspective, in which the choices of actors within this assembly are conditioned by prior choices and institutional arrangements. From this framework, we can then derive three hypotheses to guide the analytical section of the thesis, before closing this chapter with some notes on method and sources.

As we have seen, both T.J. Cheng’s and Rigger’s arguments hinge on the idea that the Kuomintang had, at every step of democratization, the perception that further steps towards liberalization were going to end up stabilizing its rule more than an insistence on the status quo might have done. Beyond a purely Taiwan-centric context, an approach has developed around this idea we may call “dominant party democratization”. Authors arguing in this direction work towards a theory centred on the perception of the incumbent authoritarian party, i.e., in the Taiwanese case the KMT, and the factors which lead it to believe that it could control the process of democratization in such a way as to retain power. The distinction between democratisation and a loss of power is central to this argument. In attempting to “advance a unified theoretical framework” for authoritarian party-led transitions to democracy, Riedl et al (2020, 315)¹⁵ emphasize risk to the power of the incumbent as the main driver of democratisation. Democratization hinges on the “leading incumbents’ electoral victory confidence”: the expectation of the ruling party that it can dominate the political process to such an extent that continued rule is possible, more so than under a continued authoritarian regime, under democracy (Riedl et al. 2020, 316). They divide the factors which enable democratization permissive and productive conditions – that is, roughly, enabling or necessary conditions, and the driving conditions which produce change (Soifer 2012; we return to this point below). The productive condition is the risk assessment by the ruling party of the danger to its rule by forces

¹⁵ While this framework has been developed as a universal framework, the importance of the Taiwanese case study is clearly visible in the article by Riedl et al (2020, 324-326), as well as earlier articles on the same subject on which it builds (e.g. Slater and Wong 2013)

pushing for democratization in relation to its own strength, in numbers, organizational capacity and so on; the permissive condition, meanwhile, is the “institutional legacy of prior political party organization and strategies of social control and support” (Riedl et al. 2020, 318). This has the counterintuitive implication that “authoritarian incumbents [...] may strategically lead political reform when they still have the ability to resist it. The paradox is that ruling party’s incumbent capacity, which makes sustaining authoritarian rule possible, simultaneously makes it less imperative” (Riedl et al. 2020, 318; cf. Slater and Wong 2013, 719). It follows from this that the most important variable in the trajectory of democratization is the strength of the incumbent party. Here, Riedl et al (2020, 320-321) name five factors, namely the capacity to mobilize supporters, to “stimulate but subordinate” outside groups¹⁶ – such as unions, professional organizations and so on – the ability to rely on professionals to manage electoral campaigns well, the capacity to mobilize around broad identity issues – like nationalism, religion, and so on – and finally control mechanisms to maintain internal party stability.

The notion of measuring incumbent party strength, and especially also the second point, the “ability to stimulate but subordinate” outside groups, is of an obvious relevance, and offers a good anchor for discussions of the party assets question. For this reason, I want to build the analysis on this approach. It is however still too vague in its mechanisms to be sufficient for a discussion without further specification, especially of how exactly this “stimulating but subordinating” of outside groups might work. For this reason, I want to turn to Michael Mann’s reflections on the division between infrastructural and despotic power (at any rate already present in the background in Riedl et al). First, there is an obvious need to define what “strength” actually means, and how the exercise of power in a society might generate that strength. To do this, we can adapt Mann’s general framework, in which societies are “constituted of multiple overlapping and intersecting sociospatial networks of power” (Mann 2012a, 2). This approach centres the interrelation of different sources of power¹⁷, which constitute “overlapping networks of social interaction [...] They are also organizations, institutional means of attaining human goals. Their primacy comes not from the strength of human desires for [...] satisfaction but

¹⁶ On this point, the authors note that “this parallels a type of embedded autonomy [in reference to Evans 1995], in which the ruling party can learn from and respond to social groups but not be beholden to them. Rather, the party can act strategically in its own interests to maintain itself, using the organizational resources of subordinate groups” (ibid.).

¹⁷ In his main work, Mann distinguishes four fundamental sources of social power, of which political power is one, along with ideological, military, and economic power (the first letters of which spell out IMEP, which is used as a shorthand for the whole approach), with none assigned primacy over the others (Mann 2012a, 2). All of the dimensions of the IMEP framework come with their own subdivisions and typical organizations (see e.g. Mann 2012a, 22 ff). I will skip discussion of the theory at large for brevity, and focus on political power – accepting, with an apology, that Mann himself would probably disapprove of this (see Mann 2008, 365).

from the particular organizational means each possesses to attain human goals, whatever these may be” (ibid.). Power, in Mann’s terms, is simply “the capacity to get others to do things that otherwise they would not do” (Mann 2013, 1).

Power as exercised in politics may be further differentiated into despotic power and infrastructural power. The difference between the two types of political power is, in essence, that of power over, versus power through, civil society (Weiss 2006, 171): “Despotic power”, Mann (2012a, 169–70) writes, “refers to the range of actions that the ruler and his staff are empowered to attempt to implement without routine, institutionalized negotiation with civil society groups.” Infrastructural power, on the other hand, does not derive directly from force. Instead, as the interchangeably used term “collective power” more directly implies, infrastructural power “refers to the capacity to actually penetrate society and to implement logistically political decisions” (Mann 2012a, 170).

Mann’s project is an exercise in macro-history, and so the differentiation between despotic and infrastructural power was from the get-go meant as a way of distinguishing different forms of government throughout history. Most historic feudal regimes were low in both categories, with historic empires having low infrastructural, but high despotic power. The authoritarian single-party regimes¹⁸ of the 20th century were marked by strength in both categories, whereas present-day democracies mainly function through the exercise of infrastructural, and much less despotic, power (Mann 2008, 356). The growth of infrastructural power is a historical process. As Weiss notes: “Whereas modern states have developed ‘infrastructural’ powers by negotiating with and acting through civil society – thus penetrating, extracting and coordinating their resources – the powers of pre-industrial states take a more despotic form, by virtue of their ability to issue commands (but not necessarily to implement them) without such routine negotiation” (2006, 171). Thus, the transition from a high in despotic, high in infrastructural power to a low in despotic, high in infrastructural power regime type describes the transition from a totalitarian regime to a democracy. Or, put differently, there must be a collapse in despotic power and a maintenance of infrastructural power in all societies which so transition. This means that what differentiates different democratic transitions is the relative extent of the change, and how specifically despotic and infrastructural power operate in each case. This means that a more

¹⁸ Mann has changed up the naming of his categories throughout the years. Only from a 2008 article onwards does he use the term “democratic regime” for a low-despotic, high-infrastructural power regime (which he previously called “bureaucratic”); conversely, in the same article, he proposes to name the 20th century authoritarian regimes “single-party regimes” (2008, 356–57). All these are, of course, meant as ideal types (ibid.).

Note that this implies that infrastructural power is the hallmark of *all* “modern” regime types.

detailed differentiation of different types of infrastructural power is needed to explain differences across countries.

While the concept of despotic power is – at least in the first instance – relatively straightforward, surveying the literature which makes use of the concept of infrastructural power, it becomes clear quickly that the wide range of scholars who have taken up the concept have used it in quite different, vague, and sometimes rather contradictory ways. Soifer presents one attempt to conceptualise different approaches to infrastructural power: he distinguishes between the direct “national capabilities approach”, which straightforwardly measures the “resources available to state leaders”, which Mann uses most¹⁹; a “weight of the state approach” which, in a more Foucauldian manner, emphasizes socialization effects in society at large, and a “subnational variation approach” which emphasizes regional variations of infrastructural power (Soifer 2008).

But even if we zoom in on the “national capabilities” approach, there are differences in conceptualization. One way to distinguish them may be the extent to which they engage with the idea of infrastructural power as “collective power”: as Weiss notes, the state gains what capacity for manoeuvring and independent goal-setting it has precisely through its relationship to other actors, their pooling of powers through it; infrastructural power is thus “fundamentally negotiated power, its core features being the capacity for social penetration, resource extraction and collective coordination” (Weiss, 2006, 171). Seen like this, infrastructural power is a relational, and thus bidirectional type of power.

This in turn then puts the focus on how the actors constituting a relationship of infrastructural power relate to one another. In attempting to adapt the concept of infrastructural power to make sense of different types of state autonomy in the 1990s, Weiss puts forwards her concept of governed Interdependence: “Governed interdependence (GI)”, she writes, “refers to a negotiated relationship, in which public and private participants maintain their autonomy, yet which is nevertheless governed by broader goals set and monitored by the state. In this relationship, leadership is either exercised directly by the state or delegated to the private sector where a robust organizational infrastructure has been nurtured by state policies” (Weiss 1998, 38). GI is in that case a direct derivation of infrastructural power (cf. Weiss 2006, 168), and in some sense rebuilds developmental state theory in its language: her approach is “intended to convey a reality in which both state and dominant economic groups are 'strong': i.e. the state is

¹⁹ Such as when Mann, in volume two of his “history of social power”, enumerates historical data on the size of five European states to trace their evolution (Mann 2012b, 358ff).

well insulated and industry is highly organized and linked into the policy-making framework via a robust negotiating relationship” (ibid.). The power of East Asian states to manage rests “above all on greater infrastructural, or negotiated, powers (the capacity of A to cooperate with B from a position of organizational autonomy and to coordinate responses to achieve outcomes)” (Weiss 1998, 81).

In much a similar vein, several scholars have noted that the infrastructural power concept works well as a specification of the idea of state capacity. Slater and Fenner (2011) are one such example of this. This state capacity, to them, the keystone of a stable autocratic regime: „Many of the mechanisms through which authoritarian rulers assert control correspond quite closely with familiar dimensions of state infrastructural power [...] the most important infrastructural mechanisms sustaining and stabilizing authoritarian regimes include: (1) coercing rivals, (2) extracting revenues, (3) registering citizens and (4) cultivating dependence. All of these tasks are performed more effectively when state infrastructural power is high than when it is low, and their effective implementation enhances authoritarian durability in particularly powerful ways” (Slater and Fenner 2011, 20).

This brings home the point that “registering citizens” and “cultivating dependence”, which at first seem to be vastly different things – abstract and impersonal versus concrete and interpersonal – are, seen through the lens of infrastructural power, structurally the same, but simply operating at different levels of distance and abstraction. The concept is broad enough to be able to capture even the up-down hierarchical mutual dependency of a clientelist relationship. This point is made explicitly by Wang Jenn-Huang. The Kuomintang regime rested, to him, on two types of infrastructural power: the establishment and maintenance of clientelist relationships, and (J.H. Wang 1996, 58), and state corporatism (ibid., 59). Clientelism, in this sense, is simply another form of infrastructural power.

For Riedl et al, the distinction between state power and party power is central to their argument, which is not true for Mann and most of the literature which directly references him. But even if most of the scholarship building on Mann is very concerned specifically with state strength and power, a further separation of state and party fits without issues into his definition as society being made up of interrelated power relationships. A party may exercise its power *through* the state, much as an individual might. This is not to make a statement about what constitutes a “good” form of patronage. As Slater and Fenner write, “Parties may distribute resources (or promise to do so) in exchange for support, but they rarely extract or produce the resources they hand out or administer the economic policies for which they take credit. These are the tasks of

state apparatuses; effective state extraction is the most sustainable basis for party-delivered patronage” (2011, 24) – except of course that in the case of the KMT, a party producing its own resources is exactly what happened.

With these reflections in mind, we can approach Kuomintang party enterprise as a part of the Kuomintang’s larger clientelist infrastructural power: its cash flows, the opportunities for cooperation with and co-optation of the private sector and the binding effect on local factions are all part of this. To sum up momentarily, this means that party enterprise was a social relationship which generated a unique form of infrastructural power for the incumbent KMT party, even as its despotic power collapsed.

3.2. Path Dependence and Critical Junctures in POE History

While this viewpoint provides a description of power relations (in transitory Taiwan), it does not in and of itself offer any explanation of why it developed in the way that it did. I will argue that, to provide this why, we have to bring in the historical dimension. Only with a mind to the limitations and opportunities under which actors operated at any given moment can we have any realistic assessment of why history happened in the way that it did. Authors who neglect to do this sacrifice explanatory power. As an example, Li Fu-Chung implies that party enterprise started in 1945, as a reaction to emergent needs of the party. However, as we will see in 4.1., party enterprise has accompanied the Kuomintang since before its formal founding as a party. Li, surely aware of this fact, seems to believe this unimportant enough to skip over it. However, in so doing, he misses something crucial: as evidenced by the fact that so few parties have ever thought to build their own business conglomerates to sustain themselves, this is a very uncommon solution to very common problems. In other words, it is exceedingly unlikely the KMT would have set up party enterprises at any point after 1945, had it not previously had them. It kept reinventing and adapting this institutional²⁰ form, because it already had it, and could easily build on it. Li misses the crucial point about party enterprise: it was not spontaneously willed into existence, it existed as a political category before and after, and its existence in turn shaped other outcomes.

Party enterprise was, in other words, a “contingent occurrence that cannot be explained on the basis of prior events or “initial conditions”” (Mahoney 2000, 511). This view to historical

²⁰ As I borrow heavily in this section from the historical institutionalist literature, I use the term “institution” without further discussion. However, with an eye to the discussion in 3.1., social institutions are equivalent to “socio-spatial networks of power” for the purposes of this thesis.

developments, the idea that events are shaped by prior events, is in political science usually discussed under the moniker of “path dependence”. Path dependence, in Mahoney’s definition, has two more defining features beyond this inability of an occurrence to be explained from initial conditions, namely, first, “causal processes that are highly sensitive to events that take place in the early stages of an overall historical sequence” (Mahoney 2000, 510) and second, “relatively deterministic causal patterns” (ibid., 511). But why would such an institution as party enterprise, once it existed, be reproduced, and sustained? Implicitly, the answer is already given in the idea of a power-based definition of society: it generates power for the actors which sustain it. This is of course an essentially functionalist explanation, in which an existing institution is reproduced because “it serves a function for an overall system” (Mahoney 2000, 517). This does not mean that an institution was set up in a conscious decision by actors to fill the need it now does. Rather, “contingent events initially select a particular institution” (ibid., 519). There are different ways of understanding what contingency means; it may be something in effect rather close to chance, outside of the theory (ibid., 513). Inevitably, of course, any analysis of a causal process eventually must leave something outside of the narrative, but, by “process tracing the causal narrative up through the random contingencies and by showing how these (albeit unexplainable) events interact with other more tractable parts of the account, analysts can clarify which parts of the account are contingent and which are explicable and the respective roles of each in subsequent events” (Bennett and Elman 2006, 255).

Institutions, once they have come into existence, need not be the most functional ones imaginable. There are different approaches to the question of why existing institutions should end up being reproduced, or to put it differently, why existing institutions should constrain actors in the present. One way to conceptualize path dependence is to think in terms of “reactive sequences”, which transform and potentially reverse earlier trends, so that an initial event sets in motion a tightly linked chain of events (Mahoney 2000, 526). Most often, however, authors argue for some kind of process of a positive feedback cycle (e.g. Pierson 2004, 17 ff.), which leads to a self-reinforcing process in which the usefulness of an institution “causes the expansion of the institution, which enhances the institution's ability to perform the useful function, which leads to further institutional expansion and eventually institutional consolidation” (Mahoney 2000, 517). A lot of discussion is concerned with identifying mechanisms of “lock-in” which lead actors to prefer to stick with one way of doing things even when another one might work better (Bennett and Elman 2006, 257–59). “Work better”, and related terms such as “efficient” and “functional”, of course imply a notion of actor preferences. Again different research traditions approach the topic differently (Thelen 1999, 375).

Reconstructing the preferences of different actors in any detail is beyond the scope of the thesis, and this is an important constraint; however, I am confident that this does not invalidate the findings. We will return to this point below.

Closely connected to the concept of path dependence is the notion of “critical junctures”, also called “crisis moments”, “turning points” and so on. What makes a juncture critical? “The distinct feature of a historical juncture with the potential to be critical”, writes Soifer, “is the loosening of the constraints of structure to allow for agency or contingency to shape divergence from the past, or divergence across cases“ (2012, 1573). However, in practice authors again vary quite significantly in what they understand critical junctures to actually be. Capoccia (2018) classifies common approaches into three categories. Under the first category fall those approaches which “emphasize that post-critical juncture “divergence” is driven by antecedent conditions rather than by decisions and events that take place during the critical juncture” (ibid., 93). The second approach consists in zooming into the range of choices available to actors at the time of the juncture, and reconstructing the alternative paths they might have taken. A third group emphasize the importance of ideational change and differing strategies of legitimation; there, “the central contention is that the ideational terrain is where the main political battles are fought during a critical juncture” (ibid., 97).

The interest of this thesis in the process of democratization suggests a focus on the first approach. To specify it further, if the loosening of constraints is what produces and shapes changes, this is premised on certain conditions. In Soifer’s terms, these are the permissive and productive conditions referred to above: “Permissive conditions can be defined as those factors or conditions that change the underlying context to increase the causal power of agency or contingency and thus the prospects for divergence.” (2012, 1574). As long as the permissive conditions are given, the window for change is open (ibid.) Meanwhile, “productive conditions can be defined as the aspects of a critical juncture that shape the initial outcomes that diverge across cases” (Soifer, 2012, p. 1575). This makes the identification of the relevant conditions central for the analysis. However, as mentioned before, I do not reconstruct actor preferences in any detail, but of course there still is room for agency in an account which emphasizes structural conditions. The difference is only in relative emphasis. Still, the choice to emphasize structural conditions over actor preferences is ultimately also a decision which puts the findings into a certain light and leads this thesis to different conclusions than authors who choose another approach. This will be discussed in more detail in the concluding chapter.

3.3. Method and Hypotheses

This thesis attempts to establish the nature of the causal mechanism, if any, between two phenomena, democratization and party wealth. In this chapter I have so far attempted to generate a theoretical understanding of how the two ought to be thought of. To summarize briefly, party enterprises were a network of power relations which had grown historically and been transformed by a variety of political leaders, but always with the aim of generating a specific type of infrastructural power for the party leadership; democratization was a restructuring of power relations in society, and the two are linked in a process of co-development. In terms of research methodology, since we “know causes and outcomes but do not know what links them together” (Beach and Pedersen 2019, 269), the argument in this thesis is in that way “theory-generating”, rather than “theory-testing” (ibid.), building, in effect, a process-tracing analysis in a single case (Bennett and Elman 2006, 62 f.), and the three hypotheses below are thus derived not to be tested, but rather as an analytical tool to guide the analytical section.

From the definition of democratization in terms of the infrastructural / despotic power distinction, and with an eye to the timebound unfolding of events, we can derive three hypotheses, which capture the interplay of party enterprise and democratization over the course of their co-existence:

H1: The crisis of the existing ruling system of the ROC was brought about by the erosion of extant forms of infrastructural and despotic power, necessitating a rearrangement.

H2: Under the conditions of crisis, party enterprise provided the best way to maintain as much power as possible for the KMT leadership, which enabled it to substitute its previous control of the state, which generated both infrastructural and despotic power for it, with an arrangement guaranteeing at least some infrastructural power.

H3: The collapse the control of state power however deprived the party leadership of its enforcement ability via despotic power, leading to an increase in defection of those cut out from that relationship and undermining the stability of the arrangement.

With an eye to the reflections on permissive and productive conditions, the analysis will unfold in two major sections. In the first two sections of chapter 4, the history of KMT party enterprise as it was related to the history of the KMT at large will be reconstructed. The goal is to identify the permissive conditions, embodied by change in the power arrangements which underpinned the KMT regime, which opened a window for democratization. The second part, which forms

the third section of chapter 4, then retraces the productive conditions which shaped the process of democratization, and specifically the role that party enterprise had in it.

With a research design based solely on process tracing and not flanked by other methods, the validity of the conclusions is in large parts dependent on the quality and selection of the source material. Because of this, the dependence of this thesis on secondary sources is its strongest limitation. I have not been able to conduct interviews with stakeholders or experts, neither was able to access (interesting) primary and archival sources, which would potentially have enabled me to make further-reaching claims about intentionality of actors and the importance of certain financial linkages. We return to these limitations, and what they mean for the validity of the findings in this thesis, in the concluding section.

4. KMT Party Enterprise and Transition in Taiwan

4.1. The Origins of the KMT and its Enterprises

The difficult circumstances under which the Republic of China formed meant that the Kuomintang could for a long time not rely on the state to guarantee its income. This provided the first impetus for maintaining party enterprise. The calamitous further development of the Republic, especially its eventual reduction to the island of Taiwan, reinforced this need. Even when its regime eventually stabilized, the KMT found it useful to maintain party enterprises, finding other uses for them.

4.1.1. *The Revolutionary Origins of KMT Party Enterprise*

If Kuomintang party enterprise is inextricably linked to the history of the party, this is probably the case because of its always difficult relationship to the state, on which it could only at times rely to provide funding. This is the case from the beginnings of the party as a revolutionary movement to overthrow the Qing dynasty onwards. Then still called differently – first the “Revive China society” (*Xingzhonghui*), later the “Revolutionary Alliance” (*Tongmenghui*) – the party, headed by Sun Yat-Sen, relied on donations from wealthy overseas Chinese to fund its activities (Mühlhahn 2019, 221). Sun’s pre-eminence arguably rested on two pillars: first, he had to offer a programme for the future of the country, and the oratory skills to sell it. His program, the “three ideas of the people” (*Sanmin Zhuyi*), although “syncretic and vague” (Tun-jen Cheng 1989, 476) offered an actionable mixture of nationalism (*Minzhu Zhuyi*), charged with racial undertones, democracy (*Minquan Zhuyi*), understood to provide a stronger and more stable form of government than monarchy (Mühlhahn 2019, 222) and developmentalism (in the

Minsheng Zhuyi)²¹. Secondly, he was a skilled fundraiser, and was able to solicit substantial donations even as his various revolutionary activities kept failing. Among these donations were the land holdings and enterprises which provided the party with its first “assets”: these were substantial enough that, after the revolution finally succeeded in 1911, and the *Tongmenghui* drew up a charter for itself, it set up a treasury department (*Licai Bu*) to manage its finances, which among the responsibilities had the management of the “agricultural and industrial enterprises operated by the Alliance” (quoted in Liang and Tian 2000, 31, translation mine). At this point, the *Tongmenghui*, and later the KMT, were involved in cotton production and processing, as well as various speculative ventures (*ibid.*).

The KMT had to rely on these sources of funding even after the overthrow of the Qing dynasty, as the early republican period was extremely unstable. The KMT struggled to establish its authority, succeeding in some capacity only by 1928, when, in the wake of its so-called northern (military) campaign it had convinced – or forced – enough warlords to accept its formal authority that China could be considered reunited (Mühlhahn 2019, 227–53). The ROC, isolated internationally, found a supporter in the Soviet Union’s Comintern. In a period of close cooperation from 1923 to 1927, its advice, along with material and monetary support, resulted in the reformation of the KMT into a revolutionary party along Leninist lines of organization. It also set up the Huangpu (or Whampoa) military academy, the directorship of which by a young Chiang Kai-Shek gave him the grip on the ROC army on which his later claim to power would come to rest. The Comintern’s then policy to enable the Chinese Communist Party (CCP) to grow within the KMT came to an end when Chiang Kai-Shek came out on top in the leadership struggle, and, after bringing most of the country under his control in the northern campaign, purged the communists from the ranks of the KMT (Mühlhahn 2019, 260–64).

4.1.2. *From Tutelage to Constitutionalism*

The northern campaign, which “reunited” China, was followed by a decade of relative – compared to open warfare before and after – stability. Sun Yat-Sen’s earlier liberalist rhetoric had changed before his death in the face of China’s fragile state. He now proposed that an evolution towards democracy had to take place: China would first need military government (*Junzheng*) to secure its position, followed by tutelage government (*Xunzheng*) during which

²¹ Although the concept of socialism is often invoked to describe *Minsheng Zhuyi* (e.g. Gold 1986, 48: “a concept akin to socialism...”), Sun himself went to great lengths to distance the two (Mühlhahn 2019, 223). It, at any rate, came to be associated with socialist policies and was the central point of reference for the left wing of the republican movement (Zanasi 2006, 34).

the KMT would create the internal conditions for democracy, and only then could the era of properly democratic, constitutional government (*Xianzheng*) begin (Rigger 2002, 16). The first period was declared over in 1928, marking the beginning of tutelage, for which a primary law was introduced in 1928 and a new provisional constitution adopted in 1931. This gave a legal footing to the already organizationally Leninist system of government, with party institutions mirroring state institutions, along with a hollowing out of electoral democracy (Xiao-Planes 2009, 51), while allowing the KMT to fill its coffers from the national budget (Li 2022, 135). While ownership structures thus blurred, this did not spell the end for party enterprise, however, but merely shifted the focus: the cultural and especially the broadcasting businesses that had existed since the early 1920s now came to the fore. Making use of the state funds now available, the party set up a range of broadcasting firms to propagate its message (Chiu 1997, 22). While their effect on generating income later on must not be ignored – the fact that they had their own, independent budgets, gave them the ability to contribute to party finance where necessary (Chiu 1997, 23) – their primary purpose of course was still to generate public support for the KMT cause (Liang and Tian 2000, 34).

Reunification did not mean pacification, as local warlords continuously challenged the Nanjing-based KMT regime, now in the hand of Chiang Kai-Shek, and tutelage did not mean an end to infighting. In the KMT, factions with different power bases drifted into all kinds of directions, and throughout the thirties, the government remained “deeply divided and contested”. (Mühlhahn 2019, 278). But Chiang could count on the support of particularly strategically placed ones; chief among them the so-called CC clique²², composed of brothers Cheng Lifu and Chen Guofu, who derived their power from controlling the KMT’s organization department, which in turn now controlled all personnel appointments (Mühlhahn 2019, 267). While China did make significant economic progress over the following decade, most was soon lost in the war against Japan, which started in 1937 and already by 1938 had resulted in the loss of the entire eastern seaboard provinces. The nationalist government relocated to Chongqing, then part of Sichuan province, deep inland. Devastation mounted as the ROC refused to yield, and the Japanese proved ultimately unable to force it into submission. As infighting and factionalism continued in Chongqing, the Communists were able to strengthen their base in the north of the country (Mühlhahn 2019, 316 ff).

²² So named either because its key members were the two Chens, or as an abbreviation of the (English) term “Central Club” (Qiu 1997, 29).

The end of the war brought brief respite to the battered Republic of China. Prior skirmishes between KMT and CCP forces developed into full-scale civil war in 1947, which, after a few months of initial success, turned into a catastrophe for the former (Mühlhahn 2019, 338 ff). In the period before its near collapse, however, the Republic underwent another institutional transformation with reverberations for decades to come, by doing away with the tutelage period and the adoption of a new constitution. Chiang Kai-Shek, continually prodded by various factions and a critical public largely outside his control, had assented to the formation of a preparatory council already in the war years. The new constitution was presented in 1946, ratified by a national assembly in the same year and passed into law on December 1st, 1947 (Xiao-Planes 2009, 55). It stipulated fundamental rights and a democratic, multiparty system of government with a division of power (with some reservations, see Greift 1985).

The new constitution necessitated a separation of state and party, which for the KMT, which had come to rely on state coffers, presented a challenge (Li 2022, 135). It had time to prepare, however. The 6th National Congress of the KMT, held from May 1945, spent much time deliberating potential coping strategies. It ultimately passed the “Resolution on the Procurement of Party Funds” (*Guanyu choucuo dangfei zhi jueyi an*), which made several suggestions regarding the expansion of the party's financial sources, namely increased contributions of party members to finance the party below the county level, the creation of funds and use of their dividends to finance the party at the central and provincial levels, and, finally, the use of these financial resources to set up various enterprises. The text of the resolution specifically recommends the sectors culture, film, transport, finance, banking and insurance companies, agriculture and forestry for investment (Li 2022, 137; cf Liang and Tian 2000, 29–31).

What the implementation of these directives entailed in practice and in different places is – like much of the late republican period – somewhat difficult to reconstruct. Chiang Kai-Shek certainly allocated some money for purchases (Chiu 1997, 29). On a much broader scale, however, KMT authorities were making liberal use of the generally chaotic conditions after the war and the unclear division between state and party before and during the implementation of the 1947 constitution. On a large scale, surrendered Japanese property, which in principle had to be given to the state, was taken over by the KMT directly. Even where civil law standards

appear to have been applied, the exact circumstances are often unclear; legally, these procedures moved, at best, in a grey zone (Li 2022, 140)²³.

In this process, the CC Clique was again at the forefront, as Chen Guofu, the elder of the two brothers, had moved to the chairmanship of the party's finance committee. Under his leadership, across the formerly Japanese occupied territories, the KMT came into possession of a range of businesses producing everything from noodles to dynamite (Liang and Tian 2000, 34). An illustrative example raised by several authors is the Chih-Lu company (alternatively romanized as *Cheeloo* or *Qilu*). Founded in 1947 in Qingdao by Chen Lifu, it grew from nothing to soon include a rubber factory, a grain mill, a brewery²⁴, a glass factory, and various food factories. It is not at all clear where the capital necessary to purchase any of these companies might have come from and, in fact, whether any money ever changed hands (cf. Chiu 1997, 25ff; Li 2022, 137; also Zeng 2016).

The defeat in the civil war cut short all such developments on the mainland.²⁵ Meanwhile, on Taiwan, too, Japanese property – both state-owned and privately-owned – was generally transferred to the state, as was the legal requirement, often being immediately dismantled and sent to the mainland (Gold 1986, 50). And, analogously to the mainland, quite a few of the enterprises taken over were not placed under state control, but instead funnelled towards the KMT. Among others, the party was able to acquire a large number of properties that originally belonged to the Japanese governor, including the broadcasting station that formed the basis for the later Taiwan Film Corporation and the Central Broadcasting Station (Li 2022, 140).

4.1.3. *Takeover of and Escape to Taiwan*

When Taiwan came into its possession after the war, as agreed at the Cairo conference in 1943 (Mühlhahn 2019, 336), the Republic of China inherited an island which had taken a very

²³ In fact, the legality or illegality of these proceedings was a crucial point in the arguments around the CIPAS. The Kuomintang argued CIPAS would have to prove the illegality of each acquisition; however under the current rules, the KMT has to prove their legality. Chih-Lu is one of the companies for which this is in doubt (Zeng 2016).

²⁴ This is the world-famous Tsingtao brewery that still operates today; as to how it ended up with the KMT, records only note that it was “purchased from the hands of a German” – further details are not given (Li 2022, 137).

²⁵ But interestingly, the CC Clique seems to have used the party enterprises it now controlled quite effectively as a tool in its electioneering of the first ever legislative yuan elections, where it was at loggerheads with the Chiang Ching-Kuo-aligned Sanmin Zhuyi Youth Corp. The tactics of vote buying and manipulation it could fund with the help of party enterprise (Chiu 1997, 29) already foreshadowed some of what the KMT would later come to rely on on Taiwan. Its particularistic use by a single KMT faction gives testament to the fractured nature of the party on the mainland, in contrast to its later unified position on Taiwan.

different developmental path than the mainland. Having been ceded to the Empire of Japan in the treaty of Shimonoseki in 1895, Taiwan²⁶ had endured five decades of colonial rule, which had, to varying degrees at various times, meant exploitation, discrimination, forced labour, and, especially later on, forced Japanization²⁷. The colonized peoples of Taiwan, namely the long-marginalized Austronesian Natives, the Hakka, mostly living in the hilly uplands, and the Fujianese speaking Han majority (the language is also referred to in English as Hokkien, Min-Nan or simply “Taiwanese”) – were barred from higher education outside of technical fields, as well as most government positions, with all higher levels being filled with Japanese. Yet at the same time, Japanese colonial rule had brought with it a certain level of economic development, and a social, political and economic stability unknown in mainland China, as well as modern medicine, education and engineering, and enabled a narrow, but influential, band of upper and middle-class Taiwanese opportunities they would not otherwise have had (Gold 1986, 45).

From Chongqing, Chiang Kai-Shek dispatched former governor of Fujian province²⁸ Chen Yi to Taiwan to accept the formal Japanese surrender, and to take over command as the Chief Executive of Taiwan Province and Commander-in-Chief of the Taiwan Provincial Police (Wakabayashi 2016, 47). Almost immediately after the takeover, local elections were held, in which the Taiwanese gentry, previously also present in the Japanese representative bodies, managed to immediately occupy the majority of seats (Rigger 2002, 39). However, grievances arose immediately, as the new institutions – and Chen Yi’s demeanour – came to resemble the Japanese institutions in their authoritarianism and exclusion of local Taiwanese (Rigger 2002, 56), while surpassing them in incompetence and corruption (Wakabayashi 2016, 49). More painful still was the fact that, with becoming part of the Republic of China, Taiwan, which had been spared the worst excesses of the second world war, suddenly had to share the struggles of a country tearing itself apart in a civil war. Galloping inflation, and an intentionally unfavourable system of exchange rates – Taiwan had a separate currency from the mainland, the (old) Taiwan dollar, which was pegged, however, to the spiralling mainland currency, the

²⁶ Taiwan, in this context, refers to the Island of Taiwan, and several outlying islands – Orchid Island (Lanyu), Green Island (Lüdao) and the Penghu Islands chief among them – which were also ceded to Japan. From herein out, however, “Taiwan” refers to the territories currently under control of the Republic of China; this adds to the list two island chains off the Chinese mainland, which, in theory if no longer in practice, are part of Fujian and not Taiwan province, namely Kinmen (Jinmen) and Matsu (Mazu, Lienchiang).

²⁷ Especially in the later years, Japanese authorities pushed, along with clothing and even Shintoism, their “national language” on the Taiwanese population increasingly aggressively. This would later find an ironic mirror in the ROC government’s attempts to promote the use of mandarin Chinese – for which it even used the same term, written with the same characters (spelling *Guoyu*). The inability of the Japanese-socialized Taiwanese elites to converse with their new countrymen gave rise to much resentment on both sides and was a significant factor in the emergence of the interethnic cleavage (see Gold 1986, 42-46, Wakabayashi 2016, 216: 32ff).

²⁸ Or, in the words of Thomas Gold, “a former Fukien [Fujian] warlord” (1986, 49).

Fa Bi – quickly ravaged the fortunes of the slim Taiwanese middle and upper classes (Wakabayashi 2016, 50).

Mounting frustrations culminated in the so-called 228 incident, also known as the February 28 massacre in English. As an altercation escalated into a multi-day riot, Governor Chen first took an outwardly conciliatory approach to protestors demanding reform, but secretly telegraphed for reinforcements from the mainland; when they arrived, he commanded his troops to enact a brutal retaliation campaign, which included roundups, disappearances and mass executions of riot leaders, local elites and others who had been or not been involved, killing thousands (Rigger 2002, 58). These events of February and March 1947 left a deep impact on Taiwanese society. While they devastated the local elite and suppressed dissent, they also did much to cement the emerging divide between mainlanders and Taiwanese,²⁹ and arguably provided the starting point, certainly the central reference point, of modern Taiwanese nationalism (Wakabayashi 2016, 58). This first shock was followed by a white terror campaign, which peaked in the early 1950s, but lasted for decades, effectively silencing most of the indigenous opposition (Rigger 2002, 53; Wakabayashi 2016, 92).

On the mainland, meanwhile, the republican armies had suffered stunning setbacks; corruption, factionalist infighting and the catastrophic and further deteriorating economic situation undermined its efforts against a motivated, soviet-supported, and comparatively well-led communist insurgency. As the imminent collapse of ROC control on the mainland became obvious, at the latest in January 1949, when the communist troops seized Beijing and Tianjin (Mühlhahn 2019, 343), Chiang Kai-Shek temporarily resigned from his position as president and began, now only the KMT party chairman, to prepare the relocation of his government to Taiwan (Wakabayashi 2016, 61). His loyalist Chen Cheng³⁰, took control of state and party in Taiwan from December 1948 onwards, and through him, Chiang Kai-Shek managed to put himself in charge in Taiwan, leveraging an amount of control he never had had on the mainland. Through a variety of steps (see Wakabayashi 2016, 93ff), he eventually resumed the presidency

²⁹ “Taiwanese” in this context refers to the population of Taiwan who lived on the island before 1945 and their direct descendants, whereas “Mainlanders” are those who came to the island under the Kuomintang regime. The terms commonly used in Taiwan – “person of this province” (*benshengren*) and “person of outside province” (*waishengren*) make this clearer than it is in English.

Beyond the linguistic boundaries referred to in footnote 27, the division between the two groups found legal footing in the household registration law (*huji fa*) of 1931, which dictated that a child was to be considered a citizen of the province their parents (and, when they were from different provinces, their father) was from, regardless of their own place of birth. This subnational *ius sanguinis*, which enabled the emergence of something of a mainlander “caste”, was only abolished in 1992 (Wakabayashi 2016, 56).

³⁰ Not related to the Chens of the C.C. Clique.

and assumed a near-absolute level of power he would retain until his death in 1973. Chen Cheng, in turn, undertook a set of reforms, which stabilized the situation on Taiwan, namely a currency reform, which put an end to the spiralling hyperinflation and a land reform (Wakabayashi 2016, 62), which we will return to below.

Together with Chiang Kai-Shek, around a million KMT loyalists, retainers and soldiers – the latter not always of their own volition – evacuated to Taiwan (Wakabayashi 2016, 65). The advance of the communist troops was halted, for a time, at the island of Kinmen. But then, what would likely have remained a temporary setback for the Communists turned into a permanent state with the outbreak of the Korean war in June 1950, which changed the strategic outlook of the USA: under the new Truman doctrine, Taiwan was to be part of a “defensive perimeter”, for the maintenance of which the US Navy dispatched a fleet to the Taiwan strait – and with that, made impossible any conquest of Taiwan for the foreseeable future (Wakabayashi 2016, 70 ff). With the external situation so stabilized – or at least put into permanent suspense –, the escaped elites of the Republic of China regrouped on Taiwan. American economic and military assistance started arriving, while at the same time, the US government made sure that Chiang would not launch a war on his own accord, in effect freezing the situation from his side, too³¹ (Wakabayashi 2016, 72).

4.1.4. Political Foundations of KMT Rule

The mixture of distancing and co-optation described by the “settler state” and “quasi-Leninism” frameworks sketched in section 2.1. has its foundations in this early period of the KMT on Taiwan. Internally, the reformed party, now under the direct control of the elder Chiang, took steps to prevent a fracturing into factions as had plagued the party on the mainland. The task of restructuring was taken over by a party reform commission, which managed to rebuild the party in such a way as to recast the party as a relatively homogenous block. Externally, however, the KMT was in an awkward position. Its legitimacy rested on the – increasingly obviously fanciful – claim of being the representatives of all of “free” China. At the same time, it was, after 228, faced with a population which was at best docile, and at worst actively hostile. This tension was negotiated through a mixture of despotic power – blunt force – and compromise. Already on the mainland, the National Assembly had passed, at the behest of Chiang Kai-Shek, the

³¹ Finally caving to the demands of the new reality, Chiang announced in 1958 that it was going to be Sun Yat-Sen’s “three ideas of the people”, not military action, that were, somehow, going to “unite China” – which in effect was an official renouncement of a military solution to the civil war (Wakabayashi 2016, 72).

“Temporary Provisions Effective During the Period of National Mobilization for Suppression of the Communist Rebellion”, which pronounced a state of emergency which in effect nullified the constitution and suspended basic political and civil liberties. Only slightly amended later on, they remained in force until 1991; citing them, elections for all national-level assemblies were suspended “until the recovery of the mainland” (Wakabayashi 2016, 83). This reduced membership in the National Assembly to a sinecure without any real legitimacy, leading to the sarcastic term “eternal National Assembly” for the institution, and the nickname “old thieves” for its delegates (ibid. 85). Meanwhile, martial law was implemented over Taiwan in 1949, and not lifted until 1987. It banned the formation of new political parties and allowed the state to tightly control press and media (Rigger 2002, 21). And finally, the white terror, enforced by the secret services, chief among them the Taiwan garrison command (*Taiwan Jinbei Silingbu*), ensured compliance with party directives (Schubert 1994, 33).

However, the Republic of China laid a claim to being “free China”, and some elections had to be held. On a local level, this could be done without too much risk: for the Taiwan provincial assembly, except for the president of the assembly, who was to be decided by the president, as well as for county and municipal assemblies and governments, again with the exception of centrally selected ones in Taipei and Kaohsiung (Gold 1986, 61),³² elections were held over the whole period of dictatorship. In large representative bodies, the KMT reserved seats for members of functional constituencies, which it could easily control. And to manage the elections that did take place, a set of measures was devised to control both process and impact; chief among them the introduction of a single non-transferable multi-member voting system, which, since the number of members elected from each district was set according to population, and the winners were those who received the largest number of votes, until all the district’s seats were filled, “enabled competition and broad participation in local elections under the ruling party banner”, making it much easier the KMT to dominate the electoral process (Rigger 2002, 21, 39ff)³³.

This still left the KMT with the problem that the domination of the political system was not by itself enough; people would have to actually be persuaded to participate. Here is the root of the extraordinary infrastructural power arrangements described by J.H. Wang (1996, 59). First, the

³² The posts were elected for a while, but then reverted to government appointment in 1967 and 1979, respectively, cf. Gold (1986, 91).

³³ This system was not actually invented by the KMT, but a holdover from the Japanese colonizers, who had in turn imported it from Japan. The tendency of this voting system to promote factionalism on a local level – because careful management of locally well-known and connected candidates is the winning strategy – was then already obvious and very much a feature, not a bug (see Rigger 2002, 36-9).

need for mobilization ended up creating a symbiotic effect with already existing powerful local clientelist networks³⁴ to create intricate webs of so-called “local factions” (*difang paixi*). These factions are hierarchically structured from lower to higher (Rigger 2002, 42), and function based on give-and-take exchanges of loyalty for favour. This resulted, at least on the local level, in a political culture in which “every state action, no matter how obligatory or automatic, is portrayed as a favour by an individual public official to some small group of citizens, and their gratitude is manifested as political support. This [...] clientele system is the essence of Taiwan’s electoral mobilization” (Rigger 2002, 42). In this system, factional leaders became something of a class of intermediaries, locally influential people who, in exchange for political patronage, would leverage personal and professional networks in support of the governing party, their chief function being the mobilization of voters. Over time, they developed into formidable political forces in their own right. The KMT would, for their loyalty, mainly exchange economic benefits, such as the ability to operate locally monopolistic companies – especially transit companies – or credit cooperatives, to make use of the credit department of farmer’s and fisher’s unions, and so on (J.H. Wang 1996, 60).

And second, farmer’s, fishers’, and irrigation associations, chambers of commerce, business unions and so on, were not self-organized groupings, but officially sponsored aspects of the corporatist state. While the former three provided resources, and at the same time enabled mobilization of voters (Rigger 2002, 75)³⁵, the latter two were the main road of interaction between state and business, and the official labour union the contact point to the workers. All of these groups were penetrated by party cells (*ibid.*, 60). On these cornerstones, the KMT erected a political system which ensured, with remarkable success, that the political system would be kept just alive enough to be able to engage and mobilize the electorate, but without having to relinquish actual power. This system operated relatively smoothly without major disturbances³⁶ well into the 1970s, when compounding crises caused it to begin to fracture.

³⁴ Much nuance on the local factions must be left aside for want of space. The actual origins of the local factions can be traced back to the Japanese colonial period. Beyond contesting local elections, they also vie for control of professional organizations, especially farmer’s and fisher’s organizations (Bosco 1992) and engage in all sorts of other more or less legal business. A locality would usually have two factions: this would enable the KMT to play both against one another (arguably even a defining feature, see M. Chen 1995, 13).

³⁵ Local factions rely on influential persons who can help mobilize voters, through whatever means, called *Zhuangjiao* in Mandarin or *thiāu-á-kha* in Taiwanese Hokkien. It is they who personally solicit votes, in exchange for distributing favours and hearing complaints (M. Chen 1995, 17; Rigger 2002, 88).

³⁶ Which is not to say that there was no contestation at all. The most notable case is that of the “Free China” group, liberally inclined mainland intellectuals who ran a biweekly magazine criticizing the government. Their standing, but also their aloofness made the KMT accept this for a while. When they finally decided to join forces with local political activists however, they were immediately shut down; the episode remained ultimately inconsequential (Tun-jen Cheng 1989, 479; Rigger 2002, 103).

4.1.5. Economic Foundations of KMT Rule

The reformation of the KMT on Taiwan also reshaped the party's relationship with business and recast its role in the economy. Due to the KMT's outsider status on Taiwan, and its uncontested monopoly of power, Chiang could institute his personal preferences with almost no restrictions, and the party had the leeway to keep a clear, hierarchical division between the state and private sectors. In the broader economy, a series of reforms stabilized the initially chaotic economic conditions. A major first step was a thoroughgoing land reform, which forced large landholders to sell excess land to the government, which passed it on to tenant farmers. The landlords in turn would be compensated in kind and with shares of government enterprises (Gold 1986, 66). While most sold their shares quickly, large landlords with an eye to the long game could reinvent themselves as capitalists in this fashion (Gold 1986, 71; Schubert 1994, 75). More importantly, this measure did much to relieve food shortages, and finally, by moving the smallholders into KMT-controlled farmer's unions, the measure secured the KMT a captive rural electorate for decades to come (Rigger 2002, 68), while a series of measures enabled the government to take up the agricultural surplus and use it for its own purposes (Tun-jen Cheng 2001, 26).

The dire economic situation was further attenuated by massive economic aid from the United States. The early economic policy of ROC government of Taiwan was, in reality, only partly determined by its own authorities, since economic aid came with rather strict controls on how it was to be used. The US Agency for International Development (AID) provided the much-needed assistance, and the Council on US Aid (CUSA) administered it (Gold 1986, 67–69). The Economic Stabilization Board (ESB) of the Executive Yuan set to plan the next steps, coming up with a series of four-year plans, while the task of setting tariffs ended up with the ministry of trade, and the management of the exchange rate with the central bank (Tun-jen Cheng, Haggard, and Kang 1998, 94). US support was also, however, often tied to the demand for private sector involvement, or even management, in key industries the KMT leadership around Chiang would have preferred to keep under state control. The role of state enterprise – regardless of how its importance for economic development should ultimately be judged – was dual. Not only did the setting up of key industries by the state enable development. Maintaining control of upstream, that is, primary goods manufacturing, enabled the KMT authorities to reach far into the private sector economy without needing to actually penetrate it politically (J.H. Wang 1996, 60).

The economy was shaped by the infrastructural power of the party. State institutions set up a variety of banks and industrial enterprises, while the ESB set out to foster a class of Taiwanese capitalists, who could lead industrial development in sectors it deemed ready. This started out with textiles, in which a privileged class of entrepreneurs was positioned to take over management of companies with exclusive resource provision by American aid agencies; further fostering dependence on the state (T.J. Cheng 2001, 26; Gold 1986, 73). The dominance of the state in the upstream industries did not really wane as some of them were later brought in to manage key industries because they were such a tightly selected group (J.-H. Wang 1996, 62). This ended up creating, in the long run, a tripartite structure in the economy. At the top, controlling primary resource import and production, were state enterprises. The layer below became occupied by a small group of favoured entrepreneurs, controlling large (but by international standards still modestly sized) conglomerates, which produced mid-stream goods, and supplied the domestic market. Closely monitored by the KMT, dependent, and yet kept at a distance, they were nevertheless closely linked to the party, and their influence increased over time (Y. Wu 2004; Beckershoff 2024, 60). At the very bottom of the value chain were small and medium enterprises, often doing contract manufacturing for foreign buyers, whose relationship to the state was rather distant (Hamilton 1999).

Party enterprise, meanwhile, had a rather marginal position in the early years. Chiang Kai-Shek, whose commitment to the stipulations of the constitution was decidedly unenthusiastic, made sure that party and state finance could converge, even as a legal separation would be maintained in theory. This reduced the financing needs of the party significantly; where the party took over state functions, as for example in its people's service centres (*minzhong fuwu zhan*), government would be made to pay for it. Only purely party affairs such as party congresses were paid from the budget of the party proper (Chiu 1997, 43 ff.). Especially in the early period, however, POEs provided a way for the KMT to respond to American pressure to privatize state companies, or to give certain industries to the private sector, while still retaining control by owning controlling shares in these enterprises (*ibid.*, 48). Import and export controls, extractions of special payments, and so on could similarly be exploited to the party's advantage (*ibid.*, 42).

A particularly obvious sign of the merging of party and state was the emergence of the informal rule that the chancellor of the central bank would be the chair of the party's central finance committee³⁷ (*Zhongyang caiweihui*, CFC) and the vice minister of finance its vice chair. The

³⁷ A rule that broadly held, with some overlap and some qualifications (see Chiu 1996, 42), from 1950 until Yu Kuo-Hwa was replaced by Chen Shih-Chung in 1984 (Liang and Tian 2000, 49).

CFC would, generally³⁸, be responsible for the party enterprises until 1993 (Chiu 1997, 31). This could ensure free flow of interest-free loans to party-assigned targets, not least among them party enterprises (ibid., 59).

1950-1952	Yu Hung-chun
1952-1969	Hsu Bo-yuan
1969-1984	Yu Kuo-Hwa
1984-1988	Chung Shih-Yi
1988-1993	Hsu Li-Teh
1993-2000	Lin Kai-Fan

Adapted from Liang and Tian (2000, 42).

As the KMT reorganized itself on Taiwan, group number 7 of the party’s central reform commission was concerned with the party enterprises. It came up with two documents to form the basis for the operation of party enterprise (in full in Chiu 1997 annex 3 & 4). To prevent factional or personal usurpation, chairmen or managing directors were to be approved by the party centre, with terms limited to one year. The same went for financial controlling and the people through whom the party would control these enterprises; ownership and operation were separated. Posts would be rotated, and mutual supervision instituted. In sum, these rules gave the party centre complete control over the enterprises, while assuring a certain standard of professionalism. (ibid., 38–39). At this stage, private entrepreneurs were largely kept out of party enterprise, and where they were involved, in cooperative ventures, the party would not accept a minority shareholding position (ibid., 49ff.).

The rules established by the aforementioned party reform commission laid the foundation for a steady but limited (re-)growth of party enterprise. The aforementioned, originally Shandong-based Chih-Lu company, which had had a Taiwan office from the beginning, transferred its operations to Taiwan, making it the only mainland party enterprise to make the jump successfully. It was officially registered there in 1951. Other companies were soon established, across all kinds of industry, with capital from real estate and state loans (see for a detailed overview Chiu 1997, 49–58). While the overall scale of these companies would remain limited,

³⁸ The party’s media businesses were repeatedly moved to another committee and then moved back into the purview of the finance committee. I skip over this here (for details, see Liang and Tian 2000, 40 ff.), since, crucially, they came under the command of the seven holding companies and ended up under the purview of the business management committee in 1993, along with all other enterprises.

their placement in industry was strategic. Oftentimes, party enterprises would provide important military goods, with the state as a captive customer. Chih-Lu, for instance, produced a sort of military grade fuse it had a monopoly over. Some others would also produce consumer goods, building materials, medical and other products (Liang and Tian 2000, 41). As Chiu notes, their character as effectively state-backed enterprises which operated as normal private enterprises gave them an advantage in principle. However, operating efficiency seems to have been underwhelming in those sectors where no effective monopoly could be secured and direct competition existed, as can be inferred from the sub-par performance of e.g. the party's early ventures into the electronics and construction businesses (Chiu 1997, 62).

4.2. Conditions of Democratization

The mental and physical health of the ageing Chiang Kai-Shek – born 1887 – became increasingly weak after a traffic accident in 1969. His son Chiang Ching-Kuo, who had served prominently in his administrations since the 1940s, now moved towards the centre of power. While he only formally acceded to the presidency in 1978, he had emerged as heir apparent already in the decade prior. The “Chiang Ching-Kuo period” of Taiwanese politics would last until his death in 1988 (Wakabayashi 2016, 121). This period was marked by an initially slow-moving, but accelerating and compounding set of trends which eroded the power foundations of the old system and provided the permissive conditions for change, namely a legitimacy crisis caused by a loss in foreign recognition and the ageing of the political class, a crisis of the tripartite distinction in the economy caused by increasingly capital-intensive production models and a blurring of state and private enterprise, and a political crisis caused by the failure to reign in local factions and suppress political opposition. While under Chiang Ching-Kuo, the regime responded with a variety of relatively small-scale adaptations at first, his death provided the final condition for more fundamental change, which came under his successor, Lee Teng-Hui.

4.2.1. New Challenges and Novel Approaches

A major hit to Chiang's new administration came early on with the thawing of US relations with the People's Republic of China (PRC). When the switch of recognition by the United States from the Republic of China to the People's Republic finally was carried through in 1979, American troops and personnel vacated Taiwan and left the ROC in a legitimacy crisis. This did not mean an imminent security threat, as the USA continued to give some security

guarantees through the Taiwan Relations Act, and the CCP under Deng Xiaoping adjusted its Taiwan policy towards seeking a political unification through non-military means (Wakabayashi 2016, 135 ff). But the ROC would need to adjust. Chiang Ching-Kuo opted to maintain an independent course through the adoption of the policy of the “three nos”: no compromise, no contact, no negotiations would take place with the mainland – on a formal level at least (Wakabayashi 2016, 139). Internally, the old ROC slowly became unsustainable. More and more of the leading politicians who had emigrated from the mainland were simply dying of old age. Here, Chiang responded pragmatically. A set of political reforms was set in motion, which amounted to a slow but steady localization of the previously firmly mainlander-controlled ROC government. This chiefly came by the way of increasing promotions of *benshengren* Taiwanese, a more permissive cultural policy, and make-up elections³⁹ in which the ageing representative bodies of the ROC could be restocked with younger people, even if that meant that only a small fraction of China’s nominal population could vote in what were supposed to be national elections (Wakabayashi 2016, 143).

Concurrently, the party leadership was faced with a slow but steady unravelling of the KMT’s unspoken bargain with the local factions. This bargain after all relied on mutual dependence of party and local factions, which had always given the factions a certain amount of leverage the centre had to be uncomfortable with. But with increasing wealth in society, provision of patronage became ever more costly. After his ascent to power, Chiang Ching-Kuo tried to get the problem under control. His strategy, usually called the “factional replacement policy” (or factional substitution policy, *paixi tidai zhengce*), consisted in nominating a spate of candidates without any factional background to stand in the 1972 elections for the provincial assembly. This test balloon for factional replacement was, overall, quite successful (Tan 2023, 111). But this led the KMT to double down on the strategy in 1977, which this time backfired. In the municipal elections of that year, of 20 candidates, 17 were nominated by the centre and only three had factional backing. This direct assault led the faction heads to band together, and to lend unprecedented support to independent candidates. The results were – by the standards of the day – a staggering defeat at the polls for the KMT: in four counties, independent candidates won positions as county chairmen. And in the concurrently held elections for the provincial assembly, the KMT lost 21 out of 77 seats. Even more dramatically, in Chung-Li in Taoyuan,

³⁹ The necessity of make-up elections had become clear in the 1960s already, as the mainlander legislators had started to die of old age in significant numbers. After other stop-gap solutions had been exhausted, the first one was held in 1969, and subsequent elections were held over the coming years. Effective control of these elections however ensured that all bodies so elected remained firmly in the hands of the KMT (Rigger 2002, 63).

an attempt by KMT authorities at rigging the election against independent candidate Hsu Hsin-Liang resulted in riots (Wakabayashi 2016, 155).⁴⁰

Factional replacement was subsequently abandoned. Its failure policy opened a Pandora's box. It demonstrated the ability of factions to mobilize and retain independence vis-à-vis the party centre. Buying them off or otherwise placating them became a key task for the KMT as the opposition strengthened and competition for votes became more fierce. The 1977 elections provided a crucial opening for an unprecedented number of non-KMT candidates and in the process, and accidentally significantly weakened the KMT (M. Chen 1995, 190); it never recovered the same seat share it had had before. And, of course, the Chung-Li incident became another central point of identification for the opposition movement (Rigger 2002, 116). The formerly marginal opposition movement picked up significant steam from the 1970s onwards. Chiang Ching-Kuo's softening attitude provided the space to air the grievances that had grown out of the ROC's contradictions. "Taiwan's opposition activists developed three forums for propagating their ideas: publications, demonstrations, and elections. The first two engaged the KMT regime in a cat-and-mouse game, in which the opposition tested the limits of the government's tolerance; [...] elections, in contrast, offered the opposition a chance to work within the system to publicize its reformist message and to begin to penetrate the organs of the state" (Rigger 2002, 113). This was the beginning of the so-called *Dangwai* movement (also romanized *Tangwai*, *outside of the party*), which eventually coalesced into the Democratic Progressive Party in 1986 (below).

When the government decided to cancel the supplementary elections of 1978 due to its recognition crisis, the *Dangwai* camp split in two over the question of how to deal with this. The more radical wing, under the banner of its magazine, *Formosa (Meilidao)*, advocated for a more aggressive course than had previously been employed. Their agitation culminated in a demonstration in Kaohsiung on the 10th of December – Human Rights Day – 1979, which descended into violence and chaos. The crackdown that followed swiftly was harsh (Rigger 2002, 117). It did not go smoothly, however, as the international, and especially the American, public took great interest in the goings on, and as the authorities wanted to show openness, the publicized trial by accident became an opportunity for the opposition movement to garner sympathy with a previously sceptical Taiwanese public (N.T. Wu 2020, chapter 11). This

⁴⁰ This emphasizing of the agency of local factions is certainly how Rigger (2002, 114) and M. Chen (1995, esp. 180 ff.), whom she cites extensively, tell the story; others disagree. Tan Ka-Tik, for example, attempts to show that the mobilization ability of the KMT remained very high. He explains the difference in vote share compared to 1972 with a strong showing of the formerly much more fragmented opposition movement (2023, 121).

mobilizing effect was only strengthened by the brutal murder of opposition politician and Formosa-linked defendant Lin Yi-hsiung's family. Embarrassing, too, was the death of visiting Taiwanese professor Chen Wen-Cheng, found dead on the grounds on National Taiwan University after being questioned on his political leanings for several hours (Gold 1986, 120). Of particular consequence, however, was the killing of dissident author Chiang Nan, author of an acerbic and rather saucy (Gold 1986, 120) biography of President Chiang, on US soil. This murder was naturally interpreted as a brutal revenge killing and led to a public outcry in the US, further straining the relationship with Taipei's most important partner (Rigger 2002, 124)⁴¹.

While overall, election results in the early 1980s remained relatively stable, as the KMT's superior organization allowed it to game the voting system to maintain its seat share, its total vote share, however, had begun to drop noticeably, and it was obvious that this would eventually have ramifications for the election results, too (Rigger 2002, 124). Chiang Ching-Kuo, who was by now suffering heavily from diabetes, recovering for a final time from a major bout of illness in 1985, decided to act. He opened the door for exchange with the opposition movement and indicated his willingness to bring martial law to an end. When the *Dangwai* opposition finally reformed into the Democratic Progressive Party (DPP) on September 28th, 1986, in violation on the ban on new parties, he let them be. Their newly found organizational structure helped the opposition immensely in navigating the more strategic aspects of the complex voting system, which now made elections much more competitive (Rigger 2002, 126). In the following year, finally, martial law was lifted (*ibid.*), although it must be noted that the national security law that replaced it was still exceptionally strict (Wakabayashi 2016, 196). Chiang may well have intended to fully democratize Taiwan eventually, as some (e.g. Taylor 2000) have argued, but the extent of the reforms enacted in his lifetime certainly lend credibility to the charge that the real aim of his reforms was to find a way to maintain the KMT's commanding position in both politics and economy under changed realities (e.g. J.-H. Wang 1996, 74).

4.2.2. *Reshaping the Growth Model*

The Chiang Ching-Kuo era was marked, economically, by the transition from low-end manufacturing to a higher-end, more capital-intensive mode of production. With rising

⁴¹ Beyond undermining the KMT's credibility, this murder arguably betrayed deeper rot inside of the apparatus. The murder had been an amateurish botch-job, executed by a Taiwanese mafia member, who somehow managed to record a tape incriminating not only himself but also the person inside the Taiwanese secret service apparatus who had employed him. In fact, it is highly doubtful that Chiang was even aware of the assassination plot. None of this boded well for the maintenance of the state's despotic power (Taylor 2000, 387 ff.).

competition from Southeast Asia, and especially the opening of China later on, relying on manufacturing low value-add industrial products for economic development became increasingly difficult, and the state pivoted towards promoting the manufacturing of more advanced products, which, however, also required a higher capital concentration. This strategy saw significant successes in fostering plastics production, and later on the high-tech industry. In the broader economy, however, the outlook became somewhat cloudy from the 1980s onwards. A persistent headache for Taiwan's economic planners were the continually high savings and low investment rates, a trend which continued throughout the 1980s until the lifting of martial law (J.H. Wang 1996, 70; c.f. Gold 1986, 100)⁴². At any rate, the development of the two key industries plastics and high tech, in the development of which both state and party enterprise played a key role, reshaped Taiwan for decades fundamentally. Especially the plastics industry is a key case study for scholars of the developmental state; this is the case because it stands paradigmatically for the linkages between state and private enterprise in Taiwan, because it is a supply chain which at the end was almost entirely integrated inside Taiwan, from oil cracking to final assembly of plastic products such as toys, and because it came to make up about a third of Taiwanese industrial production in the 1990s (J.-H. Wang 1996, 98).

Inside of what might be called the economic bureaucracy, one harbinger of the onset of the Chiang Ching-Kuo era was the beginning of the tenure of Yu Kuo-Hwa as governor of the central bank.⁴³ Yu was an old family acquaintance of the Chiangs, but also had extensive experience in finance, which led Chiang Ching-Kuo to delegate significant authority to him (Chiu 1997, 77). Yu became a key player in the younger Chiang's designs to reshape the Taiwanese economy. His rise was accompanied by a restructuring at the very top, with power over economic decisions moving to a five-man "Finance and Economic Small Group of the Executive Yuan", headed by Yu himself, reporting directly to Chiang Ching-Kuo (Gold 1986, 92).

It was also under Yu's reign that party enterprise underwent a phase of rapid opening towards state and private enterprise, and expansion in strategic economic sectors, chief among them

⁴² J.H. Wang suspects the cause in the political uncertainties that the system produced, namely the political repression after the Formosa incident, and the unsolved question of who would succeed Chiang Ching-Kuo. However, it should be noted that public investment, and investment by state enterprise, also fell during this period, as Wang himself notes (*ibid.*). This seems to the present author to undermine the plausibility of his argument somewhat.

⁴³ Next to local factions, there, of course, were factions inside of the Kuomintang elite, too. Kuo replaced Hsu Po-Yuan, who had stumbled over a scandal, and who was aligned with the faction of Soong Mei-Ling, Chiang Kai-Shek's wife; Soong Mei-Ling, in turn, was deeply involved with old moneyed interests from Shanghai, and with whom Chiang Ching-Kuo had frequently found himself at loggerheads (Chiu 1997, 72).

plastics and finance (Liang and Tian 2000, 43). Key tools for this were the Central Investment Corporation (CIC) and the Guanghai Investment Corporation (GIC), which would play central roles in the party's investments (T.C. Chang 2008, 107). Existing party enterprises would go down either of three roads: stay under the control of the CFC (such as Chih-Lu), enter into co-ownership with state or private investors, or close shop entirely. This was also the start for a new slew of party enterprises, which were to take up a key role in new strategic industries, meaning plastics in the 1970s, and electronics in the 1980s. Financing for these new ventures would typically be ultimately sourced at either the central bank or from American aid payments, and then routed through policy banks or the only in theory privately run China Development Corporation (CDC, *ibid.*).

This model was to become especially prevalent now that the growth strategy began to change. There had been early efforts to produce plastics products in Taiwan going back to the 1950s, but it was only from the late 1960s onwards that state-owned Chinese Petroleum Corporation (CPC) opened its own refineries. In December 1973, Chiang Ching-Kuo announced nine construction projects (with another one added later, leading to the famous ten) to spur on the next phase of Taiwanese economic development, and the building of a petrochemical industry was one important project. The announcement was followed up by a significant expansion of CPC facilities throughout the 1970s (Chiu 1997, 93). Eventually, this did indeed lead to an integrated supply chain, but the road was nowhere near as smooth as some developmental statist accounts (e.g. Wade 1990) might lead one to believe.

Due to the high overhead costs and relative inflexibility in production, long-term planning and coordination with downstream customers is crucial in the petrochemical industry. This coordination did not succeed in the case of all of CPC's projects, leading to some of them filling warehouses with products which could not be sold off. In other cases, mid- and downstream enterprises were unwilling to front the capital necessary to get a production stream going. Party enterprise provided a convenient solution to both impasses. Yu and other planners could use it in a tactical manner: POEs, after all operating in the economy as private enterprises, but directly beholden to the command of the authorities, could plug a gap between state plan and private enterprises. Where private entrepreneurs were unwilling to set up companies which could provide the customer base for the CPC's expanding range of products, the KMT stepped in, either through its newly formed CIC, or through the party-controlled CDC. Using them, it would find private entrepreneurs who would not otherwise be willing to make the necessary investments and then push ahead. This model, which in contrast to the earlier years relied on

close connections between party, state, and private enterprises, would set the tone for the 1980s (Chiu 1997, 97 ff.).

More profitable even than the ventures in the plastics industry – which overall did very well economically (as Chiu 1997, 102, points out; cf. Fields 2002) – were the party's investments in the high-tech sector. Their scale was much smaller, however, and the investments less strategic. Whereas the party really seems to have influenced decision making in the board of directors of the plastics companies it invested in, this was not the case in its investments in the high-tech sector. In comparison with the petrochemical industry, overall stakes were smaller, too: for example, by the mid-1980s, the KMT owned 10% of stocks in Fortune Information Systems and a 3.4% stake in Taiwan Semiconductor Manufacturing (TSMC), compared to a 24.9% stake in Oriental Union Chemical and a 30% percent stake in Taiwan Styrene Monomer (Chiu 1997, 99 & 108).

The reshaping of the growth model had begun to erode the tripartite distinction which embodied and underpinned the KMT's control of the economy (J.-H. Wang 1996, 96 ff.). Not only had mid-stream conglomerates much more than before started to enter into arrangements with the KMT, in which the KMT could now also be the junior partner. The formerly marginalized capitalists began to push into the state-controlled upstream, under the name of economic reform. As Chiang initiated a political softening in the mid-1980s, he also opened the door to fundamental economic reform, by instituting the Economic Reform Council (*Jingji gaige weiyuanhui*), which, although it was only consultative, arrived at the recommendation of “internationalization, liberalization, institutionalization”, that was to become the thrust of further reforms going forward. Notably, while private sector interest was present, attendees had to be well-connected, as attendance was on invitation only (J.H. Wang 1996, 72). This group was then followed up by 27 person strong Economic Innovation Council of the Executive Yuan, which included all the big names from Taiwan's established corporations, among them Koo Chen-Fu, Wang Yong-Ching (of Formosa Plastics) and many others (Chiu 1997, 127). But like with democratization, while Chiang Ching-Kuo is often credited with initiating reform, how deep and how far-reaching he intended it to go, is hard to assess, because he passed away before being able to implement it in any depth.

4.3. Party Enterprise and the Transition to Democracy

The developments of the 1980s, namely the entrenchment of local factions and growth of the opposition, the foreign legitimacy crisis, and the implications of the changing growth model, with its strengthening of capital, heralded the erosion of the foundations of the old ROC. While its despotic power waned in the face of softening policy and an increasingly undeterred opposition, the arrangements of infrastructural power which underpinned the KMT's control of electoral politics and the economy too became increasingly unsustainable. Something had to give, and the regime did move slightly. But it was the death of Chiang Ching-Kuo which opened the juncture in the process of which the KMT state would be completely transformed. In this final section of the analysis, after briefly sketching key events of the political transformation, the focus will be on the interplay of the productive conditions which shaped it.

As will become clear, every step of the fight for power was accompanied by political and economic liberalizations. This was no accident, but rather driven by the pressure of the large conglomerates, and the KMT's need to gain as much influence as it could over them by directing the process of liberalization. With its central role in this process, party enterprise had now arrived at the heart of Taiwanese politics. The party's business management board formed the centrepiece of the web of clientelism that underpinned the Lee administration. Money politics, far from being an unsavoury side effect of the Lee administration, became its central principle of operation. And when the Kuomintang eventually broke apart and lost the presidential office, it was this money politics that had caused it. When the party split, a second time, with the defection of James Soong, the split cannot be explained without reference to the Lee Teng-Hui system and the enterprises that had helped to sustain in the short term. In the medium term, party enterprise was thus the dynamite to the system it carried. The long-term effects would outlast the peak era of party enterprise, however, as will be outlined in the concluding section.

4.3.1. Fighting for Power: An Overview of the Reform Process

When he finally passed away on January 13th, 1988, Chiang Ching-Kuo's death left the KMT in an awkward situation: whatever new style of government he had had in mind had not yet been realized. The thrust of the reforms he had intended was not at all obvious, and the person who succeeded him, Vice President Lee Teng-Hui, did not have much standing in the party with the powerful mainlanders who controlled its key positions. Lee, as observers noted, entered the presidential palace "bare-handed"; that is to say, unprepared for the battles that lay ahead (Wakabayashi 2016, 196). Even if Chiang had intended him to take over, how much power he

should have, whether he should also be chairman of the KMT were all questions that remained open (Wakabayashi 2016, 185). Meanwhile, there was an obvious need for reform of the existing ROC institutions, and with the DPP now on the scene, an increasingly formidable opposition party to press for them. Over the following years, accompanied by ongoing protests and internal power struggles, the Republic of China democratized. A general timeline of reforms is given by Wakabayashi (2016, 17):

1. Freeing of speech and assembly enabled by the shelving of the long-held state of emergency and a number of further restrictions (1987 – 1990)
2. Normalization of the Legislative (with elections of the National Assembly in 1990 and the Legislative Yuan in 1992)
3. Improvement of the state of local elections (1994)
4. Establishment of a direct transfer of power from the people to the president, with the first free presidential election held in 1996.

We may add to this a fifth point, the election of Chen Shui-Bian in 2000, which marked the first-ever democratic transfer of power in Taiwan. And, following Jenn-Huan Wang, we can contextualize this with a periodization zooming in on the power struggle: a first period of infighting from 1988 to 1990, brought to a temporary settlement between 1990 and 1993, followed by a final consolidation of power by Lee Teng-Hui after 1993 (J.H. Wang 1996, 74–75). And again, we may add, with the election of Chen Shui-Bian in 2000 another phase, which reshaped the power structure outside, and also inside the KMT.

In the first power struggle period, Lee's major advantage was that the powerful mainlanders tended to obstruct one another, giving him a chance to outmanoeuvre them one by one. The most important potential rivals to Lee Teng-Hui were Yu Kuo-Hwa, who was by now the president of the Executive Yuan (the premier of the Republic of China), the Secretary-General of the KMT Lee Huan, and Chief of Staff of the armed forces Hau Pei-Tsun. These men mutually blockading one another, Lee Teng-Hui managed to ascend to the party chairmanship in July of 1988 (Wakabayashi 2016, 192). The next thing to do for Lee was to maintain his presidency. In February 1990, he did indeed get nominated (Wakabayashi 2016, 194). Hau Pei-Tsun and Lee Huan, fearful of being marginalized by Lee and concerned about his lukewarm commitment to the (ROC's) one China policy, sought to thwart his plans. They started to assemble a coalition of their own, seeking to undermine first Lee's running mate and then Lee himself. And while their attempt ultimately failed – as did another attempt by Lin Yang-Gang and Chiang Ching-Kuo's adoptive brother Chiang We-Kuo – this cemented the internal division

into the so-called “mainstream” and “non-mainstream” factions in the party; the former being Lee’s reform-minded associates, the latter a loose coalition of mostly mainlanders opposing his moves towards localisation (Wakabayashi 2016, 195). Lee then moved to make Hao Pei-Tsun the president of the executive yuan. This was meant to appease the non-mainstreamers. The temporary truce period between mainstreamers and non-mainstreamers would last until 1993 (Rigger 2002, 151). These three years were uneasy from the start, and the truce eventually unravelled over the direction reform was supposed to take.

The reform of the “eternal national assembly” was a particularly pressing issue, its shambolic state clear for everyone to see and a major cause for dissatisfaction (Wakabayashi 2016, 196). Voices calling for reform were coming from all over the political spectrum. Public pressure started to mount, with students protesting in front of the Chiang Kai-Shek memorial hall in Taipei being joined by the DPP and other forces, with numbers swelling up to 20,000, demanding the abolition of the remaining temporary provisions, the complete abolition of the National Assembly, and a forum to debate and promote reform, with some students entering into a hunger strike (Wakabayashi 2016, 196). On March 21st, after being elected (not in a popular vote) with an overwhelming majority as president, Lee Teng-Hui decided on a conciliatory approach. After meeting with student leaders, he called for a session in the KMT Central committee, which in turn resulted in the proposal for a National Affairs Conference (*Guoshihui*). He also reiterated his call for reform in his accession speech on the 20th of May. Largely satisfied, the students left the square peacefully. James Soong⁴⁴ (Soong Chu-Yu), then general secretary of the KMT, met with Huang Hsin-Chieh of the DPP, to broker its formation (Wakabayashi 2016, 196). Lee later met representatives of the DPP in person, and although participation in it remained controversial in the DPP, the leadership ultimately decided for participation (Rigger 2002, 152; Wakabayashi 2016, 197).

Even before the assembly could convene, the Council of Grand Justices dealt the death blow to the ten-thousand-year national assembly. Responding to a call by prominent opposition lawyer Chen Shui-Bian, constitutional interpretation no. 261 made it clear that the present state was unconstitutional, that the body could and would have to be re-elected, and its members supposed to step down before the end of 1991. The National Affairs Conference still managed to achieve consensus on a variety of issues, from re-election of the National Assembly and direct election of the president to a call for ending the remaining emergency laws; debates raged on however on how exactly these should be implemented (Wakabayashi 2016, 198–99). In May 1991, Lee

⁴⁴ No relation to Soong Mei-Ling.

Teng-Hui announced the end of the Period of Mobilization for the Suppression of Communist Rebellion, officially putting an end to the civil war and the dictatorship it justified (Rigger 2002, 154). This begged the question of what the future relationship to communist China should look like, given that full recognition was as of yet out of the question. This resulted in the creation of the mainland affairs council, and the decision to keep exchange to an unofficial level for the time being. The Straits Exchange Foundation, a semi-official body, was set up to manage this exchange, and in the presidential palace, a “committee on national unification” came up with a set of principles that would determine Taiwan's China policy for the years to come (Wakabayashi 2016, 201).

When the elections for the new National Assembly were finally held in 1991, the KMT, campaigning on a moderate stance and touting its success in the economic field and in managing the democratic transition prevailed against a more radically pro-independence DPP (Rigger 2002, 158). Meanwhile, the rift between Lee and Hau had only widened over questions of national identity, but also over methods and approaches. As a military man, a mainlander, and a proponent of Great China identity, Hau was exceedingly polarizing, quickly becoming the main target for the DPP's scorn. Internally, at the same time, he was uncomfortable with the faction-based mobilization strategy Lee relied on, and the closeness to private capital he sought (Hau is quoted to this effect in J.H. Wang 1996, 81).

As the KMT found it increasingly difficult to maintain a coherent party line, economically hard-pressed candidates more than ever turned to private business and local factions for economic support. Meanwhile, speculation had driven real estate prices up massively. In this context, finance minister Wang Chien-hsuan proposed a tax on excess profits. This move, in itself popular and rather reasonable, threatened the interest of the speculators and landholders, which a lot of local KMT politicians had now come to rely on. Wang's proposal was thus met with fierce opposition from inside the party. Wang found his proposal floundering (Rigger 2002, 163), and, by September 1992, was met with calls for resignation by the Taiwan provincial assembly, and the Taipei and Kaohsiung city councils (J.H. Wang 1996, 82). A similar fate befell the head of the popular Environmental Protection Agency head Jaw Shao-kong shortly after. Frustrated, they banded together to contest the legislative elections, setting up an organization which would later merge into the New Party (NP), a voice for disgruntled mainlanders (Wakabayashi 2016, 225). It also marked the point at which local factions decisively turned on the non-mainstreamers (J.H. Wang 1996, 82). The subsequent legislative yuan elections were a disappointment for the KMT. The shambolic picture the party presented, visibly rife with

factional infighting and unable to get money politics under control, hurt it severely, leaving it with 60% of the overall seats; a painful result when compared to earlier decades (Rigger 2002, 163). Where they contested elections, non-mainstreamer candidates won at much higher rates than those of the Lee-affiliated *Jisihui* (which Rigger 2002, 167 translates as “Wisdom Club”).

What could have been a setback provided Lee with an opportunity to finally rid himself of inner-party opposition. The truce was over. To rid himself of Hau, Lee made tactical use of DPP votes, replacing him with a loyalist of his, mainlander Lien Chan (Rigger 2002, 167). Hsu Shui-teh, formerly ambassador to Japan, was made party secretary, and James Soong moved on to become governor of Taiwan province (Wakabayashi 2016, 227). The defection of further KMT members to the newly founded New Party, while a hard blow to the party as a whole, only served to tighten Lee’s now consolidated grip on power in the KMT; Lee had, as Wakabayashi puts it, completed his transformation from “balancer” to “little strongman” (2016, 228). The face of the KMT was transformed. With mainstreamers (i.e. Taiwanese and aligned mainlanders) now controlling all important posts in the government, the localization and Taiwanization of the KMT (i.e., the end of the settler state) was completed (Wakabayashi 2016, 227; c.f. J.H. Wang 1996, 82).

Legislative elections in 1995 were difficult, but the KMT got away without too much damage, when considering the threat posed by the NP in its core constituencies (Rigger 2002, 172). The presidential election in 1996, in which Lin Yang-Gang and Hau Pei-Tsun teamed up for the New Party, and Peng Ming-min and Hsieh Chang-ting for the DPP, was again won soundly by the KMT’s Lee Teng Hui – Lien Chan ticket, with 54% of the vote. Mainland China had not hurt their chances with aggressive posturing (Rigger 2002, 176), and the national assembly elections held concurrently yielded over 50% of the votes for the KMT (*ibid.*, 177). Until 2000, the presidency was secured.

4.3.2. Liberalization, Hsu Li-Teh, and the Power Struggle

A central part of democratization was the lifting of laws and other arrangements which had undermined the separation of party and state dictated by the constitution. For the KMT, this process resulted in a situation similar to that of the 1940s, in that it would now, equipped only with the means of a parliamentary party, be forced to cover the expenses of a party built as a state party. This dismantling of the infrastructural power arrangements the KMT had come to rely on necessitated a far-reaching dismantling of the party infrastructure, a risky endeavour

with the potential to end the KMT itself, unless the status quo could be reinvented, finding a way of adapting to the formal demands of a liberal democracy, while, somehow, enabling the KMT to retain its internal logic. And as in the 1940s, the massive expansion of party enterprise was the means by which this was achieved. The pivotal importance of party enterprise to Taiwanese democratization lay in the effects which this had.

For all of the democratic reforms it had launched, then, the KMT remained the same that it once had been to a surprising extent. This goes for both the internal, and the external organization. Externally, this meant a continued, arguably even increasing, dependence on local factions for mobilization. Internally, as Fields noted as late as 2002, “the organization and staffing of the KMT still reflect [its] earlier missions and the party’s revolutionary legacy. The party retains a paid staff of some 4,000 party personnel and also funds the pensions of some 1,000 retired party cadres. These salaries, pensions and other benefits are estimated to cost the KMT some US\$200 million each year, 20 times the annual expenses of the British Conservative Party. The party spends an additional estimated US\$40 million in annual operating expenses and many times that amount annually funding election campaigns at the national, provincial, and local levels” (Fields 2002, 118). The comparison with the Conservative Party is particularly apt because it demonstrates what the KMT had not become – a parliamentary party. Under the old system, the government had directly paid for many party functions, but this came to a halt with the increasing separation of party and state. This meant that the party budget for operating expenses had to expand significantly just for maintaining an unchanged level of service provision. The enormous and quickly escalating campaign costs only added to this.

Democratic government meant that the need for funds for fighting, or rigging, elections exploded, creating an unprecedented need for financial resources. Taiwanese elections in the 1990s, even for relatively minor posts, were exceptionally costly. Political campaigns turned into battles of attrition. Chiu Li-Chen puts it bluntly: “since elections required a large amount of money for voter mobilization, there was less of a competition for votes, and more of a competition for money” (Chiu 1997, 128, translation mine); and in the internal power struggle, “we may perhaps go so far as to say that it was the most essential factor” (ibid., 145). The KMT needed to outspend the NP and the DPP at every turn. These two factors together provided the financial incentive for the massive expansion of KMT enterprise in the 1990s.

Economically, meanwhile, the powerful business elite had gained significantly in strength vis-à-vis the party elite with the death of Chiang Ching-Kuo, and the loss of coherence in the KMT. As the old tripartite division with upstream state enterprises, mid-stream co-opted local

conglomerates and POEs, and the downstream SMEs, became unsustainable, it is thus no accident that, as several observers note (such as Beckershoff 2024; T.C. Chang 2008; Chiu 1997 and others) that political reform came along with liberalization of the economy. Strategic control over the sale of state enterprises was the main way in which the party could retain influence over private enterprise. It could do so because it controlled the process of liberalization at every step. And, crucially, party enterprises could buy shares in privatized enterprises, and in that way ensure the KMT had a direct connection to the conglomerates.

As he resigned from his position at the head of the central bank in 1984 to move to the Executive Yuan, Yu Kuo-Hwa resigned his post as head of the CFC to military man Chen Shih-Chung, who after five – rather inconsequential (Liang and Tian 2000, 51) – years in turn handed it over in turn to Hsu Li-Teh. With the KMT engulfed in power struggles, this was the era of careful manoeuvring inside of the party. Hsu was associated with (the then interim party secretary) Lee Huan, and through him with the non-mainstreamers (Chiu 1997, 123). But he was also an acceptable choice to Lee Teng-Hui, and, due to earlier tribulations, had not recently held any government post, which made him inconspicuous (Liang and Tian 2000, 53), important now that the opposition was keen to criticize the KMT for its capture of the state. When he took over the chairmanship, Hsu was the first appointee to not at the same time occupy an important government post, such as central bank governor Yu Kuo-Hwa and the soldier Chen had done (Chiu 1997, 128). Hsu, who was convinced that the primary purpose of party enterprise was simply to ensure financial means (Chiu 1997, 129)⁴⁵, responded to the party's quickly increasing need for money by setting the course away from any developmentalist aims, and firmly on more speculative ventures in finance and construction, in the process transforming KMT party enterprise into something of a financial group. He had a good starting position: T.C. Chang estimates that KMT party enterprise made up 6.3% of Taiwan's GNP in the late 1980s (2008, 107).

While the ultimate control over party enterprise remained momentarily contested between different inner-party factions, the built-up pressure for liberalization began to break through. Liberalization mainly entailed the intertwined tasks of privatizing state enterprises, and dismantling of the legal and political arrangements which underpinned them. As Chang argues convincingly, these reforms were not neutral moves towards a generally freer market, but rather

⁴⁵ In Hsu's investment strategy, as Liang and Tian remark, one could "not make out move which invited admiration or was to the benefit of people and country; rather, it would seem, the acute pain induced by the KMT's lack of money made him swallow whatever potent remedies he could find" (2000, 54, translation mine).

a way for the government to reward key supporters and influential groups, which the Kuomintang was in a comfortable position to do (T.C. Chang 2008, 104). It started in earnest when Lee Huan became head of the executive yuan in 1989, with a first list of 19 state enterprise to be privatized being announced shortly after (*ibid.*, 113).

Three productive conditions now shaped party enterprise, and with it the KMT: need for intransparency to escape scrutiny, need for funding to maintain functioning, and need for co-optation to maintain electoral mobilization. The banking sector is a good example of this. Previously firmly under state control, banking was liberalized starting from late 1989. Large conglomerates (in this case Ruentex and Yoong Fong Yu) worked together with the KMT to front the capital necessary to set up Bank SinoPac, in which the KMT appointed both chairman and general manager (Chiu 1997, 135). This cooperation with the private sector was organizationally easier, made party capital less visible – important now that the opposition was strong enough to question its legitimacy – and enabled the KMT to benefit from private sector management expertise (Chiu 1997, 140). And of all of the 15 banks⁴⁶ which eventually gained government approval, including Bank SinoPac, twelve had the backing of major corporations, and the three that remained were backed by local factions (T.C. Chang 2008, 117).

The pace especially of privatizations picked up speed significantly after Lien Chan took over as president of the executive yuan from Lee Huan. Lien made new proposals for a revitalization of the economy, which emphasized privatization as a central pillar. Until 2000, many of the crown jewels of among state enterprises were privatized or liberalized, among them CPC, banks, the Yangming shipping company, and many more (T.C. Chang 2008, 113–16). Across the economy, the companies which benefitted most from liberalization were those which had already under dictatorship enjoyed the closest connections to the KMT government. Liberalization did not end this relationship, but rather reconfigure it. The party could control liberalizations and privatizations closely and pick winners (T.C. Chang 2008, 119). It could do so because it controlled all the steps in the process: from the government ministries to which the companies belonged, to the executive yuan through which the plans were drafted, down to the usual consulting firms in privatizations, the aforementioned China Development Corporation (CDC)⁴⁷, and, sometimes, Universal Consulting Group (*huanyu guwen*) (*ibid.*, 128, also fn. 24). In this way, the KMT could leverage what infrastructural power it had left to

⁴⁶ Why 15? Karl Fields recounts that “A former finance minister informed me that of the 19 applicant investor groups, the KMT’s proposal ranked 15th in terms of its fiduciary and operational soundness. Fifteen licenses were ultimately granted...” (Fields 2002, note 12).

⁴⁷ Restructured in 1998 into an industrial bank (T.C. Chang 2008, 130).

reconfigure its relation to the private sector: by establishing a direct economic link to large enterprises through strategic privatizations into shared enterprises, some of the former power of the state could be transferred directly to the party.

4.3.3. *Party Enterprise, Liu Tai-Ying, and his Inner Circle*

Party enterprise expanded under the control of Hsu Li-Teh, mainly in order to cover expenses, but the bulk of the expansion came after his tenure. Hsu was ultimately a man of the power compromise between mainstreamers and non-mainstreamers, and when the power of balance shifted, the personnel had to change, too. With Lien Chan taking over the premiership, Lee Teng-Hui was now completely in charge in both state and party. Control of party enterprise was a crucial part of his consolidation of power internally. Since the 1950s, it had been under the control of the finance committee of the party, where it was run by a subcommittee. But this finally changed when, in March 1993, following a proposal by Lee Teng-Hui, this subcommittee was moved up to the same position as other central-level committees of the party, organizationally separated from the finance committee, and put under direct supervision of the party chairman – himself. Members of this new body had no fixed terms, effectively serving at his pleasure. As head of this new “Party business management committee” (first called *dangying shiye guanlihui*, later *touzi shiye guanlihui* BMC), Lee nominated Liu Tai-Ying, who convened its first session in the same month (Chiu 1997, 141). Liu hails from Miaoli County and is, like Lee, Hakka, making him the first Taiwanese (i.e. *Benshengren*) to ascend to the leadership of a KMT finance institution. He had a close personal connection to Lee, as they had met at National Taiwan University, and at Cornell University during their time in the USA (Liang and Tian 2000, 56). Professionally, Liu had a built a reputation as an economist (ibid, 57).

By elevating party enterprises and putting them under control of a competent loyalist, Lee now directly controlled the financial nervous system of the party. The heyday of party enterprise came under the auspices of this “Lee-Liu System” (Matsumoto 2002, 365), and it would shape the remainder of Lee’s time in office. Non-mainstreamers struggled to find their feet, and while the opposition regularly criticized the KMT’s financial dealings, the threat they posed increased only slowly along with their seat shares in the representative institutions. The situation could become rather more dangerous, however, if it could link up with the successive waves of non-mainstreamers defecting from the KMT, who would usually cite the pervasive money politics as a key criticism of the party.

If the opposition wanted to act beyond just criticizing, its main problem was that it needed proof that the KMT was acting not just illegitimately, but illegally. This was then particularly hard to do, given the in many ways unclear legal situation as the country transitioned to democracy. Even the legal status of the KMT was unclear: even though in 1989, a law on political organizations was passed, which created a new legal basis for political parties (Wakabayashi 2016, 183), the Kuomintang was not even formally registered under the law until March 1994. The DPP could of course attempt to use this unclear situation to its advantage. One such attempt came in 1993, by the way of a concerted action of non-mainstreamers organized in the “New KMT Connection” (*Xin Guomindang Lianxian*) who linked up with the DPP opposition to sponsor a transparency law in the legislative yuan, which would have forced (KMT) office holders to report their income. This move particularly targeted the ownership structure of the party enterprises, which, the KMT not yet being a legally registered entity, as before relied on individuals who held the enterprises in its name (Chiu 1997, 142). With the party centre still struggling to impose itself, the passing of the law could not be prevented. In practice the transparency law turned out to be a dud, as enforcement proved nearly impossible. But this episode provided a major impetus for the KMT to formally register, and to change the ownership structure of its enterprises (ibid.). Already under Hsu, the KMT had started to move its enterprises into seven holding companies. These were the Central Investment and Kuang Hwa Investment Corporations established earlier, and five more newly founded ones⁴⁸. Liu Tai-Ying saw through the collection of the ownership rights to the different companies, not an easy task (Liu 2016). In 1994, the KMT finally registered its corporate holdings under its own name; for the first time, party enterprise was formally owned by a legal entity called Kuomintang under civil law⁴⁹ (T.C. Chang 2008, 128).

Ultimately, the New KMT Alliance left to set up the New Party on October 10th, 1993. However, temporarily dominant as the mainstreamers now were inside of the KMT, pockets of non-mainstreamers and people unsatisfied always remained in the party, and further splits and breaks occurred. When Hau Pei-Tsun, in his role as party vice chairman, called for more oversight in a central committee meeting in March 1995, he found himself ostracized. This provides context to his decision to run for vice president on an independent, NP-supported ticket with Lin Yang-

⁴⁸ Originally, these holding companies were distinguished by different areas of investment. Kuang Hua for example would focus on oil and gas, Chii Sheng on foreign investments, and so on. However this became blurred as time went on and holding companies began to invest in similar sectors (Liang and Tian 2000, 149).

⁴⁹ The registration listed a total of around 36 billion NTD in assets – however, this is only the party’s own valuation of the book value of its holding companies, i.e. was massively undercounted and did not include cash, real estate, and other holdings at all (Fields 2002, 123).

gang, and his – eventually unsuccessful – decision to nonetheless attempt to remain in the party (Chiu 1997, 143–45). Non-mainstreamers inside of the party kept a lower profile for a while, regrouping around organizations such the New *Tongmenghui*. But even as internal scrutiny was averted, it only shifted outwards. Continued press coverage and public scrutiny were a major headache for Liu and Lee and were a driving factor in the diversification of ownership – i.e., sales – of increasing portions of the KMT assets portfolio.

For mobilization of voters, the Kuomintang in the 1990s relied more than ever on local factions. The failure to root out factionalism in the 1980s now began to reshape the face of the party at the very centre. Nothing demonstrates this more clearly than the new nerve centre of the party – Liu Tai-Ying’s BMC. Now in charge of providing the resource the Kuomintang needed more than anything to maintain itself, money, the BMC became the party’s lifeline. And the productive conditions mentioned above – need for intransparency to escape scrutiny, need for funding to maintain functioning, and need for co-optation to maintain mobilization – are crystallized in the makeup and functioning of the BMC. As the below table shows, only half of its board members were actually managers of the holding companies the party had set up for its enterprises.

Figure 3: Members of the Business Management Committee

Position	Name	Background	Notes
Chairman	劉太英 Liu Tai-Ying	Chairman of the China Development Industrial Bank	
Vice Chairman	殷文俊 Yin Wen-Jiunn	Chairman of the Fuh Hwa Securities Finance Co.	
Member	謝振華 Hsieh Cheng-hua	Chairman of the Chii Sheng Industrial Co.	
"	張鍾漢 Chang Chung-pu	Chairman of the Kuang Hwa Investment Holding Co.	
"	周康美 Chou Kang-mei	Chairman of the Hua Hsia Investment Holding Co.	
"	簡松棋 Chien Song-chi	Chairman of the Central Investment Holding Co.	
"	陳鑫 Chen Hsin	Chairman of the Asia Pasific Holding Corp.	
Exec. Secretary	劉大貝 Darby Liu	Chairman of the Jen Hwa Investment Holding Co.	
Member	沈世雄 Shen Shih-hsiung	Chairman of the King Dom Investment Holding Co.	
"	張平沼 Chang Pen-tsoo	Chairman of the Taiwan International Securities Group	Joined in 1994, fmr. MLY
"	尹衍梁 Samuel Yin Yen-liang	Chairman of the Ruentex Group	
"	李成家 Li Cheng-chia	Chairman and president of the Maywufa Co.	
"	楊天生 Yang Tien-sheng	Chairman of the Ever Fortune Group	
"	何壽川 Ho So-chun	Chairman of the Yuen Foong Yu Group	
"	陳哲芳 Chen Zhe-fang	Chairman of the Nice Group	
"	沈慶京 Shen Ching-king	Chairman of the Core Pacific Group	joined 08/1993
"	林謝罕見 Lin Hsieh Han-chien	Chairman of the Hung Kuo Construction Co.	Joined 05/1996.
"	陳建平 Chen Chien-pyng	Vice President of the Ta Chong Bank	Joined 06/1996, fmr. MLY
"	郭金生 Kuo Jin-sheng	Honorary Chairman of the Kaohsiung Business Bank	Joined 08/1994, fmr. MLY
"	嚴凱泰 Yan K. T. Kenneth	Chief Executive Officer of the Yulon Group	Joined 1999
"	蘇伯顯 Su Pual-hsian	Professor at National Chengchi University	

Source: Adapted from Liang and Tian (2000, 108) and Matsumoto (2002, 370-71). In dark: managers of KMT holding firms. In bright: businesspeople. MLY: Member of the Legislative Yuan.

With the singular exception of the academic Su Pual-Hsian, all of the remaining ten people in this list are businessmen. But this description is incomplete without a closer look at what sorts of businesses they were associated with. Without going into exhaustive detail, one large part of

the people on the board had visible ties to local factions: Chen Chien-Pyng belonged to the Kaohsiung Chens, one of Taiwan's old great families whose origins trace back to the Qing period. His father, Chen Tian-Mao, then the family head, had a shared business with the KMT, Shin-Kao Gas; his younger brother, meanwhile, was involved in the construction of the Taipei Metro (Liang and Tian 2000, 110). Kuo Jin-Sheng, while nominally only honorary president, in fact seems to have been a lot more powerful inside of Kaohsiung business bank than his title would suggest (Liang and Tian 2000, 110); Matsumoto alleges a connection of his to a Chiayi local faction, with him having moved into Kaohsiung from the outside (Matsumoto 2002, 368). Matsumoto further claims that Chang Pen-tsoa had ties to the Taichung Chang faction, Chen Zhe-fang to the Chiayi Lins, and Lin Hsieh Han-chien to the Sanchung faction (or clique) from Taipei county (ibid., 368). Yang Tien-Sheng of the Ever Fortune Group was a politically influential power broker in Taichung County⁵⁰. Yang's son Yang Wen-Hsin ran for office, moving first into the provincial assembly, and to the Legislative Yuan, as did his son-in-law, Kuo Cheng-Chuan, representing Taichung. All three were close to the chairman of the provincial assembly James Soong (T.C. Chang 2008, 123), so when the Yang's business empire got into trouble in the Asian financial crisis and was bailed out by Chung-Hwa and Central Investment, this had significant political implications (Liang and Tian 2000, 109). We will return to this below.

The five remaining entrepreneurs without direct factional links ties, namely Li Cheng Chia, Ho So-Chun, Samel Yin Yen-Liang, Shen Ching-Jing and Kenneth K.T. Yan, had different ways of working closely with the KMT. Li Cheng Chia of Maywufa Co. was also the chairman of the union of small and medium enterprises. More importantly, he had close personal and family ties to Lee Teng-Hui. This tad bit of blunt cronyism was by this time not unusual. Fields calls the KMT's party enterprises "Taiwan's version of the Japanese *amakudari* (descent from bureaucratic heaven)" in that "almost all party-owned enterprise managers are former government officials or military officers who in their former posts were in a position to assist these firms in one way or another" (Fields 2002, 119). As we have seen above, historically, the KMT at least made some efforts to professionalize and prevent cronyism in the management of its enterprises. Over time, however, it is undeniable that family ties played an increasingly important role in distributing posts. Already in the 1980s, two of Chiang Ching-Kuo's sons, Chiang Hsiao-Wu (Alex Chiang) and Chiang Hsiao-Yong (Eddie Chiang) had been managers

⁵⁰ Taichung had for decades been under contestation between two factions, the black and red factions (*heipai* and *hongpai*). Yang seemed to navigate between the two, acting as a sort of power broker (T.C. Chang 2008, 123).

in party enterprises. And similarly, under Liu Tai-Ying, party enterprise came to be crisscrossed by family of his and others: among others, Lee's son-in-law, Liu's son-in-law and nephew, two of Hsu Li-Teh's sons, Chung Shih-Yi's son, and James Soong's brother in law all found gainful employment under the KMT (Liang and Tian 2000, 71ff, also 74).

No factional ties did not mean that an entrepreneur could not be useful to the KMT. Paper industry magnate Ho So-Chun held a large share of the party's Bank SinoPac and got involved with party broadcasting station CTV (*ibid.*, 109). Kenneth Yan and the Yulon Group worked together with the KMT in setting up Seda Semiconductor Manufacturing (bought up by TSMC in 2000), and finally, the two most financially important two entrepreneurs were Samel Yen-Liang Yin⁵¹ – whose PhD adviser Liu Tai-Ying had been (Liang and Tian 2000, 124) – who cooperated with Liu on a staggering number of projects, among them CPC and Bank SinoPac, and Shen Ching-Jing, whose core pacific group benefitted more than anyone else on the list⁵², maybe because his ties to the party were closer than those of anyone else, holding as he did a spot on the party's central committee, and helping the KMT in election campaigns by donating and personally campaigning among fellow entrepreneurs (T.C. Chang 2008, 124).

The operating logic of the BMC was that the party enterprises would get together with people on the committee (or aligned businesspeople outside) to set up a business in a recently deregulated sector or to purchase a newly privatized state enterprise. Due to public pressure, but also with mind to involving more corporations, the KMT would no longer operate new businesses alone. This could be just one business, as in the banking sector example seen above, but also many, as for example in securities trading, where the KMT ended up being involved in a whole seven ventures (T.C. Chang 2008, 128). Government contracts also went to party enterprises at suspicious rates: the neoliberal fashion for Public-Private-Partnerships (PPPs) afforded an opportunity for this. KMT-invested firms ended up with key roles in the construction of the Taipei Airport metro line – which is separated from the rest of the grid – and the construction of the Taipei World Financial Center (i.e. Taipei 101, *ibid.*)⁵³.

⁵¹ Yin would eventually be the richest of the list; he is at the time of writing still Taiwan's 13th richest person (Forbes.com 2024).

⁵² Shen not only scored good deals from privatization on for example China Petroleum, but was also saved from the brink of bankruptcy by capital injections from POEs such as CPC and CIC, after his decision to push ahead with the ill-fated megamall project "Core Pacific City" in downtown Taipei (Liang and Tian 2000, 129).

⁵³ But notably, party enterprises also made bids to construct the High-Speed rail (which is just a single line) but were ultimately unsuccessful. Chang, to whom it is all part of a big plan, is at pains to explain this (2008, fn. 28). We will return to this in the concluding section.

This assembly of factionally aligned and other business leaders developed an organizational logic all of its own. Under the impression of continuing public pressure to divest its assets, as well as a need for financing, Liu started to transfer stocks of KMT owned companies to the other members of the BMC. This would go in either one of two ways: either through notionally public sales, the outcome of which was decided before it ever happened, or through direct transfers (Liang and Tian 2000, 141). However, since the buyers of these stocks were almost inevitably members of the BMC, the ownership structure changed on paper only: as long as the BMC could be maintained, the personal relationships could keep it afloat (Matsumoto 2002, 371ff). This for example, is what happened to party-owned TV station CTV in 1999, but many other party companies had a similar fate (Liang and Tian 2000, 113).

Generating money was a central aim, but as is visible from the prevalence of notable factionally aligned entrepreneurs on the BMC – nowhere near the top of Taiwan’s conglomerates – co-optation and factional power balancing were at least as important. But the importance of party enterprise went beyond the BMC, too. On the most local level, party enterprise could not only be used to dole out comfortable jobs for loyal supporters as a form of patronage or to provide money. Through the Kuang Hua Investment Company, the KMT held significant shares of provincial propane gas companies, which, Taiwan being heavily dependent on gas for cooking, was a cash cow to be subcontracted out to local faction bigwigs (T.C. Chang 2008, 129; Fields 2002, 134).

And party enterprises yielded real power for the party even beyond local factions. Its uses were manifold. As Matsumoto points out, party enterprises could be counted on to prod both their employees and those of their direct business relationships in the direction of voting for the KMT (2002, 363). This, however, is not limited to just party enterprise. Corporations beyond the members of the BMC had a direct incentive to place themselves behind the KMT, not just for providing money or other support, which they often did by directly advising employees and the public at large to vote for the party (T.C. Chang 2008, 121). Finally, policy use of party enterprise had also not ended. For example, when Lee announced his “go south” initiative to encourage investments in Southeast Asia (and away from the Chinese mainland), it was party enterprises which were at the forefront of Taiwanese companies coming to e.g. Vietnam (Fields 2002, 129). Lobbying efforts in the context of Lee’s 1995 visit to the United States can also be

linked to party enterprise payments (Liang and Tian 2000, 64)⁵⁴. Towards the end of the 1990s, however, the policy use specifically for bailouts increased significantly, which incurred massive costs. Party enterprise would have been bound for crisis – even without the political upheaval that then sealed the deal.

4.3.4. *Party Enterprise in Crisis, James Soong, and the Transition*

At the end of the 1990s, Taiwan had been transformed. The melting away of the tripartite division, guided by a liberalization process biased towards the largest of the existing conglomerates, had set in motion a process of unprecedented consolidation in Taiwanese industry. By 1999, the Taiwanese Commonwealth Magazine estimated that the share of GNP of the 50 largest business groups had increased from 32% to 52%, and the share of the largest 10 from 18% to 25% (Shen 1999)⁵⁵.

The trend had gone in the opposite direction politically. Since the founding congress of the DPP in 1986, dozens of parties had registered with the authorities. Taiwanese democracy was consolidating. For the KMT, however, the 1990s ended in near catastrophe. The presidential nomination seemed poised to go to the immensely popular James Soong⁵⁶, governor of Taiwan province until this post was done away with. Lee, however, decided to give it to his vice president, Lien Chan, which caused Soong to run as an independent, splitting the KMT vote. Lee, who, in contrast to earlier KMT chairmen, had no way of punishing Soong, could not prevent this. Running on his man-of-the-people image, he ultimately tripped over a scandal, and Chen Shui-Bian of the DPP became president, ahead by only a few ten thousand votes. Nearly a century of KMT rule over the republic of China thus came to a rather unceremonious end.

The scandal that cost Soong the presidency made more bluntly obvious than it had ever been the importance of party enterprise to Taiwanese democracy. It consisted in the fact that, as a KMT legislator revealed in a 1999 press conference, in 1992, a sum of somewhat over 100

⁵⁴ This ironically mirrored earlier practices : already under Chiang Kai-Shek, party enterprise was used to wage “economic war on the [communist] bandits” (*duifei jingji zuozhan*), in which lobbying played an important part (Chiu 1997, 43–44).

⁵⁵ And, once set in motion, this process continued through the years to come (Beckershoff 2024, 63).

⁵⁶ Soong had used his years as governor of Taiwan province well, travelling up and down the country to talk to ordinary people, and of course particularly to faction leaders. Soong – a mainlander – had even made the effort to learn not just bits of Taiwanese, but of Hakka and some indigenous languages, a rare sign of respect for these at times overlooked groups, further solidifying his positive image. In early 1999, his lead tended to be 10 points over Chen Shui-Bian, and up to thirty over Lien Chan (Batto 2015).

million NTD had been placed in an account registered to Soong's son Soong Chen-yuan in party-owned Chung Hsing Bills Finance Company and, similarly, at the same institution, there existed an account for Soong's sister-in-law. His charge was that these were party funds, which Soong had illegitimately appropriated, and should now give back. Soong, at first evasive, then claimed that this money had in fact been given to him (via his relatives) intentionally by Lee Teng-Hui, to carry out a variety of political tasks for his administration. This was of course fiercely denied by Lee and the KMT. Ever more revelations and allegations made the rounds, showing that suspicious dealings of Soong's had continued well into his tenure as provincial governor. Soong ultimately returned millions of dollars to KMT accounts (Fields 2002, 135 ff.) As the government launched a criminal investigation for tax evasion – of which he would eventually be found guilty (R. Chang 2005) – the real damage was to the images of both James Soong and the KMT. Soong lost his image as a clean and honest reformer, was forced to watch his lead in the polls melt away, and ultimately had to concede the election to Chen Shui-Bian. For the KMT, the unprecedented intensity of scrutiny of its financial dealings led Lien Chan to try and position himself as a fighter against KMT corruption, promising to clean house by getting rid of the party companies and the persistent shady dealings (Fields 2002, 138).

At the same time, however, this did not stop the KMT from shelling out unprecedented amounts of money to Lien's campaign, drawn, of course, from party enterprise. A nuance to this is the fact that even as Lien was campaigning, Lee continued to serve as party chairman, and was thus in charge of party finances. If Liu Tai-Ying is to be believed, he, at Lee's behest, personally oversaw the mobilization of over 12 billion NTD to bring Lien back from the brink of electoral catastrophe. This entailed fire sales of prime stocks, as well as significant unsustainable borrowing by party enterprises (Liu 2016).⁵⁷ But even this massive spending was only the tip of the iceberg.

When the Asian financial crisis started to seriously impact Taiwan from 1998 onwards, party enterprise had, for a final time, been mobilized like the state enterprises of old to rescue the Taiwanese economy. Liu Tai-Ying is keen to take credit for having leveraged the party's funds in support of the economy of the country by bailing out important companies on the verge of bankruptcy, and credits this as having saddled his party enterprises with bad debt (Liu 2016). But this is only part of the truth. The companies which were saved were those with strong local

⁵⁷ There is a persistent conspiracy theory in KMT circles that Lee, politically rather close to Chen Shui-Bian, somehow set up Lien's failure intentionally. This seems to be one of many good indications to the contrary, although of course it would be interesting to know how much of the money Liu claims to have passed on was actually spent on the election.

factional and party ties, chief among them Yang Tien-Sheng's Ever Fortune Group, Shen's Core Pacific and other party-invested companies such as An Feng, Top Construction and others (Matsumoto 2002, 374). This put immense stress on the holding companies, whose job it was to come up with the necessary funds, or to handle the bailouts directly. The stocks they took on were risky enough to be dubbed "landmine" (*dilei*) stocks, as no one could be sure of the long-term financial validity of these companies; this deteriorated their financial quality significantly. Bank loans could still be had at preferential conditions from the major financial institutions, as long as the holding companies were directly affiliated with the ruling party (Matsumoto 2002, 375).

But, of course, with the loss of the 2000 election, and Lee being forced out of office as party chairman, the situation turned around completely. When Lien Chan ascended to the party chairmanship – after his failed election bid – Liu left the BMC. Lien was in an impossible situation. With the loss of the presidency, banks which were counting on political protection immediately adjusted their lending conditions to party enterprises, causing many of them to dip into the red (*ibid.*).

4.3.5. *Democratic Consolidation, the Kuomintang, and the End of Party Enterprise*

With the DPP having won the presidency, but not the legislative yuan, Taiwan entered into a period of painful and contested cohabitation, which would end up lasting for eight years. The newly elected president Chen Shui-Bian found himself a lame duck, constantly fighting for political survival. Meanwhile, Karl Fields' prediction that "one of the most challenging aspects of post-KMT Taiwan will be to sort out the entangling threads of state, party and even private interests that in the past were largely fused" proved to be prophetic. (2002, 115). What initiatives Chen could muster to investigate the KMT's assets quickly fizzled out, and so it was the party's own massive spending which most effectively reduced its wealth.

The opposition has long found it incredible that the KMT's figures (see figure 1) which imply a massive loss of wealth in the 2000s, could possibly be accurate. Doubt is certainly in order, as it is still rather unclear of where exactly the bulk of the party's holdings ended up. Foul play has also been suspected in the KMT camp: of course, Lee Teng-Hui has been accused of setting the party up for failure and Liu Tai-Ying has been blamed for being his handmaiden (Liu 2016), and others too, even Ma Ying-Jeou, have been accused of having embezzled the money (Chien and Chen 2015). However, considering the persistent need for financing and the now collapsed

ability to rely on the power of the state to back up its business dealings, I would argue that at least in its contours, the KMT narrative that it simply spent most of it is actually quite believable. The point to note is that the KMT was so rich that it could lose most of its wealth and still be by far the richest party in the world. And it kept losing wealth because it never truly managed to balance its books. When Ma Ying-Jeou ascended to the party chairmanship in 2005, he promised that assets would not be used in elections, but rather placed in a trust and sold off. This, of course, failed to happen; towards the end of his chairmanship, in 2013, the party still claimed to own NTD 26.5 billion in assets and NTD 981.52 million in earnings from these assets. But when tallying up total income and expenditure, it was left with a spending deficit, with expenditure of NTD 1.977 billion in 2013 against a revenue of NTD 1.549 billion, leaving it in the red by an astounding NTD 428 million NTD. The second largest party, the DPP, meanwhile, posted revenues of only NTD 440 million (L.-H. Chung and Pan 2014).

When CIPAS got to work, the situation had hardly changed. In an article in the inaugural issue of the *Journal for the Study of the Party Assets*, Kao et al note that the KMT in 2016 posted total revenues of 1.9 billion yuan, with the DPP having risen to 610 million. However, the expenses of the KMT in 2015 were 3.1 billion versus 590 million for the DPP (Kao, Chan, and Tu 2017, 71). How can these enormous expenses be explained? The authors point out that personnel expenses – including pensions – alone account for NTD 1.4 billion of the KMT's spending.⁵⁸

There are two ways of looking at this. On the one hand, this enormous asymmetry obviously has a skewing effect on Taiwanese elections, and Kao et al are quick to point this out. But then, on the other hand, it also shows how far the KMT had fallen from the peak of its power in the late 1990: the assets it now posted were about as much in total as the earnings of its party enterprises used to be, in a single year.

⁵⁸ As for the remainder of the spending, the KMT reports that 1.5 billion were spent on “administrative expenses” (*bangong feiyong*) (Kao, Chan, and Tu 2017, 71, fn. 18).

5. Conclusion

5.1. Summary and Analysis

In this concluding section, I want to first summarize the arguments put forth in this thesis, discuss the hypotheses put forth in section 2.3., and formulate an answer to the research question. The second section then discusses the limitations of the thesis, and their implications for the scope and validity of the argument. The chapter closes on an outlook.

This thesis set out to answer the question of what, if any, influence the KMT's party assets had on the Taiwanese transition to democracy. The analysis has consisted of two major sections: the first section looked at the role of party enterprises in sustaining the KMT regime until democratization, and the role it played in creating the conditions for it. Second was the role party assets, and especially enterprises, played in the transition to democracy, by shaping the transformation of the regime, from the death of the last dictator to the first transfer of power.

Party enterprise, as seen in section 4.1.1., emerged unplanned from the needs of a revolutionary party, and from then on accompanied the KMT. I have argued that the institutional forms of the ROC, which emerged before and after its escape to Taiwan, had given rise to a very specific power structure in society, predicated on the exercise of despotic power – state violence – and different forms of institutional power, namely a mobilization of society through collusion with local factions, and a steering of the economy through the institutions of the developmental state. Party enterprise here functioned mostly as a part of the latter. The crisis of the ROC system was brought about by the gradual erosion of these forms of power (H1), building a need for reform; beginning in full when the last permissive condition fell into place, with the death of strongman Chiang Ching-Kuo.

Under the condition of crisis, the relationship between state and society had to be reconfigured, and so did the foundations of the KMT-led system. Party enterprise emerged as a solution to the problem that now faced the KMT, namely, how to procure the necessary funds to maintain the party, how to maintain its mechanism of political mobilization, and influence over the economy (H2). The latter was achieved through a progressive restructuring of party enterprise, away from a relatively limited group of strategically placed firms into a series of investment holdings, an expansion crucially aided by the dismantling and selling off of the institutions of the ROC developmental state and a controlled process of liberalization to the benefit of the KMT and aligned entrepreneurs. Meanwhile, the mechanism of mobilization, the relationship to local factions, could be maintained by allowing them to share in the KMT's profits, either through direct involvement in the BMC, or through other means at more local level.

However, now lacking the ability to enforce its decisions through the despotic power the old regime had had, defections of those who found themselves cut from the rent stream could no longer be prevented (H3). This made a stabilization impossible, and ultimately opened the way for a victory of the opposition DPP in the 2000 presidential election.

In that way, the role of KMT party enterprise in the Taiwanese transition to democracy was threefold. First, it had a small, but important role in bringing about the starting conditions which enabled it, by stabilizing the KMT in the early phase, by supporting its developmentalist goals, but also by helping to strengthen the indigenous conglomerates. Second, as transition began, it provided the funds necessary to maintain the enormous party machinery at pre-transition levels, sparing it a painful reorganization which would have carried the risk of breakup. And third, it played an important role in balancing different local factions and interests, and enabled the KMT party centre to implement a range of policies that furthered its goals. And so, the highly questionable, if not, in retrospect, quite illegal money politics of the 1990s ensured the political survival of the KMT, and specifically the stability of Lee Teng-Hui's tenure in office, which would have been unthinkable without a means to support the party apparatus below him.

Matsumoto's conclusion that "the KMT made full use of the POEs to prevail in elections and maintain its hold on power which enabled it to take the lead in democratizing the political process in Taiwan" (Matsumoto 2002, 375) has the logic bizarrely backwards. The KMT did indeed stabilize because of its POEs, but the structure on which the new KMT came, for a while at least, to rest, was still built very much like that of the authoritarian era. It is true that the crucial reforms of the early 1990s were carried out under KMT auspices, but that does not mean this could not have been done had its position been weaker; and at the latest from 1994 onwards, the damage that party enterprises did by entrenching fundamentally unfair power structures to the party leadership's unilateral benefit seem very difficult to justify. The Lee Teng-Hui system rested on an authoritarian party in a democratized state. And, arguably, as evidenced by its bloated and unsustainable institutions, the KMT is carrying the baggage from these years until today.

5.2.Limitations and Discussion

As referred to in the introduction and in 3.4., the key limitation of this thesis is its near-complete reliance on secondary sources. This is because the primary sources which were available to the author at time of writing were insufficiently useful to contribute meaningfully to the argument,

and the sources which would have been more useful were not available. This limits the argument in an important way. The secondary literature is sufficient to prove that money politics was a central operative principle of the Lee Teng-Hui years, but the further going argument that the party completely depended on its party enterprises for survival can be plausibly alleged, but not definitely proven, unless more precise numbers from the KMT budgets from the era, or at least sufficient statements of persons involved are collected. Without either, a calculation of property values of enterprises and land holdings, including too the holdings of subordinate groups such as the women's and youth leagues might be a sufficient substitute. The compilation work of CIPAS and others means that the conditions for this are as good as never before, but such an undertaking is, of course, far beyond the scope of this thesis.

Without sufficient personal testimony, it is also not possible to reconstruct actor preferences in an in any way sufficient amount of detail. However, emphasizing structural conditions over actor preferences is also a choice on the part of the author, with direct consequences for the reading of events. This is so particularly because many accounts of the Taiwanese transition place much emphasis precisely on agency of individuals, especially Lee Teng-Hui. This is obvious in a no-holds-barred hagiography such as Kagan's (2007), but more nuanced accounts such as e.g. Jacobs' (2012) also place much emphasis on the idea that Lee personally really wanted democracy. De-emphasizing individual agency allows us to square the circle of allowing for Lee's passion for democratization to be genuine while still explaining why the party he commanded used its assets in such a deeply undemocratic fashion.

Similarly built into this approach is scepticism towards the idea that the process of liberalization, the prevalence of POEs, the establishment of the BMC, and the close collusion with favoured entrepreneurs really amounted to a "new alliance between politics and business" (*xin zhengshang lianmeng*), as T.C. Chang (2008, 136) claims. While the evidence shows that collusion between party and private enterprise happened, and we can trace with some certainty the dealings of the BMC, the evidence is insufficient to really support further reaching claims about a genuine intent to build something like a "new alliance" in the economy generally, in a way that is comparable to what came before. After all, not all privatized enterprises were taken up by party enterprise. The power of the KMT elite to actually influence what the private sector did was limited, as evidenced by the explosive growth in the mainland trade and investment, which Lee was sceptical of, and the lacklustre performance of the "Go South" campaign he promoted instead. Even party-aligned entrepreneurs, such as Formosa plastics' Wang Yong-Ching saw it fit to at one point invest in a plant in China and had to be prevented from doing so

at significant government expense (Beckershoff 2024, 67). And not all large building projects went to POEs, or KMT-aligned entrepreneurs, as the example of the High-Speed Rail shows.

Rather, the picture that emerges from a closer look at the actions of the KMT in the 1990s, and the makeup of the BMC, is that of a series of relationships being reshaped by decisions made in a moment of acute crisis, following not so much a major plan, but rather the demands of the moment. How else could the inclusion of such an eclectic cast of characters as factional politics centrepiece Kuo Jin-Sheng along with successful entrepreneur Samuel Yin be explained?

The second big limitation of this thesis is its focus on party enterprises over other parts of the party machinery of the KMT. As section 1.1. has hinted at, while party enterprise was the most dynamic and almost definitely the largest part of the KMT's party assets in the 1980s and 1990s, its broad large real estate holdings too provided it with a significant financial basis, which arguably has been more important than enterprises since the 2000s – as CIPAS' focus on real estate, evidenced by its database, shows. While this is an acceptable trade-off, I believe, for conciseness, it of course leaves the overall picture incomplete. And third and finally, the perspective in this thesis has been firmly on the KMT, elite and factional politics, and the top rungs of Taiwan's businesspeople, while the democratic movement figured relatively little in this account. This is, again to do with the research question, but a more complete account of the period would have to be written differently.

5.3. Outlook

If the new headquarters of the Kuomintang showed a party at the height of its power, its eventual fate, too, is telling. After the election defeat in 2000, the building looked increasingly embarrassing to a Kuomintang trying to come to its feet and to find a new identity for itself. Not only that: increasingly, doubts surfaced about whether the KMT had ever paid a fair price for the after all extremely central location. In 2005, new party chairman Ma Ying-Jeou decided it had to go, and sold it, at a price of NTD 2.3 billion. Ironically, it was Chang Jung-fa of the Evergreen Corporation, a vocal backer of the DPP, who purchased the building (Mo 2006).

Time will tell how much damage CIPAS and the divestment of the remainder of the KMT's assets will do to the party's electoral prospects. Money politics has not come to an end in Taiwan, but then of course it is always a presence in any democracy to some extent (Templeman 2020). Local factions have, compared to the 1990s, lost much of their former cohesion, and while they continue to transform, they remain crucial only in a handful of places (Y. Wang and Huang 2010).

Clientelism may remain as a feature of Taiwanese politics for the foreseeable future, but the DPP, too, has shown itself perfectly capable of pursuing clientelist policies, without relying on factions, but simply on public money (Y.-C. Cheng and Ting 2019). More troublingly for the KMT, its continuing budget deficits, in addition to the fact that CIPAS has now frozen a major income stream, have meant that the party has taken on massive and ever-increasing amounts of debt, and, again, time will have to tell how long its network of backers will be ready to keep funding a loss-making enterprise (Smith 2023). Its failure to overhaul its structure fundamentally and completely in the wake of the democratization of Taiwan may yet bring the party down for good.

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Tübingen, am 07.05.2024

Alexander Alban Reik