It is now apparent that democratic transition does not automatically bring about effective rule. In fact, many of the recently democratised nations have encountered problems of rule and governance. Among those problems, the impact of democratisation on the state bureaucracy, especially the continuity or rupture of government administration, has been a major concern. In many democratised countries, notably the former communist countries, lustration and organised purge of bureaucrats who had connection with the old regimes have raised serious questions about the declining state capacity for effective rule and economic management.

In Asia, some state bureaucracies have been known to have undertaken a developmental function. The exemplary cases are Taiwan and South Korea during the period of authoritarian rule. It has been argued that the state bureaucracy was the driving force behind the so-called economic miracle. The state bureaucracy promoted capital accumulation, prioritised strategic investments, nurtured market competitors, and shaped industrial restructuring. The capacity of the state bureaucracy to do so derives, according
to the developmental state literature, from such institutional qualities as meritocratic
tradition, political autonomy, technocratic insulation and social embeddedness (Woo-
Cumings 1999). It is argued that such institutional qualities enable the development-
oriented state bureaucracy to plan and coordinate economic activity, to intervene
selectively, to get not only its policies but also their timing and meshing right. These
institutional qualities are said in turn to have derived from the authoritarian nature of the
regime. While there is stylised romanticisation about the capacity and rationality of the
state in this body of literature (see Boyd and Ngo 2005 for a critique), the importance of
the state bureaucracy in the developmental process is undeniable. If this was the case, the
impact of democratisation on the developmental function and capacity of the state
bureaucracy deserves serious concern.

In Taiwan, the once development-oriented state bureaucracy has been under pressure to
reform during the transition from authoritarian rule. Reform of the state bureaucracy is
seen as constituting an important aspect of the democratisation process. The reform,
however, has been plagued with problems. The reform initiative centred around three
main areas: governmental reform, civil service reform, and privatisation of state
enterprises. Although there has no ostensible policy on lustration, the process did unveil
heightened political tension over the questions of political allegiance and the continuity
or discontinuity of the state bureaucracy. Specifically, democratisation in Taiwan not
only changed the nature of the regime and threatened the interests of the old elites, but at
the same time called into question the very status of the Taiwan state. As a result, reform
of the state bureaucracy hinged upon the highly sensitive issues of sovereignty,
territoriality, political allegiance, and ethnic identity. These are unsettling issues related
to the character of a nation-state. Because of that, the debate over transitional justice,
administrative efficiency or effective governance is overshadowed by the implications of
the public sector reform on the idea of a highly contested nation-state. In the same vein,
the concern over state capacity in effecting developmental policy has been carried away
by identity politics.

The Transition from Authoritarian Rule
A brief discussion of the process of democratic transition will enable us to see how the struggle over public sector reform is staged. The transition from authoritarian rule began in the 1980s after nearly 40 years of one-party hegemony. Taiwan underwent gradual democratisation since the lifting of the martial law in 1987. Compare with many other nations, democratisation was undertaken in a rather orderly fashion (albeit with fierce public debates, social mobilisation, and power struggle within the ruling party) rather than a sudden collapse of the old regime. There were few dramatic showdowns, no riot, no military crackdown, and even very few calls for transitional justice. When the electorate voted out the long-incumbent Kuomintang Party (KMT) during the 2000 presidential election and allowed the opposition Democratic Progressive Party (DPP) to take over ruling power peacefully, some observers have concluded that this was the last phase of democratisation in Taiwan. This conclusion, however, proves to be over optimistic. The seemingly smooth process actually masks a much more difficult issue. Under peculiar historical circumstances, democratisation unleashed a serious contention over the sovereign status of Taiwan. The sworn in office by a new president who is in favour of creating an independent Taiwan republic in fact signals the beginning of a more difficult phase in democratic transition rather than the concluding end of democratisation. Our discussion of the problems connected with the state bureaucratic reform in this paper will underline such a political controversy.

To understand the intricacy of the political contradiction, it is useful to review briefly the historical circumstances under which the authoritarian regime was instituted. The KMT regime retreated to Taiwan in 1949 after its defeat by the communists in mainland China. A state of national emergency and martial law was declared since China was considered to be under communist insurgency. The KMT did not recognise the People’s Republic of China established by the communists in 1949 and instead insisted that the Republic of China established after the 1911 Revolution was the only sovereign state of China. Taiwan became the temporary capital city of the Republic of China after the central government as well as the parliamentary bodies retreated to the island. The parliamentary bodies composed of delegates elected from all parts of China and were supposed to
represent the interests of the whole of China. But as long as the mainland was under communist control, general re-elections were not possible. The representative institutions therefore enjoyed an indefinite term, which lasted for over 40 years. The majority of the population in Taiwan (officially merely a province) was excluded from participating in state affairs which supposedly represented national rather than provincial interests. In other words, the legitimacy of the KMT regime was paradoxically based on its unrepresentativeness. As long as China was divided by civil war and the recovery of the mainland was a national goal, the regime enjoyed political seclusion from the local population. It justified its existence in terms of an imaginary community which the local community was only a marginal part. This claim became the stumbling-block in the future constitutional reform necessitated by democratisation which we will discuss shortly.

Political liberalisation began in the early 1980s when spontaneous mass movements launched by farmers, workers, students, aborigines, and urban residents spread over the island, demanding social reforms that redressed the issues of income redistribution, environmental degradation, labour relations, and urban-rural disparities. The wave of social movements eventually converged to become a political movement for constitutional reform, and succeeded in forcing the long ruling KMT regime to undertake further political liberalisation and democratisation (Ngo 1993). Eventually the martial law was lifted in 1987 and opposition parties were legalised. The opening up of the authoritarian system unravelled a process in which old and new interests sought ways of constituting or reconstituting themselves in the emerging system (Ngo 2006). In particular, this occurred at a time when strongman Chiang Ching-kuo died unexpectedly, leaving a power vacuum in the ruling KMT for bitter political struggle. In his attempt to consolidate power, Chiang’s successor Lee Teng-hui, an indigenous Taiwanese without strong political backing within the party, allied with Taiwanese business and local factions to combat his rivals in the KMT leadership. He spearheaded a drive to reform the elected legislature and to allow for directly elected presidency. In 1991 the original delegates of the legislature (who had been elected to represent the mainland constituencies before 1947) were forced to resign and new elections were held. Lee also
became the first elected president who ran under KMT candidacy and won 54 per cent of the popular vote in 1996. In the 2000 presidential election, the opposition DPP won the presidential election and earned the right to form the government. The legislature, however, is still under the control of the KMT and its allies.

The above-mentioned democratisation experience is characterised by a number of intricate processes and contradictions. First, similar to some former Eastern European nations, democratisation in Taiwan had to grapple with historical legacies originated before the Second World War. Taiwan is a province of China in the official constitutions of both Republics. The communist government in mainland China has repeatedly warned that a military takeover of the island will be unavoidable if Taiwan attempts to change its constitutional status. Although constitutional reform has been the central element of many nations during democratic transition, the issue touches a sensitive nerve in the case of Taiwan. Institutional reforms aiming at accommodating democratic practices but which necessitate a revision in the constitutional status of the island have been the focus of severe political contention. Reform of the state bureaucracy is one among such contentions.

Second, the democratisation process was not characterised by any radical political rupture. The constitution was amended seven times between 1991 and 2005, allowing for incremental changes based on a slow process of political compromise. There was a strong continuity of political elites. Many of these elites were former state bureaucrats. Over the years the KMT managed to secure the support of local power factions by exchanging spoils and privileges with votes. The KMT remained in power even after the parliamentary re-elections and the first presidential election. After it lost the presidency and the right to form the government in 2000, it remains the most powerful opposition party and still controls the majority in the legislature. Moreover, during the power handover, there has been a consensual commitment to bureaucratic continuity.

Some observers have suggested that elite continuity is conducive to the establishment and strengthening of democratic institutions (Higley et al. 2002). However, too much
continuity can be a problem as well, as the Taiwan case shows. The firm control of the KMT over the legislature and the strong support it gets from a substantial section of the population made any attempts to rectify the past legacies very difficult. Many institutional legacies and power networks have been carried forward. Patrimonial practices remained firmly in place, or have simply been coupled to electoral arrangements. There was thus no question of the possibility to outlaw the party, even with its past history of repression. Equally impossible was the attempt to restrict political participation of the party, seek punishment of individual KMT leaders for administering the white terror, or scrutinise long-serving government officials for partisan bias. This creates not only problems of transitional justice, but also doubts over the political allegiance of the civil service during regime change.

Third, democratisation in Taiwan has meshed intimately with the rise of identity politics. During the authoritarian rule, the KMT staffed the entire state machinery with its followers who retreated from mainland China. Subsequently, anti-authoritarian struggle was mobilised in terms of anti-ethnic domination. Democratisation was strategically equated to the majority rule by Taiwanese. More complicated still, since the KMT regime claimed its legitimacy upon its unrepresentativeness of the Taiwan populace and its goal of unifying the whole of China, anti-KMT rule became coupled with the Taiwan independence movement in order to undermine the KMT. The DPP has been a strong advocate of Taiwan independence. Its winning of presidential office in 2000 let open the pandora’s box about the sovereign status of Taiwan. Power contention between antagonistic supporters of the old and new regimes was taken up in the guise of the strife between Taiwan’s independence from China and its unification with China. Such strife again stumbled over the political impasse that tied democratic reform to sovereignty of the Taiwan state. And beneath the surface of sovereign contention and identity politics, political interests are at stake because the move towards denouncing the provincial status of Taiwan will threaten the survival of the old elite who present themselves as the guarding force of one-China. “Taiwanisation” on the other hand will benefit those who see themselves as representatives of the indigenous Taiwanese population. With endless
mobilisation from the two antagonistic camps for political support, the entire society is increasingly being polarised.

Fourth, although there exists a consensual understanding over the need to undertake administrative reform, there is no consensus over the destiny of such reform and its constitutional limit. While there is no dispute over the desirability of reform, the ultimate goal has been severely contended. On the one hand, the pro-independents wish that reform under democratisation will eventually lead to a new constitution which will re-define the sovereign status of Taiwan. They consider the existing constitution as a KMT legacy which originated in mainland China and was subsequently imposed on Taiwan. It is, in the eyes of radical pro-independents, the ultimate source of authoritarian hegemony. On the other hand, anti-independents see the existing constitution as the legitimate blueprint of the Republic. The goal of democratisation and reform is to bring in majority rule and representation and to strengthen administrative effectiveness, but without undermining the basic principles set out in the constitution.

It is with these peculiar characteristics of the democratic transition that the struggle over the reform of the state bureaucracy is staged.

**Governmental Reform**

The state bureaucracy inherited from the authoritarian era consisted of a machinery mingling together the KMT party, the government bureaucracy, and a large empire of state enterprises and public monopolies. Once being seen as an exemplar of the so-called developmental state which led Taiwan to its spectacular economic growth, the state machinery was at the same time an instrument of political repression, resource exaction, ethnic domination, partisan support, electoral machine, and economic control. Governmental reform began in the early 1990s. However, it was not until the change in administration in 2000 that some of the deep-seeded problems began to emerge.
Before the reform, the whole state bureaucracy was a mammoth organisation. There used to be eight constitutional bodies, including the Presidency, the National Assembly, the National Security Council, the Executive Chamber, the Legislative Chamber, the Judicial Chamber, the Supervisory Chamber, and the Examination Chamber. Under these there were 44 ministerial organisations. This was basically the setup of the Republican government during its rule over the 35 provinces in mainland China. The same setup was transplanted to Taiwan when the KMT government retreated. But this was not all of it yet. This was the state machinery at the “national level”. Another set of governmental institutions existed at the level of the Taiwan province. The provincial government had 23 offices, divisions, bureaus, and committees including major economic planning offices such as finance, construction, and agriculture. Altogether there were some 40 administrative heads in the provincial government cabinet. This “small cabinet” was comparable in size and function to the “big cabinet” of the national government. The two governments competed fiercely over jurisdiction and resources. This arose because the boundary between the national and the provincial levels was a political artifice. The state maintained a national government representing the whole of China and a provincial government responsible for the governance of the Taiwan province. But since the national government was in exile, the de facto territorial jurisdiction of the national government was the same as that of the provincial government, except over a few barely populated outer islands which did not belong to the Taiwan province. The clumsy overlapping organisational structure was maintained out of symbolic considerations. It was deliberately maintained in order to convey the message that the state in Taiwan should be treated seriously as the sovereign state of China (Chiang Kai-shek Archive). In practical terms, the huge size of the state sector also helped provide jobs for the KMT followers who retreated to Taiwan.

It is not difficult to image the extent of turf fighting within such clumsy hierarchies. Although the Taiwan state is often seen as characterised by political autonomy and centralisation, in reality it was fragmented by competing fiefdoms. These bureaucratic fiefdoms manipulated the organisational responsibilities of their offices and sabotaged one another to expand their own turf (Ngo 2005). It is a far cry to the idea of a
monotonous party-state authoritarian order exercising singular hegemony over society. It reminds us of bureaucracies in many developing nations which are dominated by numerous fragmented micro-hierarchies headed by rivalry personal leaders (Peterson 1977). Bureaucratic incumbents’ motives and orientations are rarely congruent with formal role expectation. Relationships are often recast in terms of power instead of authority. Office holders compete for positions of power and resources, seek protection from rival elements, and advance their personal careers and fortunes. The common form, as Riggs (1973:29) suggests, is one which intra-bureaucratic struggle for parochial power and advancement takes precedence over administrative duties and professional responsibilities.

In the wake of bureaucratic sectionalism, the KMT party was an unofficial but institutionalised arena of political co-ordination. Political cells of the party were established at every level of government. Government policy proposals were first discussed in these party cells. The same applied to elected bodies at all levels. All KMT members in these elected bodies were obliged to join party groups attached to them. Policies and legislative proposals were first discussed and decided within party groups. At each administrative level, the co-ordination of party office, government bureaux, and elected bodies was undertaken by a special political co-ordination group led by the KMT. Major personnel matters including the appointment and dismissal of department heads and office bearers of elected bodies had to be approved first by the political co-ordination group (1998:38-39). As such, it was difficult to differentiate the state from the party. In essence, public administration worked through a system not much different from the nomenklatura system of many communist regimes. Eventually, major decisions were made in the Standing Committee Meeting of the party’s Central Committee. It was a weekly meeting chaired by Chiang Kai-shek and later Chiang Ching-kuo. It was here where senior members of the parliamentary bodies and central and provincial heads of government bureaux met. For decades, the chairman of the KMT was at the same time the President of the state – the final arbiter of intra-bureaucratic conflicts. Even after the lifting of the martial law and the death of the strongman Chiang Ching-kuo, Lee Teng-hui,
in his capacity as the party chairman and president, still retained his final leverage over political and administrative decisions.

The clumsy bureaucratic setup has been the focal point of criticism for decades. Although reforming the state bureaucracy had been on the political agenda as early as 1958, it was not until 1996 that the first significant step eventually moved forward. The first popularly elected president Lee Teng-hui reached a consensus with the opposition DPP to “downsizing” the provincial government. Under this reform, future elections of the provincial governor and legislators would be suspended; the provincial government organisation would be significantly reduced in size and number. In essence, the reform put an end to the superfluous two-tier governments with overlapping jurisdiction. However, the initiative aroused great resistance within the KMT party. Not only was the reform seen as an attempt to alter the sovereign status of Taiwan, it was also seen by Lee Teng-hui’s political rivals as a conspiracy to undermine the political career of the provincial governor James Soong. Soong opposed fiercely to the reform, and eventually quit the KMT to form a new political party. But this was hardly the end of the squabble. The implementation of the provincial government reform was repeatedly upset by the legislature ( ).

Nonetheless, it was after the step down of the KMT as the ruling party in 2000 that the real problem of commanding the state bureaucracy became apparent. The KMT party cells stopped being the commanding posts of the government administration as the ruling DPP wasted no time in its attempt to separate the state from the KMT party. Without the KMT, the nomenklatura ceased to operate, leaving behind bureaucratic sectionalism in the absence of an integrating mechanism. The incoming DPP lacks similar organisational resources to rule over bureaucratic fiefdoms. Equally, the co-ordination between the presidency, the cabinet, the legislature, the bureaucracy, and the party became a daunting task. Worse still, the failure of the DPP to control the majority seats in the legislature exacerbates the problem. Conflicts between the bureaucracy and the ruling party often spill over to political bickering in the legislature and vice versa.
Under such circumstances, the DPP government sees the reform of the government bureaucracy as an essential task to consolidate its rule. A high-level Government Reform Committee headed by the president himself was established in 2001 to put forward plans for the reform. The reform proposal has been very comprehensive. It includes downsizing the state bureaucracy, decentralisation of regulatory power to executive agencies, devolution of government responsibilities to lower level authorities, contracting out governmental functions to public non-state organisations, outsourcing of auxiliary activities to the business sector, privatisation of state enterprises, reduction in elected membership of the legislature, abolishing the election of local mayors and county magistrates, and reorganisation of electoral constituencies (2002). The coverage of the proposal is more extensive and comprehensive than many public sector reforms carried out in other democratising countries, pertaining to a kind of public management reform as described by Bresser-Pereira (2004). In addition to the ostensible goals of overcoming patrimonial rule and turning public administration professional and rational-legal, the aim is to rectify the remnants of KMT control over the state and the partisan bias of the bureaucratic machinery.

If the issue of government reform originated from the problem over the control of the state bureaucracy, one central question stands out prominently: who should stand highest in the chain of formal authority? The attention of government reform is soon overshadowed by the controversy over who should be the commanding chief of the administration. There has been heated debate over whether the president, the premier, or the elected legislature should have the mandate and final authority over the government and policy decisions. The debate has further extended to the question of how and in what ways the constitution should be amended to accommodate appropriate reforms. Eventually this becomes a constitutional issue which generates endless controversies.

The problem has affected the capacity of the new administration to formulate and implement policies. The failure to devise a mechanism of bureaucratic co-ordination and to reach a consent over the division of labour among constitutional powers results in frequent intra-statal bickerings over policy decisions and their implementations. From
2000 to 2006 the premiership and the cabinet has changed five times. The outgoing premiers who headed the executive branch have become the scapegoats of ineffective rule and policy failure. At the same time, the ruling party blamed the KMT-controlled legislature for blocking government proposals and sabotaging the DPP administration. In the wake of policy ineffectiveness, the DPP turned increasingly to identity politics rather than policy appeals as the basis of electoral mobilisation. This creates further societal polarisation which in turn prevents the state bureaucracy from becoming a non-partisan institution.

In the mean time, the separation of the state bureaucracy from party interests also proves to be less straightforward. During the KMT era, government bureaux were often used as election machines to mobilise votes for KMT candidates. The DPP had been a vocal critic of such abuses. It vowed to re-define the political responsibility of the state bureaucracy to avoid its being used as an election machine. However, it soon becomes apparent that it is too attempting not to use the state bureaucracy for such purpose for the DPP itself. In doing so, the reform effort has been thwarted by the continuation of the old practices.

**Civil Service Reform**

The lack of effective command over the administrative machinery constitutes only part of the problem concerning the state bureaucracy during democratisation. An equally contentious issue is the control over the civil service. On the face of it this should not be a controversial question. There has been a broad consensus in Taiwan that the continuity of the civil service is a cornerstone of the democratic transition. News media, social activists, intellectuals, and political elites alike have agreed that the civil service system should remain unchanged in the wake of the change in administration. Many have emphasised the importance of ensuring administrative stability, political neutrality, job security, and professionalism of the civil service in future development.
Under such consensus, the idea of lustration carries a negative meaning. Bureaucratic purges have been seen as serving partisan interests and hence destructive to the stability and neutrality of the civil service system. The newly elected president Chen Shui-bian has made repeated appeals to the civil service about his determination to continue with the existing personnel and system. As a result, transitional justice has little role to play in the wake of such overwhelming social demand for stability and continuity.

However, it soon becomes clear that the idea of continuity is anything but straightforward. A number of problems surfaced. These include: the question of state allegiance versus partisan loyalty, the imbalance in ethnic composition, and the ability of the new administration to command civil servants. These problems again originated from KMT legacies.

During the half a century of KMT rule, the civil service had been staffed overwhelmingly with the so-called *waisheng* people (literally people from outside the province). Many of them came from mainland China together with the central government during the retreat. Among those recruited after 1949, a huge proportion came from *waisheng* families. The KMT government policy had a systemic bias in this regard, under the so-called regional quota selection system (*waisheng*). Although the recruitment of civil servants was supposedly based on open examination, candidates who passed the examination were selected in proportion to regional quotas. In essence, this means that although the majority of candidates were born in Taiwan, their chance of being selected depended not only on their examination results but also on the quota allocated to “provincial origins”. Candidates whose parents retreated from mainland China could make use of the quota allocated to their particular provinces where they had never lived before. This has resulted in the creation and continuation of a civil service overwhelmingly staffed by *waisheng* people. The system lasted until 1991.

The ethnic bias within the civil service is only one side of the coin. Equally problematic is the fact that before the change in government in 2000, the overwhelming majority of civil servants were KMT members. One study estimated that as many as 95 per cent of all
bureau heads were party members (2002). Even among low ranking section heads, as many as 70 per cent were KMT members. At the same time, during the five decades of KMT rule, civil servants (party and non-party members alike) were obliged to obey strict party discipline. Civil service examination included ideological test such as the Three People’s Principles. Government officials were subjected to loyalty assessment in order to get promotion. Special party offices were established in schools, government bureaux, state enterprises, and the army to monitor the behaviour of civil servants. Their reports had direct implication for job promotion and dismissal. In addition, promotion to high ranking positions usually required attendance in “revolutionary practice training”.

Furthermore, the KMT used to select capable technocratic civil servants for political appointments. Professional civil servants became the major source of politicians. The result was not only a mixing up of political and administrative appointments in the civil service, but more importantly the confusion between governmental accountability and party responsibility. In order to get promoted to political ranks, many government officials actively engaged in KMT election campaigns during elections, in contrary to the principle of political neutrality. It also accounts for the high proportion of KMT membership in the civil service. All these raise serious doubt about the neutrality of the civil service and its subject of allegiance.

The question of allegiance caught the attention of the DPP government shortly after the regime change. Conflicts between incoming DPP ministerial office bearers and incumbent executive heads soon came to the open (see, for example, the reports in 13 August 2000; 1 September 2000; 27 September 2000; 27 October 2000; 21 October 2000; 16 January 2001). Government ministers and elected legislators accused incumbent administrators for partisan bias and for bureaucratic red tape, resistance to policy change, and sabotaging the new government. The latter criticised the government for using the civil service as a scapegoat for its policy failure. The war of words was accompanied by resignation, removal, and dismissal.
In spite of the conflicts, strong public support for bureaucratic continuity makes any radical change to the civil service politically undesirable. In fact, the change in government after the 2000 election has already created much anxiety among civil servants (especially those who were party members of the KMT) about their job security. Their anxiety in turn aroused social concern about the continuity of the state bureaucracy (see for instance, 19 and 27 March 2000; 15 April 2000; 25 May 2000). This was fuelled by mutual accusations between supporters of the new and old administrations. Supporters of the new administration criticised the outgoing government for planting party members into various posts shortly before the handover. KMT followers in return attacked the new government for extensive reshuffle and removal of professional civil servants. They accused the new government for exercising political purge, and warned that the purge severely undermined the morale as well as the professional neutrality of civil servants.

In such circumstances, while vowing to uphold the existing civil service system, the DPP government has taken painstaking efforts to strengthen its control over the civil service. In the first year of its rule, some 600 high ranking positions changed heads. The DPP party has also been actively recruiting bureau heads and government officials as party members. This has raised public alarm about the intention of the DPP administration. Critics have accused the DPP government of replacing KMT-domination in the civil service with DPP domination. The DPP defended by arguing that personnel reshuffle is a normal exercise during change of government, and that civil servants should place their allegiance towards the state and above any partisan interests.

To further ensure the loyalty of the civil service, the DPP government amended the Appointment of Civil Servants Law ( ) to include a procedure to scrutinise the conduct and allegiance of civil servants ( ). The proposed procedure aroused strong public uproar about the possibility of abusing it as an instrument of selective purges. It stirred up the memory of the people about political purges during martial law, under the so-called white terror era. In response to the social pressure, the government modified the procedure and narrow the scope to include only
those civil servants who involved in national security and major public interests ( ). This change fails to silence oppositions because one of the criteria of political scrutiny is the place of birth and lineage of individual civil servants.

The question of allegiance again hinges upon the unsettling question about the status of Taiwan. When the DPP government accuses the old bureaucracy for failing to uphold their allegiance towards the state, critics have pointed out that the DPP government has appointed officials and public office bearers who do not recognise the sovereign status of the Republic of China or who attempt to change it ( , 2002). This leads immediately to endless debates over the criteria of allegiance. Those civil servants who are anti-independents or sympathisers of the KMT are most loyal to the Republic of China and to the existing constitution. But they are seen as loyal to the old regime by the pro-independent DPP government. Critics therefore ask the questions of allegiance to whom: Republic of China? Taiwan? Constitution? The president? Majority will? They ask who should be in charge of the scrutiny, how to ensure their impartiality, and how to prevent selective purges due to partisan interests ( 2002). Many have expressed worry that the emphasis on allegiance and governmental procedures to scrutinise civil service loyalty will further aggravate ethnic antagonism and fuel identity politics with social polarisation.

In brief, the newly elected government is faced with tough constraints in its attempt to reform and rejuvenate the civil service. Both the existing law and the strong social consensus work to protect incumbent civil servants in their offices. Attempts to rectify the ethnic balance and partisan bias of civil servants have been linked to the issue of sovereignty and identity politics and hence met with severe opposition. In such circumstances, the DPP resorts to individualistic rather than systemic changes. The new ruling party rekindles the old patrimonial practices which it once condemned, but merely replacing its own men with those of the KMT.

Privatisation of State Enterprises
Privatisation constitutes the third element in the public sector reform of Taiwan during democratisation. Rejuvenation of the huge public sector has become a common understanding in Taiwan in the wake of the deep-rooted problems in many state enterprises. Among the more obvious management problems are the lack of operational autonomy, conflicting goals, lack of incentive, soft-budget constraint, investment failures, unreasonable organisational and financial structures, and the lack of flexibility in personnel and purchasing practices. But there are also political issues concerning rent seeking, political contributions and government exaction. Many enterprises also involve local factions and illegal gangs who monopolise labour supply, purchases and supplies, and construction projects (Ngo 2004). Reform of state enterprises therefore not only affects the continuity and stability of the public sector, but also the nature of economic exchange as well as social and market order. Although the process does not arouse political contention over the issue of sovereignty, privatisation does involve ethnic politics and carry major implications for various political interests who manipulated the process to advance their own goals.

The problem originated again from KMT legacies. Earlier we discussed the problem of bureaucratic sectionalism under KMT rule. One of the most noticeable manifestations of bureaucratic empire building was the creation of state monopolies. Over the years various power clusters of the Kuomintang regime competed over revenue exaction via the monopolies they controlled. In addition to taxes and various sorts of levies, rents derived from monopolies became the major form of exaction. As a result, the number of state enterprises grew. Bureaucratic offices which had state enterprises directly under their control included the Ministries of Economic Affairs, Finance, Transportation, Veterans Commission, the provincial government, Taipei and Kaohsiung city governments, and country governments (1992). These enterprises essentially covered strategic industries and monopolies in sugar, salt, fertilizer, steel, shipbuilding, machinery, construction, petrochemical, electricity, banking, insurance, tobacco and liquor, telecommunication, shipping, mining, forestry, transportation, port facilities, and media.
In addition to the strategic industries directly controlled by the government, there was also a huge crew of enterprises falling under indirect state ownership. These included enterprises that were either controlled by government-funded legal entities, jointly owned by government-funded legal entities and private companies, subsidiaries of state enterprises, or controlled by subsidiaries of state enterprises (1991). The Ministry of Economic Affairs alone controlled more than two dozen legal entities. The latter in turn controlled many others. For instance, Taiwan Sugar was a state monopoly under the control of the Ministry of Economic Affairs. Over the years, Taiwan Sugar had diversified its business and invested in various sectors and joint ventures, including pig food and antibiotics, real estate construction, stock exchange, land development, petrochemical, and financial investment.

These troops of state monopolies and crony enterprises conferred stable income in terms of rents to individual bureaucratic offices. Not surprisingly, intrastate contention over monopolistic rents was intense. At the same time, with the exception of a handful of enterprises, many of these state-owned businesses were running at a loss. There has been no shortage of criticisms about these bureaucratic kingdoms. As a gesture to curb bureaucratic expansion and cronyism, the government had repeatedly emphasised its intention to privatise as many state enterprises as possible, with the exception of national public utilities and those strategic monopolies that directly affected defence and daily living. Under strong U.S. pressure, a privatisation law was enacted as early as 1953. The policy was a complete failure, since no state bureau was willing to privatise enterprises under its control (Li Kuo-ting Archive).

After 40 years of privatisation, the number of state enterprises not only did not decrease but actually grew substantially. By the early 1990s, the total number of enterprises directly and indirectly owned by the state was estimated to reach several hundreds. Some observers argue that these public enterprises were used as an instrument for a big push to create new industrial capacity when adequate entrepreneurs could not be found in the private sector (Wade 1990). In reality, the vast number of state enterprises and the extensive coverage of their businesses have gone far beyond the need for any such big
pushes. Far from performing any big push function, state monopolies—often controlling the up-stream industries—have hindered industrial upgrading by preventing the development of backward linkages, something which has been deeply resented by the business sector (Ngo 1995). Under such circumstances, privatising had been considered by oppositionists as a crucial step to end the exaction by the ruling KMT (1991).

Under strong pressure from the business sector and the political opposition, privatisation gained impetus when the government amended the privatisation law in 1989 and set up a special task force to speed up the process. A number of methods were adopted to achieve the goal. They included the issuing of shares and the listing of state enterprises in the stock market, and direct selling of state enterprises to private investors through tender or auction. For those enterprises which had been running at a loss and offered little attraction to investors, the policy was either to contract out the operational right to private investors, or to lift monopolistic control and bring in market competition. The idea was to improve the profit-making capacity of those enterprises before they could be sold in the market. Nineteen state enterprises (later extended to 22) were listed as top priority for privatisation, including such major enterprises as China Steel, China Construction, Yangming Shipping, and Bank of Communication. The progress, however, was still rather slow. Resistance came directly from governmental bureaux which controlled the enterprises, legislators who had vested interests in those enterprises, and state employees in the affected enterprises who feared that their job security would be damaged after privatisation. Many enterprises (such as Taiwan Machinery) which had been running at a loss for years also had difficulty in attracting investors either to acquire their shares or to take over their management. Others such as China Steel and Yangming Shipping were giant organisations which took a long time before the stock market could absorb its shares. China Steel had a paid-up capital of over NT$72 billion at that time. Its shares were released in six instalments over several years for fear of affecting the stock market price.

Even among the handful “privatised” enterprises, their relationship with the KMT and the state remained closely intertwined. Some of them were sold to business groups who were
close to the KMT. Others were still under the de facto control of government ministries who were directly in charge of their management. In these enterprises, although the state owned less than half of the total shares, the state was still the largest shareholder who controls the board of directors. In the more extreme case, state enterprises were sold to investment companies set up by the KMT itself. For instance, in the new setup of Yangming Shipping, the KMT and the Ministry of Transportation together remain the largest shareholders of the privatised company.

It was after 1996 that the pace of privatisation was eventually sped up. As part of a pact between the elected president Lee Teng-hui and the opposition DPP, the government decided to release shares of key state enterprises (such as China Petroleum, Taiwan electricity, Taiwan Sugar, etc.) to the public. Privatisation gained genuine impetus and more and more enterprises including banks have become public companies rather than exclusively state owned. However, it soon becomes clear that the process has been less straightforward. Critics have pointed out that many of the enterprises were sold to influential business groups at a favourable price in exchange for their political support (2001). In other words, privatisation becomes an instrument of rent creation and distribution. The economic rent is allocated to supporters in exchange of political resources. It is a familiar process in post-communist nations when either vested political interests, state-sanctioned oligopolies, or even organised criminal groups became the major beneficiaries of privatisation (Skapska 1994).

The special privilege and spoils clustering around privatisation have been more than obvious. For instance, when state enterprises were allowed to put forward their own privatisation schemes, many entrusted the KMT-owned China Development Corporation as their agent for the task. The Corporation itself invested extensively in companies who are the competitors of these state enterprises. It also controls stock brokers who are the dealers of those state enterprises shares in the stock market (1999). In other instances, dealers were given the permission to sell shares to private investors without going through the stock market. The ostensible goal was to speed up privatisation, but the profit derived from such privilege involved tens of billions (1999). There has not
been a shortage of scandals on under-table dealings, illegal practices, and corrupt exchanges.

After the DPP took over ruling power in 2000, privatisation becomes a handy instrument in view of its lack of control over the existing state bureaucracy and in dealing with the KMT-controlled legislature. In many privatised enterprises, the state retains its largest share-holding status and its power over the management of the enterprise. But since an enterprise is legally private when the government owns less than half of its total shares, the enterprise is removed from any public scrutiny in the elected legislature. The president and relevant ministers are also having a free hand in appointing personal allies, factional members, local constituents, and ethnic supporters in the management board of these enterprises. Privatisation thus becomes a way of escaping from the political pressure and the escalating demand for public accountability unleashed by democratisation.

Besides privatisation, the DPP government also expanded the possibility of outsourcing government services, contracting out specific administrative functions, and franchising public works. Under the ostensible goal of improving efficiency, the ruling DPP creates its own crony empires, exchanges contracts for spoils, and bypasses government bureaux and civil servants whom it sees as not obeying the DPP administration. The enormous privileges hidden in such outsourcing/contracting-out arrangements have soon been recognised by politicians and government bureaux at all levels. The result is a wave of new form of privatisation such as the privatisation of hospitals, water supply, welfare services, as well as the franchising of kiosks, school catering, garbage collection, government vehicle operation and maintenance, and even police service.

In sum, what originated as an initiative of public management reform has degenerated into a programme of spoils allocation. Instead of turning the once KMT-controlled monopolies into genuine national asset, or replacing once bureaucratically controlled oligopolies with entrepreneurial operation under market competition, privatisation has turned many enterprises into rent-generating factories for a privileged few who happen to
be politically well-connected. Apart from a few outstanding cases, studies have found the improvement over company efficiency and competitiveness after privatisation rather ambivalent (2001; 1998; 2002; 1998; 1997). Some of the privatised enterprises have been closed down by the new owners to vacate the highly profitable land for redevelopment purpose.

**Conclusion**

Democratisation in Taiwan unveils the problems of a state bureaucracy inherited from the authoritarian era. That bureaucracy, once applauded for its developmental capacity, was also an instrument of repression, ethnic domination, and economic exaction. Democratisation, however, has not provided an opportunity for rectification. The strong continuity of the political elites, stability of the political institutions, and the unsettling sovereign status of Taiwan have contributed to the inertia of the state bureaucracy. This apparently is the price to pay for an orderly, peaceful transition to democratic rule.

This does not mean the state bureaucracy has been preserved in its entirety during democratisation. Were this the case it would have been less problematic. Instead, the decision-making capacity has been undermined due to the change in the co-ordination function of the regime. In contrast, patrimonial relations, partisan bias and spoliatory practices have survived the regime change.

In retrospect, while political offices have been “electionalised”, power has yet to be institutionalised. Old forms of relation and control still inhabit the institutional edifice of the new regime. The problem of public sector regime merely reflects the tip of an iceberg associated with the working of the post-authoritarian regime.
References


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