

POLITICAL DEMOCRATIZATION AND KMT PARTY-OWNED ENTERPRISES IN TAIWAN

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This article will study how the existence of KMT party-owned enterprises (POEs) and their development are related to Taiwan's democratization. POEs are profit-making enterprises managed by the KMT, the former ruling party. All previous studies about the relationship between democratization and POEs only draw attention to the economic resource aspects of POEs. But the POEs were also KMT political resources in the form of enterprises and became policy tools to the ruling party. This study will argue that the existence of the POEs was a factor that maintained the KMT government and supported its stable management during the process of democratization. Moreover, POEs as political resources enabled Lee Teng-hui as KMT chairman to demonstrate strong leadership and push ahead with the completion of democratization. But Lee's political mobilization of POEs expanded money politics and perpetuated these enterprises as one of the "authoritarian legacies" in Taiwan's democratic politics.

I. INTRODUCTION

ONE may regard Taiwan's political democratization since the late 1980s as a part of the global current of democratization called "the Third Wave" (Huntington 1991). Compared with democratization in Latin America and Eastern Europe, Taiwan's has proceeded remarkably peacefully. After initiating the democratization process, the Kuomintang (Nationalist Party of China, KMT) was able to maintain its position as the ruling party until a smooth change of government was realized with the presidential election in 2000. However, various "authoritarian legacies" (Lin 1998) still linger in Taiwan's democratic politics, a major one being KMT party-owned enterprises (POEs), profit-making enterprises managed by the KMT.

Because the KMT was the sole ruling party until quite recently, POEs have tended to be confused with state-owned enterprises (SOEs), but legally they are private enterprises. POEs are not only large-scale profit-making enterprises managed by the ruling party, they are also unprecedented in the world (Chen and Chang 1991). Not even the Chinese Communist Party (CCP), regarded in Chinese history as the KMT's "twin party," set up such entities (Tajima 1996, p. 338). The POEs include the holding companies directly controlled by the KMT Business Management Com-

mittee (BMC) and the affiliated companies of these holding companies. According to the BMC, as of 1999 the total assets of the seven holding companies amounted to approximately NT\$170 billion, while their net assets (total assets minus total liabilities) were approximately NT\$68.2 billion (Tan 2000). However, by another estimation, the total assets of KMT-controlled companies, including the seven holding companies, were well over NT\$600 billion; even after deducting total liabilities, net assets were still approximately NT\$200 billion (Liang and Tien 2000). Such wealth shows that the POEs have been the main source of money for the KMT. Each year the BMC turns over funds from POE profits to the KMT Central Financial Committee (CFC), the organization controlling the party's finances. These funds provide the KMT with the biggest part of its income. The existence of the POEs is the reason why the KMT has been called "the world's richest political party" (*Far Eastern Economic Review*, August 11, 1994). This paper will examine how the existence of the POEs and their development is related to Taiwan's democratization.

II. PREVIOUS STUDIES VS. THE ANALYTICAL FOCUS OF THIS STUDY

Since the onset of democratization, POEs have been taken up in Taiwan as a new topic of discussion and academic study which until the late 1980s was regarded as nearly taboo.¹ There have been a number of studies about the relationship between democratization and POEs, but none have shown that the two can exert an influence on each other. Thus the existing studies fall into one of two groups: either they study how democratization has influenced POEs, or they analyze how POEs have affected democratization and democratic politics.

Examples in the first group are studies by Chiu (1997) and Hsu (1997). Chiu studied the developmental process of POEs, noting that democratization induced them to expand their joint ventures with business groups. Hsu used a concept of "party capital" to show that under democratization POEs changed their business from management-centered to investment-centered. In the second group of studies, Chen and Chang (1991) pointed out as a political evil the fact that the KMT has been able to maintain its cohesion because of its economic interests. They also pointed out that this was corrupting the party, and furthermore hindered democratization. Lin (1998) also said that the problem of the POEs was one of the legacies of the authoritarian period, and if this problem were not solved, democracy would not become firmly established in Taiwan.

The two groups compliment each other, but they suffer a common problem. All of the studies in both groups know that the POEs are the businesses of the ruling party, but they fail to see that the POEs are also political resources and policy tools

¹ Chen et al. (1991) is a pioneering work on POEs.

of the ruling party. For the most part, the studies analyzing the influence of POEs on democratization and democratic politics only draw attention to their aspects of economic resources and their function as the main source of money for the KMT. Only a study by Chu (1994) about government dealings with business mentioned the political effect of POE joint ventures with business groups. Chu pointed out how the KMT government used these joint ventures to selectively co-opt and win over influential capitalists.

The POEs are businesses of the ruling party which have been political resources for the KMT but which have been configured as private enterprises. It is likely that the KMT has used them as much as possible to maintain its power during the process of democratization. This seems to have some influence over the business operations of POEs, which had already been increasing efforts to rationalize their operations in order to fulfill their role as sources for party funds. The above-mentioned changes in the POEs must be having some impact on the character of Taiwan's democratization.

Taking as its premise the argument that democratization and POEs are influencing one another, this study will proceed to examine in Section III the development of POEs during the authoritarian period. Section IV will show how the environment surrounding POEs changed with democratization. Section V will look at how POEs as enterprises have coped with the change in their external environment. Section VI will describe how the KMT mobilized the POEs more actively in the democratization process; it will also examine the influence which such mobilization has had on POEs as enterprises. The final section will consider how the presence of the POEs has influenced the character of Taiwan's democratization.

III. POES DURING THE AUTHORITARIAN PERIOD

During the period of authoritarian KMT government, the CFC was in charge of the party's finances and managed the POEs.² Three of the four past chairmen of the CFC had also concurrently been the governor of the Central Bank of China.³ POEs basically operated in the private sector and developed in tandem with Taiwan's government-led economic development which encouraged the growth of private firms. During the 1950s and 1960s, POEs expanded their business into such sectors as rubber, foreign trade, textiles, electronics, cement, insurance, and chemicals. But the scale of their business was not so large; the POEs began to develop substantially from the 1970s.

² This section is based on Chapters 2, 3, and 4 of Matsumoto (2002).

³ The CFC has had four chairmen, Yui O. K. (Yui Hung-chun), Hsu Peh-yuan, Yu Kuo-hwa, and Chung Shih-yi. The first three were also concurrently the governor of the Central Bank of China. Chung Shih-yi was concurrently chairman of the Directorate-General of Budget, Accounting and Statistics during his time as CFC chairman.

Chiang Ching-kuo relied greatly on the third chairman of the CFC, Yu Kuo-hwa, who was also concurrently the governor of the Central Bank of China and the chairman of the Council for Economic Planning and Development. Therefore, Yu not only handled Taiwan's financial administration,⁴ he was also in a position to influence decisions on industrial policy (Yu 1999, pp. 318–20). That the chairman of the CFC concurrently held important administrative posts in the government exerted a great influence on the development of POEs. These were turned into policy tools of the government and were used to support financial and industrial policies. A good example of such usage was the concentrated entry of POEs into the petrochemical industry and the nonbank financial sector. The CFC could also make use of the state's financial resources and licensing authority when managing the POEs, even though there were institutional and political restrictions to such usage. For example, POEs could procure preferential interest-free loans from the Central Bank of China⁵ and could monopolize or oligopolize most of the sectors they entered.

At the end of the 1970s production by POEs accounted for almost 6.2 per cent of Taiwan's average yearly GNP (*Zhongyang ribao* 1993). It is difficult to determine the contribution of POEs to party finances because financial reports for the 1970s are not opened to the public. However, in 1973 the gross income of the POEs, including the companies directly controlled by the CFC and the affiliates of those companies, was approximately NT\$3.9 billion, while profits before taxes amounted to approximately NT\$540 million, which at the time (1973) was the highest ever for POEs since they had been established (Liu 1997, p. 431). POE income grew twenty-five times while Chung Shih-yi was head of the CFC in the 1980s (KBMC 1994, p. 16). Judging from the above, it seems that from the 1970s the POEs were able to secure a high and stable income and greatly expand the amount of money they delivered to the KMT Central Committee. But the greater part of KMT funds were derived from national revenues, and the POEs only needed to supply funds for the remainder of party finances. Also the need for electoral funds was not so heavy during the authoritarian period as competition during electoral campaigns was not so intense. The legislators elected to represent the mainland China retained their seats in the Legislative Yuan after their move to Taiwan. At the end of the 1960s, an election was carried out in order to fill a vacancy and increase seats in proportion to the population. However, few new legislators were elected, and they made up only a small portion of the total number of members in the national assembly. There was also a ban on organizing new political party. For these reasons, the KMT Central Committee did not press the POEs to provide operating funds for the party.

⁴ Until November 1979 the Central Bank of China was under the control of the Executive Office of the Presidential and was independent of the Executive Yuan. After the bank reopened in July 1961, it became the only institution controlling both monetary and financial policy (Tiao 1993, p. 136).

⁵ From July 1961 to March 1970, the CFC received interest-free loans from the Central Bank of China amounting to NT\$182 million. Of that amount, NT\$81.45 million went to POEs for operating funds and purchasing equipment (KCFC n.d.).

There was no major concern with the ruling party running its own businesses. A few of the political elite criticized the POEs, but their criticism was not directed against the existence of the POEs, but against their privileged nature (“Shelun” 1958, p. 4). KMT financial affairs were not even open to party members let alone the public. Neither had any way of knowing about the actual financial conditions of the party, therefore there was no need for the KMT to justify the POEs during the period of the authoritarian regime.

IV. DEMOCRATIZATION AND THE CHANGE OF ENVIRONMENT SURROUNDING THE POEs

Democratization brought about great changes in the environment surrounding the POEs. One was the marked increase in the importance of elections. Each electoral campaign was fought more intensely than the previous one, which greatly increased the KMT’s demand for money. Campaign spending increased so remarkably that spending for the presidential election in 1996 was reported to have been over NT\$1 billion (Tseng Chien-hua 1996), and NT\$6 billion was spent for the triple elections of the Taipei Mayor, Kaohsiung Mayor, and the Legislative Yuan at the end of 1998 (Ting 1998). For the KMT to carry on organizational campaigns to mobilize its members for the elections, it was difficult to cut operating expenses such as personnel expenses and welfare expenditures because the KMT needs to maintain the organizational strength of the party. For personnel expenses alone, it was reported that the party spent NT\$3.9 billion in fiscal year 1995 (Huang 1996), and NT\$4.5 billion in fiscal year 1998 (Hsieh, Chou, and Chou 1998). The KMT’s growing need for funds meant that it pressed the POEs more intensely to supply money. Consequently these enterprises needed to make ever higher profits.

Another change was the greater necessity for the KMT to mobilize the POEs politically. The POEs as a whole formed a huge vote-gathering machine. These votes included not only the POE workers and their families, but also the votes of POE clients (Cheng 1993). In urban areas, especially where closely contested elections took place, the KMT was compelled to strengthen the power base of pro-KMT local factions, so it had to rely on the POEs to provide these factions with economic resources.

The separation of the KMT from the state, which was one of the great tasks of Taiwan’s democratization (Chu 1992, pp. 20–23), also affected the POEs. It made it difficult for POEs to continue obtaining needed resources from the state because the chairman of the CFC could no longer concurrently hold an administrative position in the government. This measure was taken to end criticism of the “fusion of the party and the state.” The separation upset the flow of state funds to the KMT. The party turned to the POEs for more money which forced the POEs to produce greater profits.

But the democratization of Taiwan's political system brought the issue of the POEs and their justification under increasing public scrutiny. Criticism of their existence, the state of their management, and the way their profits were used poured out from the political opposition, from intellectuals and the mass media.⁶ With the rise of competition between political parties, party image became all the more important, and the KMT realized it had to come up with measures to justify the existence of businesses belonging to the ruling party.

Therefore, as democratization progressed, the POEs had to deal concurrently with three tasks: they had to increase the efficiency of their businesses, become politically mobilized as demanded by the KMT, and justify their existence. They were compelled to take multifaceted measures to cope with these three tasks, and these measures were adopted under a new management system which was built in response to the impact of democratization.

V. MEASURES ADOPTED BY THE POES AS ENTERPRISES

A. *A New Management System*

As democratization progressed, improvements came about in the POE management system as part of changes in the power structure within the KMT and in response to changes in the external environment. The improvements included the establishment of a holding company system at the company level and the establishment of a Business Management Committee (BMC) at the management level.

The CFC promoted the establishment of a holding company system to improve the efficiency of investment by centralizing control over the use of funds and adopting a new polity aimed at seeking to improve the management efficiency of POEs. All of the KMT's businesses were integrated and reorganized into seven holding companies established in September 1992 (Kung 1993, p. 147). The seven holding companies were the Central Investment Holding Co. (finance, petrochemicals, and general business), the Kuang Hwa Investment Holding Co. (gas and technology business), the Chii Sheng Industrial Co. (construction and real estate development), the Jen Hwa Investment Holding Co. (special projects), the King Dom Investment Holding Co. (life insurance), the Asia Pacific Holding Corp. (foreign direct investment), and the Hua Hsia Investment Holding Co. (mass media). Along with this reorganization, a division of labor between the companies was implemented.

Lee Teng-hui, who took over leadership of the party, set up the BMC in June 1993 as the exclusive authority in charge of the POEs. The establishment of the BMC was very important for the POEs politically and economically. Liu Tai-ying, the Taiwanese economist, was the BMC's first chairman. His appointment not only meant that a person of highly specialized talent assumed the post, but also a Tai-

⁶ About the criticism expressed by various groups, see Huang, Chang, and Huang (2000).

wanese for the first time became the top manager of the POEs. It is also important that Liu was KMT chairman Lee's top choice for the post. Initially Lee did not have a sufficient power base and personal connections to appoint his confidant, and had to hand over management of the POEs to Hsu Li-teh, a mainlander. Lee then had to put all his energy into his struggle for power in the KMT. However, after Liu took control of the POEs, it became easier for Lee to get his intentions reflected in POE business affairs, while Liu, his confidant, had in charge of the daily management of the POEs. Hereafter this will be called the "Lee Teng-hui-Liu Tai-ying system" ("Lee-Liu system").

With the establishment of the BMC, the management of the POEs was separated from CFC management of KMT finances. That meant that the BMC, as the authority exclusively in charge of the POEs, was under the direct control of the KMT party chairman, and that the POEs were isolated from the party management. The Lee-Liu system became the institutional basis that enabled the political use of the POEs, and this had the same importance as the appointment of Liu.

The BMC invited many private capitalists to be members, and the relationship between the KMT and these people was institutionalized under the pretext of "specialization" which sought to gather people with special talent and skill (Kung 1993, pp. 147–48). As will be mentioned later, they were mainly people closely connected to local factions or the leaders of newly emerging business groups called "*caituan*," who were able to mobilize political support for the KMT.

This new management system had been built in response to the impact of democratization. Under the system, the POEs were compelled to cope with the three tasks of increasing efficiency, becoming politically mobilized, and justifying their existence.

B. *Justifying of the POEs*

The KMT was under pressure to justify the POEs, because as Hsu Shui-teh, a former secretary-general of the KMT, stated that "the KMT cannot be without the POEs" (Tsai 1995). At the same time, however, the party needed to keep its image clean. Therefore, CFC Chairman Hsu Li-teh declared to the news media that the POEs were no different from private enterprises in general and had no privileges at all (Zhuoyue Zazhi Bianjibu 1992, pp. 218–22). And after the establishment of the BMC, the committee began opening the POE financial reports to the public in line with a policy of "disclosing the finances of the POEs" (KBMC 1994, pp. 112–27). The KMT registered itself as a corporation in February 1994 under the name of "KMT Aggregate Corporation." The party was then approved as an aggregate corporation with ownership over KMT assets including POEs.

But such measures to justify the POEs were largely defensive because the KMT insisted that its management of POEs accorded with existing laws, and therefore its possession of these assets was legally valid. As democratization progressed, the

KMT never tried to deal with the essential problem of whether it was right for the party to be involved in business. As a result there was no progress in the improvement of relevant laws and regulations, and the KMT took no initiative to address the POE problem. This has left the solution of this problem as one of the tasks for consolidating democracy in Taiwan, which Lin (1998) pointed out.

C. *Improving the Efficiency of POEs*

There were three aspects to improving the business efficiency of the POEs: (1) the changeover from being management-centered to investment-centered, (2) more reliance on stock trading, and (3) the procurement of management resources from the private sector. The relations with private firms will be discussed in the next section.

As democratization got under way, the POEs aggressively entered new sectors. They entered the construction sector, taking advantage of the real estates boom during the bubble economy and the Six-Year Development Plan (1991–96) and set up new securities firms and banks in line with Taiwan's economic liberalization (KBMC 1994, pp. 112–27). The ratio of KMT stock holdings was relative high in the new companies that the POEs invested in, which gave the party tight control over most of these companies (Chiu 1997, pp. 133–40). Under the Lee-Liu system, investing by POEs increased more than ever mainly in the high-tech industry and financial business which were the driving force behind Taiwan's economy after the collapse of the bubble economy. By February 1993 the seven holding companies had invested in 94 companies. This jumped to 159 by the end of 1996, to 216 by the end of 1997, and to 282 by the end of 1998 (*Zhongyang ribao* 1993; Liang and Tien 2000, pp. 149–50). But the ratio of KMT stock holdings decreased in such firms. For the most part, investing by the KMT was carried out in a way that the party did not hold management rights in the companies it invested in. In other words, although investing by POEs increased as a whole as democracy progressed, the firms they invested greatly diversified.

Moreover, reliance on stock trading increased. At the end of the 1980s, the stocks of some POE companies were listed on the wave of the bubble economy, and the KMT profited by selling them. During the five years after 1987, the CFC sold 109 million stocks and earned NT\$9.4 billion in profits (Liang 1992, pp. 63–71). After the BMC was set up, reliance on stock trading increased significantly, and it was profits from sales of stock that pushed up the net profits of the seven holding companies. Of the NT\$16.59 billion in net profits they earned in 1997, NT\$15.74 billion came from profits earned on the sale of stocks; in 1998 the sale of stocks accounted for NT\$13.08 billion of net profits of NT\$12.21 billion (Liang and Tian 2000, pp. 161–65). By the late 1990s, short-term stock trading by POEs to gain profit margins had greatly increased. The short-term investments by the Central Investment Holding Co. and the Kwang Hwa Investment Holding Co. were worth NT\$713 million and NT\$1.3 billion, respectively at the end of 1993 (Chai 1996, p.

80); these jumped to NT\$14.81 billion and NT\$6.75 billion respectively by the end of 1997. Investment by the seven holding companies increased from NT\$14.12 billion at the end of 1996 to NT\$23.6 billion by the end of 1997 (Tian 1998a, p. 159).

With elections being held almost every year, the POEs attempted to make profits more effectively by increasing the scale and extent of investments and trading stocks more actively. In the process, the POEs became increasingly reliant on the management resources of private firms.

D. *Closer Relations with the Private Sector*

As democratization progressed, relations between the POEs and the private sector changed quantitatively and qualitatively. POEs expanded joint ventures with private firms, mainly big business groups, and both the number of joint ventures and the number of firms participating in such ventures increased (Chiu 1997, pp. 133–40). Under the Lee-Liu system, relations between the KMT and private firms expanded and became more complicated because the investing by POEs increased and diversified.

The initial reason that POEs embarked on joint ventures with private firms was because of the economic need to acquire management resources from the private sector. At the start of democratization, the partners of POEs were big business groups that ranked among the top Taiwanese companies, such as Formosa Plastics, Shin Kong, China Trust (the Koo's Group), Far Eastern, Yue Foong Yu, and Tuntex.⁷ These groups had developed steadily during the postwar period based on their prowess in manufacturing, and each had built up sufficient management resources. POE reliance on the management resources of private firms increased substantially as the KMT shifted the major concern of its business from management to investment.

The relationship between POEs and private firms also had political effects. In all likelihood private firms shared common interests with the KMT through the POEs, which led these firms to support the government politically. The expansion of POE investment increased the number of private firms which shared economic interests with the ruling party. This enabled the KMT to push its influence deeper into the private sector.

However, as democratization progressed, relations between POEs and private firms changed not only quantitatively but also qualitatively, and here political considerations received priority over business efficiency.

VI. THE POLITICAL MOBILIZATION OF POES

A. *Alliances with Local Factions*

The changing political environment as democratization progressed compelled the KMT to politically mobilize the POEs. With elections growing more competi-

⁷ Chu (1994, p. 138) noted that eight of the top ten business groups were partners of POEs.

tive, the KMT had to depend all the more on local factions to wage election campaigns. But these factions were losing some of their ability as vote-gathering machines because of the spectacular rise of the opposition Democratic Progressive Party (DPP) and because of intensifying competition among factions. At the same time the Central Committee of the KMT lost its control over local factions and their legislators as the power struggle within the party grew protracted (Wakabayashi 1994, pp. 128–29). Lee Teng-hui himself was promoting Taiwan's democratization, and to accomplish this, he had to maintain a stable government. To do this the KMT had to rebuild relations with local factions as well as defeat the opposition in elections to stay in power. Meanwhile local factions joined together with business groups during the bubble economy period and extended their activities into the financial sector and construction industry all over the country (Chen 1995, pp. 236–42). Lee Teng-hui sought an alliance with local factions who had increased their economic power because of the financial benefits Lee had been able to extend to them through his usage of the POEs. For local factions, such an alliance helped provide a strong, stable base for managing the factions. Lee Teng-hui not only sought to use their political resources to win elections, but also to use their political support to maintain stable government. In exchange Lee provided the factions with economic resources.

Through the political mobilization of POEs, a “strategic alliance”⁸ between POEs and business groups owned by members of the BMC became the usual kind of alliance with local factions. Each private capitalist who joined the BMC was close to Lee Teng-hui or Liu Tai-ying. They were private capitalists. At the same time, they were important people in local factions or had close connections with factions,⁹ or were people who were capable of mobilizing political support even if they did not belong to a local faction.¹⁰ Their constituencies were the urban areas where the opposition was gaining substantial support. Thus the KMT sought to strengthen the ability of the local factions in these areas to gain votes. Under the Lee-Liu system, among private firms it was business groups owned by the members of the BMC that were particularly strongly connected with POEs. They became the most important partners in the “strategic alliance” with POEs, forming a core group within

⁸ According to the BMC, a “strategic alliance” included political aspects that caused economic damage to the KMT, which is different from a strategic alliance in general.

⁹ For example, Chang Pen-tsao (Chang faction, Taichung City), Yang Tien-sheng (Yang faction [the third power], Taichung County), Chen Zhe-fang (Lin faction, Chiayi City), Kuo Jin-sheng (Chiayi faction, moved into Kaohsiung City from outside), Chen Chien-pyng (Chen family, native to Kaohsiung City), and Lin Hsieh Han-chien (Sanchung faction, Taipei County) (Liao 1997, pp. 164–69).

¹⁰ For example, during the election campaign for the triple election of Taipei Mayor, Kaohsiung Mayor, and the governor of Taiwan Province in 1994, Shen Ching-ying and Yang Tien-sheng held large-scale political rallies to mobilize investors in the northern, the central, and the southern parts of Taiwan to garner support for James Soong, KMT candidate for governor of Taiwan Province, and Huang Ta-chou, KMT candidate of mayor of Taipei City (Tan 1996).

the broader relationship of the KMT with private firms, and this group could well be termed the "BMC bloc" (see Table I).

In the "strategic alliance" between POEs and business groups owned by the members of the BMC, benefits were extended to the business groups in various ways, such as by selling stocks of POEs to the business groups at low prices, through joint ventures in new businesses like land development, and by providing financial aid and support to the business groups (Table II). The sale of POE stocks is of particular interest. The BMC sold a large quantity of POE stocks to specified buyers, but it was business groups owned by members of the BMC that bought the stocks. In 1994 stocks of the China United Trust and Investment Corporation were transferred to the Hung Kuo Group at a low price (Tiao 1995, pp. 175–76). This was the beginning of the transfer of POE stocks to specified buyers. Chao Ling Engineers Consultants Co. and the China Printing Co. also became affiliated companies of business groups owned by members of the BMC, the former becoming a subsidiary of the Core Pacific Group owned by Shen Ching-jing, and the latter coming under the Yuen Foong Yu Group owned by Ho So-chun. Stocks of Bank SinoPac and of the Central Insurance Co. were sold in 1997 and 1998, respectively; the Ruentex Group took over management of the former while the Nice Group acquired management rights over the latter (Liang and Tien 2000, pp. 113–14). As a result of such sales of POE stocks, the outward presence of the KMT declined in each company, but as will be noted later, actual control by the BMC bloc remained substantial.

Besides the above stock purchases, the BMC paid in excess of NT\$1 billion in August 1994 for shares in the Kaohsiung Business Bank which was in financial difficulty. Then Kuo Jin-sheng, the vice-chairman of the bank and a legislator elected from Kaohsiung City, was invited to become a member of the BMC. At the time, the Kaohsiung mayoral election was to take place at the end of the year (1994), and the KMT, which had suffered defeat in the county magistrate election in Kaohsiung County at the end of the previous year, was faced with the task of strengthening its power base in the district. Therefore the KMT had its eye on Kuo's bank with its broad network of small and medium-sized enterprises, and it intended to acquire the management rights over the bank by supporting Kuo Jin-sheng through capital investment from POEs. Another member of the BMC, Yang Tien-sheng, was also involved in acquiring shares. By joining the combined shareholdings of Kuo and Yang, two members of the BMC, with shares held by the Central Investment Holding Company, the KMT was able to gain control over the management of the Kaohsiung Business Bank. This move of the BMC bloc also strengthened the power base of Kuo Jin-sheng's power faction (Chao 1994a, p. 13; 1994b, p. 38).

Moreover, the POEs also provided local factions with political resources, including the votes of POE workers and families, and those of POE clients. The possibility of candidates supported by local factions winning elections increased greatly because they could use the resources of POEs and those of their own social net-

TABLE I
THE MEMBERS OF THE BMC (JANUARY 2000)

Name	Post	Background	Notes
Liu Tai-ying	Chairman	Chairman of the China Development Industrial Bank	
Yin Wen-jiunn	Vice Chairman	Chairman of the Fuh Hwa Securiteis Finance Co.	
Hsieh Cheng-hua		Chairman of the Chii Sheng Industrial Co.	
Chang Chung-pu		Chairman of the Kuang Hwa Investment Holding Co.	
Chou Kang-mei		Chairman of the Hua Hsia Investment Holding Co.	
Chien Song-chi		Chairman of the Central Investment Holding Co.	
Chen Hsin		Chairman of the Asia Pasific Holding Corp.	
Darby Liu	Secretary-General	Chairman of the Jen Hwa Investment Holding Co.	
Shen Shih-hsiung		Chairman of the King Dom Investment Holding Co.	
<i>Chang Pen-tsao</i>		Chairman of the Taiwan International Securities Group	Joined in January 1994, ex-legislator.
<i>Yin Yen-liang</i>		Chairman of the Ruentex Group	
<i>Li Cheng-chia</i>		Chairman and president of the Maywufa Co.	
<i>Yang Tien-sheng</i>		Chairman of the Ever Fortune Group	
<i>Ho So-chun</i>		Chairman of the Yuen Foong Yu Group	
<i>Chen Zhe-fang</i>		Chairman of the Nice Group	
<i>Shen Ching-jing</i>		Chairman of the Core Pacific Group	Joined in August 1993.
<i>Lin Hsieh Han-chien</i>		Chairman of the Hung Kuo Construction Co.	Joined in May 1996.
<i>Chen Chien-pyng</i>		Vice President of the Ta Chong Bank	Joined in May 1996, ex-legislator.
<i>Kuo Jin-sheng</i>		Honorary Chairman of the Kaohsiung Business Bank	Joined in August 1994, ex-legislator.
<i>Yan K. T. Kenneth</i>		Chief Executive Officer of the Yulon Group	Joined in 1999.
Su Pual-hsian		Director of the Center for Public and Business Administration Education, National Chengchi University	

Sources: Compiled based on: Kung (1993, pp. 146–51); Tseng Yen-ching (1996, pp. 211–14); Tien (1998b, pp. 124–128); Tiao (1995, pp. 174–82); Tan (1996, pp. 90–93); Chen (1993, p. 16); Chao (1994a, p. 13); and Liang and Tien (2000, p. 108).

Note: The names in italics are the members who have a background as private capitalists.

TABLE II

"STRATEGIC ALLIANCE" BETWEEN THE KMT AND BUSINESS GROUPS OF MEMBERS OF THE BMC

Name	Business Group	POE Companies in Which the Groups Bought Shares	Other Cases of "Strategic Alliance"
Chang Pen-tsao	Taiwan International Securities Group		
Yin Yen-liang	Ruentex Group	Central Insurance Co., Bank SinoPac, CDC	Grand Cathay Securities Corp., Shing Yeh Construction and Development Co., Hua-Hsia Leasing Co., Hua-Kai Leasing Co., Chi Hai Travel Agency, Century Development Co., Hong Kong Kwang Hua Development and Investment Co., Yin Shu-Tien Memorial Hospital, Ruen Fu Newlife Corp.
Li Cheng-chia	Maywufa Co.	Yutai Industrial Co. (pharmaceutical division), Bank SinoPac, China Television Co.	Shing Yeh Construction and Development Co., Central Film Corp.
Yang Tien-sheng	Ever Fortune Group	China Television Co.	Chang Sheng International Development Corp., Pan Asia Bank.
Ho So-chun	Yuen Foong Yu Group	China Printing Co., Bank SinoPac, China Television Co.	Grand Cathay Securities Corp., Universal Investment Holding Co., Datum Real-Estate Management Co., Oversea Investment Holding Co., Hui Hua Development and Investment Co., Sino-Canada Investment Holding Co., Seda Semiconductor Manufacturing Co.
Chen Zhe-fang	Nice Group	Central Insurance Co., CDC, China Television Co.	Land development of Central Film Corp., Pan Asia Bank
Shen Ching-jing	Core Pacific Group	Central Insurance Co., CDC, Chao Ling Engineers Consultants Co.	Construction of Core Pacific City and China City, Grand Cathay Securities Corp., Oversea Investment Holding Co., Century Development Co., China Ecotek Co., Shin Chu Hsing Ecotek Co.
Lin Hsieh Han-chien	Hung Kuo Construction Co.	China United Trust and Investment Corp.	Hung Chii Construction Co., Taipei International Financial Building, Asia United Bank of Philippines, Land Development of Hsin-Hai Road
Chen Chien-pyng	Ta Chong Bank		Shin Kao Petroleum Gus Co., Chii Hsiung Industrial Corp.
Kuo Jin-sheng	Kaohsiung Business Bank		Kaohsiung Business Bank
Yan K. T. Kenneth	Yulon Group		Seda Semiconductor Manufacturing Co., PACLINK Venture Capital Co.
Chang Kuo-an	Holmsgreen Group		Universal Investment Holding Co., Bank SinoPac, Han Ku Development Co., Fong Wei Security Co.

Sources: Compiled based on: Tseng Yen-ching (1996, pp. 211–14); Tian (1998b, pp. 124–28); and Liang and Tien (2000, p. 108).

works. Their backing provided Lee Teng-hui, the KMT chairman, with more political support than before, and he was able to maintain his position as “the supreme leader” (Chen 1995). It was also true that Lee Teng-hui was able to control the local factions and increase his influence over them because he had seized the resources of the POEs.

B. Two Policy Tool Options—The China Development Corporation and the Seven Holding Companies

With the sale of its stockholdings in the POEs, the ratio of shares that the KMT held in these companies decreased which reduced the outward influence of the party on the POEs. In practice, however, the stocks were simply transferred from the KMT to members of the BMC, and actual control over the POEs remained in the hands of the BMC bloc. A good example of this was the China Development Corporation (CDC) which to the Taiwanese public was the company that epitomized the POEs.¹¹

The CDC was set up in 1959, and the KMT invested in the company right from its start. From the time Liu Tai-ying became chairman of the BMC in 1993, the top manager in charge of the POEs was also always the chairman of the CDC.¹² During the time of Liu’s tenure, the BMC continuously sold CDC stocks until by 1999 the ratio of shares held by the KMT had been reduced to only 2.6 per cent.¹³ However, a large part of the stocks the BMC sold, especially during and after 1997, were bought up by the Core Pacific Group and the Nice Group which were owned by members of the BMC (Tian 1998b, p. 126). In effect, although outwardly the KMT appeared to be reducing its investment in the CDC, the company remained virtually a POE with BMC Chairman Liu Tai-ying, concurrently its chairman,¹⁴ and its man-

¹¹ The CDC was reorganized into the China Development Industrial Bank in January 1999.

¹² Liu Tai-ying took over as chairman of the board of directors of the CDC in May 1992 as representative of the Chii Sheng Industrial Co; this was before he held the post of chairman of the BMC. At the time he became CDC chairman, the KMT held 15.34% of the total shares in the CDC. These were held through affiliated companies, the largest holder being the Central Investment Holding Co. with 11.51%; Others were the Chiloo Industrial Co., 1.95%; the Yutai Industrial Co., 1.11%; and the Chii Sheng Industrial Co., 0.77%. Other corporate shareholders included: the Bank of Communications, 5.60%; the Bank of Taiwan, 2.57%; the International Commercial Bank of China, 2.34%; the Shanghai Savings and Commercial Bank, 0.89%; and the Ruentex Group, 1.42% (CDC 1992, p. 5, Summary).

¹³ The KMT affiliated companies included: the Kuang Hwa Investment Holding Co., 1.07%; the Central Investment Holding Co., 1.05%; the Jen Hwa Investment Holding Co., 0.34%; and the Chii Sheng Industrial Co., 0.14%. The share held by the Kwang Hwa Investment Holding Co. was fourth after the Bank of Communications, 2.34%; the Bank of Taiwan, 2.32%; and the International Commercial Bank of China, 1.95% (CDIB 1999, p. 21, Summary).

¹⁴ Since May 1995 Liu Tai-ying has held the position of chairman of the CDC as a representative of his company, the Chung Tai Investment Holding Co. In May 1995 the company held only a tiny 0.02% of the shares, but the KMT’s total holdings in the CDC was 6.52% which was well above the 3.17% held by the Bank of Communications which was the largest shareholder of the CDC (CDC 1997, p. 5, Summary).

agement under the control of the BMC bloc via the stockholdings of the Ruentex Group, the Core Pacific Group, and the Nice Group.¹⁵ Functioning as a financial institution controlled by the BMC, the CDC organized substantially like a POE.

Making full use of its business performance and competitiveness, the CDC generated good profits for both the BMC members who worked as CDC executives and for the business groups that took part in the projects that the CDC itself invested in. For example, in the process of privatizing the SOEs, the CDC not only contracted out the sale of stocks in five SOEs, it also contracted a financial planning advisory to carry out the privatization of the Chinese Petroleum Corporation and the Chunghwa Telecom Corporation. Another example took place when communication services were liberalized; all four companies that the CDC held shares in obtained licenses to operate mobile phone businesses. Moreover it actively participated in build-operate-transfer (BOT) for large-scale public enterprises, and an investment team the CDC organized and another team that the CDC itself participated in made successful bids on two projects to build the Taipei International Financial Building and the Mass Rapid Transit system (MRT) that would link Taipei with C.K.S. International Airport (Ku 1997, pp. 30–31; Wei 1998, p. 108; Chou 1999, p. 359).

A notable point here is that under the Lee-Liu system, the CDC became an optional policy tool that differed from the seven holding companies. All of them were under the actual control of the BMC, and the CDC as a financial institution could function as well as or even better than the holding companies as a policy tool. But as a corporation the KMT did not hold managing rights in the CDC, and the BMC's influence on the company was based only on personal factors. Therefore the management of the CDC was actually separate from the KMT's financial affairs, and was independent from the CFC. This meant that while most of the profits of the seven holding companies were absorbed by the Central Committee of the KMT, the CDC only paid dividends to the holding companies in proportion to the small ratio of shares held by the KMT. As for Liu Tai-ying, his influence on the holding companies was guaranteed by his position as chairman of the BMC, but his influence on the CDC depended on his management ability and performance. Likely this was a factor that led to the difference in the way the CDC and the holding companies were used as policy tools.

C. *POE Political Mobilization and Its Effects on POE Business*

The expanding influence of the opposition DPP increasingly prodded KMT into mobilizing the POEs for its political needs. This in essence meant extending the usage of their finances to the benefit of local politicians/factions, and the latent

¹⁵ The composition of the 21 seats on the board of directors in May 1999 was: the Chii Sheng Industrial Co., 4 seats; the Ruentex Group, 3 seats; the Bank of Communications and the Bank of China, 2 seats each; and the Core Pacific Group and the Nice Group, 1 seat each (CDIB 1999, p. 7, Summary).

TABLE III
FINANCIAL DATA OF THE CHINA DEVELOPMENT CORPORATION, 1996–2000

	(NT\$ billion)				
	1996	1997	1998	1999	2000
Operation revenue	9.07	12.42	16.39	20.68	21.40
Profit after taxes	4.91	7.25	9.35	11.43	13.80
Total assets	67.99	108.38	142.73	178.99	180.69
Total liabilities	38.19	41.50	67.37	74.28	67.36
Net worth	29.80	66.88	75.36	104.70	113.32

Source: CDIB (2000, p. 1).

TABLE IV
FINANCIAL DATA OF THE SEVEN HOLDING COMPANIES, 1992–98

	(NT\$ billion)						
	1992	1993	1994	1995	1996	1997	1998
Capital fund	5.78	5.86	9.34	9.34	16.90	18.55	31.80
Profit after taxes	2.61	5.28	7.93	6.60	8.75	16.59	12.21
Total assets	46.44	55.83	59.84	74.40	91.65	114.57	147.01
Total liabilities	20.38	23.94	22.06	35.17	39.73	53.30	78.71
Net worth	26.06	31.89	37.78	39.23	51.92	61.27	68.30

Source: Liang and Tien (2000, p. 138).

effects of such usage eventually had a negative impact on POE business operations. The CFC's demands for funds from the POEs (via the BMC) soared. From around 1996 the earnings of the seven holding companies failed to keep up with the KMT's voracious demands for funds, and the companies began to suffer rising deficits as they sought to maintain their business operations (Chou 1997). At this juncture the Asian economic crisis broke out (see Tables III and IV).

Initially the economic crisis had a limited impact on Taiwan's economy, but from the latter half of 1998 a growing number of companies and financial institutions fell into financial difficulties and many went bankrupt. In response the POEs took on the role of "mobile saviors" (Abe, Satō, and Nagano 1999, pp. 41–42). But even among companies having alliances with POEs, the ones rescued by the CDC and the seven holding companies were mainly those like the An Feng Group, the Ever Fortune Group, the Top Construction Co., the Hung Chung Construction Co., and the Hung Fu Construction Co. (Sanchung faction, Taipei County) which were companies owned by local factions that politically supported Lee Teng-hui or were companies owned by people closely connected with these factions. On the other hand, no such helping hand was extended to Liu Ping-wei (the Hai Shan Group, the Liu family of Banchiau City) the former president of the provincial assembly. He

ran in the election for vice-president of the Legislative Yuan against the wishes of the KMT, and he was seen as a supporter of James Soong, the former governor of Taiwan Province (Paixi and Li-wei 1999).

Such political relief to local factions greatly damaged the business operations of the POEs, which came on top of the pressure on their business operations coming from the KMT's Central Committee and from the economic recession that had set in. But the noteworthy point was the difference between the performance of the CDC and that of the seven holding companies. When providing financial assistance to distressed enterprises, the CDC undertook emergency financing in cooperation with a group of banks which helped disperse the burden of its assistance. As a result, the negative effects on its business operations were held to a minimum, and the CDC was able to avoid a deterioration in its business performance (CDIB 2000, p. 1). On the other hand, the seven holding companies found their business operations squeezed between having to meet the CFC's demands for funds and the BMC's requirements for political mobilization. At the same time, they were having to extend financial relief to distressed companies, but unlike the CDC which provided emergency financial assistance together with other banks, each of the seven holding companies extended such assistance on its own. Not only did this relief require a great deal of money, but the stocks they bought up from the companies they rescued were potentially so risky that they were dubbed "land mine stocks" because nobody knew when these companies might go bankrupt again. Moreover, after providing funds to the KMT's Central Committee, each of the holding companies had to depend all the more on bank loans for procuring the funds to maintain their business operations. Banks lend money to the holding companies on preferential terms because they were the enterprises of the ruling party. In such a manner, the seven holding companies came to hold the large amount of "land mine stocks" and their financial quality deteriorated despite their high profitability.

VII. CONCLUDING REMARKS

Finally I would like to take a look at the influence that the POEs have had on democratization and democratic politics in Taiwan. First, one can say that the existence of the POEs was a factor that maintained the KMT and supported its stable management. During the course of democratization, 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.

Furthermore, as democratization progressed, the POEs enabled Lee Teng-hui to demonstrate strong leadership. The local factions demanded a stable base for their own factional management, and Lee was the only one who could supply them with new economic resources. Therefore Lee's political mobilization of the POEs increased his own influence as KMT chairman, but this took place separately from

the affairs of the party and therefore did not mean that the influence of the party's Central Committee as an organization was restored. In other words, it was because of the existence of the POEs, and not just his institutional power based on his concurrent positions as the president and KMT chairman, that enabled Lee to demonstrate strong leadership and push ahead with the completion of democratization that was in line with "constitutional reform." For this reason the POEs were a resource that Lee could never give up.

By utilizing local factions and business groups via the POEs, Lee Teng-hui was able to push ahead with democratization. But his methods expanded money politics and perpetuated the POEs as one of the "authoritarian legacies" in Taiwan's democratic politics. There continues to be an imbalance in resources between the KMT and the other political parties; and considering the importance of the POEs, we cannot ignore the impact that their deteriorating financial condition will have on Taiwan's economy.

In the past it was argued that the only way to resolve the problem of the POEs was through a change of government (Chang 1999, p. 68). That change has now been realized, but as yet there is no indication that the new government has begun dealing with the problem.¹⁶ Nevertheless, the KMT's loss of power has certainly had a great impact on the POEs as well as on the environment surrounding them.

Within the KMT, Lee Teng-hui resigned from the chairmanship to take responsibility for the party's defeat in the 2000 presidential election, and Liu Tai-ying followed him out by withdrawing from the BMC. The new chairman, Lian Chan, brought in a new leadership and took control of the party's resources including the POEs. But the POEs that he got were the seven holding companies whose business operations were suffering under the demands of the party. Meanwhile the connections between the KMT and the efficiently performing CDC had come to an end, although Liu Tai-ying still retains his position as the company's chairman.

As soon as the KMT lost power, the banks began reconsidering the loans they had been advancing to the party on preferential terms (Chen 2000). This made it more difficult for the POEs, which were already saddled with heavy debts, to secure sufficient operating funds. The companies had been driven into this predicament by the two contradictory tasks of having to seek efficiency in business while at the same time having to comply with the KMT's demands for political mobilization. At this juncture the KMT announced plans to restructure the POEs centering on the reorganization of the seven holding companies.

Ultimately the KMT came to feel that there was no other recourse than to put the

¹⁶ The government has just stepped forth to deal the problem in September 2002. The Executive Yuan approved the draft bills of the political party law, which would ban political parties from operating or investing in a profit-making enterprise; and the statute regarding the disposition of assets improperly obtained by political parties, which would empower the government to investigate and confiscate assets that have been unlawfully obtained by political parties.

POEs “in trust.” During the presidential election of 2000, Lien Chan pledged to do this, and this policy decision was reconfirmed at an extraordinary meeting of the KMT’s Fifteenth Party Congress held after the election (Li 2000). This decision concerned the problem of whether it was right or not for the party to be running businesses, and said that if the POEs were put in trust, the KMT would relinquish its management rights in these companies. The fact that the KMT itself set forth such a policy shows that the party had not been able to successfully accomplish its task of justifying the POEs which had been one of its goals.

Whether restructuring the POEs or putting them in trust, in Taiwan’s new political and economic environment, the KMT chose to doggedly defend its POEs as economic resources. In exchange the party indicated its resolve to give up the POEs as political resources. A big question now for the development of democratic politics in Taiwan is whether or not President Chen Shui-bian can step forth and liquidate the KMT’s assets as was his pledge during the presidential campaign of 2000. The realization of such liquidation remains uncertain even at the present time; nevertheless the POEs are disappearing as tools that the KMT can exploit politically.

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