New Questions of Identity: How Taiwan Is Reimagining Itself

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Closer economic ties to China are reshaping the national debate in Taiwan and giving the opposition new issues to exploit.

Chen Tain-Jy
The key to reviving Taiwan's economy lies in promoting its long-neglected services sector.

Chu Yun-han
Improved cross-Strait relations have bolstered Taiwan's economy, but President Ma Ying-jeou must tread carefully.
For many young democracies, economic issues create political fault lines. But in Taiwan, the politics of national identity defined the early democratic period and helped bring down the ruling KMT, writes Yu-Shan Wu.

In recent years, the economic downturn aided the KMT’s return to power. But closer economic ties with China are reshaping the national debate and giving the opposition new issues to exploit.

WHEN TAIWAN WENT through the initial stage of democratization in the late 1980s and early 1990s, two social cleavages competed for prominence. For decades the ruling Kuomintang (KMT) had pursued pro-business, growth-oriented policies and suppressed labor unions. As a result, one might have expected class divisions to find political expression in the new party system. However, there was also a deeper sub-ethnic cleavage between mainland settlers and native Taiwanese that gave rise to different national identities, with the KMT espousing Chinese nationalism while the opposition Dangwai movement expressed nativist aspirations. Which cleavage would become politically dominant was by no means assured.

As it turned out, identity politics dominated Taiwan’s nascent democracy. The left failed to materialize into a political force to be reckoned with and Taiwan has not seen any party of the left gaining seats in its parliament, the Legislative Yuan, since free elections began in the early 1990s. Although the main opposition party, the Democratic Progressive Party (DPP), had a less intimate relationship with the business community than the ruling KMT, and some DPP factions (such as the New Tide and Welfare State Alliance) vowed to speak for the underdogs of society, theirs was a far cry from any genuinely left agenda. The DPP became a fervent advocate of a Taiwanese identity and later Taiwanese nationalism, raising the banner of independence, i.e. severing legal ties with the Chinese mainland, as their ultimate goal. The DPP’s strategy was guided by the fact that Taiwan’s most salient divide formed between opposing identities, not rival classes. Sustained rapid economic growth, high social mobility, fluid class structure and the dominance of small- and medium-sized enterprises dampened class divisions. As a result, the KMT and the DPP did not vie for voters’ support by advocating right or left policy agendas that centered on the appropriate role of the state in the economy. Rather they competed over the identity of the nation. This made Taiwan quite different from the majority of emerging democracies.

The KMT-led Blue camp and the DPP-led Green camp quarreled over textbook historiography (continental and jus sanguinis vs. maritime and jus soli), territorial boundaries and legal jurisdiction (Taiwan cum mainland China vs. Taiwan only). Debate was dominated by the future of the nation (conditional unification with the Mainland vs. de jure independence). There was an escalation of tension between the two camps from the mid-1990s onward, and ultimately the name of the country and the 1947 Constitution became an issue, with the KMT struggling to maintain the status quo — i.e. the “Republic of China” and its constitutional order — while the DPP and the more radical wing of the Green camp advocated abolishment of the RoC and writing a new constitution for the “Republic of Taiwan.” After the pan-Blue KMT vote was split between Lien Chan and James Soong in the 2000 election, the DPP’s Chen Shui-bian became president and identity mobilization became the norm.

 Taiwanese independence and rewriting the constitution were put on the political agenda before both the 2004 and 2008 presidential elections, raising domestic tensions and incurring unprecedented international pressure and the wrath of Beijing. The Taiwan Strait threatened to explode into a full military confrontation not only between mainland China and Taiwan, but ultimately between China and the US.

CHANGING DIRECTION
Since 2008, politics in Taiwan have taken a radical turn. Identity politics gradually gave way to a debate on economic priorities. This unprecedented development suggests a fundamental change in the dominant social and political divide. The driving force behind the paradigm shift can be found in three factors. The first is economic slowdown, the second is exhaustion with identity politics and the third is the linkage between the de-escalation of identity and economic revival as a result of closer cross-Strait relations.

The economic slowdown has been severe. The average growth rate for the 1990s was 6.93 percent, which slipped to an average of 4.42 percent between 2000 and 2007, when the DPP was in power. Then with the recent global financial crisis playing havoc with Taiwan’s exports, economic growth took a further dip to an average of 3.2 percent between 2008 and 2012, with an record GDP shrinkage of 1.81 percent for 2009. At the same time, income disparity worsened. Taiwan’s Gini Coefficient rose from an average of 0.317 for the 1990s to 0.34 in 2000-2007, and then again to 0.343 in 2008-2011. The ratio of household disposable income of the top quintile to the lowest quintile (the “Oshima Index” coined by economist Harry T. Oshima) also steadily rose, from 5.33 in the 1990s to 6.03 in 2000-2007, and then to 6.19 in 2008-2011. Finally, the unemployment rate experienced the same trend, rising from an average of 2.04 percent in the 1990s to 3.7 percent in 2000-2007 and 4.77 percent in 2008-2012.

In short, Taiwan has been facing slower growth, higher unemployment and a greater income gap. Since the main reason for the lack of class politics in Taiwan in the past was rapid growth and high social mobility, the significant slowdown of the economy would naturally alert people to their class status, hence laying the groundwork...
for rising class consciousness and the politics of income distribution.

Since the economic downturn is a long-term phenomenon, how is it that a decisive shift of political focus from identity to economy did not happen earlier, say in 2001 when a similar economic shock struck Taiwan? At that time, the DPP government had just been installed, and the controversy over whether to continue construction of a fourth nuclear power plant and the bursting of the dotcom bubble combined to strangle investment and send the stock market into a tailspin. Compared with 2009, the height of the current crisis, there was a similar economic dip (-1.65 percent for 2001 compared to -1.81 percent for 2009, the only two negative GDP growth rates in Taiwan’s post-WWII economic history).

As it turned out, the first recession ushered in Chen’s pro-independence rhetoric, while the second recession witnessed KMT President Ma Ying-jeou’s preoccupation with economic revival and free trade talks with Beijing. The contrast between these two starkly different responses to economic downturns can be found in the second factor that prompted the paradigm shift.

**ECONOMY TO THE FORE**

Challenged by the DPP on the identity issue, the KMT in the latter 1990s retreated to a blurred and fluid position, proclaiming itself both Chinese and Taiwanese, with the latter rising in proportion over time, but emphasizing its record as a successful economic manager. In that sense, the KMT line at the time was a harbinger of the shift to economic issues. The post-2000 slowdown provided more reason for the KMT to focus on the economic performance of the DPP government, while evading the identity front where the DPP’s nativism held sway. However, economics initially failed to sway voters on a large scale. President Chen managed to make every election under his watch a choice of identity, and succeeded in winning duels with the KMT until 2005, when economic malaise, fatigue with the identity issue and rampant financial scandals (ultimately implicating Chen and the whole first family) turned the electoral tide.

With Chen in command, however, there was no fundamental change in the DPP’s strategy. For his part, Ma led the KMT to embrace an economy-centered stance, while accommodating the DPP’s nativist rhetoric. Electoral competition in Taiwan increasingly became a duel not just between the two main parties, but between the two issues they emphasized and represented. In 2008, Ma and the KMT won landslide victories in both the presidential and parliamentary elections, with a margin of 17 percent and 15 percent of the popular vote, respectively. Performance and economics became the determining factor in elections. The DPP was forced into a round of soul-searching. This is when the political competition evolved into a new stage.
The rise of the economy at the expense of identity is not simply the result of two separate issues battling it out. They are intricately linked through cross-Strait relations. In the run-up to the 2008 elections, the KMT argued that Taiwan’s economic malaise had a lot to do with cross-Strait tensions that thwarted investment on the island and limited Taiwan’s access to the mainland market at a time when the rising number of free trade agreements in Asia were undermining Taiwan’s export competitiveness.

With closer ties to the rapidly growing Chinese economy seeming both inevitable and desirable, Vincent Siew, the KMT’s vice-presidential candidate, even advocated a cross-Strait common market. However, the political precondition for economic integration with the mainland was Taiwan’s commitment to the “1992 Consensus,” a term coined by Su Chi, Ma’s chief strategist, which refers to a compromise that reconciled the positions of Taipei and Beijing. For Taiwan, the consensus stands for “one China, with respective interpretations,” while for the mainland, the emphasis is on the first part of the formula. It was clear that the DPP’s Taiwan identity had no room for such a compromise. Hence, in order to save Taiwan’s economy, it was imperative to de-escalate identity politics and the independence rhetoric that were the hallmarks of the DPP. The KMT thus gained the electoral advantage by presenting its political formula as instrumental to Taiwan’s economic revival, while denouncing its opponents as dogmatic and unable to tap the huge growth potential in cross-Strait rapprochement. As China grew into the second-largest economy, it was reaping tremendous political gains by positioning its economic drive, the free flow of goods and capital entailing losses for people and industries that cannot take advantage of the new opportunities and challenges. Peasants and workers may be the most vulnerable, but so are those who have lost the shield of protection from external competition. Money indeed began flowing in from the mainland, but not into productive industries as expected. It flooded into the real estate market, causing a surge in housing prices. The young generation is particularly vulnerable to the combination of high unemployment, low entry-level wages and skyrocketing real estate prices. The government offered some relief by creating temporary jobs at a monthly pay of NTS22,000 (around US$760) for newcomers with college degrees. That policy unexpectedly froze wage levels as companies used NTS22,000 as the base-level entry wage. Tsai’s strategists keenly spotted the opportunity to reorient the party and appeal to voters concerned with economic well-being. Tsai and Ma found themselves in the same economic game, with Tsai emphasizing the downside of Ma’s liberal mainland policies (inflation, income dispersion, prohibitive housing prices, and so on) and Ma stressing the need to stick to his policies to maintain growth. A prototype of a left-right divide has emerged. The game has changed.

WINNERS VERSUS LOSERS

Under Tsai Ing-wen, the DPP’s new chairwoman after the 2008 electoral fiascos, the party gradually shifted and began tapping into disgruntlement with Ma’s new mainland policies. The opening up to the mainland, exemplified in a quasi-FTA agreement, has its costs. As part of the globalization drive, the free flow of goods and capital entails losses for people and industries that cannot take advantage of the new opportunities and challenges. Peasants and workers may be the most vulnerable, but so are those who have lost the shield of protection from external competition.

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THE BEAT GOES ON

Of course, Tsai did not win in 2012, nor did the DPP shake the KMT’s majority in the Legislative Yuan, although the margins in both races narrowed considerably. After the elections, Ma figured out that he would have an election-free two-year window to push for structural reforms that were unpopular and yet badly needed. He chose to implement a capital gains tax on securities and cut government subsidies for fuel and electricity. The two measures were meant to introduce a dose of justice into the tax system and to reduce the government deficit. It turned out that the tax reforms angered Taiwan’s stock market investors, while the price hikes incensed ordinary people. On both policies Ma was forced to backtrack, leaving an impression of indecisiveness.

Then came pension reform. In October, government officials reported to parliament that Taiwan’s labor insurance scheme would go bankrupt in 15 years. This caused panic among workers who promptly rushed to claim their benefits from the system prematurely on highly unfavorable terms. The DPP then directed public attention to the much better pension scheme that civil servants enjoyed, a scheme that cost the government a fortune to sustain at the expense of the taxpayers. As civil servants (plus military personnel and teachers) have been the backbone of the KMT’s electoral support, the government found itself in a Catch-22 situation: protect the civil servants and get burned from public indignation, or cut the pension and risk losing a solid voting bloc. It chose to do the latter, together with a cut in labor pensions. The KMT’s approval rating plummeted further.

As the structural factors that contribute to the paradigm shift remain present (economic slowdown, exhaustion with identity politics and the need to stabilize cross-Strait relations), the DPP has been reaping tremendous political gains by focusing on economic issues. It can be expected that Taiwan’s political fault lines in the near future will continue to center on the economy, and pit growth against income distribution.

While identity as a core issue has drifted away from center stage, it has not disappeared, however. In the public debate over different pension systems, one can see traces of not only class conflict, but remnants of the identity divide. The paradigm shift in Taiwan’s politics is far from complete.

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