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TAIWAN: THE COMMERCIAL STATE (REVISED VERSION)

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FOREWORD

The economic and political development of Taiwan is a dramatic success story, distinctive even in the context of rapidly changing Asia, heartening regarding the spread of representative democracy and competitive market economies. The history of close association between the United States and the Republic of China gives the story added interest for Americans. Only the Republic of Korea provides a comparable example of a traditional society rapidly becoming a developed economy and democratic polity. The very significant growth in trade and investment between Taiwan and mainland China makes the former an especially interesting and persuasive example of the commercial state in the contemporary world.

A few words are in order about terminology. I believe referring to the people and government of Taiwan as the Republic of China respects historical continuity of regime and the political realities of our day. This regime has achieved a distinctive identity and influence in the world, despite many barriers. References to Taiwan in the text generally highlight economic rather than political dimensions, though I have not followed a pristine distinction. Only in the mind of a theoretician do politics and economics exist completely apart from one another.

The overall contours of this revised second edition of the study remain very much the same as the first. This revised edition provides an opportunity to provide some more current statistical information and, closely related to that, expanded observations on the role of technology in international relations. There has also been an updating of the political, institutional and constitutional changes that have taken place in the Republic of China.

A wide range of individuals have been helpful to my understanding of Asia as well as substantive themes pursued in this volume; a few deserve special mention. Professor D. Gale Johnson of the University of Chicago, an expert on agriculture in China, has shared unpublished papers to supplement this published work. Professor Richard Rosecrance of UCLA has written insightfully on the complex relationships, historically and currently, between trading and territorial states, and commercial and military influence. Professor George Yu of the University of Illinois at Urbana-Champaign has been a valued collaborator, especially in a volume of
essays resulting from a Chicago Council on Foreign Relations Asia seminar series.

Arthur I. Cyr
Carthage College, Kenosha Wisconsin
February 2005
TAIWAN: THE COMMERCIAL STATE

Arthur I. Cyr*

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CHAPTER 1

TAIWAN – INTRODUCTION AND OVERVIEW:
THE COMMERCIAL STATE AND
INTERNATIONAL RELATIONS

I. A WORLD OF TRADE AND FINANCE

The year 2005 commenced with strongly increased tensions between the Republic of China on Taiwan and mainland China, yet these political conflicts mask much more powerful ongoing trends of economic cooperation and integration. As indicated in December, the Beijing legislature declared that any move to formal independence by Taiwan, including reiterating the goal of annexation, would be met with military force. In response, massive public demonstrations took place on Taiwan, dramatically symbolizing opposition to Beijing’s moves. Former President LEE Teng-hui declared that the people of Taiwan remain committed to the pursuit of their democracy. Premier Frank Hsieh declared that viewing relations across the Taiwan Strait as only a domestic subject within China is a fundamental error, citing the joint commitment of both Japan and the United States to maintenance of stability in the region. Meanwhile, President CHEN Shui-bian indicated he would not press for sensitive policy changes.

Yet beneath the rhetoric and public tension, the Republic of China on Taiwan continues to grow as one of the most important commercial powers in the world thanks to formidable economic development, and associated international investment and trade expansion. Since the 1980s, economic triumph has been associated with the transition from authoritarian rule to modern representative political democracy. Generalissimo CHIANG Kai-shek contrasted with his successor – and son – CHIANG Ching-kuo, proved to be a pivotal figure in the transition to a representative political system. The combination of opening the door to political party competition, and closing the door on indefinite continuation of a family political dynasty, will probably be viewed in the future as one of the most significant developments in the history of the Republic of China.

The great Asia financial crisis of the late 1990s was to some extent a result of the political corruption, and attendant economic weakness, of closed and unrepresentative political systems. “Crony
capitalism" is a shorthand way of referring to short circuiting the market and shunning true competition, which is possible when open information, competitive markets and transparency through govern-
ment regulation are precluded. While Taiwan’s economy is not entirely open, the political reforms and the relatively efficient market arguably have been important factors in avoiding some of the severe economic problems experienced by other states in Asia, not-
tably Indonesia and Malaysia. This combination of economic and political modernization, now unfolding simultaneously, means that Taiwan is strongly positioned to play important diplomatic and commercial roles, especially in the post-Cold War international sys-
tem, not only in the immediate Asia region but also across the globe. Among other things, the relatively rapid recovery from the financial shocks of the late 1990s provides testimony for the effec-
tiveness of transparency reforms.

While the Republic of China has been undergoing economic and political development, the international system as a whole has been transformed from dangerous competition, and occasional con-
frontation, between ideologically opposed superpowers to one of multiple and rather independent centers of influence. The long-
term competition between the United States and the Soviet Union essentially defined international relations for four decades follow-
ing World War II. The perception of a comprehensive, expansionist
Communist revolution, with increasingly numerous supporters around the globe, was the primary – though not exclusive – concern of American foreign policy from the late 1940s until the late 1980s.

II. THE INTERNATIONAL SYSTEM: AFTER THE COLD WAR

The end of the Soviet Union, not just as a global superpower but as a coherent nation-state, has meant that the United States and its allies have won the second fundamental conflict of the twentieth century. The first was provided by expansionist Germany and then Japan, resulting in the two world wars. The post-Cold War world is characterized by a constellation of forces very different from what went before. In particular, while arms races and wars continue to define relations among states – and within states – international in-
estment and trade have become much higher priorities. This new political world, which does not have much reliable order, may be no less dangerous and indeed more unpredictable than before, but partly for that reason it provides considerable opportunities for middle powers anxious to maneuver for influence. A fundamental
recurring theme of this study is that the new state of affairs is particularly beneficial for the Republic of China.¹

Communist China has been transformed from within over the past decade, first economically but – increasingly – politically as well. DENG Xiaoping’s enunciation and advocacy of “people’s socialism” in the fall of 1992 was a benchmark shift, opening the door to winds of both economic and political change. The remarkable ongoing transformation of mainland China into a market economic system, and related decentralization of political authority, is further eroding lingering ideological and diplomatic legacies from the Cold War. Communism is not entirely dead, but the basic equation of international relations since World War II has been changed drastically. Elsewhere in Asia, North Korea is preoccupied with a struggle for survival in the face of undeniable economic failure. Vietnam appears to be devoting time and effort primarily to making the country more attractive to outside investment, so far with relatively little real gain in terms of modern industrial and commercial development. The two Chinas are distinctively positioned to play leading, in some ways complementary, roles in the global shift to center stage for commerce, the mainland through massive market expansion and modernization, the island through skillful employment of massive financial resources.

A related significant change has been the steadily increasing importance of private capital and finance, and the broader evolution of global business, in the international system. The nation-state, still the central repository of armed force in the world, has been compromised economically by the relentless rise of multinational capital, which moves and acts increasingly independently of government. A few financial specifics will underscore the importance of the development of the role of international private capital. For example, between 1971 and 1986 the book value of U.S.-owned overseas investment grew from $86.2 billion to $259.9 billion. The comparable figures for Germany and Japan for the years

¹. Henry Kissinger, Diplomacy, New York: Simon & Schuster, 1994, provides one of the most comprehensive and persuasive descriptions and analyses of the contemporary international system, focused more on the Cold War than the post-Cold War period, but is also persuasive concerning the basic structures underlying international relations. An interesting review of the very strong tensions which still remain between the two sides, by a broadly experienced economist, is provided by Murray Weidenbaum, United States, China, Taiwan: A Precarious Triangle, Center for the Study of American Business, Washington University in St. Louis, Contemporary Issues Series 99, April 2000.
between 1971 and 1984 are increases from $7.3 billion to $51.1 billion and from $4.4 billion to $71.4 billion. By 2002, total U.S. direct investment overseas had grown to an enormous $1.6 trillion, while that of other advanced industrial nations also expanded at comparable rates. Along with the growth of multinational corporations, there has been a broader expansion of international commercial activity involving smaller enterprises. Consequently, effective foreign policy involves not only the management of relations among governments, including economic as well as military security matters, but also dealing with increasingly significant entities in the private sector. A key test of international effectiveness is the manner and means by which Taiwan has succeeded in developing measurable influence with business as well as governmental institutions.²

III. DOMESTIC POLITICAL REFORM AND DEVELOPMENT

The large amount of attention paid to democratic political reforms in Taiwan tends to mask the reality that these changes are part of a much broader, and more continuous, political evolution. The constitution of the Republic of China directly reflects the basic philosophical orientation of the great leader SUN Yat-sen, founder of the Nationalist Party and the first President of China. The three basic principles of this fundamentally defining leader – democracy, nationalism and furthering the people’s livelihood – are all in evidence. Political change in Taiwan has been evolutionary rather than revolutionary, with Development Conferences held serially, designed to modernize, update and democratize a constitution that has been largely continuous since being first drafted and surviving the evacuation from the mainland to Taiwan. With some irony, the ruling Kuomintang (KMT) Party had an initial cooperative association with the new Soviet Union. The Leninist organizational basis of the party has encouraged lingering rigidity and heavy handedness, though the powerful linkages with many different aspects of society should also provide a basis for steady diversification of public participation over time.

The constitutional system is noteworthy for strong formal guarantees of the rights of minorities, and other characteristics generally associated with the democratic tradition. In a practice found elsewhere in Asia, there was from the start specific corporate representation of explicitly identified groups, including racial minorities, women and labor. The constitution, in some contrast to those of the U.S. and other western nations, gave considerable attention to the goals and purposes of comprehensive planning, with articulation of desired ends in foreign, defense, education, social and other policy areas.

Economic development has been combined with very sustained emphasis on the separate but related dimension of reform of domestic political institutions and practices, leading to the successful transformation from an authoritarian into a representative democratic political regime. While the KMT has been careful not to become identified as a purely Taiwan institution, in practical terms senior leaders from the mainland have been generally retired and replaced with islanders, a process which has assuaged sentiments that those in charge were too aloof from the people and removing some of the lingering bitterness and cynicism resulting from the violent 1947 incident and aftermath.

Meanwhile, the Democratic Progressive Party (DPP) has emerged to provide a genuine political alternative, an essential ingredient for successful democratic politics. The participation of the newly formed party in the 1986 voting, the first completely freely contested elections ever in China, marked a major milestone on the road of democratic development. Strong sentiments within that party for Taiwan independence raised the stakes of the domestic political debate. For a time the stance indirectly strengthened the position of the KMT, which as a result appeared more in tune with popular sentiment. Eventually electoral opinion shifted, to favor not a declaration of independence from the mainland, but rather a change in governing party, and the KMT was replaced by the DPP in the presidential election of 2000. A key ingredient in DPP and President CHEN Shui-bian’s success was muting the pro-independence sentiment that had initially propelled public support. The March 2004 presidential election confirmed the leadership of President Chen and Vice President Annette Lu, with an 80% turnout by the electorate. The legislative elections at the end of the year saw a reduced 59% turnout; the opposition coalition of the Kuomintang,
the New Party and the People First Party held on to a narrow majority of 114 in the 225 member Parliament.3

The growth of democracy has taken place within the context of broad constitutional continuity. Democratic reforms have invigorated the institutional bodies or yuan, which are at the core of the constitutional structure. Like South Korea, the growth of democracy has been striking and has facilitated both policy cooperation and more general positive ties with the United States. The military has been restrained, though mainlanders have continued to be heavily represented in that central institution. The announcement of President CHIANG Ching-kuo, son of CHIANG Kai-shek, at the time of the 1986 elections that none of his relatives would hold positions of political power after his death, and the commitment of other leaders to respect his wishes, removed the possibility of a continuing family political dynasty. In sum, constitutional evolution has been facilitated by willingness of crucial leaders at the top to engage in reform and by the base of expanding prosperity facilitated by the extraordinary economic success.

IV. THE INSTITUTIONAL CONTEXT: NGOS AND OTHERS

At the close of the decade of the 1980s, as the national economy reached an unprecedented high plateau of prosperity, with very substantial liquid financial resources and an undeniable concentration in advanced technology industries, the Republic of China began to branch out into a more activist foreign policy. This included efforts to expand influence within the intergovernmental and nongovernmental organizations which were by then very largely the preserve of the mainland.

At the beginning of May 1989, for example, a senior delegation totaling twelve officials and led by Finance Minister Shirley Kuo attended the 22nd Annual meeting of the Asian Development Bank in Beijing. Professor Michael Kao of Brown University described this event as particularly important in the evolution of Taiwan’s foreign policy and international position. He writes that

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3. President CHEN Shui-bian, “... who was once mistrusted by opponents of his party's pro-independence stand, has moderated his position closer to the middle ground over the past year. As a reflection of his softened stance, he emphasized in the [inaugural] speech that people living on Taiwan and the mainland have a shared ancestry. He called for reconciliation between the two sides.” Taipei Journal, May 26, 2000, p. 1. Also, DPP – Democratic Progressive Party, Parti Pour Le Progres Democratique, Taipei: DPP, 1990.
nothing less than “. . . a new era in which the ROC [Republic of China] is . . . embarking on a fresh course of active diplomacy guided by pragmatism and foresight. The withdrawal syndrome and the self-imposed barriers that characterized Taipei’s foreign policy for the last four decades are being abandoned and replaced by an aggressive drive to expand the scope of Taipei’s participation in international activities.” Not least of the important factors in this engagement with globalization has been an unusually effective government presence on the global Internet. The Global e-Government Survey of Brown University in 2002 ranked Taiwan first among one hundred ninety-eight government sites surveyed.4

Pragmatism and patience have led to Taiwan’s admission to the Asia Pacific Economic Cooperation organization as well as the World Trade Organization, and may be said to characterize Taipei’s current initiative to join the World Health Organization.

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CHAPTER 2

THE ROLE OF THE MIDDLE POWER

I. THE MIDDLE WAY, THE MIDDLE POWER

The evolution of international relations has encouraged focus on the roles of great powers, with particular emphasis on demonstrated military capacities. The ability to wage wars successfully, establish colonial empires, and project destructive force over long distances confirms power and influence in a self-evident manner. There has been an easy assumption that great power results in substantial territorial holdings, reflecting military capabilities. One is seen naturally to accompany the other.

During the mercantile age, from the sixteenth to the eighteenth centuries, accumulation of physical assets, facilitated by domestic tariffs and large external holdings, was thought to accrue directly to national wealth. In the later colonial period, the resources derived from overseas territories fed the needs of expanding manufacturing industry as well as the broader material requirements of the population at large. Territory, wealth and influence were bound together inextricably.¹

The Cold War era was dominated by two nations with large land masses, the United States and the Soviet Union, and there was a natural and understandable tendency to equate such size with influence. International power analysis evolved directly from experience with the character of global influence in earlier periods. Britain during the past century and into this one was regarded as a global power in part because of the capacity to control, meaning literally occupy in the imperial sense, territory around the globe. The race of European powers in the 19th century to accumulate colonial territories can be seen as an effort, at times desperate, to mimic the mechanism by which the British effectively and skillfully had established international power. As described by David Thomson, the British historian, in his thorough history of European diplomacy: “The simultaneous expansion of European powers

overseas, especially during the twenty years after the Berlin Conference of 1884-85, brought them into frequent collisions. . ."2

In the twentieth century, developments among nations continued to encourage emphasis on military power. The enormous scale of disastrous wars, including World War I and World War II, but also others, not least the Communist revolution in China, led to a continuing focus on martial strength as a principal determinant of international influence. During the Cold War, the nuclear arsenals of the superpowers, along with substantial conventional military forces and the respective large territories they controlled, further reinforced the imagery of the powerful state as one holding sizable military forces and territory.3

Yet this imagery and these lessons of relatively recent history are hardly comprehensive. This contemporary perspective tends to distort and oversimplify a historical tapestry that is considerably more diverse, with strong prominence in earlier ages for states which based their international influence and national power on trade and commercial investment rather than direct control of territory. Great trading powers in previous periods often lacked both substantial territory and enormous military capabilities. Maritime history of the world in general, and the European Atlantic/Mediterranean region in particular, show that trading states nevertheless have been able to develop bases of influence and security, often considerably removed from the dynamics of national military powers.

Professor Richard Rosecrance of UCLA has aptly and imaginatively developed an argument for an alternative to military power in his important book, The Rise of the Trading State - Commerce and Conquest in the Modern World. He draws a basic distinction between nations whose power is based fundamentally on national territory, and those which rely instead on international economic capacity. On reflection, surely British influence in the past was a function of commercial effectiveness as much as military or purely colonial dominance. In contemporary times, American power likewise has had a commercial component. United States foreign policy decision makers certainly were influenced by such mixed incentives,

even during the height of the Cold War, although they were not always acknowledged in public discussion.

In summary, international trade is almost always a part of the panoply of power of a nation, and has been a consideration in war as well as peace by those seeking commercial advantage. There is a very strong argument in historical terms that trade is in many ways beneficial in giving states a practical incentive to avoid armed conflict among themselves. Political philosophers of an earlier age found this proposition extremely engaging. "No nation has ever been ruined by trade," declared Benjamin Franklin, in a variation on the theme of benign results, and this outlook is especially persuasive. In our day, some social scientists, policy analysts and policy makers have been drawn to the different argument that democracies do not go to war with one another, a much more debatable proposition.4

Rosecrance is imaginative and provocative in drawing a distinction rather than a parallel between the two great powers of the nineteenth century and the twentieth century, Great Britain and the United States. The former — at least for a brief few decades during the middle of the 19th century — is associated with what he terms trading states, sensitive to differentiation of economic functions among nations and more interested in commerce than territory. The U.S. is viewed as more predictable in pursuing the model of territorial expansion and ambition: "The only instance of the greatest nation in world politics adopting a trading stance is that of mid-19th-century Great Britain, which from the 1840s to the 1870s elected to abjure territorial ambitions in Europe or outside and to concentrate upon the development of her industry and trade with other nations."5

II. TRADE: POWER AND WEALTH COMBINED

Ancient city-states and empires built their strength on a combination of commerce and military conquest. Athens, Carthage, Phoenicia, and — not least — Rome found the Mediterranean a natural arena for commerce and interchange. The importance of this interplay was instructive in more recent times in explaining the du-

5. Rosecrance, p. 18.
rability of Italian city-states and provinces in the age before the political development of the nation-states in the area. Commercial success was not sufficient to bring either independence or stability, however, in the age of the nation-state and ever-stronger military organizations.

Rosecrance notes this fundamental transition: “In 1453 there were no strong territorial states in Europe, but fifty years later, Spain, France, and England had emerged in a reasonable resemblance to their modern selves . . .”

III. HOLLAND: POWER THROUGH TRADE AND INVESTMENT

The more recent example of Holland is especially instructive because trade served as a support for substantial imperial and great power ambitions, but at other times has been a central element in solidification of middle power realities. Rosecrance notes: “After 1713, Holland gave up her great power ambitions and concentrated upon trade in the Baltic region, as did Sweden and Denmark.” The Netherlands since the 19th century has been a massively successful international commercial investor and trading state, but not a great military power. In fact, the approach of the nation has been to avoid war, including military encounters short of general war. The Dutch have profited from this approach – literally.

6. Ibid., p. 74.
7. Ibid., p. 18.
CHAPTER 3
THE DOMESTIC BASE FOR
INTERNATIONAL INFLUENCE

I. ECONOMIC MIRACLE: PUBLIC AND PRIVATE

Reflecting a comparatively high comfort level with public-private cooperation and the use of state resources for commercial purposes, there has been steady evolution of the policies and priorities of the Republic of China toward the economy since the period immediately after World War II. The highest priorities immediately following that conflict were meeting basic economic needs, along with military defense. As stated in a summary report of the Industrial Development Bureau of the Ministry of Economic Affairs:

After 1945, reconstruction efforts were focused on rebuilding the infrastructures for the agricultural, industrial and transportation sectors. At the same time the government implemented a land reform program and initiated several large-scale projects to increase the productive output of textiles, fertilizer and power plants.¹

In giving average citizens the opportunity to own land, directly generate wealth, and eventually join the middle class, the government created the foundation for representative democratic politics that would follow.²

Agriculture was the traditional basis of the economy, but industrial development drove the Republic of China into the realm of major economic powers, beginning with changes in the 1950s. Annual economic growth was 12 percent through the 1950s, rising to 17 percent in the 1960s. The pace of growth accelerated even further in the 1970s. Industry came to represent a striking 18 percent of the total gross national product. Only Japan surpassed Taiwan among Asian nations in pace of industrialization and overall growth.

There were three elements to the reform process, which began very quickly after the Nationalist government and military moved

to Taiwan. First, starting in 1949, rents were reduced from approximately 50 percent of the primary crop to 37.5 percent. Second, in 1951 there was sale of public lands to tenant farmers at a rate of 2.5 times the value of an annual crop. Third, landlords were forced to sell acreage they did not till directly themselves. They were permitted to retain just under three hectares each of paddy field, and approximately six hectares of dry land.\(^3\)

Significantly, these reforms were carried out through a joint agreement involving officials of the Republic of China and United States governments. Working together in the Joint Commission on Rural Reconstruction (JCRR), which included two American as well as three Chinese senior representatives, the body established a record of smooth cooperation and effective plan implementation that later became a much-studied model of agrarian reform, agricultural modernization and public-private sector cooperation. The Commission remained in existence after the completion of initial broadening of farm ownership, which involved working to create farmer associations and beginning a program in which the government exchanged fertilizer for rice.

During succeeding decades, the central government moved efficiently and effectively to target additional sectors for concentration of resources and economic development. In the 1950s, traditional import substitution was developed as the mechanism that would support economic development. Agricultural domestic production was emphasized in order to build up the food supply sector. At the same time, industry was encouraged to import raw materials, semi-finished products and machinery. Success in selection of these priorities was reflected in the achievement of average annual industrial growth of 11.7% and overall economic growth of 7.6%. Shrewdly, the government began an effort to encourage smaller business to participate in overseas sales, taking advantage of a prominent sector of the Taiwan economy.

The 1970s represented a very significant turning point in the economy. Foreign exchange reserves had grown steadily to high levels, which facilitated capital formation by domestic investors and manufacturers. An increasingly prosperous and diverse domestic market facilitated the creation of new industries that were intensively engaged with technology as well as traditional capital. In the late 1970s, ten targeted national construction projects, which included electricity, petrochemicals, shipbuilding, steel, telecommuni-

cations and transportation, were successfully completed. Progressive expansion of the private sector was also a significant factor by the 1970s. For example, 43.4 percent of industrial production was privately owned in 1954. This had grown to 80 percent under private control by 1972 and 90 percent by 1984. The nearly universal character of industrial ownership continued through the 1990s.

This decade also witnessed considerable expansion in the importance of both individual savings and outside foreign investment. During the 1950s and 1960s, additional capital resulted overwhelmingly not only from the significant expansion of agriculture, but also the development aid provided by Washington. In the decade of the 1970s, however, individual and company savings had grown to account for almost half of the total: 40%. Regarding foreign investment, a variety of incentives were provided from the mid-1950s. Investment laws were changed to facilitate bringing in foreign plant and equipment, tax reductions were provided soon thereafter, and in the mid-1960s the government introduced expedited duty-free import and export processing for foreign companies. All of these structural changes had a dramatic cumulative impact. From 1952 to 1959 foreign investment had amounted to $20 million; this increased between 1966 and 1973 to $950 million.

Over the course of the 1980s, the government began to emphasize the importance of strategic high-technology, value-added and energy-efficient industries. A particularly significant accomplishment was the successful construction of the Hsinchu Science-Based Industrial Park. Businesses were encouraged to devote even more effort to research and development. In fundamental ways, the decade completed a basic transformation of the economy from trading of primary products in the context of very traditional agricultural pursuits and basic industries, to an advanced technically and technologically sophisticated environment. By 1990, high-technology products, concentrated primarily in electronics, information and machinery, accounted for a total of 40.2% of exports. The government remained directly involved in economic policies and overall guidance of the private sector, yet a more liberalized, diverse and rich economy inevitably was moving commercial activity beyond the hands of ministries and public sector control. This in turn translated into an even more robust and effective record of economic performance.

Tremendous accumulation of domestic capital and attraction of foreign investment fueled this continuing economic success. By the
1980s, external investment in Taiwan had reached the impressive total of $500 million annually. Personal savings reached 40% of income, the top rate in the world. The remarkable combination of productivity, discipline and savings which had undergirded Taiwan's sheer survival in the years immediately after the civil war on the mainland had facilitated the dramatic economic success of more recent years.4

During the 1990s, the government remained active in influencing the economy, though with emphasis on trying to direct and assist an extremely successful advanced industrial engine rather than providing basic impetus to fresh initiatives. Policy challenges included significant appreciation in the value of the currency – the New Taiwan Dollar – with attendant negative impact on relative price competitiveness overseas, effective commercial challenges from other newly industrializing economies, labor shortages, and the development of a domestic environmental protection movement. Each of these policy topics, it should be emphasized, has occurred in the context of economic growth and development, and the transition from a traditional to an advanced commercial base.

From the perspective of the government, the global economy at the beginning of the new century presents some significant challenges but, on balance, far more opportunities than problems. The financial crisis in Asia which began in 1997 was generally managed effectively, if not fully dissipated. Taiwan suffered some decline but escaped the worst aspects of the downturn. There was general continuing anticipation of steady, not abrupt, economic expansion, including expanding advanced technology sectors. Traditional industries were projected to decline from 29.7% of the economy in 1994 to approximately 25% in the year 2002. Technology-intensive industries as a proportion of the whole are likely to increase from 34.1% to approximately 40%. These expectations have generally been realized. In summary, Taiwan is extremely well positioned to continue to develop and prosper as a major global as well as regional economic power, and almost certainly will become steadily more important in international finance and trade. This in turn will have very significant political implications.5

4. Ibid., pp. 80-81.
5. Development of Industries, supra 1, pp. 9 ff. Regarding technology, Taiwan has become respected as a world-class producer of computers and components. "The earnings gains illustrate anew how Taiwan, the world's No. 3 maker of computer equipment, has been one of the biggest beneficiaries of the popularity of low-cost PCs in the past year. Fueled by demand from multinational PC makers, production at Taiwan's com-

Other countries, not least the United States, have played a role in the development of the Republic of China in very recent years. The total story of interplay with outside influences, however, reaches back well before the modern relationship between the Republic of China and the United States, which began in earnest in World War II. The Dutch traders of several centuries ago had a notable impact on the local economy and culture, and Japan also had a positive role in the economic development of Taiwan, despite the undesirable political and social consequences of the occupation. The Dutch transformed agriculture into a profitable rather than purely subsistence enterprise, providing a spark for development that had ongoing, expanding importance. Their influence in agriculture had indirect effects in the economy more generally, arguably providing persuasive early examples of the desirability of trade and commerce, production for more than immediate consumption, and the benefits of development for expanding income beyond those at the very top of the system. Physical attributes were helpful to the process as well. Specifically, Taiwan's comparatively even rainfall and rich soil facilitated agricultural activity, with less risk of the problems of flooding and famine that characterized parts of the mainland.

Due to European influence, Taiwan was much more open to international trade than the rest of China. This tended to be a self-reinforcing trend. Trade encouraged greater trade, in line with a traditional outlook that the consequences of the phenomenon were beneficial. At least equally important, this trading island was generally receptive to market economics. While nothing resembling modern industrial production occurred until the Japanese occupation at the end of the nineteenth century, the island was highly receptive to economic modernization thanks to early experience with domestic and foreign trade, differentiation of labor, and the beneficial results of commerce for the population at large.

Japan's impact was significant, thanks in part to timing. Taiwan was on the verge of emerging from a very traditional society, and Japanese initiatives for economic modernization were introduced in an opportune period. There was considerable emphasis on infrastructure, with construction of new avenues of transportation and

communication. Between 1896 and 1905, for example, the total amount of railroad track on the island increased from 30 miles to 300 miles. Understandably, there was an especially great emphasis on agriculture, with substantial excess production shipped to Japan. There was also significant attention to education, with an increase in literacy and sophistication concerning formal learning in general. Japan also had the good fortune of dealing with an exceptionally talented and productive work force, where technical education and innovation found a ready audience. Modern farming methods, including irrigation and fertilizer, added considerably to production quality and volume. Rice and sugar were emphasized, with direct benefit for Imperial Japan, which absorbed a large amount of the total output. Economic productivity increased far more rapidly than the population as a whole, and by the start of World War II Taiwan had developed an economy that could easily be carried further into modern industrial capitalism, although at the time it was still heavily dominated by agriculture.  

Several worthwhile conclusions emerge from a careful examination of the very successful record of post-World War II industrial and commercial development of Taiwan. First, there was a sustained commitment to reform and change on the part of the government, with a strategic perspective that was long-term and rather close cooperation between government and business. The effort was not half-hearted, sporadic or limited in impact on the economy. This meant, among other things, that there was maximum public sector support for the effort. While the government arguably was not the driving force in the positive development of the economy, given the qualities of the work force and population at large, public sector authorities were certainly in a position to hinder the progress that was made. This did not happen; rather, the reverse took place.

This has been a comparatively subtle process. The economy is relatively free compared with some others in Asia, including Japan. Yet there is also a history of authoritarian control from the top, enforced by a military which was the principal mechanism for political organization and governance. Beginning in 1953, the government instituted a series of four-year plans.

These outlined economic goals and approaches for reaching them. The Ministry of Economic Affairs orchestrated the initiative, which predictably crossed the lines of a number of government departments. Significantly, business generally gave the government

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favorable reviews in this effort, probably reflecting not only the quality of public sector leadership but also a relatively high comfort level with government-business cooperation, and the serious dimensions of the economic problems facing Taiwan in the wake of world war, civil war, abrupt end of long-term foreign occupation, and sudden introduction of Nationalist forces, government and émigrés.

Second, there was a fluidity and lack of rigidity to the economic development process. This meant that there was a comparatively easy transition, directly encouraged by the government, from one level of development to another. The fast pace of the industrial development process was clearly facilitated by lack of rigid internal barriers of a more specific sort. At the start, there was a predictable emphasis on protection of nascent domestic industries and consequent high barriers to foreign goods and competition. Tariffs and currency values were kept high. The government brought in a complex multiple exchange rate system in 1951 that discriminated even further in favor of particular industries. At the same time, commercial credit was channeled to certain favored sectors.

In the following decade, as the economy strengthened and the problems of protectionism, including oversupply of goods, became apparent, the government shifted gears with remarkable speed and began to spur exports. Tariffs were slashed, exports were subsidized, and Byzantine currency exchange systems abolished. The innovations to encourage both imports and exports were sufficiently large-scale to have noticeable results relatively soon. By the 1960s, exports were growing at the impressive rate of 20% annually, generating significant income, interconnecting Taiwan with the emerging world economy, and fueling the enormous expansion of industrial capacity which has made the island one of the Asian "tigers" of the concluding years of this century.

While the government did not fall into the traps of either highly detailed indicative planning, or efforts constantly to "fine-tune" the economy, there were steady strategic adjustments as the growth gains of industrial development accumulated. Among other things, the government encouraged investment in advanced electronics, chemicals, instruments, machinery and metal products. This was an understandable reaction to the basic shift from a labor surplus to a labor shortage environment. As Taiwan became a truly regional and then international economic force, there was a detectable expansion of the practical cooperation between representatives of government and business overseas, to further the shared
goals of national influence through increasing trade, investment, profits and productivity.\(^7\)

Finally, the development of Taiwan, especially in the earlier years, was a direct function of support by the United States. The JCRR discussed above was economic in character but reflected the wider alliance relationship. A partnership that dated from World War II, and was arguably strained for a time in security terms after the Nationalist retreat to Taiwan, was reinforced and reconfirmed. Very close during the total life-and-death struggle represented by World War II, the partnership was challenged and nearly broken as a result of the trauma of civil war and successful Communist revolution in China. The United States, beleaguered on a variety of fronts, less clear cut in determination to pursue the “containment” of Communism in Asia than in Europe, sent mixed signals and appeared for a time at least to be prepared to abandon Chiang and the Nationalists to their fate. The Korean War intervened as a serious military conflict that resulted in American strategic protection of Taiwan. Events of the Cold War after the Korean armistice in 1953 only reinforced this partnership.

Yet what was firmly grounded in history, military collaboration in war, and security alliance was not at all clearly established in diplomacy, and the solidification of Communist rule on the mainland, along with international acceptance of Beijing as the formally recognized government of China, complicated Taipei-Washington relations. That the Americans continued formal diplomatic relations with Taipei rather than Beijing until 1978 is testimony to the strength of this partnership, as well as the influence of intense anti-Communism within the electorate. The fact that President Richard Nixon accomplished what he had spent his career opposing, initial recognition of mainland China, demonstrated not only the strategic advantage for American foreign policy innovation of being a leader on the political right, but also the very significant diplomatic limitations confronting the Republic of China in spite of economic success.

\(^7\) Ibid., pp. 80 ff. It is important not to overlook the fact that the economy retains aspects of protection and control implied by relatively close business-government cooperation. On the government’s restrictions on foreign investment in the Taiwan stock market into the 1990s, see for example The Wall Street Journal, April 1, 1994, p. A3A. “Only a few weeks after Taiwan’s central bank raised the ceiling on foreign investment in the local stock market, investment applications from foreign institutions already have exceeded the new limit.”
Formal recognition of Communist China by the U.S. made practical influence for Taipei in Washington even more important. America's comprehensive commitment to security in Asia required looking for innovative ways to maintain partnership with the Republic of China. Also, there is a fraternity of loyalty between professionals on both sides, including diplomats as well as military people. The continuation of the relationship with the United States, in the context of economic modernization, encouraged domestic political reforms in democratic directions. Finally, steps taken in the late 1980s and early 1990s to open the economy of Taiwan to outside investment, and free the marketplace from government controls and regulations, facilitated commercial cooperation with the U.S. as well as the Pacific region and global economy in general.

III. DEVELOPMENT OF DEMOCRACY

The story of domestic political success, in the democratic terms that Americans (and increasing numbers of the rest of the world's peoples) recognize and respect, began through decisions taken at the very top of the system. President CHIANG Ching-kuo, the son of Generalissimo CHIANG Kai-shek, decided in the mid-1980s to lift martial law, permit opposition parties to function and compete in elections, and explicitly reject the image and reality of family dynasty. He decreed that no other member of his family would serve in high national office following his death. This promise, along with that of opening up the political system, has been kept. Lucian Pye, the distinguished political scientist at the Massachusetts Institute of Technology, noted that "In Taiwan the great surprise for both outside observers and inside participants was how the succession to CHIANG Ching-kuo took place with so little tension and in accordance with the constitution." He also added a cautionary note, sensible at the time of writing in 1990, which has been reduced in significance by positive developments since: "Yet, even so there are indications that for some people the legitimacy of President LEE Teng-hui will not be seen as entirely established until they are convinced that he has proved himself to be a properly superior man, a true worthy in the Chinese tradition of personalized leadership."

In October 1986, the decision to end martial law was publicly announced, and this in fact came to pass in July 1987. Frank Gibney, the prominent and prolific American expert on Asia, high-

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lighted these and other accomplishments in his evaluation of CHIANG Ching-kuo, praising him not least for the matter of handling the often sensitive – sometimes disastrous – topic of succession at the very top of the leadership structure: “When Chiang died in January 1988, he left behind him a country in transition toward democracy, with an increasing number of native Taiwanese Chinese now prominent in political positions. His successor as President was to be a native Taiwanese, [LEE] Teng-hui. Chiang had himself groomed Lee, an able agricultural expert, for the job.”

In analysis of any political system, the nature of governing authority is a subject of primary importance, but arguably this is especially true in the context of China’s culture and tradition. The Chinese, particularly to Western eyes, are striking in their respect for authority, which at times appears to blur with deference to chronological age. There is a very powerful custom of deference in the social system, which has at times readily translated into autocratic political systems and practices. Simultaneously, China has also experienced very practical dispersion and decentralization of authority. Central governmental power, which in history for long periods of time was respected in the abstract but not in practice, was often far distant from the affairs of specific provinces and regions within the country. European imperial powers of the nineteenth century, in particular the British, were able to exploit the situation to their advantage in pressuring the Chinese for territorial and other concessions. Uncertainty concerning whether domestic power could be exercised became a continuing crisis of authority as a result of external pressures. This was never more true than in the twentieth century, beginning with the Western imperial intervention during the Boxer Rebellion, involving the Americans as well as Europeans, and proceeding through the Japanese invasion and conquests which commenced World War II in the Pacific, and continuing until 1945. Arguably Soviet support of Communist

revolutionary forces was a continuation of the by then well-established custom of outside intervention.\textsuperscript{10}

The Nationalist commitment to democracy as well as explicit constitutionalism may be viewed as a counter to the tradition of uncertain domestic authority and vulnerability to outside intervention. One positive factor contributing to the effectiveness – so far – of reforms in the Republic of China in a democratic direction may be the different cultural and historical interests that bear on the situation. The state contains diverse populations and viewpoints, in very broad terms therefore comparable to the United States. As John F. Copper has observed in his insightful analysis: "Taiwan's political culture has its origins in China's bureaucratic system, local family rule, and Japanese feudalism, with some influence from aboriginal tribalism. It is now influenced by an economic system based on a free market, an increasingly pluralist society, and reforms of an authoritarian system . . ."\textsuperscript{11}

Historically, China had balanced local independence with central authority, but the modern democratic revolution changed the atmosphere in which this relationship existed. The coexistence of different authority centers also is reminiscent of developments within the United States, where despite a much shorter history there is very dramatic evidence of the contentious, potentially violent, consequences of trying effectively to reconcile local independence with strong central authority. The Nationalist reformers, like the American revolutionaries, attempted to find a solution through specific written mechanisms on which the population in general, and leaders in particular, could concur. CHIANG Kai-shek had actually initiated a draft comprehensive constitution, when the Japanese invasion sidelined the effort indefinitely. The constitutional initiative was undertaken again in 1946, and the resulting document was formally inaugurated, though only in areas controlled by the Nationalist forces in the midst of the civil war struggle with the Communist Chinese.

Arguably, the challenge of war made the promulgation of a constitution something of an academic exercise, and in practice the authoritarian nature of the regime overruled democratic principles formally written into the document. Yet the commitment to law and constitutionalism cannot be denied in the context of the extreme,


\textsuperscript{11} Copper, \textit{Taiwan}, supra note 2, p. 53
Intolerant and very violent nature of the Communist regime that came to power following military victory in the Civil War. The forced Nationalist withdrawal to Taiwan had the indirect consequence of freeing energy and attention to experiment with government, at least over the longer term, in new ways, at least one step removed from the overpowering influence of tradition and continuity in pre-Communist China.

Indirectly at least, the Japanese occupation contributed to the development of constitutionalism in Taiwan. Again, as with the effects of the Civil War, this should be seen to some extent as an ironic, indirect and unintended consequence. The Japanese pressed vigorously for economic modernization, which in turn separated people – and institutions – from the iron grip of tradition. Implementation of policies which created highways, railroads, more productive agricultural sectors and an expanding industrial dimension all contributed to encourage modern administration. This in turn changed governmental institutions, in the case of Taiwan imposing a relatively modern democracy on a traditional peasant culture, without the direct legacy of customary Chinese administration. The Japanese occupiers also had at least a theoretical formal commitment to the importance of laws and modern government administration generally. In this sense the legacy of Japanese control was to provide encouragement of modernization, and thus ultimately of constitutionalism.

Structurally, the system in the Republic of China has been noteworthy for being a relatively complex and differentiated administration. Chiang's 1946 constitution, legitimized in part through the elections held even while civil war was raging, was brought to Taiwan with the withdrawal of 1949. Rather than the tripartite division into executive, legislative and judicial branches of government familiar in the United States and other parts of the Western world, the Nationalists favored a five-part division. The five branches, or yuan, of the system were: the Executive Yuan, the Legislative Yuan, the Judicial Yuan, the Examination Yuan and the Control Yuan. The two additional branches of government reflected both the high importance placed on professionalism and training for the administrative bureaucracy, and the interest in trying to regulate and integrate administrative agencies into the broader tapestry of government.

The Executive Yuan was the seat of presidential and related central authority, though not in any exclusive sense. The President and Vice President of the Republic were elected by the National
Assembly, providing for an indirect democracy. The Executive Yuan in turn was led by a Premier nominated by the President of the Republic and confirmed by the legislature. A Vice Premier and other senior ministers also resided in the Executive Yuan.

The Legislative Yuan was the center of popular influence on and control of government and legislation. Members were elected by the people for three-year terms, with the possibility of being re-elected. Implicit in this system, though not effective in practice in earlier years, was the competition for power of different political parties. The regime handled the challenge of civil war in part through bringing in Temporary Decrees providing virtual dictatorial powers to central authority. These were followed by Emergency Decrees which permitted a system of undemocratic Martial Law and unchallenged rule by executive authority. The Legislative Yuan and other parts of government, as well as the population at large, were brought under very strong central control as a result of these measures. Reflecting the trauma and threat of war, civil war, and vast political disruption, these Decrees were not lifted formally until July 1987, though they had been waning in importance for years before that time.12

The Judicial Yuan was formally put in place to implement a systematic and continuous system of court decisions on legal matters. As in other political systems, judicial dimensions both regularized and legitimized procedures and rules, and provided coordination and linkages between central and local representatives of established public authority. In the earlier system, abolished as a result of very recent reforms, the President of the Republic had a very strong role in the appointment of judges and other officials of the Judicial Yuan.

The Examination Yuan was the de facto personnel agency for the government of the Republic of China, reflecting the size and scope of civil service activity, and also the strongly rooted prestige and influence of bureaucracy from the earliest years of China as an established political entity. The regularization of policies and procedures for public sector employees is a very powerful force for national cohesion and integration, and in China greatly predated modern industrial and democratic movements. Therefore, the Examination Yuan was directly tied to some of the strongest currents of Chinese tradition.

12. Ibid., p. 57; see also the very valuable A Brief Introduction to – The Republic of China, Taipei: Government Information Office (GIO), 1996, pp. 11 ff.
Finally, the Control Yuan appears to have combined the responsibilities of the U.S. Office of Management and Budget at the Federal level, with broad associated police and investigatory powers. This became a strong direct arm of executive authority. Given a status equal to the other principal institutions of government, the agency arguably was a powerful indicator of both the central locus of authority and the aloofness of government institutions removed from direct popular control. Police functions which in the Western scheme would have been made subordinate to other sectors of government were given something resembling independent existence. SUN Yat-sen added the examination and Control Yuan to the tripartite Western model as a device to limit the influences of nepotism and other forms of corruption. There were also in the Nationalist system distinctive levels of provincial and local government. These were institutions established to govern the very large territory originally controlled by the regime. With the Communist revolution and the retreat to Taiwan, the island became virtually the only province directly controlled by the Nationalists. Central government therefore existed in tandem with a provincial level that was formally subordinate but in practical terms virtually equal in the amount of territory controlled.

This existing structure was significantly changed as a result of the democratic reforms instituted late in the 1980s. The five established comprehensive yuan were dismantled in favor of a more streamlined system of legislature-executive-judiciary more closely modeled on Western experience. In future, the President would be directly elected by the people, and thus in the mainstream of democratic politics, but in practice also less removed from the give and take among other centers of power in government, especially the legislature.

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13. Shaw, *The Republic*, supra note 8, p. 55. A particularly interesting set of developments bear on the Judicial Yuan, where there has been pressure to move away from an authoritarian style that is a vestige of the pre-democratic political system. A major government-sponsored conference was held in Taipei July 6 to 8, 1999, jointly sponsored by the Judicial Yuan and the Ministry of Justice. A variety of reforms were agreed upon to modernize the court system, including use of outside technical and lay experts to facilitate informed judicial decisions. This would be accompanied by bringing in 13 to 15 “grand justices” to conduct litigation and move away from a system perceived as “imposing administrative measures” on courts by fiat. However, a proposal to replace the existing “inquisitorial” system of judicial investigation and decision with a western-style “adversarial” system with prosecution and defense counsel “triggered heated debate and went unresolved.” *The Free China Journal*, July 9, 1999, p. 1.
The legislature was itself changed in essential terms as a result of specific reforms. The parliament had become characterized by a very large proportion of aged, long-term representatives, many of whom were contemporaries of Generalissimo Chiang, having traveled with him from the mainland in the wake of the victory of Communist forces. These older generations were retired, opening the door to a wave of much younger representatives, many of whom were from Taiwan rather than the mainland, a basic change in the dynamics of the political system. Most specifically, at the end of 1991 all senior delegates to the first National Assembly, the Control Yuan and the Legislative Yuan retired from office. The symbolism was as important as the actual shift among individuals. Critics of the KMT traditionally had argued that the party was on balance aged, out of touch, too much involved in the methods and approaches of earlier generations. Whatever the truth to these complaints – and there is broad consensus even among governing circles in the Republic of China that there was considerable validity – these changes dramatically indicated that the power structure was willing to change and modernize. Opening the door to new leadership, whether of individual successors or an entirely new generation, is often especially difficult. The ruling elite in Taiwan deserves credit for handling this transition peacefully, relatively openly, and so far successfully. Ultimately, the reforms resulted in the party transition in national governance from the KMT to the DPP.

An important institutional component of the reform process has been specific changes in the national constitution and associated institutions, especially those for popular representation. In the 1990s, the process of such reform, begun by the late President CHI-ANG Ching-kuo, truly moved into high gear. The term of both the President and the members of the National Assembly were shortened from six years to four years. The Legislative Yuan already had a relatively short term of three years for members. Of great importance was the fundamental change to bring about direct election of the President and Vice President, replacing a system in which the National Assembly handled indirect election of these leaders. The governor of Taiwan and mayors also became directly elected. This was the institutionalization of truly representative democracy, complementing the broadening of participation in the political parties. Additional flexibility was added by a system in which candidates only required a plurality, not a clear majority, in order to be victorious in an election. Finally, members of the Control Yuan had been selected by local and provincial governments. Under a new reform,
they were nominated by the President and confirmed by the Legislative Yuan.  

These reforms have had a number of beneficial consequences. A new sense of energy and dynamism has been injected into the political system and governmental institutions, not least because of the retirement of older members of the parliament. There has been a clear movement toward democratic forms, procedures, institutions – and hence attitudes. The Republic of China represents therefore a dramatic and important, if not the only, example of the democratic reform process which has been moving steadily through Asia, as well as Latin America, parts of Africa and of course Eastern Europe and the former Soviet Union.

Institutional modernization has evolved in tandem with a more open system of competitive party politics. One benchmark event is the so-called “Chungli Incident” of November 1977, in which residents of the area demonstrated at polling stations during a contested election and set fire to a local police station. Following this, the energy of political activism in opposition to the KMT began to grow noticeably. In June 1979, opposition groups formed the Taiwan Tangwai People’s Representative Coalition Office and the Central Parliamentarians Candidates League. In August, Formosa Magazine was established as a forum for dissent. The opposition Democratic Progressive Party was formed on September 28, 1986. Less than three weeks later, the KMT made the lifting of the Emergency Decree of 1949, the basis of martial law which had ruled Taiwan, the number one policy priority. Wisely responding to challenge with flexibility, the governing party laid the basis for political modernization, combined with efforts to continue in office at the national level. Also in 1986, an opposition party was permitted

14. A Brief Introduction to, supra note 12, p. 20. Representatives of the Republic of China exulted in the political reforms: “Indeed, the establishment of free speech, the lifting of the ban on new media, the development of party politics, the upgrading of education, and the advancement and liberalization of economic and trading activities have totally transformed Taiwan. Moreover, new legislation and the amendment of the Constitution will enable ROC citizens to directly elect the governor of Taiwan and the mayors of the Special Municipalities of Taipei and Kaohsiung on December 3, 1994 and to directly elect the president of the ROC in 1996. Especially in the case of the presidential election, it will be the first time ever in Chinese history that ordinary people can vote directly for their highest leader. Some people have characterized the vote for the presidency as ‘the first vote in 5,000 years.’ If this is not the beginning of a new page of Chinese history, then what is?’ Dr. Jason C. Hu, Government Spokesman and Director-General, Government Information Office, “Say Yes to Taiwan!,” a speech to the Council on Foreign Relations in New York, September 19, 1994.
to run candidates in the Republic of China’s local elections. The new Democratic Progressive Party took advantage of this opening, garnering an impressive 30 percent of the vote. This was the first time there had been truly open contested elections in the history of China, not just of Taiwan.\footnote{Yoong-kuang GER, \textit{The Story of Taiwan – Politics}, Taipei: Government Information Office, 1998, pp. 19-23. By mid-1991, political reforms had gone so far that the head of the American Institute on Taiwan could declare publicly that, “What is happening in Taiwan today could be as significant in political terms as its accomplishments over the past four decades were in economic terms. In the past four years, it has opened its society to public debate on issues heretofore considered too sensitive to discuss, most notably its political status. Now Taiwan is going through the process of turning political power over to both a new generation and its majority, native-born citizens. It is changing its political institutions in a way that redistributes political power.” Natale H. Bellocci, “Paper for Penn State Symposium,” July 16-18, 1991. One byproduct and test of success of the democratic reform process was clear change in government-sponsored publications from hewing to an obviously established “party line” to more open and unpredictable discussion. An example, direct in discussing the inability of political parties, including the KMT, to manage constitutional reform effectively is the article entitled “Fate of Constitutional Reforms Clouded With Uncertainty,” Susan Yu, \textit{The Free China Journal}, June 6, 1997, p. 1. See also Jim Hwang, “Historians Unfettered,” \textit{Free China Review}, Vol. 47, No. 9 (September 1997), pp. 12-16. “Republican history has come of age in Taiwan as massive amounts of files, documents, and other archival materials have been opened to scholarly research,” p. 12.}

Aspects of the reforms are at this point reassuring and give good grounds for optimism. The importance of personality in traditional leadership of government in China, emphasized by a wide range of observers, has been confirmed by the democratic reforms. The Presidency has emerged as a very strong leadership position, congruent with a tradition of individualized and personalized leadership. Yet the cult of personality or family, which can easily become a corollary of such a tradition, has been avoided. The willingness of President CHIANG Ching-kuo to relinquish power in constitutional fashion, and to do so in favor of an individual who was not connected through family relations, was a crucial event in this democratic evolution.

Also, while development of democracy might be seen to carry the political system of the Republic of China even farther away from that of the mainland in psychological as well as constitutional terms, in fact the situation is more complex. There has been growth of contested elections at the local level on the mainland, including increasing assertiveness by representatives outside the Communist Party. This blooming of grass-roots representative government, a predictable byproduct of the loosening of economic control and en-
couragement of outside capital investment by Beijing, has so far been largely tolerated by the central government.

A related important factor has been the blurring of lines of division, in both ethnic and policy terms, between mainlanders and islanders on Taiwan itself. In the past, much discussion was focused on alleged differences between indigenous people and those who came with CHIANG Kai-shek from the mainland, with the latter group dominating government and other centers of power. In fact, ethnically well over sixteen million of the approximately twenty million people on Taiwan are Han Chinese, the majority population on the mainland as well. There are approximately three million Hakkas, a separate minority from the Han, who emigrated from Guangdong province in the nineteenth century, along with three hundred twenty-five thousand aborigines.

Asia policy specialist Selig S. Harrison has argued that “The cleavages between mainlanders and Taiwanese are often exaggerated. Many of the younger mainlanders were born on the island. During . . . decades of Kuomintang rule, many of the cultural and social barriers between new and old immigrants have been reduced through intermarriage and a common educational system.” Harrison, who wrote this essay over a decade ago, made reference to a “bunker mentality” and “heavy-handed” tactics by the KMT regime, but also noted that increasing numbers of Taiwanese were being appointed to influential posts. The democratic reforms have carried such progress forward to a very significant degree, creating fresh opportunities for communication and cooperation with a mainland that is also becoming more diverse, open and to some extent democratic as a result of economic reforms.16

IV. THE MOMENTUM OF REFORM

The constitutional debate has been a continuing exercise, with very substantial reforms carried out during 1997. During the latter part of 1996 and much of the following year, there was uncertainty concerning just how effectively President LEE Teng-hui’s proposed changes in the constitutional structure would be implemented. By mid-year, an impasse between the ruling Kuomintang Party and the Democratic Progressive Party promised to stymie any significant progress. This was followed by a somewhat surprising agreement between the two principal parties in the middle of the year to put

institutional change above possible partisan advantage. *The Free China Journal* considered the shift to be of great significance:

The final package is the product of close collaboration between the ruling Kuomintang and the opposition Democratic Progressive Party, in a process which saw the leadership of both parties exercise tight control over Assembly deputies during the second and third readings [of proposed legislation].

Political analysts see the unprecedented pattern of KMT-DPP cooperation as marking a significant shift in Taiwan politics, leaving the 4-year-old right-wing New Party, whose deputies staged a walkout during the Assembly's third reading on July 18, as the only true opposition party on the island.\(^\text{17}\)

The changes in total brought about a greater separation of powers between the executive and legislative branches of government, and provided related independent legitimacy to the latter. This is an especially important step given the authoritarian history of Taiwan. Under the new accords, the legislature lost the power to approve the nomination of the Premier by the President. The parliament, however, at the same time was given new power to initiate a vote of no-confidence regarding the executive, a traditional right of western legislatures. The legislature also has been granted the power to impeach the President and the Vice-President, if two-thirds can be persuaded to support such a measure. The total number of legislators was increased from 164 to 225 members. An associated effort to increase terms from three years to four, however, was not successful. The legislative margin required to defeat a government request to reconsider an action was reduced from two-thirds to a simple majority. The parliament failed, however, to secure authority to investigate agencies and audit expenditures of the government. Some steps toward greater judicial independence were also taken. These included a separate budget. The legislature was granted clear influence over the selection of the highest justices in the state.

The reform effort also confirmed the supremacy of Taiwan central government over the provinces, an important change. Insofar as provincial and local government was minimized, the supremacy of national institutions was confirmed. In addition, arguably the Re-

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public of China was taking practical steps to establish greater distinctiveness in national identity. With opposition to the provincial reforms strongly based only in the small New Party, a broad coalition of KMT and DPP legislators put the new structure in place. There would be an end to elections for the governor and provincial assembly of Taiwan. Instead, the governor in future would be nominated by the Prime Minister and approved by the President. An advisory council replaced the provincial legislature. The business community generally applauded the reforms, which effectively eliminated a separate layer of government and promised in consequence to streamline bureaucracy.

The reforms combined drives for greater administrative efficiency and centralization of authority, in the context of the growing democratization of the Republic of China. The result was a curious mixture of heavy-handed tactics in the pursuit of rational political outcomes, with results that on balance increased the authority of the legislature of the Republic and rendered institutions more readily responsive to the population in total, not just the aging elite associated with the traditional Kuomintang. The Free China Journal editorialized along these lines, in a style that reflected clear freedom of the press in western terms:

Although a consensus on the various proposals was reached after several rounds of interparty negotiations, analysts said the end result ultimately reflects the successful imposition of the will of ROC President and KMT Chairman LEE Teng-hui, with help from DPP Chairman HSU Hsin-liang.

The leadership of both parties exerted heavy pressure upon their respective deputies to follow the scripted chorus in pushing the amendments through the Assembly.

The KMT even announced that it would employ rewards and punishments to keep its members in line. The suspension of party privileges imposed upon KMT Assemblyman LU Hsueh-chang, who is a spokesman of an informal subgroup known as the “Peace Club,” proved effective in either bringing dissenting deputies back into the fold or ensuring their absence during the voting.

But analysts pointed out that no clear winner seems to have emerged from the process. While the KMT reached its objectives of streamlining Taiwan Provincial Government operations and removing the Legislature’s right to
endorse nominations for the premiership, some party members felt they were sidelined in a power struggle between high-ranking officials.18

On September 1, 1997, a new cabinet was sworn in. After the ceremony, the first meeting of the new body was held. Premier Vincent Siew outlined his half dozen priority policy initiatives for the new administration. They were: more effective national defense, an "improved" social order, extending economic development, improved quality of life, "spiritual revitalization" – and improved relations with the mainland. These statements, with the exception of the last, could hardly be termed controversial. Even an improved relationship with Beijing, in the world of the 1990s, was only an expression of diplomatic and political realism. However, the very fact of democratic reform on Taiwan complicated efforts at rapprochement across the strait. Such an important change was evidence of the practical reality of separation between the two regimes. Reforms might also be interpreted as steps toward ultimate, officially declared independence.19

A basic test of the effectiveness of reform and the shift to genuinely representative government, and the repercussions that could follow therefrom, had already taken place with the 1996 presidential election. President Lee was perceived on the mainland as advocating a form of greater independence for Taiwan, though the particulars of Beijing's concern were never truly made clear. The election provided confirmation of the basic support for the KMT from among the population, while at the same time the movement for constitutional reform was also confirmed. The ruling party accurately read the public mind in terms of what was desired by a majority of the electorate. In reaction, however, Beijing broke off talks concerning greater cooperation between the two sides. These discussions were not resumed until 1998. The process of reform, brought to a dramatic culmination during the months after that.

18. Ibid., pp. 1-2.

19. The Free China Journal, Sept 5, 1997, pp. 1-2. "One of the inconveniences of democracy, from a ruler's point of view, is all the embarrassing topics it brings into the open. The subject that Taiwan's democratization is increasingly often bringing out is not just embarrassing for the ruling Kuomintang . . ., it is explosive. Should the island declare itself independent of the Communist Chinese mainland?" The Economist, October 26, 1991, p. 41. The article describes a September debate between a government spokesman and a Democratic Progressive Party representative in which the issue came up. The DPP followed up October 13, 1991, with a change in the party charter calling for a declaration of independence, provided the people approved in a plebiscite.
election, both confirmed the movement to more representative government and underscored the very important role of the presidency in the political system. The dynamic between foreign policy and domestic politics was also confirmed in forceful fashion, with a more confident Taipei now dealing with a more irritable Beijing.

V. FOREIGN POLICY AND DEMOCRATIC POLITICS

Critics, including many at home, complain that progress has been neither rapid nor comprehensive enough. Yet the very fact that such critics are free to complain about the process is persuasive evidence that the reforms are taking effect; democracy is confirmed through the stridency of critics of the status quo. Within the space of little more than a decade, there has been dramatic movement from dictatorship to open and representative government and a competitive party political system. A review of publications from the Republic of China, including most notably the magazine *The Free China Review*, which is sponsored by the government, indicates not only diversities of opinions expressed, but ready availability of critical views concerning official policies. Democracy is not the most efficient form of government – but is arguably the most effective long-term, and certainly the most equitable, and joining this community should reinforce the economic momentum of the Republic of China. 20

The continuing debate internally, and to some extent externally, over the effectiveness and appropriateness of the reforms instituted by the Taipei government addresses only part of the picture. There is another dimension as well: the influence reform has had on the international position and influence of the Republic of China. Here, the reality is that the changes instituted to date have greatly enhanced Taiwan’s image among the community of nations. First, there has been a direct benefit in the sense of fostering closer relations with the United States. The congruence in being formally committed to democracy, and actually practicing that political system, in turn has brought closer de facto cooperation, an easier relationship. This is consequential in particular in the broad but nonetheless important dimension of perception of each nation by the other, at both public and leadership levels.

Second, the Republic of China has had an easier time operating within the community of nations. Increasingly, market econom-

ics and representative democracy are the global order of the day. While Beijing has spent many years attempting to build advantage from President Richard Nixon’s initial opening of diplomatic contact, dialogue and eventually recognition, the Republic of China has taken the lead in more explicitly normative terms. Specifically, while mainland China moves ever more closely to the west in terms of economic relations, and increasingly political reform as well, the Republic of China has preempted important ground through very thoroughgoing democratic political change. The reforms which have been carried out therefore have the most profound international significance.\(^\text{21}\)

The most important point for this discussion is that the Republic of China’s shift to democratic representative government is congruent with important changes taking place generally in the world. We live in an age when more people than ever before in history are choosing representative government as well as market private-sector dominated economics. Not only in Asia but also Latin America, parts of Africa, Eastern Europe and the former Soviet Union, open societies are becoming the reality as well as the ideal. The Republic is inherently and automatically less isolated, and less vulnerable to complaints that the nation is not appropriately a part of the community of nations. Quite the reverse is actually the case, in political as well as economic terms, while Beijing is left to cope with pursuing economic reform while maintaining a political dictatorship.

\(^{21}\) Kenneth N. Waltz, *Foreign Policy and Democratic Politics*, Boston: Little, Brown & Co., 1967, *passim* for an excellent discussion of the dynamics of democratic politics and foreign policy. His focus is on the United States and Britain, but the insights are directly applicable to Taiwan.
CHAPTER 4

THE DIPLOMATIC ARENA:
THE UNITED NATIONS AND THE UNITED STATES

I. BACKGROUND AND HISTORY

Regional and international organizations have been important for the Republic of China, for better and worse. One dimension has been the effort in recent years to gain readmission to the United Nations; but that is only the latest initiative in a lengthy story. The history of the very bloody twentieth century was punctuated by work to surmount these horrors through construction of universal institutions to promote peace. The Republic of China has been directly involved in this process; even the effort to rejoin the UN implicitly confirms the importance of the organization. There have however also been other arenas and other issues of concern, more technical and often economic in nature, sometimes linked to the UN family of international institutions, but not so visible in public terms. While a central element in the story is the long-term offensive by Beijing to replace Taipei in the United Nations, there are a number of other dimensions as well, less dramatic but no less important. The Republic of China, shut out of the main bodies of the United Nations, has carried out a flanking movement involving expanding involvement in a range of other international governmental bodies, and beyond. International organizations therefore deserve distinctive focus, including a review of U.S. foreign policy from the perspective of these issues.

The story really begins with the ultimately frustrated effort to establish the League of Nations as the world governing body during the years immediately after World War I. The role of Japan was of central political and military importance, even while that nation remained distant from other great powers in geographic terms. As a condition for membership in the organization, Tokyo insisted on two concessions, one philosophical and the other geostrategic in nature. Above all, there would have to be formal recognition of the equality of all races in the world. Additionally, Japan insisted on title to territory seized from German control in the Chinese province of Shantung and to control islands held by Germany in the Pacific north of the Equator. Interestingly, Japan was willing to be
flexible in abstaining from fortification of these new gains and to withdraw from Shantung, which is what ultimately happened.

The limitations of diplomacy and equality in the world of the 1920s frustrated efforts to involve both China and Japan in the international organization. The inner circle of nations defining the new League refused to accept the principle of racial equality. This resulted in very strong and finally unavoidable pressure from Japan for more territorial concessions. As Samuel Flagg Bemis argues in his diplomatic history of the United States, a refusal of granting Shantung would mean, "... Japan undoubtedly would have left [the Paris Peace] Conference and refused the [League of Nations] treaty; with European powers still on the mainland of Asia, she was determined not to have dictated to her, after 1895, another relinquishment of the fruits of victory."

Even among the most idealistic participants in the peace process following World War I, including American President Woodrow Wilson, considerations of power politics intervened. Hence, the President reluctantly agreed to recognize the Japanese claims in China. Despite his moral rigidity, he was nevertheless anxious to have Japan participate in the League. Consequently, a comprehensive structure of international communication and cooperation was established, but with weaknesses that were only temporarily avoided. Unfortunately, despite the initial leadership of the effort by Wilson, the United States ultimately failed to participate in the new institution.

There were significant negative consequences for China, which refused to sign the Treaty of Versailles. Instead, an unusual agreement worked out with Austria, the Treaty of St. Germain, a supplement to the Treaty of Versailles with Germany, permitted China to join the League of Nations. China's conduct could be conceived as putting the nation outside the parameters of support for self-determination and nationality. This may be an international lawyer's argument; not deniable at all is the proposition that China was rather isolated as a result of this unfolding set of events, which also recognized the expanding importance of Japanese military power.

As the world moved into economic depression and toward a second global war, attention in Asia was focused on the increasingly ominous role of Japan, with China relegated to a relatively secondary position on the stage. Japan was on the march militarily. The League of Nations was in effect destroyed as a result of the inability

to stop fascist aggression, whether emanating from Germany, Italy or Japan. The invasion of China by Japanese military forces in the 1930s was one of the starting points of World War II, and one of the final blows to the League of Nations. At least for a time, after the devastatingly successful attack on the United States Pacific fleet in December 1941, Japan appeared to be in a position of long-term dominance in the region. Among the immediate consequences was to bring China and the United States more closely together, just as circumstances forged a basic strategic alliance among the U.S., Great Britain and the Soviet Union in the European theatre of operations.

In the United States, President Franklin D. Roosevelt kept a close eye on developments in China, and in fact was extremely supportive of many of the actions of the Republic of China government of Generalissimo CHIANG Kai-shek. He did his best to ensure and expand economic assistance to the country. Roosevelt also of course was a principal supporter of the United Nations, the successor body to the League of Nations. He urged that this body take on a strong role, referred often to the allied cause as that of the “United Nations” during the war, and planned actively for the formal inauguration of the enterprise as the principal governor of international relations after the war. In structuring the UN, China was given a most active and central role, one of the five world powers that became a permanent member of the Security Council.

II. COMMUNIST REVOLUTION: IMPLICATIONS FOR THE UNITED NATIONS

The successful Communist military offensive on the mainland of China in 1949 brought about a drastic realignment of forces in that country and Asia more generally, with significant implications for the UN. Almost immediately, the new Communist regime demanded a formal place on the Security Council. The Republic of China worked to forestall such a reversal. In this, the influence of the United States was especially important. As other major powers changed position to accept Beijing's participation in the world body, the role of Washington in continuing to support the traditional claim of the Republic of China to representation became even more significant, indeed crucial. In turn, the influence of the old “China Lobby” in domestic American politics was strengthened, as the issue of support for CHIANG Kai-shek remained on a political front burner. As the years passed, the ongoing debate over UN membership solidified ties between Taipei and Washington,
even as support gradually grew in the United States for recognition of the Beijing regime and participation in a global assembly which contained a comprehensive membership, including other Communist nations.

The 1950 invasion of South Korea represented a major point of departure. The role of the UN in opposing the invasion by North Korea became apparent literally immediately. "That same afternoon" as the invasion, in the words of Samuel Flagg Bemis, "the Secretary General of the United Nations, Trygve Lie, called an emergency meeting of the Security Council at Lake Success, New York. The representative of the USSR had absented himself from meetings of this vital organ... because of the Council's refusal to unseat the delegate of Nationalist China after the triumph of the Communist revolution in that country."2

Significantly, once the war broke out the role of the Republic of China was never absent from American strategic thinking, and the Truman administration was careful both to keep the war in Korea contained on that peninsula and to operate under the global mandate of the United Nations. President Harry Truman not only intervened directly in Korea with military force, in conformity with the UN declaration to oppose the aggression, he also took associated steps regarding the Republic of China. The immediate effort was to ensure separation of Communist and Nationalist forces, a collateral result was to involve the U.S. directly in the defense of the Republic of China, and a long-term significant consequence was practical confirmation of the legitimacy for the United Nations as a central arena for discussion and debate of international security questions. The Cold War conflict between the U.S. and the Soviet Union, and the latter's care to avoid a repetition of the walkout that precluded use of the veto, masked this reality. Yet this legitimacy would be useful, both in President Dwight Eisenhower's emphasis on the importance of the UN at least as a forum, and in President George H.W. Bush's resort to the institution in organizing the coalition to drive Iraq out of Kuwait in the Persian Gulf War of the early 1990s.

The solidification of the Cold War atmosphere not only reinforced ties between the Republic of China and the United States, there was also a general strengthening of the position of both nations within the United Nations. Washington and the western alliance generally commanded a reliable majority in the General

2. Ibid., p. 937.
Assembly of the UN throughout the tense Cold War years of the 1950s. The stalemate Korean War ultimately restored the previous status quo—a divided nation along the 38th Parallel. As discussed, one consequence was bitterness and frustration within the United States, not only among leaders who had hoped to use the North Korean invasion as an opportunity to unify Korea in total, but also within the public at large. Yet that conflict also had the effect of strengthening both the United Nations’ role as international peacekeeping agency, and the importance of the global organization for United States foreign policy. President Truman’s priority on UN support for intervention in Korea gave the institution center stage in international affairs for years to come. President Eisenhower’s natural predisposition to work through established institutions was therefore confirmed and reinforced by the course of international developments. In sum, the war strengthened American involvement with both the UN and the Republic of China.

After Eisenhower’s election to the Presidency in 1952, his selection of Senator Henry Cabot Lodge Jr. as American Ambassador to the United Nations summed up both the importance of the relationship with the organization and the fundamentally conservative, though internationalist, tone of American foreign policies and perspectives. Lodge was very close to the President, and had been his campaign manager. His preoccupation with the national campaign in fact permitted the underdog Democratic nominee, Congressman John F. Kennedy, to pull off an upset victory and capture Lodge’s U.S. Senate seat from Massachusetts.

Lodge in his UN role was given Cabinet rank. The President was clearly anxious to elevate the status of both the office and the man he picked to occupy the post. In the years that followed, Lodge became well known publicly, especially to morning television viewers of UN sessions, as a forcefully anti-Communist voice, a man who used his position as a platform to strongly criticize the Communist powers, in particular the Soviet Union. The UN was important to American foreign policy, but not in terms of building truly comprehensive coalitions among the great powers. The visions of Wilson and Roosevelt for a very comprehensive League or UN had been overcome by the realities of Cold War. Reflecting the visibility and influence of Lodge, and the central role of foreign policy in American politics at that time, Republican presidential candidate Richard Nixon picked him as vice presidential running mate in 1960.
The pro-Western majority in both the Security Council and General Assembly of the United Nations ensured that the China seat would continue to be held by Taipei. The staunch commitment and reliability of the Nationalists’ alliance with the United States was rewarded. The military defeat by the Communists had been decisive to be sure, with the loss of virtually all of the mainland. The alliance with Washington was therefore crucial to survival of Taiwan. The Korean War ironically facilitated this.

The unfolding drama of high-stakes international competition in the Pacific region operated to forestall Communist China and the Republic of China on Taiwan from armed hostilities, while at the same time drawing Washington and Taipei closer together. The temptation on the American side to stand aloof from the conflict over China, even in the face of a possible invasion of the Republic of China, was undercut by the Korean War. Especially in view of the argument that the Truman administration in general and Secretary of State Dean Acheson in particular, had been too ambiguous concerning American security commitments and guarantees in Asia, there was a push to confirm solidarity with allies.

President Eisenhower’s overall approach to foreign policy emphasized the importance of regional and international organizations, in particular the United Nations. The Republic of China’s security treaty with the United States existed under the comprehensive umbrella of UN commitment to collective security, with the Beijing regime isolated from that larger community, though enjoying diplomatic recognition from an increasing array of other nations. This was the situation when the 1950s came to an end.

III. KENNEDY, JOHNSON, NIXON, AND KISSINGER

The new decade of the 1960s witnessed a much more unpredictable, uncertain time in this constellation of forces and influences on international relations in Asia and elsewhere. The west was steadily losing the reliable anti-Communist majority in the United Nations General Assembly as a range of new nations, primarily former colonial territories, came into the world body. The Kennedy administration, partly though not exclusively for this reason, was considerably less sympathetic to approaches which emphasized the United Nations. The new President named Adlai Stevenson, not part of his inner circle, as ambassador to the UN. Thereafter no one confused the world body with an arena or agency important to the White House. At the same time, Washington was formally committed to a much more assertive approach in international affairs.
John F. Kennedy had been elected to the presidency in part through a sustained emphasis on the importance of a more active American world role. A heightened atmosphere of tension commenced a decade which would be very turbulent, violent and costly for American foreign policy in ways different from the intense, but in retrospect also relatively well defined, and therefore predictable, era of confrontation in the Cold War of the 1950s. Eisenhower had been an active leader, but with a subtle “hidden-hand” style. Succeeding leaders, beginning with Kennedy, were much more self-conscious in posture and direct in approach. This inferentially reinforced the image of the United States as a distinctive power, indeed superpower, and somewhat overshadowed international organizations as well as international alliances. More obvious presidential involvement also meant that the institutional, not just personal, price of failure was much higher for the chief executive, and therefore likely as well for the country as a whole.

As the decade closed, the fading of the most intense years of the Cold War, and parenthetical American preoccupation with Vietnam, contributed to a diplomatic environment which was in transition. American foreign policy in total was becoming more flexible, including in the 1970s new moves of accommodation with Beijing, and therefore less hospitable to old-fashioned anti-Communist themes which had been beneficial to the Republic of China. Relative lack of emphasis on the United Nations may have indirectly aided Taipei’s efforts to remain in the organization, at least for a time, but the erosion of support for the Republic of China over the People’s Republic combined with Washington’s steady move toward recognition of Beijing meant that a change in membership in the world body was only a matter of time.

There were a variety of factors contributing to détente between the United States and the Soviet Union and a more flexible system of international relations. These included the cooling of ideological, therefore emotional, hostility of each superpower toward the other, a willingness to experiment that resulted from years of avoiding general nuclear war despite diplomatic competition and occasional military confrontation, fatigue with the constant readiness necessitated by struggle, and – in very concrete terms – the acrimonious split from the end of the 1950s between the People’s Republic of China and the Soviet Union.

President Richard Nixon and his partner Henry Kissinger endeavored to exploit this breach, balancing one large power off against the other. If this focus on great power relations involved
some distance from traditional allies in Western Europe and Asia, including the Republic of China, the American leaders were willing to pay this price. In order to build a web of triangular relationships among Washington, Moscow and Beijing, however, there first had to be reasonably stable diplomatic channels with the other two capitals, and this was not the case regarding mainland China. This was remedied through Nixon’s trip to Beijing in 1972. Yet significantly, and in contrast to the Eisenhower years, Nixon and Kissinger carried out these initiatives without much reference to or involvement of the United Nations or associated international organizations. Great power relations, balance of power diplomacy, “realpolitik” toughness in foreign relations – these rather than collective security and reliance on global organizations had come to characterize U.S. foreign policy. In this basic dimension, the diplomacy of the Nixon-Kissinger years, along with that of the Kennedy and Johnson years, had moved a relatively long distance from the United Nations.3

IV. IN THE WAKE OF DEFEAT IN THE UN

The vote in October 1971 in effect to remove the Republic of China from the United Nations, in favor of the People’s Republic of China, both facilitated the process of American opening to Beijing and provided Taipei with the challenge of maintaining international influence and a major diplomatic presence. Ironically, while the United States Ambassador to the UN, George Bush, was maneuvering unsuccessfully to have the matter dealt with as an “Important Question,” requiring a two-thirds majority in the General Assembly, Henry Kissinger was in Beijing working on President Nixon’s visit early in the following year. Facing certain defeat on a majority vote, the representatives of the Taiwan government walked out of the UN.4 Yet the departure of the Republic of China from the main United Nations bodies was less dramatic, and less traumatic, than would have been the case had international organizations comprised a higher priority for American foreign policy. The legacy of the 1960s, including unilateral American action in Vietnam and elsewhere in the world, arguably still overshadowed any new efforts at comprehensive international collaboration.

Nevertheless, clearly the expulsion of the Republic of China from the UN and the related recognition of Beijing by Washington

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3. Kissinger, Diplomacy, supra Chapter 1 note 1, passim, in particular Chapter 2, on the qualities which inform American foreign policy.
involved a high price, especially though not exclusively in terms of formal diplomatic relations with countries around the globe. The People's Republic of China was recognized by forty-eight nations in 1969; this had increased to eight-nine by 1973. A total of thirty-seven countries shifted diplomatic recognition from Taipei to Beijing. At the present, 26 countries maintain formal diplomatic relations with the Republic of China.

While the UN was less central for the U.S. and the West than in the Truman and Eisenhower years, the removal from the world body was nevertheless very costly for the government in Taipei. By the end of the 1980s, only Saudi Arabia, South Africa and South Korea among relatively influential nations of the world – two resource rich, and the other a rising industrial middle power – maintained formal diplomatic relations with the Republic of China. In each case special circumstances, not least significant effort on the part of Taipei to maintain influence, was extremely important to continuation of recognition. Even at this time South Korea was waveriing, and soon established formal relations with Beijing, at the expense of Taipei. The triangular diplomacy of isolating Pyongyang, the capital of North Korea, through stronger ties with both Moscow and Beijing ultimately proved to be more important to Seoul than maintaining diplomatic ties with a kindred spirit in anti-Communist terms but a much smaller player in economic and, ultimately, geopolitical terms.

The other nations which maintained diplomatic ties with the Republic of China were notably limited in national economic product and relatively peripheral in diplomatic influence. They were generally small island states concentrated in the Caribbean region. Except for the Dominican Republic and Haiti, none had a population of more than three hundred thousand people. Only six of the twenty-six had trade with the Republic of China amounting to more than one million U.S. dollars per year. Economic assistance from Taiwan was obviously crucial to maintenance of recognition.

V. INTERNATIONAL ORGANIZATIONS REVISITED

These strategic shifts in relationships, of historic importance, returned attention to the broad range of international and regional

6. Chu and Arnold, Role of Taiwan, supra Chapter 1 note 4, pp. 4-5, 8-9.
economic and other organizations, as both sources of influence and forums for interchange, and also symbols of recognition in the world of trade and public affairs, if not of diplomacy conventionally defined. The Republic of China, arguably extremely successful in recent years with a flexible and pragmatic approach to international diplomacy, including participation in international and nongovernmental organizations, was not always so realistic. The reaction to expulsion from the United Nations in favor of Beijing resulted not in paralysis but a pragmatic offensive to compensate, outflank the new barrier and find fresh sources of international leverage.

This new flexibility, however, was not instantaneous. Dr. Michael Kau of Brown University, writing in a collection of essays published by the Institute for National Policy Research on Taipei, provides useful background:

Over the years, the defeat and humiliation of the Cold War inculcated in the KMT leadership a strong belief in the doctrine of "Han-tsei puliang-li" (no coexistence between the Han and the bandits). Vowing to fight the Communists to the end, the KMT elite upheld the ultimate extermination of Communism in China as a sacred historic mission (li-shih shih-ming). Both principles were subsequently enshrined as integral parts of the nation's "fundamental policy" (chi-ren kuo-t'ze) in the 1950s.7

This rigid hard-line approach, plausible as long as the Republic of China was the formally recognized representative of China in the United Nations, became unrealistic with expulsion from the world body. Unfortunately, insistence on the recognition and status of an era which had disappeared only served to reinforce the isolation of the government of Taipei. This was especially the case given the increasing dominance of third world nations in the UN, and the priority given by Beijing to cultivation of those very same regimes, especially on the continent of Africa. As Kau notes in his analysis:

Before 1971, when the strength of the ROC's diplomatic ties and IGO membership was superior to that of the PRC, Taipei's claim to sovereignty over all of China clearly supported its political maneuvers to exclude the PRC in the world arena. However, when the overwhelming majority of countries and IGOs shifted their formal commitments to the PRC after 1971, the ROC's continu-

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7. Ibid., p. 11.
ing assertion of the same claim became absolutely detrimental to its own international participation.  

Over time, however, greater flexibility came to characterize Taipei's approach to international organizations and the wider diplomatic arena, with consequent benefits to national position and influence. Instead of continuing to attack Beijing's position head-on, an increasingly unrealistic strategy, Taipei moved to give emphasis to more informal relationships with major nations in the world. The movement toward domestic democracy, and the associated fading of the old guard elite of the KMT, facilitated this process.

In many ways, the relationships developed within the United States following the formal break in diplomatic relations in 1978 are especially instructive. The U.S. Congress passed legislation to create a special private corporation, the American Institute in Taiwan, which in succeeding years has carried out many of the routine tasks of a conventional diplomatic mission. The staff is composed of American foreign service officers, of the usual sort in every way except that they are "on leave" from active duty. Practical relations between the two countries continued fairly smoothly, established on an undeniable basis of legality. By 1990, while only twenty-six nations maintained formal diplomatic relations with the Republic of China, another one hundred twenty were dealt with through informal arrangements comparable to the agreement with the Americans.  

Taipei became increasingly pragmatic as well as imaginative over time. In addition to involvement in international organizations beyond the main UN bodies, relations with levels of government below the national capital were developed. This has been especially important within the U.S. The Republic of China has become highly effective at developing issue alliances and more informal associations with representatives of state and local government. This in turn has been translated into sources of leverage at the national level, in particular regarding the United States Congress, demonstrated with particular punch in successfully engineering a reversal in 1995 of the Clinton administration decision to prevent President Lee from visiting Cornell University.

Generally, there has been a willingness to avoid head-on confrontation with Beijing, while actively expanding the pool of contacts and relationships in the diverse arena of international

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8. Ibid.
9. Ibid., p. 15.
organizations. "Functionalism" is a term developed and popularized in policy circles by academics anxious to describe and also promote the phenomenon of the expansion of nongovernmental organizations, in particular as mechanisms to enhance prospects for cross-national cooperation. Government professionals from the Republic of China have absorbed the basic lessons of functionalism, which include emphasis on very practical cooperation to solve specific problems, which in turn becomes a device to overcome broad diplomatic disagreements and political divisions.\textsuperscript{10}

From a relatively early point the Republic of China demonstrated flexibility in handling relationships with international organizations. This was often as a direct result of American pressure. Pragmatism of the sort that has assisted Taipei in maintaining international influence over the long term was apparent soon after the Communist victory in 1949. An early test in the post-World War II period came with the General Agreement on Tariffs and Trade (GATT). Following the Communist victory on the mainland, immediate questions arose concerning membership in not only the United Nations but a range of specialized associated organizations and sets of arrangements, including the GATT. The United States recognized practical reality, including the fact that the Communist regime controlled important mainland ports, to which the terms of the GATT agreement applied. In 1950 the U.S. urged that the Republic of China, which had participated actively in the formulation of the trade liberalization agreement, withdraw in favor of Beijing. Taipei did so, a move no doubt facilitated by the fact that Taiwan in this period was not a major international trading power.\textsuperscript{11}

Before 1978, both Beijing and Taipei generally insisted on exclusive diplomatic recognition. After that time, Taipei both steadily became more flexible and began to emphasize the importance of participation, rather than just membership. As one perceptive analyst, Byron S. J. Wong, summed up the situation: "A variety of organizations have faced the task of adopting suitable names for mainland China and Taiwan so as to enable both to participate concurrently in appropriate membership capacities. Before 1978, it was a game of choice. Since 1979, it has become a game of names."\textsuperscript{12}

The Republic of China has given emphasis both to established intergovernmental organizations and to the more flexible, informal

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\textsuperscript{10} Ibid., p. 59.
\textsuperscript{11} Ibid., pp. 80 ff.
\textsuperscript{12} Ibid., p. 27.
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and open realm of nongovernmental organizations. The latter realm has been useful because membership very often is not restricted to national entities per se, but rather includes a constellation of other institutions and associations as well as individuals. From 1960 to 1988, for example, membership by the Republic of China in the range of intergovernmental organizations declined from 22 to 6 entities, while participation by the People’s Republic of China grew from 2 to 37 during the same period of time. In the broader realm of nongovernmental organizations, however, which encompasses technical, professional, educational, service and other activities, the Republic of China’s representation went from 108 to 574, while Beijing’s expanded from 30 to 517. By 2004, the ROC was a member of more than 2,000 international nongovernmental organizations. Arguably, while intergovernmental organizations, including the United Nations, have the imprimatur of direct involvement of sovereign states, the wider constellation of nongovernmental organizations has become much more significant with the waning of the Cold War, a consequently more flexible international system, and the expansion of market economies and representative government in the world.

After expulsion from the United Nations, Taiwan suffered through an extended campaign by Beijing to secure removal from other international organizations as well. The Republic of China subsequently lost membership participation in the World Bank, the International Monetary Fund, the International Finance Corporation and the International Development Association. Participation has been retained in ten other intergovernmental organizations; seven of these recognize the designation formally of the “Republic of China.” The organizations are the Asian Development Bank, the Afro-Asian Rural Reconstruction Organization, the Asian and Pacific Council, the Asian Productivity Organization, the International Union for the Publication of Customs Tariffs, the Permanent Court of Arbitration, the International Committee of Military Medicine and Pharmacy, the International Office of Epizootics, the International Cotton Advisory Committee, and the International Criminal Police Organization. Beleaguered over time but still effectively represented institutionally in intergovernmental and nongovernmental organizations, the Republic of China has a solid diplomatic base on which to build in the future.13

The government on Taiwan shrewdly has not only maintained involvement in these organizations but expanded the nation's role in others and sought opportunities elsewhere. Of these affiliations, the most promising and important by far has been the Republic of China's participation in the relatively new Asia Pacific Economic Cooperation organization. This regional initiative of the first Bush administration was initially suggested by the Prime Minister of Australia, Bob Hawke. United States Secretary of State James Baker, and his deputy Robert Zoellick, immediately followed up on the suggestion with practical implementation. Inclusion of the Republic of China was apparently taken as a given from the beginning.

This legitimacy accruing from such membership in turn argues for the continuing press for participation in these organizations. The effort to rejoin the United Nations central institutions clearly is part of this strategy. Here, a non-confrontational style, looking to gains over the long term, is almost certainly the best approach. There is very substantial opposition in that entity to any change in the status quo regarding China, which reflects sentiment well beyond any sympathy for the regime in Beijing. Consequently, Taipei is best advised to pursue the goal patiently as a long-term effort, without confrontation and seeking ways to impress the United Nations with the international economic development, humanitarian and overall political and public policy evaluation of the nation.

Reflecting this insight, Taipei soon after the end of the Civil War in China became more active in the realm of economic cooperation and development. This reflected the fruits of national economic success, plus a far-sighted realization that the status quo, especially as Communist China became ever more assertive on the world stage, was not likely to continue uninterrupted into the turbulent decade of the 1960s. In retrospect, this can be seen fairly clearly as part of the effort to circumvent the problems of being overshadowed by Beijing. In more recent years, the Republic of China has deftly used the growing matrix of international organizations, not necessarily concentrating on the Pacific Rim region, to build a complex web of relationships to further national interests. The focus on the debate over formal United Nations membership, which may or may not have been a wise strategic decision on the part of the government on Taiwan, has drawn attention away from this less dramatic arena.
VI. ECONOMIC DEVELOPMENT: A ROAD TO GLOBAL INFLUENCE

The emphasis on international technical and the economic cooperation organizations builds on a relatively lengthy post-World War II story of the Republic of China's use of such expertise to promote both education and development on the one hand, and useful diplomatic and interpersonal relationships on the other, all rooted in the practicalities and pragmatism of trade and economics. One of the most interesting and important examples is the Committee of International Technical Cooperation (CITC), which began in 1959 with a mission to Vietnam. Not surprisingly, the Republic of China's close diplomatic and military security relationship with the United States, reinforced by very close political and to some extent emotional ties with the conservative political community, resulted in an effort directly to reinforce the American-led anti-Communist effort in Vietnam. Simultaneously, the National Liberation Front, the revolutionary Communist movement in South Vietnam allied with Hanoi, was initiating a serious and ultimately successful insurgency. Taipei was playing, albeit indirectly, in a very high-stakes conflict that would over time expand into full-scale war. The 1959 agricultural mission to Vietnam was followed by fourteen others in Asia. By 1996, nine of these were still operating in various countries in the Pacific region.14

The government has given heavy emphasis to the importance of the relationship with the United States in explaining the rationale and genesis of the foreign assistance program: "During the period of 1950-1965, the Republic of China on Taiwan was greatly benefited by the US aid which laid the foundation of economic growth for Taiwan. We deeply realized that foreign aid is crucial to developing countries. After enjoying a considerable economic growth, the ROC government on Taiwan started to think about how to help other developing countries." Clearly the program is sensitive to the politics involved. The early emphasis on working within Vietnam, a nation which was a priority, though not yet paramount, focus of American anti-Communist efforts demonstrates the adaptability of development aid. The range of the program is truly comprehensive: government materials describe development assistance that ranges from such advanced sectors as "medical services"

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and "highway engineering" to "mushroom culture" and "handicraft art."\textsuperscript{15}

In recent years, the government of the Republic of China has expanded the scope of such international work, reflecting the encompassing ties with more developed as well as developing countries, and the related benefits associated with institutionalizing the work on the broadest possible base. As of July 1996, the Committee on International Technical Cooperation was merged into a new International Cooperation Development Fund. The entity is closely tied into the Ministry of Foreign Affairs, underscoring the practical dimension of diplomatic priorities. Also involved are representatives of the Ministry of Economic Affairs, Council of Agriculture, the Central Bank and the Legislative Yuan. The Fund is headed by the Foreign Minister. Indicating the comprehensive nature of the work of the new organization, the government declared that, "In addition to technical cooperation, investment and loan operation as well as education and training are the main duties of the Fund. The work of humanitarian assistance is also included in the Fund."\textsuperscript{16}

As this implies, the initiative in development assistance has become steadily more diversified. In the early days, increased food production was "... the main target of the technical missions."\textsuperscript{16} Over the years, the mandate of the assistance organization was steadily broadened, to include among other activities the expansion of the inclusive set of support structures known as "infrastructure". At the same time, by the measure of trainees participating in instructional sessions in the Republic of China, the most populous categories have been horticulture, aquaculture and plant tissue culture. Participating countries grew from two in 1961 to sixty-eight in 1996. Currently, more than one hundred five missions employ just over two thousand advisers and development specialists.

Looking at the program in terms of regional participation provides an instructive perspective. There is a heavy concentration of activity in Latin America, a point implicitly recognized by a table in a government publication which divides the "Caribbean," "Central America," and "South America" into separate categories, while not engaging in such distinctions in connection with other regions of the globe. These three Latin American sectors together accounted for one hundred thirty-six technical missions operating between 1991 and 1996. By contrast, during the same period all of Africa received

\textsuperscript{15} Ibid., p. 2.
\textsuperscript{16} Ibid., pp. 3-4.
sixty-four missions, the Middle East twenty missions, the Asian-Pacific region fifty-four missions – and Europe none. This links the relationship between development and economic activity such as service missions, and the diplomatic and strategic goals of the Republic of China. Countries which still formally recognize the Republic of China have been concentrated in Central America. There is a direct, and not particularly surprising, relationship between such assistance and willingness to support the case for the Republic of China’s membership in the United Nations.

In considering the future, the educational, scientific, technical and other professional strengths of the Republic of China argue strongly for continuing emphasis on development activity, and there are perfectly defensible reasons for tying such efforts to diplomatic goals. Opportunities seem especially promising in nongovernmental organizations, and this dimension should be emphasized in comprehensive strategic planning. Arguably in an interdependent global system such activity is becoming more important for nations across the board. Given the reality of relative diplomatic isolation imposed at Beijing’s insistence, the case applies especially strongly to the Republic of China.

VII. THE UNITED NATIONS: HIGH STAKES GAMBLE

Building on this record of ongoing practical accomplishment in developing and maintaining links with a range of international and nongovernmental organizations, plus the enormous self-evident gains of dramatic economic growth and development, the government of the Republic of China in the 1990s began the ambitious political as well as diplomatic offensive to gain formal readmission to the United Nations. The effort achieved very explicit policy focus in 1993. Taipei announced in effect a historic reversal of position, arguing that for the first time a “two-China” policy was acceptable. Fernando Pastrano, a sympathetic but removed journalist based in Spain, summed up the case for admission in an article published in May of that year that was widely disseminated by those supporting the Republic of China’s case. He argued in part:

To support its argument, the Republic of China in Taiwan points to the examples of the two Koreas, both with permanent delegations in the United Nations, and of the two now successfully reunited Germanys. Nine countries have so far supported the Taiwanese proposal, as was made evi-

17. Ibid., pp. 4, 7.
dent at the . . . General Assembly of the U.N. held recently, and it is expected that others will join in.

Until reunification is achieved, which it is hoped will be before the year 2000, a developed, democratic country called Taiwan, with a population of 21 million, deserves appropriate international status.¹⁸

Dr. Jason C. Hu, in his role as Government Spokesman and Director-General of the powerful Government Information Office, was in the forefront of the new offensive for admission to the United Nations. In a February 1994 speech in Evanston Illinois, widely reprinted and disseminated, he laid out the case for admission in some considerable detail. At the crux of the basic argument are the very substantial tangible accomplishments of the Republic of China, including the growth of democracy as well as economic development. Interestingly, he cast the argument for admission in terms of moral equity and equality of treatment, not considerations of traditional international politics or international law. There was an explicit parallel drawn at the beginning of his address with the themes and approaches of the American civil rights movement. He declared without reservation that, "The Republic of China's diplomatic struggle in recent years has resembled in many ways the struggle for civil rights in America . . . [T]he 21 million upstanding and friendly people of the Republic of China are the victims of a deeply entrenched, nearly unchangeable prejudice that is primarily the result of pressure from the Chinese Communists." The effort to rejoin the UN was linked in various ways to the expansion of democracy around the world, including in Taiwan.¹⁹

¹⁸ Fernando Pastrano, "Taiwan Wants to Enter U.N. Without Forcing the Expulsion of Beijing," Spain's ABC, May 22, 1993, reprinted in Jason C. Hu (Editor), Quiet Revolutions on Taiwan, p. 545.

¹⁹ Jason C. Hu, "Why We Can't Wait — The Republic of China's Diplomacy and United Nations Policy," An Address to the Evanston Lighthouse Rotary Club, Evanston Illinois, February 15, 1994, p. 1. See also the representative article indicating the government's public relations and diplomatic offensive, "Time for a Reality Check," Free China Review, October 10, 1993, pp. 44-51. The link between democracy and UN membership was made very explicitly in an August 1995 publication of the Ministry of Foreign Affairs entitled "The Republic of China on Taiwan": "The ROC has also promoted the concept of democracy through education and has strengthened the democratic system through elections. All counties (cities) in the Taiwan area have a council. Members of the county (city) council and county magistrates (city mayors) are all popularly elected. These practices have laid the foundation for democratic government at the local level." "In 1987, the ROC on Taiwan lifted the Emergency Decree. This unleashed the momentum for the establishment of competitive party politics within a democratic
The effort by the Republic of China to gain recognition and renewal of membership under the formal umbrella of the United Nations continued aggressively for several years. President LEE Teng-hui gave explicit emphasis to the theme, which was timed to coincide with his important and controversial trip to the United States in 1995. While President Lee did not give emphasis to the UN controversy in the Olin Lecture he delivered at Cornell University, he was explicit in stating that the Cold War was virtually over and that non-Communist forces clearly are the wave of the future in international relations. In effect, he was giving dramatic if still implicit acknowledgement of the influences which were moving the Republic of China to try to reverse the status quo concerning policy regarding the United Nations:

Today we are entering a new post-Cold War era, where the world is full of many uncertainties. Communism is dead or dying, and the peoples of many nations are anxious to try new methods of governing their societies that will better meet the basic needs that every human has. There are many pitfalls in this search for a new rationale, and man must strive to make the right choices with all the wisdom and diligence he can command.

Czech President Vaclav Havel said, “The salvation of this human world lies nowhere else but in the human heart.” In my heart, I believe that the Taiwan Experience has something unique to offer the world in this search for a new direction. This is not to say that our experience can be transplanted entirely to fit the situation faced by other nations, but I believe that, without a doubt, there are aspects of this experience that offer new hope for the new age.20

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20. President Lee Teng-hui’s Selected Addresses and Messages 1995, Taipei: Government Information Office, 1996, p. 34. The Republic of China had the small band of friendly nations in the United Nations introduce a resolution on readmission every year
This address gives a particularly good representation not only of one leader's guiding principles, publicly articulated, but of the sense of self-confidence that propelled the Republic of China's foreign policy in the first half of the 1990s. In late June, in the wake of the extensive media coverage of the Cornell visit, President Lee issued a formal message that addressed the issues of United Nations membership, encapsulating the case that had already been developed by the government, and drawing explicitly on themes of his Cornell address:

... The precedents of the former states of East Germany and West Germany, and the current case of North Korea and South Korea, demonstrate that parallel participation of divided nations in the UN does not impede their eventual unification. We believe that, the more the two sides of the Taiwan Straits participate equally in international organizations, the more this will help ease the hostility between them. Mutual confidence will be built thereby, and will help develop a cordial relationship and conduce to peaceful unification.

To date, as the Cold War has ended and a new world order is emerging, the ROC's campaign for participation in the UN and other international organizations not only reflects the common aspiration of her people to join international society, but it also exemplifies her willingness to work with other countries for our common cause. In retrospect, the ROC as a founding member of the UN had played a very positive, constructive role during her 26-year-long ties with this world body. Even after she was forced out in 1971, my country has still been upholding the principles and spirit of the UN Charter...21

In mid-September 1995, at the start of the annual United Nations General Assembly session, Taiwanese held a demonstration in front of the headquarters buildings in New York. The point was to promote membership in the world organization under the name "Taiwan." A few days later, the UN rejected a formal bid for membership under the title of the Republic of China. There were twenty sponsors of the initiative, representing nations in Africa, the Carib-

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bean and Central America. Following an extensive debate, the UN General Assembly Steering Committee decided without a vote not to put the matter on the agenda.

The strenuous public campaign to gain readmission to the United Nations so far has met with frustration, and in recent years has faded somewhat as a government priority. While the analogies with the two Germanies and the two Koreas technically may have some validity, the realities of power politics, including relative influence in the world body, undercut the comparisons. The division of Germany and division of Korea were directly linked to the politics of great power competition, in military as well as political dimensions, in the turbulent closing months of World War II and the early phase of the Cold War. Germany’s originally temporary division was made continuous with the life of the Cold War, as a direct result of the deterioration of relations between the Soviet Union and client states on one side, and the western allies, including Britain and France as well as the United States, on the other.

The case of Korea until recently was even more stark, with the division of a nation which had been united for hundreds of years, in contrast to the case of Germany, and the establishment of two increasingly opposite regimes, a rigid Communist military dictatorship in the North, which has so far survived the end of Communist totalitarianism elsewhere in the world, and an increasingly democratic and economically free environment in the South. Not even the Asian financial crisis which began in 1997 deterred South Korea from this evolution into freedom. Cooperation and aid to deflect the North from nuclear military development began in 1994. In the year 2000, the rigid barrier was breached with a visit between South Korean President KIM Dae Jong and North Korean leader KIM Jong II and other follow-up activity. Unfortunately, the second Bush administration has witnessed a return to stark confrontation, with Pyongyang returning to the development of nuclear weapons.

The Chinese situation, by contrast, results from clear victory in revolutionary war, with the mainland regime dramatically overshadowing that on Taiwan as a result of a far larger economy, population base and – measured in sheer numbers and nuclear dimensions – military capacity. In the cases of Germany and Korea, the divisions of the nations were more on roughly equal terms, with direct superpower intervention to protect each respective allied side. In each of these cases as well, the tensions of Cold War conflict highlighted the importance of the demarcation line. Regarding China, by contrast, the sheer size of the territory controlled by the
Communist regime put the Republic of China at a marked disadvantage. For this reason, and especially given the economic success of the Republic of China, pursuit of greater participation in international organizations focused more specifically on trade and finance, and scientific and technical cooperation, is inherently more promising than emphasis on the United Nations per se. Not surprisingly, the Republic of China has had much greater luck when traveling down these policy avenues rather than pursuing the so far frustrated diplomatic frontal assault to rejoin the main UN bodies.

VIII. WTO AND OTHER INITIATIVES

Of these other initiatives, one of the most important has been the effort to join the World Trade Organization (WTO), successor to the General Agreement on Tariffs and Trade, which in turn was born of the effort of major nations late in World War II to institutionalize more open trade and restrict the protectionism which had prolonged depression and contributed to war. In both historical and contemporary terms, this move was especially significant. In the early 1990s, the Republic of China began a sustained campaign to rejoin the GATT. Important concessions were made in pursuit of this goal, including a willingness to forego the special treatment usually granted developing states, to assume at once all the responsibilities of regular membership, and to make significant gestures to render the domestic market more open. Perhaps most important of all, Taipei was willing to enter as a “customs area”, not a distinctive nation, as a way of conciliating the mainland. The security of success permitted the Republic of China to adopt a flexible stance.

Beijing was opposed to Taiwan joining the WTO unless both states were admitted, and this became the private, though not public, basis of understanding underlying the negotiations, especially in regard to the United States. The U.S. in fact would be affected in significant ways by any general opening of trade resulting from the accession of both. For example, one persuasive report by a Department of Agriculture official projected a noticeable increase in trade with the United States, which was estimated to grow by $17 billion for both countries, and some noticeable general impacts on price levels. World competition in textiles and apparel was projected to expand as a direct result of downward pressure on prices. Boosts to development in China, and specifically diversion of workers from agriculture to more lucrative employment, would increase national agricultural imports. American agriculture at one end of a spectrum, and high technology producers at the other, would gain as a
result of these shifts, while domestic apparel makers likely would experience some declines. In short, WTO membership would bring some noticeable changes in trade patterns, but no revolutionary transformation.

The most significant impacts of membership in the World Trade Organization has been on the two Chinas themselves. The restrictive trade effects of the Multi-Fiber Agreement are highlighted in the report as especially consequential, with salutary effects in short order as a result of elimination. The report estimated that gains in revenue for social welfare as a result of accession would be $20 billion for the mainland and $4 billion for the Republic of China annually. Both the People’s Republic of China and the Republic of China have now become members of the WTO, with consequences in terms of trade frictions that are on balance greater with third nations than with one another.

In this context, the calculated diplomacy of Taipei appears likely to be ultimately successful as well as shrewd. Demonstrated flexibility provides a psychological, and hence diplomatic, victory in the contest with Beijing for the perceptions and impressions of third parties. More than ever before, the Republic of China has been able to demonstrate that a middle power emphasizing commercial strength has considerable opportunity to employ and expand influence in the post-Cold War world.

The experience regarding rejoining the United Nations has been decidedly less successful. Some practical, and perhaps even moral, claim to distinctive representation in a world body defined as inclusive has been overshadowed by the very strident, and successful, efforts of Beijing to retain sole representation. Here economic performance counts for less, emotional and symbolic association with the Third World for far more. The unfolding drama seems to confirm the point that the Republic of China does best when able to focus explicitly on the dynamic and tangible competitive world of commerce, removed from the often static and highly emotive world of ideological conflict. In the wake of the collapse of the Soviet Union and Communist regimes in Eastern Europe, and revolutionary economic change within China directly, Taiwan’s influence as a middle power with great trading resources should continue to grow. Such a role is highly compatible with an emphasis on

the technical and commercial, rather than most visible diplomatic, aspects of working with intergovernmental and nongovernmental organizations.

Also debatable is the Republic of China's policy of devoting very extensive diplomatic and political attention, and large amounts of associated development assistance, to selected nations in Central America and, to a lesser extent, South America. Urgent pressures for economic advancement, and to some extent traditions of conservative rule, have made some countries in this region, as well as a few in Africa, willing to face the ire of Beijing in order to maintain diplomatic relations with Taipei. The strategic approach of seeking specific allies, which might be useful in a variety of regional and global forums, is probably sensible. Especially in the Western Hemisphere, with a strong tradition of American influence and interest this is no doubt a source of useful indirect leverage on Washington.

At the same time, however, the very limited ability of the Republic of China to maintain formal diplomatic relations remains a problem for Taipei. Having recognition from nations that are relatively few and small underscores that there are no formal relations with the vast majority in the world, especially the major powers of the Americas, Asia and Europe. While the government in Taipei is no doubt correct to seek formal recognition where that can be found, the very extensive publicity, and frequent high-level visits, devoted to these countries is probably unwise.

The Republic of China's strategy of emphasizing formal return to membership in the United Nations is another example of taking very public steps which tend to reinforce an image of exclusion. The indirect approach of working through specialized agencies, especially those which are economic and technical in nature, is much better advised and more likely to achieve consequences desirable for Taipei. Development assistance is a very significant source of leverage, and much less likely to generate headlines than more flamboyant approaches. Sidestepping the main UN bodies also means avoiding the very powerful hostility that Beijing has expressed, in a sustained and very public manner, for a very long period of time.
CHAPTER 5

THE COMMERCIAL STATE: POLICIES FOR A NEW CENTURY

The Republic of China today confronts both unprecedented opportunities, and also very significant challenges, but to argue that the latter are also equally unprecedented would reveal a genuine lack of appreciation for historical context. Instead, the strengths and opportunities enjoyed are a direct result of confronting a range of difficulties over the past half century. A state which is formally regarded, by the United Nations and most of the countries of the world, including the United States, as something less than a completely sovereign nation nevertheless has established a position of exceptional economic success, strength and influence. This in turn has translated into substantial diplomatic and wider international political leverage as well. The discipline of an economy which places a high priority on fundamental profitability of enterprise, and the scale of a financial system which holds enormous currency reserves, has permitted the Republic of China to weather the severe economic crisis in Asia with relatively little difficulty – at least so far.

The diplomatic, political and economic challenges of the current period are hardly on a level comparable to the problems confronted in earlier years. The trauma of defeat by the Communist Chinese at the end of the 1940s, the early indication that the Truman administration was not inclined actively to defend the Nationalist Chinese on Taiwan, the confrontations and sporadic military engagements of the Eisenhower and Kennedy years, and the shock of formal United States recognition of Beijing in the 1970s are more serious problems than any currently confronted by the government in Taipei. Yet for all the success of political reform and economic development, the fundamental frustration remains that mainland China is governed by a Communist regime that adamantly opposes the Republic of China and has worked aggressively to eliminate or restrict any role for the competitor in the international system. One of the most important commercial and trading powers in the contemporary international system, the Republic of China nevertheless is denied entry into the United Nations and associated bodies. One of the most dramatic examples of rapid industrial development in
the period since World War II, Taiwan’s great achievements are muted by the events on the much larger stage of Communist China. One of the most dramatic examples as well of transition from authoritarianism to democracy, the Republic of China’s past human rights record for some in the U.S. and elsewhere continues to hang over the present in a haunting negative image. Ironically, much more limited progress toward liberalization on the mainland generally receives extensive recognition in the West. Finally, the Republic of China’s increasingly important role as banker funding the enormous economic development of the mainland coexists with Beijing’s sustained denunciation of the separate existence of the island.

Successful foreign policy in the future therefore will require a disciplined, coordinated effort in order both to define and implement activities that will support the interests of the state. The keys to effective policies are unusually varied, just as the Republic of China’s ambiguous international status is unusually difficult to manage. Coping with this arena will require drawing heavily on the principal advantages that are available; paramount among them is Taiwan’s status as a significant middle power. In examining the histories and experiences of other such states, the basic reality must be kept in mind that a close military security alliance is simply not possible for the government in Taipei. The security pact with the United States had to be abrogated as one of the major conditions for establishment of diplomatic relations between Beijing and Washington. In consequence, the sort of leverage South Korea has achieved through an unusually close, indeed intense, military relationship with the U.S. is not available in the case of the Republic of China. At the same time, other approaches of middle powers represent instructive examples for the Republic of China.

1. HOLLAND: COMMERCE ABOVE ALL

The Netherlands is perhaps the most important of the middle powers historically for insights into the most effective contemporary course for the Republic of China. Several hundred years ago, this nation in effect made the decision to substitute economic for military power, giving commerce a sustained emphasis that has brought influence and wealth to a relatively small population and territorial base. The experience of no other European nation is so instructive for those endeavoring to plan for Taiwan’s future.

The analogy of course is only partial. Sacrificing military capacities did exact an historical price, notably in leaving the Dutch at
the mercy of Prussian and German military power. Withdrawal of Holland from the ranks of great power competition in the age of modern nationalism, however, was not inherently disadvantageous. The Republic of China's continuing ideological tension with Communist China automatically removes the option of abandoning or drastically reducing military capabilities. This is in any case a doubtful course in the contemporary international system, but especially so in the context of the massive arms race currently underway in Asia. Nevertheless, the Dutch example of giving main emphasis to commercial as opposed to military capabilities is extremely germane to the Republic of China's current circumstances. Any general war with mainland China would be disastrous, especially given the nuclear weapons capabilities of the regime. Even the very limited military exchanges regarding Quemoy and Matsu in the 1950s created great - and justified - anxiety in Washington as well as Taipei. While deterrence capability against invasion is essential, and this implies at least an informal continuation of military cooperation with the United States, the national security dimension is not crucial to the expansion of the Republic of China's international influence. Rather, continuing to build on the base of commerce and enterprise is the key to positive influence in the future.

In reflecting on the role of the Netherlands, basic insights, strikingly expressed, are provided by financial, and cultural, analyst James Buchan. A Financial Times journalist, and also a successful novelist and literary essayist, he transcends the conventional professional boundaries. His observations on Holland in his brilliant book, Frozen Desire - An Inquiry into the Meaning of Money, are highly insightful. Reflecting on the development of the discipline of political economy in the 17th century, he notes:

... The United Provinces appeared to break every law in the bullionist book: there were no mines ..., no laws against the export of bullion, and rates of interest were the lowest in the world, and yet ..., coin and credit were abundant and wages, prices and rents high. To the "money'd interest," the Dutch appeared to have uncovered some magic of credit; ... the whole world seemed to be sliding unstoppably into the clutches of the Bank of Amsterdam.¹

CULTURES EAST AND WEST

Whatever the Republic of China's success as a commercial and trading state, military realities underscore vulnerability. Diplomatically, the nation is vulnerable as well, given the general absence of formal diplomatic recognition around the globe. A direct clash with Beijing could spell disaster for the Republic. Consequently, success, especially of an enduring sort, is most likely to be achieved through indirect means. The Communist state directed by Beijing is most likely to be transformed from within, through the cooperative means of trade and investment. Direct military or doctrinal confrontation is guaranteed to fail, perhaps disastrously. Beijing's arsenal of nuclear weapons must unavoidably be included in any calculus of diplomatic and military policy by Taipei. The indirect approach has also demonstrably been key to the Republic of China's success with the United States. Far from constantly and publicly pressing the case with Washington, especially the White House and State Department, Taipei rather has worked to establish a network of individual, often very personal, relationships encompassing state governments and the Congress as well as the federal executive branch.

The traditional culture of China is sympathetic to this approach. Approximately two thousand years ago, the Chinese military strategist and philosopher SUN Tzu laid out basic principles for success against opponents. The thrust of his teaching, which remains popular and widely read today, is that actual combat is generally a sign of failure of other means, and should usually be used as a last resort. Achieving objectives by devices short of war is far more desirable. Hardly an advocate of modern appeasement, he is instead an ancient advocate of carefully balancing the scales of costs and benefits, with attention to the crucial non-numerical, non-quantifiable variables. His scales are psychological more than literal. Inherently, he is making the case for the commercial state, defined as emphasizing deployment of assets short of military means. Ironically, the Netherlands investment solution to international conflict, not old-fashioned German military aggression, is congruent with his preference for achieving objectives without the use of force – and so far has proven more durable as a new century begins.

SUN Tzu recognizes the importance of combat, but as an ultimate resort, not a primary means. "Military action is important to the nation – it is the ground of death and life, the path of survival and destruction, so it is imperative to examine it." There is not a neglect of the importance of military effort; rather that dimension
undergirds everything else that comprises the influence and effectiveness of the state. Consequently, military preparedness is essential. He consistently emphasizes the importance of doing the unexpected, which in purely military terms may mean surprise attack but also encompasses a range of other activities, geared together to enhance the means of seeking and finding advantage where others are not looking. SUN Tzu’s famous analogy with water is telling: “So a military force has no constant formation, water has no constant shape: the ability to gain victory by changing and adapting to the opponent is called genius.”

II. MILITARY PREPAREDNESS

The Republic of China has rightly understood that a strong military is necessary, but by no means sufficient, condition in the competition for international survival and, ultimately, success. In this realm as well, the one most directly and explicitly linked to Sun Toss’s philosophy of indirectness, the Republic of China has been successful in sponsoring a very substantial military effort combined with a notable lack of emphasis on actual use of military means. The International Institute for Strategic Studies in London, respected for the thoroughness and objectivity of analyses of military capabilities, provides useful evidence for the development of the Republic of China’s military capabilities over time. The annual publication *The Military Balance* for 1975-1976 provides extensive discussion of Communist China’s military capabilities, including total budget and forces profiles, manpower, organizational structure and weaponry. While other countries in Asia are summarized, there is no separate category for the Republic of China and little focused attention aside from inclusion in a reference to extensive United States arms sales to countries in the region. In contrast, the 1997-1998 edition of the same publication has a separate detailed profile of the Republic of China, along with prose that includes the statement that from 1993, “... Taiwan’s defence budgets have been supplemented by special allocations to meet stage payments for exceptionally large contracts with the U.S. (150 F16C/D ordered in 1992 with deliveries commencing in early 1997) and France (six Lafayette frigates, four delivered by June 1997, and 60 Mirage 20005 combat aircraft, first five delivered in May 1997).”

cludes explicit comparisons of defense budgets. The People’s Republic of China had official defense expenditures of $8.6 billion in 1996 and $9.7 billion in 1997. “Real outlays” according to the IISS increased from $33 billion in 1995 to $35 billion in 1996. Interestingly, much of the increase is accounted for through greater operations and maintenance outlays in connection with the massive military exercises conducted during the presidential elections held on Taiwan in March 1996. The Republic of China’s defense expenditures are reported as $11.3 billion in 1997, with a slight reduction in 1998. In 2000, the ROC unveiled a substantial ten-year defense modernization program, aimed in part at countering the very large long-term military buildup by the mainland.

A similar contrast is available in comparing editions of Strategic Survey, the other main annual publication of the IISS. The edition for 1988-1989, published just before the trauma of Tiananmen Square, mentioned Taiwan only in passing, noting that trade between the island and the mainland had increased significantly, along with the number of people who crossed the Taiwan Strait to visit. By contrast, the edition for 1992-1993 included a much more thorough discussion of the changing international position of the Republic of China, with explicit recognition of the interconnections between national security considerations and developments in international economic relationships:

As the West, and the United States in particular, recognized that it could get tough with China in the post-Cold War world, and the U.S. even forced China to back down on a trade dispute in 1992, the West was more willing to deal with Taiwan. The American and French decisions to sell advanced fighter aircraft...and a general Western policy of sending higher-ranking ministers on official visits to Taiwan, made China worry that previous agreements that were intended to let Taiwan wither on the international diplomatic vine were being undone. Indeed they were.

The essay goes on to note that this was a direct function of the mainland’s own more flexible approach to the Republic of China. “In part because China itself was increasing its economic and cultural links with Taiwan, so the West felt it could do the same.”

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Reflecting the point made in the other publication, the People's Republic military expenditures in recent years have been very heavy compared with those of the Republic of China. Per capita spending obviously was much greater in Taiwan, but that denominator is hardly telling given the vast disparity in population size. In earlier years, the ratio was different; in 1987, the mainland in reported amounts spent $5.78 billion while the Republic of China in 1987-88 spent $6.7 billion. Only India and Japan spent more annually on defense, and they of course are much larger countries than the Republic of China. There has been a continuing bilateral arms buildup involving the two Chinese states; the People's Republic obviously has joined the general, mammoth Asia arms race of recent years much more fully. 6

While building an extremely powerful conventional military capability, the Republic of China has been careful to avoid sabre-rattling or rocket-rattling in the long-term confrontation with the mainland. In the tense atmosphere of 1996, the mainland mobilized very extensive ground and rocket forces for military demonstrations. Taipei sensibly deferred to Washington, which moved the U.S. Seventh Fleet into defensive positions. Thus the continuing security tie between the two states was demonstrated, even years after the formal abrogation of the bilateral defense agreement which had been established in the mid-1950s.

III. ECONOMIC INFLUENCE

A cornerstone of foreign policy must be to continue to establish strong ties between the Republic of China and the People's Republic of China. The commercial, and ultimately political, relationship with the mainland has to be given priority over other subjects, including the potential for greater participation in multilateral organizations. To quote one 1997 report:

Mainland China continues to be the favorite overseas investment site of Taiwan manufacturing, largely due to its economic reforms, geographic proximity, and similar language and culture with Taiwan. According to a survey by the ROC Ministry of Economic Affairs, 72.7 percent of the Taiwan manufacturers polled said they have investment projects on the mainland . . . The 1996 mainland

investment rate is a notch higher than the 66.8 percent recorded in the ministry's survey the previous year. The increase was attributed to more projects being launched on the mainland by large-size Taiwan enterprise in 1996. The United States has long been Taiwan's biggest export market. Even so, the number of local manufacturers that have investment projects in that country slipped from 18.8 percent in 1995 to 12.9 percent in the new survey. The poll also showed a decreasing rate of investment in Hong Kong. Only 9.4 percent of the Taiwan manufacturers said they have projects in Hong Kong, down from 14.8 percent in 1995.7

Throughout the decade of the 1990s, cross-strait contacts, trade and investment continued to expand, despite interruptions and temporary setbacks. In 1987, the travel ban between Taiwan and the mainland was lifted, with results heavily in favor of the former. Direct talks between the Republic of China's Straits Exchange Foundation (SEF) and Beijing's Association for Relations Across the Taiwan Strait (ARATS) commenced in April 1994. Beijing suspended the discussions in reaction to President Lee's trip to the United States, but they resumed in April 1998, and the chairman of SEF visited the mainland in October of that year. In 1995, the Executive Yuan approved construction of an offshore transshipment center in the port of Kaohsiung for direct shipping to mainland China. In April 1997, the first official trade began, using the new facility. There were, however, strong lingering disagreements. In March 1997 mainland China officials threatened to abandon World Trade Organization talks if the US failed to honor a 1992 pledge aimed at giving Beijing admission to that body ahead of Taipei. Many U.S. congressmen were incensed at Beijing's attitude. Rep. Christopher Cox, Republican of California, was among the first to complain and ask U.S. officials for a response.

Trade and investment has survived these tensions. By mid-2002, the total value of approved Taiwan investment on the mainland since 1991 had reached $21.42 billion. Just over half of all Taiwan foreign investment is now located there. At the end of the decade of the 1990s, trade and investment across the Taiwan Strait had become so enormous that only the most serious military conflict was likely to disrupt the situation. In consequence, while mainland China remained by far the larger territory and population, the

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process of economic development was bringing social and political changes in the direction of the Republic of China. In this context, the restrained, non-confrontational stance of the Republic of China has been wise. 

The relative economic decline of Japan over the past decade provides an opportunity as well as a challenge for the Republic of China, especially since the United States has become steadily more consequential for the region. The conventional wisdom for many years, since the reconstruction of Japan following World War II, has been that leadership within the region depends above all on that nation. Japanese leaders themselves have naturally described their country as the principal economic power in Asia, setting the pace at which others will follow. During the decade of the 1990s, however, developments in Asia have called this imagery into serious question. Japan has been mired in recession for approximately a decade, with lack of economic growth and the burden of a substantial number of bad loans increased by the absence of sustained effective political leadership. Certainly a collapse of the Japanese economy would put the region, and for that matter the global economy, at risk. Nevertheless, Japan’s decline also means that alternative centers of strength have become more important. Exports from Asia increasingly are to the United States rather than Japan.

The management of the Asia financial crisis was primarily handled by the United States, and in this context mainland China as well as the Republic of China were strong pillars in the midst of the general financial turmoil. China maintained growth and avoided currency devaluation. Despite some fluctuations in the equities markets, Taiwan averted a financial crisis comparable to those of other nations in the region.

In sum, the unfolding events in Asia make the case that Japan is steadily becoming less important, either as regional leader or as a center of economic activity. China and the United States are more important regional players, reflected in projections that the economy of mainland China will achieve a global role early in the next century, and perhaps surpass the U.S. in size. The Republic of China is extremely well placed to take advantage of this situation, though the policy emphasis must of necessity be inexplicit and indirect in recognition of this reality.

8. Ibid., August 1, 1997, p. 6; see also the excellent description in Willem van Kemenade, China, Hong Kong, Taiwan, Inc. – The Dynamics of a New Empire, New York: Alfred A. Knopf, 1997; recent data from Ministry of Economic Affairs.
IV. ROLE OF HONG KONG

Hong Kong presents a special case of an area of pivotal political as well as commercial importance, with some of the same structural features as Taiwan. Both have had the experience of colonial occupation, though Hong Kong’s was considerably less harsh. Each has a complex, evolving economic relationship with the mainland. In particular, there are significant differences between Hong Kong and the Republic of China. Above all else, Hong Kong was a British colony until control reverted to mainland China in 1997, while Taiwan has been free of foreign control since 1945. Commercial incentives clearly overcame the military dimensions in the occupation of Hong Kong, in contrast to the story of Japanese occupation of Taiwan. Taiwan arguably has had considerably more international influence than Hong Kong, given the lack of colonial constraints.

The Republic of China also has had a more closed economy than Hong Kong as a result of government policy. This is reflected in the analysis of Michael J. Enright, Edith E. Scott and David Dodwell in the volume, The Hong Kong Advantage: “Taiwan is in many ways behind Hong Kong as an international business centre. Taipei is not a cosmopolitan city on par with Singapore or Hong Kong or even potentially with Shanghai and the Taiwanese economy is not characterized by the same transparent markets found in Hong Kong.” The study also includes some relatively positive evaluation of the Republic of China’s potential, noting as well that, “... if Taiwan’s political status is resolved in a peaceful manner, it could become a more direct competitor to Hong Kong than Singapore or Shanghai.”

9. Michael J. Enright, Edith E. Scott, David Dodwell, *The Hong Kong Advantage*, Hong Kong: Oxford University Press, 1988, p.257. The western media were very sensitive to the implications of the transition of Hong Kong from London to Beijing rule for the economy of Taiwan: “Preparations are well under way in the city of Xiamen to welcome business. . . .the largest passenger terminal in China is newly built, the renovation of the ferry port is progressing and the container shipping facilities have been expanded. But these are not preparations for Hong Kong. The old port is opening its arms in expectation of another prize: direct trading links with Taiwan. . . Xiamen is symbolic of how Chinese ambitions towards Taiwan have been bolstered by the handover process – the city, which looks out across the Taiwan Straits toward the island that Beijing has regarded as a renegade province . . . since 1949, is banking on the Hong Kong formula working for Taiwan.” Mr. WU Jie, deputy director of the Xiamen foreign investment committee, says: “With the return of Hong Kong to China, the flights and the shipping routes between Hong Kong and Taiwan are direct so the return of Hong Kong should make a difference. . . it should break the deadlock in cross-straits relations.”
The authors are no doubt correct that the Republic of China's relatively protected economy, and especially the lack of transparency in financial activities, is a long-term drawback if not reformed, but they also may be underestimating the inherent strength of the economic system and associated political institutions. The study was completed before the Asia financial crisis of 1997. The Republic of China weathered that storm relatively well. This is testimony not primarily to a closed economy, but to national policies which have been conservative overall, with emphasis both on maintenance of substantial financial reserves and on enterprises which are fundamentally profitable. Had the case been otherwise, the system would have experienced the same fates as other industrializing economies of Asia.

Emphasis on competition, actual and potential, between Hong Kong and Taiwan tends to understate the degree to which the two economies are integrated, especially in regard to transit of goods and, especially, capital. Hong Kong has provided a ready point of entry and exit from the mainland. This has been especially important for the Republic of China, given the distance and hostility between Beijing and Taipei. Another comprehensive, thorough study of the Hong Kong economy is *Made By Hong Kong*, edited by Suzanne Berger and Richard K. Lester. This analysis makes the point: "Because Taiwan has no direct diplomatic or trade relations with the People's Republic of China, much of its investment in and trade with China moves through Hong Kong and cannot be readily separated from Hong Kong-generated components."

Both the Republic of China and Hong Kong have a more important role in the overall economy of China than is often recognized. Discussion of the development of the economy of mainland China in the media frequently is both simplistic and overheated,

The article provides a summary of the importance of Hong Kong's change in status for the dynamics of direct relations between Taiwan and the mainland: "Most Taiwanese business is routed through Hong Kong. When Hong Kong returns to Chinese sovereignty at midnight on June 30, de facto direct links with the mainland will have been restored and there is eager — some say over-eager — expectation in Xiamen that the handover will hasten normalization of relations." *Financial Times*, June 20, 1997, p. 6.

10. Suzanne Berger and Richard K. Lester eds., *Made By Hong Kong*, Hong Kong: Oxford University Press, 1997, p. 13, Note 19. Also: "With the return of Hong Kong . . . the flights and the shipping routes between Hong Kong and Taiwan are direct . . . It should break the deadlock in cross-strait relations." WU Jie, deputy director of the city of Xiamen foreign investment committee, quoted in the *Financial Times*, June 20, 1997, p. 6.
especially given contemporary headline emphasis on the large continuing balance of trade deficit suffered by the United States vis-à-vis that country. Barry Naughton, an expert on the subject, has estimated that at most only between 20% and 25%, and perhaps less, of the value of imports arriving at the Port of Long Beach California had been added on the mainland. The rest was attributable to Hong Kong and Taiwan. The estimate includes freight and insurance as well as manufacturing costs.\footnote{Ibid., pp. 6-7.}

Additionally, the reversion of Hong Kong to control of the Beijing regime raises important questions of a political nature which reach well beyond simply the degree to which there is economic comparability to the Republic of China. As long as British colonial status was maintained, Hong Kong served as a ready, in effect neutral third area to facilitate transactions between Taiwan and mainland China. In these circumstances, Beijing could pretend that Taiwan was not particularly significant as a source of investment capital, and Taipei could maintain a formal hard-line commitment to a policy of no direct trade with the mainland. In the present changed situation, both sides will be forced to accept a more realistic view of their situations. Beijing may consider Taiwan a renegade province in diplomatic terms, but can no longer avoid the reality that the island is also of crucial economic importance. The same facts recognized by hard-eyed financial market professionals will no longer be so easily avoided by Communist officials on the mainland. Likewise, Taipei will have to become more flexible concerning direct trade with the mainland, and that is already beginning to occur. If a genuinely effective solution to current diplomatic frictions requires acceptance of objective realities, the reversion of Hong Kong to Beijing control is a step forward. Moreover, the shift in no way compromises the Republic of China's long-term steady growth as a source of capital for China in general. The ultimate losers may be primarily the Caribbean off-shore bankers who have profited mightily from a rich commercial market that belies rigid diplomatic segregation of Beijing and Taipei.

V. MULTILATERAL AND MEDIA RELATIONS

If the change in Hong Kong's status means pressure on both China regimes to recognize political reality, thanks to the influence of investment and trade, the renewed effort by Taipei to achieve formal recognition by the United Nations is in a very different cate-
category. In the former case, practical economic considerations dictate eventual diplomatic adjustment; in the latter, diplomatic formalities are reflections of political and ideological pressures. As long as Beijing remains adamant regarding excluding Taipei from UN central bodies, efforts by the Republic of China to reverse the past will be frustrated.

On the other hand, there are a wide range of promising avenues of other activity in the realms of international and nongovernmental organizations. The fact that the Republic of China has steadily expanded membership in such institutions is significant and provides a basis for expanded activity. There is a network of NGOs that involve economic development, information sharing, and social services, disaster relief, and others. As in the past, the Republic of China should continue to give very high priority to strengthening and expanding this web of relationships.

The growth of the international print and electronic media is one of the most significant developments of our time. Economic development has been a principal ingredient in the Republic of China’s maintenance of ties with the United States, expansion of commercial relations with the mainland, and development of the network of NGO ties. Bearing on each of these dimensions, the regime should work to broaden involvement with the mass media, in all forms. Both competitive markets and political democracy are facilitated by open information. Indeed, coping with the challenge of the Internet has been one of the most frustrating, and simultaneously visible, features of politics in Communist China in the past several years. For the Communist government in Beijing, endeavoring to censor and strictly channel Internet traffic is about as likely to succeed as trying to restrict the winds and the tides. Taipei, on the other hand, simply has to blend with and foster the broad growing information flows that are already taking place. Indeed, this most advanced communication and information – and entertainment – technology is a metaphor for the flexibility, and sensitivity to new tools and weapons, that lies at the heart of the arguments of SUN Tzu.

There is a relatively well-established tradition of film making in China. The Republic of China’s first film, “The Orphan Who Saved His Grandfather,” was produced on the mainland in 1922. In 1954, the government created the Central Motion Picture Corporation by merging two existing film entities. Continuing cooperation with film production companies in Hong Kong has assisted the domestic industry for a comparatively long period of time. During the 1960s
and later, the government used a combination of domestic subsidies and very high barriers to imports from Hollywood and elsewhere to protect and develop the industry at home. Unfortunately, while some respected international awards have been won by Republic of China productions, the industry overall is overshadowed by those of other countries, especially the United States. The relative profitability of simplistic kung fu action films hardly does justice to the potential of the resources available. The key to success in the future is not protection and restriction, but building on the existing partnerships in Hong Kong and exploring others, especially in the United States.

Perhaps the greatest potential advantage of the media is the inherently democratic, inclusive and global character of the products. This bears directly on the expanding engagements of overseas Chinese. The best interests of the Republic of China are not served by propaganda, and explicitly Chinese productions are not essential either. For example, Chinese-American Jessica Yu won an Academy Award in 1997 for a U.S. documentary on the struggles and triumphs of Mark O'Brien, a successful journalist despite confinement since childhood in an iron lung as a result of polio. Significantly, in May 1999 the International Press Institute met for the first time on Taiwan, holding the World Congress and 48th General Assembly in Taipei.12

Media availability, indeed pervasiveness in the cities, has accompanied the general economic modernization of the mainland. The western press is on sale in hotel lobbies and elsewhere. Global fascination with American basketball in general, and the Chicago Bulls in particular, was apparent in the mid-1990s. During the same period, Oliver Stone’s film “Nixon”, which was not a major commercial success in the United States market, was embraced in China by large and enthusiastic audiences. President Nixon, revered in China as a man of great historic consequence, received the commendation of Hollywood as well as history in the nation which he

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did so much to change. Fascination with American basketball, especially the championship Chicago Bulls, was apparent during the same period.

Entertainment, along with other information, is provided by powerful technological tools, and the Republic of China is well situated to expand existing efforts. Diplomats are ultimately traditionalists, practicing after all a profession which is effective precisely because so predictable as to means. Seeing information as far more than old-fashioned propaganda, and entertainment as a central ingredient to diplomatic triangulation (Taipei-Hong Kong-Beijing, but also Taipei-Washington-Beijing) is a difficult but – in the present time – essential leap for national strategists to make.

This bears directly on the steady opening up and reform of society as well as politics on the mainland. The “People’s Socialism” of DENG Xiaoping in the economic sphere has provided the basis of the remarkable development of mainland China in recent years. Less well known are the profoundly important political reforms at the top, subtle in nature, which he instituted. Professor Minxin PEI of Princeton University described this dimension in the journal Foreign Affairs. Thanks to Deng’s reforms of both culture and procedures, there has been a significant drop since the mid-1980s in the average age of members of both the State Council and the Communist Party Central Committee. Members are now on average in their mid-50s rather than in their sixties and older. Moderation and routinization of political competition means that individuals no longer lose their lives when they lose out in the battle for power.

Perhaps most telling of all, especially regarding the fundamental importance of the rule of law for stable democracy, there has been dramatic growth in instances of litigation on the mainland. Between 1986 and 1996, civil lawsuits increased by 212 percent, commercial cases by 387 percent, and lawsuits against the government by an incredible 12,483 percent. Between the late 1980s and the mid-1990s, the number of lawyers in Communist China approximately tripled, to a total of 90,000. This development provides not only an ongoing practical challenge to the previous political monopoly of the Communist Party, but also a means by which the opening of the society can be furthered exponentially.13

13. Minxin PEI, “Is China Democratizing?,” Foreign Affairs, January/February 1998, pp. 76-77 and passim. The tremendous expansion of Taiwan investment on the mainland which began in the early 1990s appears to have caught government authorities off guard. While the case is made in this book that such activity is of central importance to Taiwan’s political as well as economic future as a middle power, and the regime is
Dr. Fredrick F. Chien is a broadly accomplished leader of the Republic of China who has been speaker of the National Assembly, Foreign Minister, and Representative to the United States. During his tenure as Foreign Minister, he wrote an essay which summed up very succinctly the economic and political currents moving in favorable directions, with an optimistic tone that is crucial to success in democratic leadership:

As the world celebrates the end of the Cold War, the people of the Republic of China are looking forward to making greater contributions to a new world order. Taiwan's experience shows that the Chinese people, like any other people, are fully capable of practicing democracy, promoting rapid economic growth with equitable income distribution and living peacefully with their neighbors. For this the R.O.C. welcomes the arrival of the global tides of democratization, development, international integration and détente in East Asia.14

At the beginning of the twenty-first century, there has been not only a movement of economic issues to the center of the stage, but an understandable – if not always well guided – trend to relate this subject to international diplomacy and politics, often traditionally conceived. Some analysts, such as Professors Philip Kotler, Donald H. Haider and Irving Rein of Northwestern University in Marketing Places directly extrapolate from business and economic analysis to

credited with shrewdly using this advantage over time, there is evidence as well that market forces have led and political officials have followed, at least initially. For example, The Wall Street Journal reported in 1992: “This week, Taiwan's wealthiest citizen startled the country by announcing that his business group is preparing to invest in the mainland. Billionaire [TSAI] Wan-lin said his Cathay Group is exploring opportunities in property development, cement and financial services in China. Next month, Taiwan officials will hold an unprecedented conference on mainland policy. The key issue will be how to get a grip on a bout of 'Mainland Fever' that has accelerated investment in China to a pace that is unnerving authorities, who only in recent years have allowed Taiwan's people and companies to have limited contact with the mainland after decades of rigid hostility. From listed companies to market speculators, corporate executives to moneyed housewives, the prospect of potential riches in China is exerting an extraordinary pull over Taiwan. In the eight months since Chinese leader DENG Xiaoping traveled to Guangdong province to throw his weight behind reform policies, the economic ties stretching across the Taiwan Strait – some of them permitted by Taiwan authorities and some of them not – have grown increasingly complex.” August 21, 1992, p. A7.

the roles and circumstances of nation states in the contemporary period.  

A more subtle and ultimately more satisfactory approach is provided by Professor Rosecrance. His analysis combines conceptual rigor with an understanding of the history of diplomacy and politics, alliance and conflict among nations. The concept of the trading or commercial state is not new, though the dynamics of international relations among such states is different in a democratic and advanced high-technology age. His core argument is that history provides a useful guide to current developments, and that there is a significant alternative to our conventional focus on the territorial state. The steady expansion of commerce between the Republic of China and the People's Republic of China blurs the traditional image of a clearly defined nation-state. This provides practical integration that leaps over the boundaries of geography – and ideology. From this perspective, few states are as well positioned as Taiwan to take advantage of the opportunities present for a middle power which emphasizes commerce.

VI. THE FUTURE

Reflecting on the history, recent accomplishments, present opportunities and also present limitations of the Republic of China argues for a strategy that has a variety of coordinated elements. Consistent success will be a function of relating undeniable domestic strengths and accomplishments to the changing character of the international system. Above all, national leadership must continue to emphasize economic growth and commercial development at home. This is the base on which the diplomatic and political as well as economic success of Taiwan has been constructed. Closely related to this is the encouragement of economic cooperation and collaboration abroad, drawing heavily on private as well as public capital and associated investment resources, including the exceptional talent represented by the population of overseas Chinese. Expanding trade and investment involving the "greater China" re-

15. Philip Kotler, Donald H. Haider, Irving Rein, *Marketing Places – Attracting Investment, Industry, and Tourism to Cities, States and Nations*, New York, Oxford, Singapore, Sydney: The Free Press, 1993. The overall theme of such work is that practices from business can be applied very directly to attracting new investment and commerce. In the process, territory from cities to nations becomes simply "places" to be marketed, as the latter work argues.

16. A timely and detailed discussion of the opening of the economy, and political and governmental, systems of China, is provided by Pei, supra note 13, pp. 68-82.
region of the mainland, Taiwan and Hong Kong should further increase the involvement of this population in the economic – and ultimately political – fate of the area.¹⁷

There must be sensitivity to and emphasis on the sharply contrasting power centers involved in the regional and global future of the Republic of China. This means above all that the mainland and the United States must both be engaged with expanding stakes in the commercial success of Taiwan. Effectiveness with one of the two great powers will tend to pay dividends in relations with the other. In both cases, cooperation with the private sector is central. Regarding the U.S., the multinational corporation is very significant, especially in mobilization and deployment of capital, but small business has been even more important to the impressive growth in exports over the past decade. The constellations of regional and international organizations provide diverse opportunities for building both alliances and buffers; a necessary corollary is avoiding aggressive frontal assaults.¹⁸

Finally, states and formal intergovernmental organizations live in an international arena in which means of communication and interchange are becoming constantly more open and available. The Internet is a popular and appropriate reference point, and in total is not only an increasingly important medium, or collection of media, but actually a symbol for the wider revolution in information sharing. The Republic of China has demonstrated remarkable skill at overcoming immediate barriers to participation in the international system of states. This has involved an emphasis on indirect means of access and influence. Perhaps the most notable example is the assiduous cultivation of state and local government officials in the

¹⁷. Gary Klintworth, a scholar at Australian National University, observed in the early 1990s that, "The Chinese Communist system has always been much more flexible than the Soviet Union’s. . . . Communist China has the overseas Chinese to oil the wheels of change, and it enjoys a central location in the Asia-Pacific economy. Communist China, in fact, is integrated into the international political economy to a far greater extent than was ever the case with the Soviet Union." The Free China Journal, September 25, 1991, p. 7. See the interesting report by David M. Lampton, Ying-mao KAU, Terrill E. Lautz, Peter T. Mangione, James S. Martens, June Mei, W.S. PAU, and Mark Schlagsky, The Emergence of "Greater China" – Implications for the United States, A Report on a project of the National Committee on U.S.-China Relations, Inc. with the support of The Henry Luce Foundation, New York: National Committee China Policy Series, No. 5 (October 1992).

United States in order to circumvent Beijing's diplomatic recognition by the central institutions of government in Washington. The combination of an information/media revolution, and the steady growth in importance of international commerce, provides new opportunities for global participation and visibility. Beijing's weakening grip over an increasingly decentralized economy provides complementary evidence that the mainland will continue to become more open to external influences.

The growing role of the private sector, beyond government, including the multinational corporation but also small business and a range of associated entities, means that both the Taipei and the Beijing governments will be operating in an environment in which national institutions per se will be less important. Just as other middle-range nations, examined selectively, provide useful thought-provoking examples that aid in analysis of the development of Taiwan, so the recent history of the Republic of China represents a success story that is instructive to other nations seeking effective and sensible international roles. As more states follow the route of trade and investment in the twenty-first century, the less likely there will be repetition of the wars, horrors and holocausts of the twentieth century.
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