



Options for a Democratic Taiwan

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Summary points

- Over the last two decades, as Mainland China has been developing and liberalizing its economy, Taiwan has been undergoing an equally remarkable but very different political transformation, from martial law in 1987 to its current status as one of the most vibrant, stable democracies in Asia.
- Despite its eventful experience of the democratization process, the parliamentary and presidential elections in 2008 proved that Taiwan is now a mature, and stable, democracy. It has passed the ultimate test, seeing the successful transition of rule from one party to another and back again, without social turmoil.
- Economic performance over the same period has been less striking. Once among the fastest-growing economies, Taiwan is now afflicted by a relatively low growth rate, and problems over the outflow of capital and investment to the Mainland.
- The potential for conflict over cross-straits relations remains but it has been significantly reduced under President Ma and by the Mainland Chinese government's greater accommodation with a democratic Taiwan in the last decade. The risk of a military conflict between the two sides, which could drag in the US, and therefore the rest of the world, cannot be entirely discounted, however.
- Taiwan's greatest challenges in the next decade remain the same as in the last – to maintain its identity, to develop its democratic system, and to handle relations with the Mainland in a way that preserves its interests while avoiding conflict. Taiwan's system, which has so far proved itself robust and effective, faces a new challenge too: how to benefit from the increase in Mainland investment abroad.

Taiwan is the sole ethnic Chinese society to complete a second democratic turnover of power. Ethnic Chinese communities around the world have laid their hopes on this crucial political experiment. By succeeding, we can make unparalleled contributions to the democratic development of all ethnic Chinese communities. This responsibility is ours to fulfil.

Taiwan President Ma Ying-Jeou, Inauguration Speech, 20 May 2008¹

Introduction

Taiwan's transformation to a multi-party democracy from autocratic, one-party state under martial rule under the Guomindang (KMT, or Nationalists) government until 1987, and the creation of institutions, constitutional amendments and structures to support this process, has been one of the great political success stories of modern times. After the civil war and the creation of the People's Republic of China under Communist control, in 1949 the government of the Republic of China was finally based in Taiwan. Its dramatic development over the next three decades turned it into one of the world's fastest-growing economies. But this transformation was also eventually accompanied by social and political changes. The creation of authentic independent unions in the late 1970s led to the covert tolerance of opposition parties in the 1980s. Martial law was lifted in 1987, a year before the death of Chiang Ching-kuo, the President from 1978, and the son of Chiang Kai-Shek. The constitutional amendments in 1991 formally admitted non-KMT parties, and in effect led to the dismissal of the National Assembly members who had been in place since the late 1940s. Since 1991, Taiwan has achieved landmark successes in the process of democratization. This paper outlines its progress, looks at where it stands in 2009, and considers how it might develop in the next decade.

The development of the Republic of China and its path towards democratization (1949–2000)

Taiwan was born of a bitter and traumatic international and civil war. Taiwan island was occupied by the Japanese from 1895. Its close links with Japan have shaped the island's unique cultural identity to this day; some former leaders such as Lee Teng-hui spent many years as students in Japan and became fluent in Japanese. Sporadic strategic periods of united activity between the Communist Party of China, founded in 1921, and the KMT throughout the 1930s were intensified in the war against the Japanese from 1937 to 1945, when the primary goal was to protect the Republic of China from wholesale aggression and destruction.² The toll of this conflict was terrible, with over 20 million killed and 50 million displaced. But China's years of conflict were not over. From 1946 to 1949, the Nationalist government, recognized by the US and the other allies as the sole legitimate government of China at that time, waged a series of epic battles against the Communists under Mao Zedong. By 1949, these had been largely resolved. A number of tactical errors by Chiang Kai-Shek and his army led the KMT to flee the Mainland and establish its headquarters in Taiwan. Although it passed a Constitution, adopted on 25 December 1946, which promised that both KMT and Communists would work in a new unified government, this was never to happen. From 1949 onwards, the Republic of China, which had come into being with the fall of the Qing Dynasty in 1911–12, continued its government in Taiwan, and the Mainland saw the establishment on 1 October 1949 of the People's Republic of China (PRC) under the Communists.

'Temporary Provisions during the Period of Communist Rebellion' passed by the KMT in December 1949 established a state of martial law that was to last for nearly four decades. Taiwan existed with international recognition as the legitimate government of

¹ <http://www.mac.gov.tw/english/english/macpolicy/ma970520e.htm>.

² This is described eloquently in both Rana Mitter's *A Bitter Revolution* (Oxford University Press, 2004) and Jonathan Fenby's *Penguin History of Modern China, 1850–2008* (2008).

China. It occupied the China seat on the UN until 1971, and enjoyed recognition by the US as the government of China until 1978. But the rapprochement between President Richard Nixon and Chairman Mao in 1972 changed the complexion of the Cold War. The People's Republic sought much closer relations with the US, which culminated in the PRC's diplomatic recognition in 1978, despite bitter protests from Taiwan. From the 1970s, and in particular from 1972, when the Shanghai Communiqué was drafted during Nixon's visit to China, Taiwan–Mainland relations have been largely viewed within the 'One China' framework. This has been a major underlying theme of the politics in Taiwan.

The lifting of martial law in 1987 was an important symbolic moment in Taiwan's evolution. A large part of this story is the economic success that Taiwan had enjoyed from the late 1950s onwards, at a time when the Mainland was suffering from famine and poverty. The Republic of China had managed to bring a period of hyperinflation in the late 1940s under control through the use of the foreign reserves (up to US\$ 170 million) that it had brought with it to Taiwan, and aid from the United States. But it supported these measures with successful legal reforms, and land reforms – which proved impossible to achieve during the Maoist period in China, despite many attempts. From 1952 to 1986, Taiwan enjoyed an annual growth rate of almost 9%. In 1952, agriculture accounted for 35% of its GDP. By 2008, this was a mere 2%. Efficiencies in the agricultural sector freed up workers to go into the newly supported industrial and technology sector (this was to be a pattern used in other fast-developing economies including South Korea, Singapore and Japan). By the late 1970s, Taiwan had become a major exporting nation, which had attracted investment from US and European multinational companies. It proved particularly successful in high-technology process industries, especially semiconductors.

The economic and social results of this transformation were visible early on. The political effects were to happen later. Taiwan's development was due to small and medium-sized businesses, which eventually benefited from state support. Some of them received foreign

investment and technology which enabled them to access international markets. From the 1980s, a similar model appeared in the Mainland, and from 1992, after Deng Xiaoping's Southern Tour, in which he reaffirmed the Mainland's commitment to continuing to open its economy to the outside world after the tragic interruption of the June 4th 1989 protests in Tiananmen Square, Taiwanese companies became some of the most active investors in the Mainland. After a modest start, they had committed up to \$US 100 billion there by 2007. Large increases in foreign exchange in the 1980s saw a similar improvement in healthcare provision, the creation of a large and broad middle class, and, perhaps most remarkable of all, the creation of relatively equal and stable prosperity across society. In 1962, Taiwan had a per capita GDP of US\$ 170, ranking equal with Zaire. By 2007 it had reached US\$ 16,590 per capita; according to the International Monetary Fund (IMF), this placed it 28th out of 179 countries, bringing it to parity with many countries in Europe.

Such economic and social changes brought with them political reforms. Taiwan's domestic politics had not really been conducted according to the 1946 Constitution, but under an autocratic one-party government, from 1978 to 1988, President Chiang Ching-kuo had presided over an economy growing at over 13% per year, with per capita GDP rising to US\$ 4,600 by 1980. Chiang allowed tolerance of non-KMT parties (called 'Tangwai' – 'outside the Party'), and it was in this way that, for instance, the Democratic Progressive Party (DPP) came into being in 1986, originally operating as a pro-environmentalist, pro-democracy party. Unions were also initially tolerated and then legally enfranchised; this was accompanied by a gradual relaxing of press controls. The lifting of martial law in 1987 just before Chiang's death was a major symbolic move from which much of Taiwan's democratic developments flow.

Chiang's replacement as President and head of the KMT, Lee Teng-hui, was the first Taiwanese-born person to hold these positions. He had a clear sense of Taiwan's unique identity from early in his tenure. Demonstrations in 1990 by the Wild Lily Student

Movement led on 21 March to a meeting between President Lee and the main student leaders, at which he promised democratic reforms. In part, these demonstrations and the reforms which followed them had been inspired by the repercussions of the fall of the Berlin Wall in late 1989 and the demise of the USSR. Even so, in view of the bloody fate that had befallen similar demonstrators at Tiananmen Square in Beijing in June 1989, the student activism was a courageous move. The real achievement, however, was the decision in 1991 by the National Assembly – many of whose members had been in place since 1947 when the Assembly had first been convened as the supreme body for legislative decision-making in the Republic of China – to adopt constitutional amendments, subsequently called ‘The First Revisions’, allowing elections. In 1992, the ‘Second Revisions’ allowed direct elections for the Presidency. There were further constitutional revisions in 1994, 1997, 1999 and 2000, and in 2005 the National Assembly actually voted to disband itself and allow all legislative positions to be decided by direct election in 2005.

These reforms paved the way for the first universal-suffrage direct election for the presidency of Taiwan in 1996. This was a dramatic event, in which KMT incumbent Lee Teng-hui stood against Peng Ming-min of the DPP. It was accompanied by much sabre-rattling from the Mainland, which held military operations just off the coast of one of the Taiwanese islands, and US President Bill Clinton ordered two aircraft carriers to go to the region to maintain peace. But the net effect of such moves was a clear final lift to Lee’s result; he achieved 54% of the vote, against Peng’s 21%. This also emboldened Lee to talk of ‘special state-to-state relations’ in 1999, aggravating relations with the Mainland, which already felt that control of cross-straits relations was slipping away. (Lee retired from the presidency in 2000, having served the maximum two consecutive terms as President allowed under the Constitution, and was also forced to step down from leadership of the KMT the same year, over claims that his perceived hardline over independence had caused the KMT to lose the election.)

But the most remarkable shift in Taiwan’s democratic transformation came in 2000, during the dramatic presidential elections in which three candidates stood: Chen Shui-bian of the DPP, Lien Chan of the KMT, and James Soong as an independent. The campaign itself was a battle royal, with Soong hampered by accusations he had been involved in corruption, and Chen pledging the ‘Four Noes and One Without’ as the basis for future relations with the PRC (see below). Deep unease in Mainland China led to further attempts to affect the outcome of the democratic process by putting diplomatic and military pressure on Taiwan. But the final results were split almost equally three ways, with Chen achieving 39.3%, Lien 36.8% and Soong 23.1%. KMT discontent at the outcome was overcome. Taiwanese people had made the boldest move of all, voting out a party that had been accused of being the world’s richest political organization (it was estimated to have assets in excess of US\$ 1 billion), and that had dominated Taiwanese politics since its foundation.

Democracy delivered – the presidency of Chen Shui-bian (2000–08)

The period of Chen Shui-bian’s presidency was a troubled one. It began with bad economic news: Taiwan reported negative growth for 2001 and 2002 as the recession took hold. But Chen’s presidency was, unsurprisingly, to be dominated by relations with the Mainland.

The general framework for relations with the Mainland had been established in 1992, when senior spokespeople for both sides, in a meeting in Hong Kong, agreed to disagree on the substance of their respective One China Principle. The important difference was that while the PRC saw One China with the government of the PRC as its legitimate representative, the Republic of China saw One China with the government in Taiwan as the legitimate representative. This was subsequently called the ‘1992 Consensus’, although there was controversy and argument afterwards about what specifically had been agreed, and, more importantly, how this was to be interpreted. One of the most

tangible outcomes of improved relations with the Mainland was the ‘Three Links’, first articulated in 1979 – postal, transportation and trade links. From the 1980s, there had been Taiwanese investment in the Mainland, although there were clear restrictions on which sectors this could go into, and how much of a Taiwanese company’s assets could be deployed. Postal links were established from the 1990s. Transportation links proved harder to achieve, although special chartered flights were provided for family reunions and, for symbolic reasons, during other important occasions such as Chinese New Year in the later part of Chen’s presidency. But they were vulnerable to political manipulation: planned flights in 2005 were cancelled because of Mainland displeasure at what were seen as stronger independence moves in Taiwan.

Lee Teng-hui and Chen Shui-bian had, in many ways, proved consistent in one area of policy towards the Mainland. They had acted, and often spoken, as though Taiwan were in fact a sovereign and independent country, separate from the PRC, even if they did not overtly state this. But once in government, Chen had needed to be more pragmatic, even though one wing of his party was clearly strongly pro-independence. In his inaugural speech in 2000, Chen spoke of the ‘Four Noes and One Without’. As long as the Mainland did not instigate openly aggressive moves against Taiwan, Chen said that his government would not declare Taiwan’s independence, not change its official title, not promote a special referendum on the Constitution, and not include special state-to-state status in the Constitution. The ‘One Without’ was ‘not to abolish the National Unification Council’.

Chen’s greatest political obstacle was the fact that he was ranged against a pan-KMT (called Pan-Blue) coalition in the Legislative Yuan (parliament), which blocked much of his legislative programme. This meant that relations with the Mainland, investment from Taiwan in the Mainland, and any political backlash from policy announcements on relations with the Mainland that Chen made all became political footballs. Chen himself was able to visit the US unofficially, either as a transit country when travelling to some of the

other countries, particularly in Latin America, which still diplomatically recognized Taiwan, or for unofficial meetings. Chen was also able to visit Europe for the first time as President of Taiwan when he attended the funeral of Pope John Paul II in 2005. The Vatican was the only state in Europe that recognized Taiwan.

Unlike in 2000, the government of the PRC kept largely silent during the elections in 2004, where Chen stood in a simple two-way race against Lien Chan. Lien had announced a slightly different formulation of the KMT policy on relations with Mainland China in 2003 when he said that Taiwan did not want ‘immediate independence’ but was at the same time ‘pro-reunification under the right circumstances’. By 2004, however, the issues for the election were largely economic; Chen was blamed for low growth rates and the poor performance of Taiwanese enterprises. Taiwan had become a member of the WTO with special status in 2002, a little after the PRC. But its attempts to join the World Health Organization, to which it had applied every year since 1997, had proved unsuccessful. Unemployment had also risen to 4.5%. Chen was seen as responsible for many of these problems and looked set for defeat by the final few weeks before the election. But on 19 March he was shot while campaigning in Tainan. Although he was not badly injured, the KMT claimed that the shooting had been a set-up to garner sympathy votes. Chen scraped home with a mere 25,000-vote victory. The result was bitterly contested by the KMT and the Pan-Blue coalition, both of which demanded a recount. This only confirmed that Chen had won by the narrowest of margins. Lien Chan was accused in the Taiwanese press of being aloof and out of touch with the people – the same had been said about him in 2000. But the very legitimacy of the election was questioned, and this led to protests and riots throughout the early months of Chen’s administration. Despite exhaustive enquiries, claims have been maintained to this day that the shooting had been a set-up. But the important thing was that in the end the democratic outcome was accepted, and Chen was sworn in again as president.

Chen’s second term was dominated by constitutional changes, accusations of corruption and an increasing

frustration at least on the part of the US with what was perceived as Chen's posturing on the cross-straits issue. The constitutional changes largely affected the Legislative Yuan, with new arrangements proposed for the elections in January 2008. Under Chen, Taiwan had in effect five arms of government: the Examination Yuan (in charge of the civil service), the Control Yuan (in charge of discipline and inspection of the government), the Executive Yuan, the Judicial Yuan and the Legislative Yuan. The Executive Yuan equates most closely to the Cabinet in the UK system. Chaired by the Premier and the Vice Premier, it is made up of ministers for various departments, and ministerial-level organizations. The Legislative Yuan equates more closely to a parliament, though in Taiwan's case there is only one chamber. This had over 225 members in 2005, when the National Assembly voted to dissolve itself, passing nearly all of its functions to the elected body. Chen's reforms reduced the number of members of the Legislative Yuan to 113; most were elected, although a small group were appointed to represent special groups. In the first elections in 2008 held under the new system, the KMT got 81 seats; the smaller parties working in coalition with it, and the New People's First Party (set up by James Soong in 2000 when he left the KMT), together won 5 seats. The DPP managed only 27 seats. This landslide was a precursor to what would happen in the March presidential elections.

While these reforms were becoming embedded, strengthening the division between the executive and the legislative arms of government, accusations of corruption swirled around those close to Chen from the start of his second term. Chen had enjoyed a distinguished career as a maritime lawyer (working at one time for Evergreen Shipping, one of Taiwan's largest and most successful companies), and while Mayor of Taipei in the 1990s he had led a major crackdown on graft, corruption, and prostitution and drugs rings. But the charges of embezzlement levelled against his wife in 2006 were ominous. Accusations against high-level politicians were not unusual. The KMT had managed to rid itself of the massive assets it had owned in the 1990s, although there remained controversy over how it had

done this, and where some of the money had gone. But corruption remained a sore point. By 2008, these accusations against Chen had reached a peak. Although he finished his full second term as President, he remained the Chair of the DPP until August 2008, when he was forced to resign this position too. In December 2008 he was indicted for money-laundering, forgery and misuse of state funds – a process which is still working its way through the courts.

Chen was fiercely criticized during the 2008 presidential elections. He had made enemies too in the US administration, and with the PRC leadership. Taiwan's economy had not performed as well as many Taiwanese had wanted under his stewardship. Even so, his contribution to Taiwan's democratization should not be overlooked.

The March 2008 election – the return of the KMT

Ma Ying-Jeou, the former Justice Minister and then Mayor of Taipei, was elected Chair of the KMT in 2005, clearing the way for him to stand for election in 2008 on the same ticket as vice-presidential nominee Vincent Siew. Ma deliberately focused his campaign on economic issues, saying at one point that the arguments about relations with the Mainland were not the key issue for Taiwanese people in their daily lives, but economic performance was. The campaign itself was dominated by dramatic rallies, and political jostling. One particular issue that reared its head towards the end of the campaign was the 'green card' issue, and Ma's purported links with the United States. Although it was fairly clear that he was Taiwanese (even though he had not been born in Taiwan), the underlying issue here related to claims that somehow Ma was 'not really Taiwanese', and therefore might not represent Taiwan's interests. Ma himself struck back at the DPP candidate, Frank Hsieh, reminding the electorate of the recent issues of corruption and poor economic performance associated with the DPP's period in government.

One striking feature of Ma's campaign was the role that he foresaw for economic relations with the Mainland. Since the 1980s, the People's Republic had

undergone a remarkable economic transformation. It had posted growth rates of over 10% for much of this period. By 2006, it had become the largest holder of foreign currency reserves in the world, and by 2008 it was the world's third largest economy, after Japan and the US. It had become the second largest attractor of inward investment, and the second largest exporter. In many industries, it had become the factory of the world, building massive export-orientated industries, particularly in China's southern and coastal regions. This economic change, however, had not been accompanied by any major political reforms, even though China had created a large middle class, and had undergone an intense process of urbanization, and legal reform. While so-called Village Elections had been held since 1987, with almost a million taking place by 2006, the PRC remained a state in which one party, the Chinese Communist Party, maintained a monopoly on power. The unrest in 1989, a year before Taiwan's Wild Lily Movement student protests, had been brutally crushed, silencing all talk of multi-party elections and the establishment of political parties competing with the CCP.

Mainland economic planners had said that their chief model for the reforms that had been introduced since the 1970s was Japan, though they had shown some interest in Singapore. But in many ways Taiwan had led the way in its shift from agriculture to export industries. There were also clear cultural similarities in the function of small to medium-sized enterprises, though these went under the misleading title of Town and Village Enterprises in the PRC. Taiwanese enterprises had, in fact, been the suppliers of capital and know-how from 1992 onwards, when almost US\$ 100 billion of Taiwanese investment was committed to the PRC. In particular, Fujian province, which faced Taiwan, was a major destination for Taiwanese money, as was Shanghai, which had become home to almost half a million Taiwanese business people by 2007. Tellingly, soon after becoming president, Ma Ying-jeou dropped the law preventing Taiwanese companies investing more than 40% of their assets in the Mainland.

Ma talked of 'a greater Chinese market' during the campaign. There was a strong feeling, at least in the business community, that Taiwan had not enjoyed as many benefits as it might have done from Mainland China's boom, even though it had contributed significantly to it. Pro-independence voices claimed that they saw a heavy political price tag for allowing more investment from the Mainland to flow into Taiwan, and more economic and technical cooperation to flow the other way. For them, the strategy behind this was for the Mainland to exercise more and more control over events in Taiwan, and to slowly influence and change it.

The PRC's emergence as a major investor abroad brought particular challenges. In 2007, outward direct investment statistics from the Mainland Ministry of Foreign Commerce (MOFCOM) showed that US\$ 2 million had been committed to Taiwan.³ During the election campaign, some rallies were held in Taipei under the shadow of a neon advertisement proclaiming the virtues of Lenovo, one of Mainland China's most successful international companies. The PRC had gone from nowhere to committing US\$ 150 billion abroad by the middle of 2008. The drivers of this process were complex. But the PRC's year-on-year exponential growth rate was obvious.

While Ma was able to point to the missed opportunities that PRC investment and deeper trade relations were offering, there was much debate both during and after the campaign about how to use this to Taiwan's benefit. An Invest in Taiwan campaign in 2005 had argued that Taiwan's companies were not investing at home, but creating jobs and economic prosperity elsewhere. An unsuccessful campaign was mounted to maintain the restrictions on exporting technology in what were perceived as sensitive sectors, such as semi-conductors. Ma himself only stated that such protectionist measures were unlikely to succeed, went against the spirit of open borders and trade, and in any case were issues shared by other countries, particularly the EU and US, which had also been lobbying the PRC on more open markets and fewer restrictions on operations in the Mainland.

3 MOFCOM and National Bureau of Statistics, *Overseas Direct Investment Report 2008*.

Ma was elected by over 58% of the electorate in March 2008. After eight years, the KMT had returned to power. During his election victory speech, Ma recognized that he was now president of a country in which over 40% of the people had not voted for him, but that he still had to represent their national interests. Perhaps one of the most striking features of the whole campaign was the way in which the Mainland government kept silent. In 1996 and 2000, there had been evidence that their attempts to signal dissatisfaction had backfired. In 2004, they had remained silent and seen the election, by a whisker, of their least favoured candidate. But in 2008, the return of the KMT was something that they evidently welcomed.

The Ma Ying-Jeou presidency – 2008 onwards

President Ma's inauguration speech on 20 May 2008 contained several key policy objectives for his new administration. The first was a strong commitment to democracy and the democratic process:

Taiwan's democracy has been treading down a rocky road, but now it has finally won the chance to enter a smoother path. During that difficult time, political trust was low, political manoeuvring was high, and economic security was gone. Support for Taiwan from abroad had suffered an all-time low. Fortunately, the growing pains of Taiwan's democracy did not last long compared to those of other young democracies. Through these growing pains, Taiwan's democracy matured as one can see by the clear choice the people made at this critical moment.⁴

Ma promised to abide by the Constitution and seek to make no changes to it, but to act within it. He also stated that he would act according to the law and promote clean government; there would be a definite division between the five arms of the government, with his executive arm answering clearly to the legislative one.

Ma also signalled that he would promote new policies to improve Taiwan's economic performance. He

promised to strengthen Taiwan's security through strong defence, and to stand by the policy of the three 'Noes' on relations with the Mainland – 'No unification, no independence, no use of force'. But he reminded his audience that, while he was not-Taiwanese born, he was fully Taiwanese in his awareness of Taiwan's isolation, and its lack of international space. 'Taiwan doesn't just want security and prosperity,' he stated. 'It wants dignity. Only when Taiwan is no longer being isolated in the international arena can cross-strait relations move forward with confidence.'

There were many ways in which events were to move out of Ma's control, as was the case for so many other countries. The global economic downturn from early 2008 onwards had as great an impact on Asia as anywhere else. And whereas Taiwan had been largely unaffected by the Asian financial crisis in 1998 (the 2001–02 recession was unconnected with that previous crisis), this time there were clear signs that Taiwanese enterprises, especially those with bases in the Mainland manufacturing for export markets, were severely affected when these markets started to dry up towards the end of 2008. Taiwan had a growth rate of 1.7% in 2008, and a 4% unemployment rate.⁵ But, as for the rest of the world, these are likely to deteriorate in 2009.

The meeting between Vice President-elect Vincent Siew and President Hu Jintao of the PRC on 11 April at the Boao Forum in Hainan Province (their second meeting since 2001) was the highest-level meeting since 2005 between leaders of the PRC and Taiwan. The fact that Siew was about to be formally sworn in as Vice President of the new administration in Taiwan was particularly significant, and was taken as ushering in an era of more constructive talks about cross-strait issues. Negotiations in June 2008 led to an agreement to allow Mainland Chinese tourists (up to a maximum of 3,000 per day) to visit Taiwan on chartered tours, and the creation of direct scheduled air links between specific cities in Taiwan and the Mainland. At a follow-up meeting in November, the head of the Association for Relations across the Taiwan

⁴ <http://www.mac.gov.tw/english/english/macpolicy/ma970520e.htm>.

⁵ Statistics from CIA, *World Fact Book*, 2008.

Straits (ARATS), Chen Yunlin – the highest-ranking CCP official to visit Taiwan since 1949 – signed the Taiwan–China Cross Straits Economic Pact. The Pact increased the number of cities on each side with direct air links, opened up further ports to each other, and addressed issues such as food safety standards and direct postal services. Chen’s visit was contentious, provoking riots in Taipei. Even so, public surveys continue to show that the vast majority of Taiwanese support improving cross-straits ties and see it as in their interests to do so.

Nevertheless the sense of vulnerability and what has been labelled ‘Taiwan anxiety’ have only increased in the years since the first direct presidential election in 1996. There are two distinct and tangible causes, both of which must be constantly on Ma’s mind. The first is the dramatic build-up of arms in the regions on the Mainland directly facing Taiwan. The People’s Liberation Army was removed from commercial business interests by former President Jiang Zemin in 1998. However, as part of this process, the military budget and the efforts to professionalize and improve the army’s capabilities and capacity have increased. The PLA has raised its annual spending by 17% year on year since 2003, according to the Pentagon’s *Annual Report to Congress on China’s Military* in 2008. Even this is probably a massive understatement by the Chinese government; the overall Chinese military budget is most likely well above US\$ 100 billion. This does not come anywhere close to the US budget of nearly US\$ 500 billion a year.⁶ But it still places the PRC in the top military powers.

While the PRC has increasing interests abroad, and concerns about its own national security, there is no doubt that its primary objective in such a significant arms build-up remains Taiwan. The number of missile heads based in Fujian has increased markedly in the last five years. And more militant factions in the PLA remain keen, as they were in 1996, to demonstrate their capability, despite the fact that their experience of international conflict in the last three decades is

confined to an unsuccessful attack on Vietnam in 1979. Russia, in particular, has supplied arms to the PRC, but only those that could be used in the kind of conflict that might be involved in an aggressive move against Taiwan, not arms that might be turned against Russia itself.⁷

The second reason for the sense of vulnerability is diplomatic. In the last four decades, Taiwan has gone from having a seat on the UN, being diplomatically recognized as the legitimate government of China, and being a member of all multinational organizations, to being recognized by only 23 countries, having no UN seat (despite Chen Shui-bian’s unsuccessful referendum held at the same time as the presidential election in 2008, asking whether Taiwan should apply for membership, which was rejected by a clear majority of the Taiwanese electorate) and being unable to join the World Health Organization. Ma’s talk during his inauguration speech of the importance of continuing Taiwan’s globalization, and its integration into the global system, should be seen, therefore, in this context: many of the fundamental channels of global political participation are simply unavailable now. This has been accentuated by the evidence that the PRC is willing, and able, to use its new-found wealth to buy back allegiance from countries that have diplomatically recognized Taiwan. In 2008, the *Financial Times* found clear evidence that in January 2008 the Mainland State Administration for Foreign Exchange had bought US\$ 150 million of Costa Rican government bonds, just a few months after Costa Rica had severed relations with the Republic of China after 63 years of diplomatic recognition.⁸ There were clues that in other areas too, in Africa and Latin America, the PRC was playing dollar diplomacy.

The next decade – Taiwan’s prospects

Taiwan’s transformation in the last two decades to a vibrant and stable democracy is remarkable. Along the way, Taiwan has proved many critics wrong. Unlike Japan, it has seen a genuine transfer of power from one party to

6 See http://www.defenselink.mil/pubs/pdfs/China_Military_Report_08.pdf, accessed 15 September 2008.

7 See Bobo Lo, *Axis of Convenience: Moscow, Beijing, and the New Geopolitics* (Brookings/Chatham House, 2008), pp. 78–81.

8 http://www.ft.com/cms/s/0/22fe798e-802c-11dd-99a9-000077b07658.html?nclick_check=1, accessed 15 February 2009.

another (the Liberal Democratic Party in Japan has been in power for all but nine months in the last half-century). It differs from Singapore, one of the other countries that saw remarkable economic growth from the 1970s onwards, by having a genuine free press and an opposition that has been able to develop and grow without legal harassment. A number of constitutional changes have set out clearly the distinction between the executive and the legislative arms of government. And elections have been conducted fairly, openly and transparently, with high turnouts. Even the KMT anger at the narrow return of Chen Shui-bian in 2004, despite being marked by protests, was surmounted. Ma was right in his inaugural address: "Taiwan has become "a beacon of democracy to Asia and the world". We, the people of Taiwan, should be proud of ourselves. The Republic of China is now a democracy respected by the international community."

But there are clear challenges in the decade to come. These divide into security issues, political reform issues, economic issues, and issues around relations with the Mainland and the international community.

- *Security issues:* Since 1979, and the passing of the Taiwan Relations Act, the executive branch of the US administration has been committed to reporting to and consulting with Congress if Taiwan were to come under attack. Symbolically, this act has given Taiwan a security umbrella. It meant that, as noted above, the US under Clinton sent aircraft carriers to the region in 1996, during military exercises undertaken by the People's Liberation Army which were widely viewed as aggressive moves to affect the elections taking place in Taiwan. Although the George W. Bush administration saw no reason to proactively send any of its fleet to the region, it largely stuck by the position that it would not tolerate a democracy being attacked by a non-democracy – even if frustration with the political machinations of Chen Shui-bian frequently boiled over.

The US remains Taiwan's most important ally. But the election of Barack Obama introduces a

number of new unknowns. While it is highly unlikely that President Obama will shift policy dramatically from the current position, the internal economic problems in the US mean that the key preoccupation for his administration will be the domestic economy. It is still unclear how this will unfold in terms of the United States' international role, and in particular its role in Asia. Taiwan's relationship with the US will continue to be its single most important one. But it will need to work hard to build up a rapport with the new administration. It will also remain dependent on the supply of military equipment and technology from the US, despite the persistent and strong opposition this provokes from the PRC. The PRC has frequently linked arms sales or the sale of military technology to Taiwan with punishment for companies if they have operations in the Mainland. This approach is likely to continue. It will be made more urgent by the increasing diplomatic activity of the PRC abroad, and by its continuing military modernization. But the bottom line will continue to be that a direct military attack on Taiwan would be utterly contrary to the PRC's strategic interests, whatever sabre-rattling it engages in. And any such attack would almost certainly require involvement and intervention by the US.

- *Political reform issues:* In the next decade, Taiwan will continue to deepen its political and legal reform. It is highly unlikely that any of the constitutional and political changes made in the last 15 years will be undone. But the issue of corruption will continue to be a source of major public discontent, and could severely affect the credibility of administrations. Combating corruption is one of Ma's key goals. But there is evidence that the relationship between businesses, administrators and even underground groups remains strong. Ma's battle in this area will define his presidency, and also play a key role in determining the outcome of his attempts to be re-elected in 2012.

9 <http://www.mac.gov.tw/english/english/macpolicy/ma970520e.htm>.

- *Economic issues:* After decades as one of the strongest performers in Asia, Taiwan has experienced recession, high levels of unemployment and low growth rates since 2000. It has a number of promising strengths – a highly educated workforce (it was noted that many members of the Cabinets of both Lee Teng-hui and Chen Shui-bian had doctorates), high-technology sectors, and a good record in research and development. Taiwan remains a major exporter, sending over US\$ 250 billion abroad in 2008, much of this to its regional neighbours. Even so, competition from the Mainland in particular, with its newly emerging enterprises, means that Taiwan will have to become far more competitive. Unlike South Korea and Japan, it has not seen the creation of a large number of globally recognized brands. Its companies remain classically small to medium-sized, many of them family-run businesses. It is unclear how the current global economic downturn will affect these. But in order to fulfil the aspirations of Taiwanese people, the government will need to improve Taiwan's economic performance in the coming decade.
- *Relations with the Mainland and the international community:* This remains the largest unpredictable issue. A drift from talking of the 'Republic of China' in the years up to 1996 to increasing use of 'Taiwan' afterwards is only symptomatic of a stronger sense of separate identity within Taiwan. The generation of those who remember coming from the Mainland has largely died. Many Taiwanese, while still regarding themselves as ethnically Chinese, and sharing a common Chinese culture with the Mainland, regard themselves as belonging to a very different political culture. With its own currency, its own stamps, its own leadership, and its own airlines and institutions, Taiwan appears more and more distinct from the Mainland. The greatest chasm is now the simple fact that the two entities have widely different political systems. Even the most optimistic talk of unification has to plan how to marry such different systems.

The only palatable solution would be after the democratization of the PRC itself. But this seems highly unlikely, at least in the next 10–15 years. Despite more positive relations across the straits in the last few months, the Mainland government has made it clear that talk, and international recognition, of independence for Taiwan would be a red line, and it is hard to say how the PRC might react if this line were crossed. On this issue, the political and military elites in the Mainland are divided, with some wishing to act more cautiously, and some willing to be far more hawkish. If the time came in the next decade where the hawks were to latch onto what they perceived as a violation of the status quo, with more active moves towards expressions of independence and recognition as a *de jure* and *de facto* state of Taiwan, then anything up to outright military conflict would be possible. Such conflict would be extremely damaging, highly unpredictable in its outcome, and drag in many other regional and international players. Expressions of a 'one country, three systems' model, based on Hong Kong, were floated in the past, though there are huge differences between Hong Kong's position in 1997 and Taiwan's in 2009. So while the continuation of the status quo for the coming decade is likely, this is dependent on a number of factors, not the least of them the stability of the Mainland itself.

Conclusion

Taiwan's democratic journey continues. It has already passed some key landmarks. It has seen the relatively smooth transition from martial law in 1987 to the revision of the Constitution in 1991 and 1992, allowing opposition parties to exist and organize themselves. It saw the first direct elections for president in 1996, and the remarkable transition from the ruling party to a new party in 2000. The return of the KMT in 2008, both in the revised Legislative Yuan and in the presidency, is only the latest step on this journey. The fact that Taiwan has now held four elections as a full multi-party democracy, all of which have been judged transparent

and open by observers, and has returned governments that could be accepted by the public and were able to serve their full terms, is an indication of the progress Taiwan has made.

But economic and security concerns remain. These will form the core of any government in the next few years and remain the benchmarks by which an administration's success is judged. Ma Ying-Jeou has found himself president at a time of global economic crisis. For him, the move to improve ties with the Mainland has formed a fundamental part of his programme, and was one of the main issues on which he campaigned in the 2008 election. The Mainland is central to Taiwan's security and economy. Good relations with it could unlock much-needed investment, and also allow Taiwan's further integration into the global economic and political system. But living in the Mainland's increasingly assertive diplomatic and economic shadow will prove challenging. Despite their obvious differences, therefore, Taiwan and the PRC share a common destiny. What happens in one will affect the other. And while Taiwan's democracy is strong, and now well established, it will need to prepare itself for some major challenges in the years ahead. On the basis of past performance, there is no reason to believe that it will not be able to meet these and continue to act as an inspiring example of what can be achieved when people wish to have properly representative government, and the rule of law.

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