

Chapter III

Leadership

Trade regimes, as described here, are not only named after the last three presidents but have also had the biggest influence on the actual decision making process itself. The ROC president has almost always played a powerful role in the policy-making process in the past, with the exception of Yen Chia-kan in 1975-1978. In addition to being military strongmen, in the case of the Chiangs, an important source of their power was the President's role as the president or chairman of the KMT, the majority party in the Legislative Yuan. By means of the party leadership, Chiang kai-shek, Chiang Ching-kuo, and Lee Teng-hui could all wield a great deal of influence in the country's policy-making process, mainland affairs being an important part of it.

During the Chiang Kai-shek and Chiang Ching-kuo years, it was the paramount leader's personal decisions that shaped the Mainland policy until the death of Chiang Ching-kuo. After Lee Teng-hui had ensured his position as KMT chairman, he also had enormous influence on policy-making as the President and KMT chairman. Although the DPP's Chen Shui-bian is the first *lame duck* president of the ROC, he still is the most important player in the policy-making process. To understand the differences between them, it is necessary to know as much as we can about their personalities and their personal opinions about different topics considering cross-strait trade.

As the establishment of official trade between Taiwan and the Mainland was possible only after political reforms in Taiwan, this paper will analyze these reforms first. Many people in Taiwan believe Chiang Ching-kuo personally is the father of dramatic political reforms which marked a shift from gradual liberalization under a

regime of "soft authoritarianism" to the beginning of the process of democratic transition. Many people, however, consider him the last authoritarian ruler who was pushed to the road of reforms by international and domestic powers. But the fact is that within four years these reforms had achieved, or facilitated, the lifting of martial law, the legalization of opposition parties, a smooth constitutional transition of political power after Chiang's death, a marked freeing up of the print media, and establishing a basis for relations with the Mainland. The leader's ideas constitute only a part of the whole story of political reform but holding huge power, his motifs are of great importance.

Chiang Ching-kuo

Chiang Ching-kuo was born on April 27, 1910 (March 18 by lunar calendar) in Xikou, Fenghua county Zhejiang province. His father was Chiang Kai-shek who later became Generalissimo, President of the Republic of China and Director-General of the KMT. In early 1925, after finishing elementary school, he entered Shanghai's Pudong High School. During that time the relations between the KMT, the Chinese Communist Party (CCP), and the Communist Party of the Soviet Union (CPSU) had become closer and friendlier than ever. In 1925 Ching-kuo headed to Russia as a KMT student.

Nikolai Vladimirovich Elizarov, as Chiang Ching-kuo was known in Russia, stayed there for 12 years. He became a convinced communist and joined the Chinese Communist Youth Corps where he later met with Deng Xiaoping and signed up with the Soviet Komsomol. Later he also studied at Central Tolmatchev Military and Political Institute in Leningrad in 1927. About the same time he became a full member of Komsomol and a candidate member of CPSU. After having disagreements

with other Chinese communists in Moscow, he was sent to work in the Ural Heavy Machinery Plant in Siberia or to “Siberian exile.” There he met his future wife named Faina Epatcheva. During that time, he saw the real face of communism, when Stalin started his Great Terror and many Russian communists Ching-kuo knew personally were arrested or executed. In April 1937 Stalin allowed Chiang Ching-kuo to return to China after living in Russia for 12 years.

Once back in China, Ching-kuo was appointed deputy director of the Provincial Peace Preservation Corps in Gannan. His leadership, however, raised some complaints that his work style resembled the Communist one. After his mother’s death and also because of his father’s wish, he became a religious person. He and his family were baptized as Methodists but he still admired Confucius and Mencius. Sometimes he also attended Buddhist rites.

In 1950, now in exile on Taiwan, he served as head of the General Political Warfare Department of the army, where he installed a Soviet-style commissar system, established the China Youth Anti-Communist National Salvation Corps to control youth, and became the head of the regime's National Security Bureau. Being a "security czar" of Taiwan, he has been widely criticized as heralding in an era of human rights abuses in Taiwan, including the mysterious disappearances of both documents and people that seemed to oppose the Nationalist government. In 1965 he was appointed as the ROC Defense Minister, where he remained until 1969. He also served as the nation's Vice Premier between 1969 and 1972. He survived an assassination attempt while visiting the U.S. in 1970. Later on, he was the nation's Premier between 1972 and 1978. In Chiang Kai-shek's final years, he gradually gave more responsibilities to his son. Chiang Kai-shek died, in April 1975, and was succeeded to the presidency by Yen Chia-kan while Chiang Ching-kuo succeeded to the leadership of the KMT.

Chiang Ching-kuo was officially elected President of the Republic of China by the National Assembly on May 20, 1978 and reelected to another term in 1984. At that time, it is estimated that in 1980, indirect trade between Taiwan and the mainland was around US \$300 million. Without any official change of policy in Taipei, Taiwan-Mainland trade was growing rapidly. Under Peking's no-tariff policy and Taipei's official 'blind eye', the island's indirect exports to the mainland were increasing as rapidly as illegal travel from Taiwan to China. The docks of Fuzhou and Xiamen in Fujian were full of cardboard boxes containing TVs and other appliances made in Taiwan. The Garrison Command continued to warn that such trading was illegal, but Taiwanese fishermen who transported these direct shipments to mainland ports paid little heed.¹ On April 28 1985 Minister of Economy Li Ta-hai publicly reiterated what he said was the government's "long-standing policy" of *not* interfering with indirect trade with the Mainland. A report of an unofficial think-tank that was established by Chiang Ching-kuo concluded government control of such trade was neither necessary nor possible.² The same report stated that in addition to thousands of clandestine family visits, hundreds of Taiwanese business people were already "traveling illegally" to China via Hong Kong. The official estimate for the flow of goods in 1985 was US \$700 million.

Senior Taiwan officials, notably Economic Minister Zhao, began publicly to endorse the idea of trade with China in early 80s. Privately, Premier Sun proposed to Ching-kuo that it was time for Taipei officially to allow both open trade and tourism with the mainland.³

¹ Taylor Jay. 2000. *The Generalissimo's son. Chiang Ching-kuo and the revolutions in China and Taiwan* (Harvard University Press), p. 364.

² *Ibid.* p. 397.

³ CCK in the interviews with James R Lilley, Washington, August 15, 1996 and Y.S.Sun, Taipei, August 28 1995.

When Ching-kuo finally decided the time had really come for informal exchanges between Taipei and Peking, there were many people willing to be intermediaries. At one time Anna Chennault⁴ and Ray Cline (retired from the CIA) sought to play the part. But Ching-kuo only trusted one person - premier Lee Kuan-yew of Singapore. Lee was the only world leader who was able to travel between the two competing Chinese capitals. Lee had visited Peking for the first time in May 1976 and met briefly with Mao Zedong. In 1980 Lee made his second visit to China and met Deng Xiao-ping. In November 1985 Lee made his first of many unpublicized visits to Taipei for talks with Chiang.

The relationship that developed between Chiang Ching-kuo and Lee Kuan-yew was friendlier than that between Lee and Deng. During Lee's periodic visits to Taipei, he and Chiang Ching-kuo spent many hours alone talking about China and the China-Taiwan issue. Chiang believed Lee understood the dynamics of this question better than anyone. Many of his associates agree that Lee was a major influence on the President's thinking about China. This was the only close, personal relationship with a foreign leader that Chiang Ching-kuo ever enjoyed. He sometimes went to the airport to meet Lee, which he never did for any other foreign visitor. He also instructed his secretary to include in his letters to Lee language reflecting his affection.

When analyzing Chiang Ching-kuo's motives for launching the reforms at the time that he did, it turns out that the question of why he acted as he did is difficult to answer. This remains probably the least studied aspect of the story of Taiwan.⁵ Although Chiang Ching-kuo cultivated a populist image, he kept his personality and

⁴ She was the widow of Claire Chennault, who was Chiang Kai-shek's ally in Mainland and the founder of ROC's airforce.

⁵ Nathan Andrew J. 1998. "China's Transition" (Columbia University Press).

his motivations to himself. The *Asian Wall Street Journal* reported in November 1987:

"The reason for the democratic turn is a mystery. . . . Mr. Chiang is in no hurry to shed light on these events. He hasn't written about his life and has declined to cooperate with biographers. In answering written questions submitted by the Asian Journal, he ignored an invitation to talk about himself. . . ." ⁶

His public statements were usually hackneyed Confucian phraseology which gave not too much for an analysis. He listened to many different opinions, but even his close subordinates apparently did not know how he put the information together. He encouraged his aides to imitate his reticence in speaking both about him and about their roles with him. ⁷ Even after his death those around him revealed relatively little about his thinking during the time the reform decision was made.

Here are stated some commonly accepted reasons that made him act and launch the reforms in 1986-1987.

The first reason was surely the growing international pressure. Martial law had long been an embarrassment to Taiwan in its international relations. In 1983, in one of the few interviews he ever gave to the international press, he confronted a number of sharp questions. "Never before in modern history has there been a country as long under martial law as Taiwan" they said. The interviewers asked when martial law would be lifted, and also "Why is Taiwan so slow in democratization?" The President's answers showed that he did not find it easy to answer such questions. As to martial law, he confessed, "This is indeed a dilemma," then stated both that martial

⁶ Leung Julia, Wain Barry. November 2 1987. "Chatty Chiang Sheds No Light on Motives Behind His Push for Democratic Reform," (*Asian Wall Street Journal*). p. 16.

⁷ Interview with Ma Ying-jeou, *Xin Xinwen*, January 2-8, 1989, pp. 28-29.

law was needed to defend Taiwan from the communists and that its effect was extremely slight. On democracy, he argued that Taiwan was already quite democratic without an opposition party, but also acknowledged that: "No political party can maintain its advantage forever if it does not reflect the public opinion and meet the people's demands."⁸ It was not the only time Chiang had to answer questions like this. Foreign visitors asked him this many times. Ching-kuo's long-term chief secretary Wang Chia-hua later said: "I think that the President's first priority was to lift the state of emergency so long as the premise could be assured that no damage would be done to national security."⁹

 Marital law and the misuse of power by the KMT frustrated the United States, Taiwan's closest ally in the international arena. The Taiwan Relations Act Section 3301 (c) Human rights, stated

 Nothing contained in this chapter shall contravene the interest of the United States in human rights, especially with respect to the human rights of all the ... inhabitants of Taiwan.

The last drop in the chalice was the murder of writer Henry Liu in California in 1984 by gangsters hired by Taiwan's military intelligence authorities. Although some authors (Taylor 2000) and the KMT's official position deny that Chiang knew about the assassination, it is hard to believe that in an authoritarian society, such an operation was carried out without the permission from the highest level.

 Another international factor of Chiang's reform decision may have been the wave of democratic transitions which started in Southern Europe and Latin America in the mid-1970s and spread to South Korea and the Philippines in the 1980s. After the fall of Marcos, the opposition in Taiwan raised the slogan, "Why is it that the

⁸ President Chiang Ching-kuo's Interview with an Editor of *Der Spiege*. May 16, 1983. *Parliament Monthly* 14:6 (June 1983). pp. 3-4.

⁹ Nathan Andrew J. 1998. "China's Transition" (Columbia University Press)

Philippines can, and Taiwan can't?" However, there is no evidence about what Ching-kuo specifically thought of these events.

The second reason behind the reforms was mainland China. After U.S.-ROC relations were broken by President Jimmy Carter in 1979, Taiwan had to change its attitude towards the international community. As Chiang told a German reporter, "President Carter has repeatedly emphasized that the establishment of U.S.-communist bandit relations will not create any threat to our people's prosperity, security, or welfare. But if we look at Carter's public statements on the "normalization" of relations with the Chinese communists, the U.S. has no clear arrangements for guaranteeing the security of the Taiwan area after the establishment of U.S.-bandit relations; they just proceed on the basis of the American hypothetical judgment that the bandits "have no intention" and "have no capability" to invade Taiwan. This kind of hypothesis is very dangerous."¹⁰

The PRC launched a campaign to induce Taiwan to accept peaceful unification. Beijing offered Taipei the right to keep its own political, social, and economic system under the formula of "one nation, two systems." The PRC campaign gained added force when the Reagan administration agreed to the 1982 Shanghai communiqué promising gradually to decrease the quantity and quality of U.S. arms supplies to Taiwan, and in 1984 when China and Britain signed an agreement on the future of Hong Kong that provided for using the one-nation/two systems formula there. Peking's statements began stressing the common heritage of the KMT and the CCP. Orders went out to the CCP committee in Xikou to repair the former house of Chiang family and the graves of Ching-kuo's mother and grandmother. The PRC offered to sell Taiwan oil, coal, and medicines at preferential prices. Deng started to persuade personally Chiang. In 1981 Hu Yao-pang, newly appointed CCP chairman, invited

¹⁰ Chiang Ching-kuo at the Party Congress in 1984.

Chiang Ching-kuo to Mainland to visit his ancestral home in Xikou. This invitation was not accepted, of course.¹¹

Ching-kuo had to respond to the PRC political-diplomatic offensive against Taiwan. The world wanted to see the “free China” really free not just lip-service. The Mainland was doing well under the leadership of Deng Xiao-ping. Events such as the Democracy Wall (1978-79), the promulgation of a new and ostensibly more liberal PRC Constitution in 1982, the first and second rounds of direct elections of county-level people's congresses (1979-81 and 1984), the progressive liberalization of the PRC media, and Deng's licensing of discussion of political reform in 1986 were good examples of reforms in Mainland. Deng Xiaoping's picture appeared twice on the cover of *Time* magazine in the 1980s, and he was widely hailed in the West as leading China into an era of freedom and, in some opinion, capitalism.¹² Chiang Ching-kuo, knowing Communism through and through, on the other hand was sure that Communists in Mainland had not changed its spots. He told Katharine Graham of the *Washington Post*, "There are certain changes taking place. But they are cosmetic. The essence of communism remains the same."¹³ He believed that the communist regime was bankrupt and making superficial concessions in order to retain its hold on power. Even so, his remarks seemed to imply that PRC democratization initiatives posed a challenge which Taiwan had to answer. For example, he stated in 1981,

¹¹ John Chang, an illegitimate son of Chiang Ching-kuo who took his mother's name, was the first one who actually took this trip in 2000. Accompanied by his wife, son and daughter, Chang swept the ancestral tombs in Fenghua and then went to Guangxi Zhuang Autonomous Region to visit the tomb of his mother, Chang Ya-juo. There was a lot of media speculation over Chang's motives for making this trip. It was suggested that Chang was trying to regain popularity from supporters of the Chiang family in order to prepare for legislative elections in 2001.

¹² Nathan Andrew J. 1998. *China's Transition*. (Columbia University Press).

¹³ Southerland Daniel. October 7, 1986. Taiwan President to Propose End to Island's Martial Law. *Washington Post*. p. A18.

"Especially today when the communist bandit regime is near the end of its road, with its vile reputation known to everyone, and the communist system has been proven a total failure . . . it is more important than ever for us to strengthen the construction of constitutional government to demonstrate clearly that the strong contrast between the two sides of the Taiwan Strait is basically due to the fact that one side has implemented a constitution based on the Three People's Principles while the other has not."¹⁴

Third, Chiang actually believed the KMT would eventually recover the mainland through political means. In 1979 he told a German reporter, "The late President Chiang [Kai-shek] used to say that recovering the mainland depended on "70% political, 30% military." . . . We are going to use our achievements in building a democratic and free society on Taiwan based on the Three Principles of the People, to exert a strong political influence on the Chinese people on the mainland. . . . So long as our actions [in recovering the mainland] receive the warm support of the mainland compatriots, they won't lead to a world war."¹⁵

The achievement of prosperity on Taiwan under the Three People's Principles, he told a KMT party plenum the same year, "has established a good model for the future construction of a free, peaceful, strong, and unified modern China. We have established an unbeatable position in our struggle to the death with communism!"¹⁶ Ma Ying-jeou has recalled later: "He felt at the time that the domestic conditions were mature. [This was the main point.] But also, strengthening democratic politics was an important step for improving our international image and appealing to the mainland brethren. We had a saying that the mainland should emulate Taipei in politics, but

¹⁴ Nathan Andrew J. 1998. *China's Transition*. (Columbia University Press).

¹⁵ *Ibid.*

¹⁶ *Ibid.*

what in our politics should they emulate? If our level of democratization was insufficient, did that mean we wanted them to emulate our use of martial law? President Chiang was perfectly clear about this point."¹⁷

Fourth, it is sometimes argued that opposition pressure forced Chiang to reform. Had the opposition been weaker, Chiang might not have undertaken the reforms despite the existence of other factors we have identified as pushing him toward change. However, we can also say that had the opposition been substantially more aggressive than it was, the reforms might also not have been feasible, or at least might not have unfolded as smoothly as they did. Equally, had Ching-kuo been less skillful, the opposition might not have been induced to play as constructive a role as it did. Also less often noted is the way in which Chiang and the opposition mainstream helped each other in dealing both with anti-reform forces within the KMT and with more radical forces in the opposition.

Fifth, Chiang may have launched reforms in order to gain support of the people and reinvigoration of the party. The murder of Henry Liu, a Chinese-American writer in California (murdered in 1984) and the collapse of the Tenth Credit Cooperative, a big-name savings and loan institution, and its sister investment outfit, Cathay Investment and Trust Co. gave a strong blow to the image of the KMT. A number of ranking government officials were implicated in the failures, which victimized numerous creditors. At a conference of the KMT Standing Committee on October 15, 1986, which endorsed Chiang's reform policy, he said, "The times are changing, the environment is changing, the tides are also changing. To meet these changes the ruling party must adopt new concepts and new methods and on the basis of the democratic and constitutional political order, push forward measures of reform

¹⁷ Interview with Ma Ying-jeou. *Xin Xinwen*. January 2-8, 1989, p. 28.

and renewal. Only in this way can we link up with the tides of the times, only in this way can we remain forever at one with the people." In the same speech he stressed the need for the ruling party to maintain a constant attitude of self-criticism and to have the courage to make the necessary changes in itself.¹⁸

Sixth, a very popular reason to explain the reforms among pan-blue supporters in Taiwan is the idea that Chiang Ching-kuo didn't want to die as a dictator and wanted his successor to inherit a democratic state. He had long suffered from diabetes. He was 68 when he took the office of president in 1978 for a six-year term. In 1981 and 1982 he underwent eye surgery for retinal bleeding, and in 1985 he had cataract removal surgery. Both conditions were connected with his worsening diabetes.¹⁹ The question of his successor must have been in his mind for a long time. In a *Time* magazine interview published in September 1985, he stated that he had "never given any consideration" to the possibility that he might be succeeded by a family member and that the succession would be handled in accordance with "democracy and the rule of law."²⁰ Since he had decided for whatever reasons that he could not be succeeded by a family member, he may have felt that only democratic political reforms could give his civilian, non-Chiang successor, whoever he might be, a good chance to consolidate power. Second, he may have realized that it would be harder for a successor to implement reforms over the opposition of conservative forces in the KMT and the military than for him to do so himself. If reforms were to have a good chance of success, he would have to initiate them, which in view of his health gave him little time to act. During 1986, in public statements to party organs charged with reform tasks, he frequently urged rapid action. James Soong recalled that after the

¹⁸ Hsiung James C. January 1986. Taiwan in 1985: Scandals and Setbacks. *Asian Survey* 26: p. 93.

¹⁹ Nathan Andrew J. 1998. *China's Transition*. (Columbia University Press).

²⁰ *Newsweek*, International Edition, October 20, 1986, pp. 28-29.

Third Plenum, Chiang "expressed himself very urgently and clearly" on the issue of reform.²¹ Even the day before his death Chiang asked Party Secretary Li Huan whether the reform would be discussed during the meeting scheduled for the next day. Ma recalls that "The impression he gave me was that he was in a big hurry, probably because he knew about his health situation. . . . One can say that ever since the Third Plenum, he had been hoping for reform extremely urgently."²²

Since we actually know only a few things about Chiang Ching-kuo's own thoughts, it is difficult to say, which one of these reasons was most important. His early life as a communist, his activity as a security boss later, his long service as a *de facto* authoritarian leader of the country and finally the pushing power behind the reforms made him a highly controversial person. After his death, however, the reforms were challenged again by the hard-liners of the KMT and his successor had a difficult task to stay on the track of democracy, improve the cross-strait relations and, and in the midst of everything, set up a proper trade regime with Mainland China.

Lee Teng-hui

Lee was born to a Hakka family in the rural farming community of Sanchih, near Taipei on January 15, 1923. Lee was one of only four Taiwanese students in his high school class. He graduated with honors and was given a scholarship to Japan's Kyoto Imperial University. Growing up under Japanese colonial rule and studying in Japan, he developed a very strong affinity for Japan. After World War II, with Taiwan now under ROC control, Lee enrolled in the National Taiwan University, where in 1948 he earned a bachelor's degree in agricultural science. A devout Marxist in his

²¹ Nathan Andrew J. 1998. *China's Transition*. (Columbia University Press).

²² Interview with Ma Ying-jeou. *Xin Xinwen*. January 2-8, 1989.

teens, Lee joined the Communist Party of China (CPC) in September 1946 but was forced to quit two years later. In 1953, Lee received a Master's degree in agricultural economics from the Iowa State University in the United States. Lee returned to Taiwan in 1957 as an economist with the Joint Commission on Rural Reconstruction (JCRR), an institution sponsored by the U.S. and aimed at modernizing Taiwan's agricultural system and at land reform. During this period, he also worked in the Department of Economics at National Taiwan University and taught at the Graduate School of East Asian Studies at National Chengchi University. In the mid-1960s Lee returned to the United States, and earned a PhD in agricultural economics from Cornell University in 1968. "You wouldn't find many people at Cornell who knew him socially," recalled Daniel G. Sisler, Cornell professor of agricultural economics. "He wouldn't be out playing volleyball with other graduate students or down at a bar in Collegetown. He was very quiet, very studious and personally dedicated to his work and to Taiwan. I gave him an A-plus in a course on research methods, and I don't give out many A's."²³

Shortly after returning to Taiwan, Lee joined the KMT in 1971 and was made a cabinet minister without portfolio with special responsibility for agriculture. In 1978 Lee was appointed mayor of Taipei, where he solved water shortages and improved the city's irrigation problems. In 1981, he became governor of Taiwan Province and made further irrigation improvements. As a skilled technocrat, Lee soon caught the eye of President Chiang Ching-kuo. President Chiang nominated Lee to become his Vice President. Lee was formally elected by the National Assembly in 1984. However, Lee did not become a member of Chiang's "bedroom council" that included only the

²³ Friedlander Blaine. Memories of Lee Teng-hui at Cornell.

most trusted people. And as the Vice-President only had symbolic assignments, Lee's influence on the Party and army was not remarkable.

In January 1988, Chiang Ching-kuo died, and Lee immediately succeeded him as President. The "Palace Faction" of the KMT, headed by General Hau Pei-cun, Premier Yu Guo-hua, and Education Minister Lee Huan, however, was deeply distrustful of Lee Teng-hui. They tried to block his accession to the KMT chairmanship and sideline him as a figurehead. At that time, Lee had to fight for his rights. As he states in his book:

"President Chiang-kuo did not necessarily choose me as his vice-president with the thought that I would one day succeed him. At that time, with no idea that he would become ill and die so quickly, he wasn't thinking about his successor yet. I remember him telling me once, "I am a Taiwanese," but I don't think he ever thought about what kind of political culture best suited the Taiwanese people."²⁴

However, with the help of James Soong, who unexpectedly made an impassioned plea in favor of Lee and quieted the hardliners with the famous "Each day of delay is a day of disrespect to Ching-kuo," Lee was allowed to ascend to the chairmanship unobstructed.

Lee Teng-hui however, turned out to be an excellent statesman who knew perfectly well all the details of fights inside the party. After all, he had received good schooling. As he states it himself:

"I was a minister without portfolio for six years under Chiang Ching-kuo. Whenever he chaired a meeting I experienced a state of heightened tension, but those meetings turned out to be my

²⁴ Lee Teng-hui. 1999. *The road to democracy : Taiwan's pursuit of identity*. (Tokyo PHP Institute, Inc), p.51.

instruction in government. If I really did grow from mere theorist into a political leader, I give all the credit to my six years in Chiang Ching-kuo's "school of politics."²⁵

At the KMT party congress of July 1988, Lee named 31 members of the Central Committee, 16 of whom were native Taiwanese: for the first time, the native Taiwanese held a majority in what was then a powerful policy-making body. As he consolidated power during the early years of his presidency, Lee allowed his rivals within the KMT to occupy positions of influence: when Yu Guo-hua retired as premier in 1989, he was replaced by Lee Huan, who was succeeded by Hau Pei-cun in 1990. Lee realized the political power of business first hand from a painful personal episode: a potent and unexpected challenge from within the KMT during his presidential bid in February 1990. According to his testimony, it was not through the widely reported mediation of eight party elders, but rather by the intervention of a local faction leader, Tsai Hung-wen (then the Taiwan provincial assembly speaker), and business groups in the Taichung area, that his nomination crisis was defused. Grass-roots leaders, blocked from national politics, for the first time demonstrated astuteness in a most difficult political balancing act, revealing their king-making potential. Alliance with business was quite instrumental to Lee's success in outflanking the conservative old timers and party bureaucracy. Many business leaders had personal access to Lee. Under Lee, business now had more representation in the KMT's CC and CSC than even during the party's mainland days.²⁶ This was the beginning of money politics that was later known under the catch phrase "black and gold politics," a stigma of Lee's presidency in the second half of the 1990s.

²⁵ Ibid. pp.196-197.

²⁶ Cheng Tun-jen. *Limits of Statecraft: Taiwan's Political Economy under Lee Teng-Hui*. (College of William and Mary) p.19.

During his early years as president, Lee Teng-hui's China policies seemed forthcoming to the Mainland. In Lee's first few months, the KMT Thirteenth Party Congress set up a Mainland Affairs Guidance Committee and proposed future relaxation of the Chiangs' "three noes" policy (no contacts, no negotiations, and no compromises with the PRC). In late 1990, Lee founded a National Unification Council within his presidential office, and after that a Mainland Affairs Council (MAC). Lee pledged that "all Chinese should help each other to serve mutual interests in trade and business", and declared that Taipei was willing to offer its developmental experience, particularly assistance, to Mainland China. Lee even declared that Taiwan was ready "to consider joint economic ventures to help the mainland restructure its state enterprises and establish a modern market economy."²⁷

In 1991, his government set forth "Guidelines for National Unification" that among other things stated:

Short term- A phrase of exchanges and reciprocity.

To set up an order for exchanges across the Straits, to draw up regulations for such exchanges, and to establish intermediary organizations so as to protect people's rights and interest on both sides of the Straits; to gradually ease various restrictions and expand people-to-people contacts so as to promote the social prosperity of both sides

Medium Term- A phrase of mutual trust and cooperation.

Direct postal, transport and commercial links should be allowed, and both sides should jointly develop the southeastern coastal area of Chinese mainland and then gradually extend this development to other areas of the mainland in order to narrow the gap in living standards

²⁷ Lee Wei-Chin, Wang Te-Yu, and Wang T. Y. 2003. *Sayonara to the Lee Teng-hui Era*. (University Press of America), p.130.

between the two sides.²⁸

In the same year, the Straits Exchange Foundation (SEF) was established to make practical contacts with nominal non-officials on the other side of the water, in their Association for Relations across the Taiwan Straits (ARATS). Two-thirds of the SEF's funding came from the Taipei government, but this "foundation" could operate only if it remained formally nongovernmental - even though everybody knew who controlled it. On May 1, 1991, Lee presided over the repeal of the law that had maintained the "Period of Mobilization for the Suppression of the Communist Rebellion." This technically ended the civil war, from Taiwan's side at least.

At the same time many Taiwanese businessmen, primarily of small-and medium-size enterprises, traded with the Mainland, mostly via Hong Kong, and poured investment into coastal China, hoping to maintain their market share in Western markets. Sometimes they even started their businesses on the Mainland without permission from Taipei. These firms were in labor-intensive, traditional sectors, such as garments, shoemaking, and food-processing, as well in the mid- and downstream petrochemical industry. They relocated abroad in the wake of currency appreciation and the onset of democratic transition in the late 1980s to exploit low wages and cheap land abroad. After 1992, big business also started venturing into the mainland to supply intermediate goods to downstream small and medium firms. As in the first wave of "China fever," the push factor was now in play. As the environmental movement and middle class demand for quality of life gained momentum, most counties in Taiwan were simply hostile to big and potentially polluting investment items. It was only after many trials that Formosa Plastics could secure land for its first

²⁸ Donald S. Zagoria. 2003. *Breaking the CHINA-TAIWAN impasse*. (Praeger Publishers). Appendix 9.

naphtha cracker plant in 1994. It was conceivable that this industrial group would have sunk investment into Hai-chang, a city in the Fujian province of the PRC, had the Taiwan government not done its best to assist the establishment of the plant site in central Taiwan.

As Taiwanese businessmen pumped more capital into China, the government in Taiwan enunciated the “go south” policy in 1994. The purpose of this was to direct Taiwan’s outward investment away from the PRC and toward South-east Asia. On February 9 1994, during the Chinese New year holiday, President Lee went on a “golf vacation” to the Philippines, Indonesia, and Thailand. He had meetings with President Fidel Ramos, President Suharto, and Premier Chuan Leekpai (in Subic Bay, Bali, and Phuket for the golf courses). Foreign Minister Frederick Chien, another golfer, naturally accompanied Lee on this trip. Premier Lien Chan also traveled separately that year to Malaysia and Singapore, where Lee had been in the previous year. Beijing protested ardently. Neither Taiwan nor the Southeast Asian governments had announced these 1994 “golf vacations” far in advance, so PRC diplomats had no time to prevent them. Lee played this game even better than golf.

However, soon after this trip that was the beginning of Lee’s “Go South” policy, a terrible incident happened on the Mainland. The reasons are still not clear, although Taiwanese intelligence pointed to the National Liberation Army. On March 31, 1994, a ferry named *Hairen* was hijacked by three men on Qiandao Lake, located in Zhejiang Province. The ship ended up on fire, and all 32 people on board at the time were killed, including 24 passengers from Taiwan and 8 from Mainland China. The Qiandao Lake incident upset the Taiwanese and turned them against the Mainland Communists. Lee Teng-hui’s comments to a Japanese magazine a month later infuriated Beijing. The president compared himself to Moses leading Taiwan to freedom, and he bemoaned the fate of the Taiwanese, whom he said had fallen under

the power of one foreign regime after another, including the Nationalists. In the economic realm, Lee began pushing hard for the “Go South” policy. The Ministry of Economic Affairs “adopted” the Subic Bay industrial estate project in the Philippines and “persuaded” the KMT’s Central Investment Company to finance the development of an industrial zone in Vietnam’s Ho Chi Minh City, attempting to attract Taiwanese businesses there. The government also strongly promoted investment in Malaysia and Thailand. This approach, which encouraged businesses to invest in Southeast Asia rather than Mainland China, was designed to reduce Taiwan’s economic dependence on the PRC. PRC leaders interpreted Lee’s words and policies as proof that the Taiwanese president secretly supported Taiwan independence.²⁹

On April 18 1995, Lee Teng-hui proposed his own “six point proposal” as an answer to Jiang Zeming “eight point proposal” issued for future bilateral relations between the Mainland and Taiwan in January the same year. His ideas were:

First, although there will be only one China in the future, at present there is one divided China. The Republic of China was establish in 1912, and although the government moved to Taiwan in 1949, the Peking authorities have never exercised jurisdiction over Taiwan. That the two sides of the Taiwan Strait are ruled by two separate political entities is an objective fact that cannot be denied.

Second, the reunification of China should proceed in a gradual and orderly fashion. When the conditions are ripe, success will come naturally. No timetable need be set. The pace of democratization on the Chinese mainland and the improvement off cross-strait relations will decide the progress toward peaceful reunification.

Third, prior to reunification, the people of the Republic of China on Taiwan should progress the

²⁹ Donald S. Zagoria. 2003. Breaking the CHINA-TAIWAN impasse. p.208.

right to full self-defense. This is the inherent right of the 21.8 million people in Taiwan. It is also the necessary to preserve the achievements of democratic reform in the Taiwan area and encourage democratic change on the Chinese mainland.

Fourth, in light of the needs for survival and development, the people of the Republic of China on Taiwan should enjoy the right to participate in international activities as they did in the 1950s and 1960s. This way, the people on both sides will have equal opportunity to contribute to the international community.

Fifth, Taiwan and the mainland should expand exchanges and enhance the prosperity of both. Cooperation should replace antagonism, and reciprocity should dissolve animosity. In this fashion, a propitious foundation can be laid for the future peaceful reunification of China.

Finally, the two sides should pursue full communication on the principles of equality and mutual respect in order to resolve differences and seek common ground. They should hold consultations based on the reality of a divided China and sign a cross-strait peace agreement, thereby ending the state of hostility, promoting harmony in cross-strait relations, and preserving the stability of the Asia-Pacific region.³⁰

As this proposal got no answer from Mainland China, Lee had a new surprise coming. In June, President Lee took a trip to United States to visit his alma mater Cornell University. Lee and his entourage arrived at Los Angeles airport on June 7 at the VIP terminal. There were no media present, no welcoming party other than the staff of Taiwan's representative office, and representatives from both the city and state governments. Once at Cornell, Lee gave an annual Olin lecture that was later titled "Always in My Heart" on June 9. Although most of the world press did not find it very political or irritating, the reaction of the PRC was furious, and sparked the Third

³⁰ Lee Teng-hui. 1999. *The road to democracy: Taiwan's pursuit of identity*. (Tokyo : PHP Institute, Inc). pp.122-123.

Taiwan Strait Crisis. The PRC conducted a series of missile tests (July 21, through 26, and August 15 through 25) in the waters surrounding Taiwan and other military maneuvers off the coast of Fujian and Zhejiang as a response to what it saw as provocative moves by Lee in attempting to "split the motherland." Between June 1995 and March 1996, a period of continual PRC war games around Taiwan, foreign exchange reserves dropped from US\$100 billion to US\$82.5 billion, a reduction of 18 percent, forcing the government to plead with bankers to hold onto Taiwan dollars.³¹ Though these tests also disrupted trade and shipping lines and caused the stock market to fall, the crisis only had a short term effect on cross-strait trading relations.

The PRC's motives were cutting support for President Lee Teng-hui and creating tensions in the Taiwan Strait before the island's December parliamentary elections and the following March's presidential elections. Another set of tests, days before the 1996 presidential election, were intended to intimidate the Taiwanese electorate to not vote for Lee. It aroused anger among the Taiwanese and boosted Lee's popularity.

The outcome of these missile tests was that in March 23, 1996, Lee became the first popularly elected president of the ROC with 54% of the popular vote. The changes in Lee's policies during his second term were especially notable in cross-strait relations, including trade. On the business vs. security issue, given his good relations with members of the business community, Lee should have been sympathetic toward their needs. However, as shown by his insistence on diverting Taiwan's trade from mainland China to other places such as Southeast Asia, Lee evidently was concerned about Taiwan's security, probably even more so after the 1996 elections. As a popularly elected President without any chance to be re-elected,

³¹ Cheng Tun-jen. *Limits of Statecraft: Taiwan's Political Economy under Lee Teng-Hui*. (College of William and Mary) p.50.

he consolidated his power and his need for business support lessened. The recruitment of business into the KMT did not alter the Leninist party's power structure. The party was not decentralized or democratized itself; nominations and allocation of party-controlled resources remained in the hands of the leadership. The business sector itself continued to be fragmented or incoherent. There was no functional equivalent of Japan's *Kedanren*, or Federation of Korean Industry in Taiwan.³² No top organization would subsume all leading business groups, be chaired by business captains on a rotational basis, command the trust of lower-level business organizations, and be capable of conducting policy studies and engaging in policy debate without being tainted by interests of a particular firm or industry. Contacts between business and politics were mostly personal, not organizational.

Lee himself had become explicitly wary of closer economic ties between Taiwan and China. One way for him to give incentives for less ROC investment in the PRC was to lower the price of labor on the island-without losing votes. In order to do that he adopted policies to import foreign labor to do jobs that few Taiwanese wanted. By mid-1996, Lee's government had already attracted 220,000 foreign workers to Taiwan, largely from Indonesia and the Philippines. This policy made the island's companies even richer but it did not keep them from using labor in mainland China. His "Go South" policy had mainly failed. Taiwanese investment in China and Southeast Asia was roughly equal at the end of the 1980s. The former drafted the latter by four to one in the mid-1990s. Some firms abided by it, many bypassed it via a third place, which explained the sudden rise of Taiwanese investment in British territories in the Caribbean region. Lee stated that, "Taiwanese businesses that invested in Indonesia, on the other hand, are making large profits. Some shoemaking

³² Lee Wei-Chin, Wang Te-Yu, and Wang T. Y. 2003. *Sayonara to the Lee Teng-hui Era*. (University Press of America), p. 129.

firms and plastic manufacturers, for example, are seeing their profits triple. What has allowed them to do so well is the currency depreciation in Indonesia, which has brought down the labor costs of the production. Calculated in dollars, wages in that country have fallen to less than one-third the wage level in mainland China,”³³ there were only few companies interested in going south compared to the thousands that could not resist the “China fever.”

As mentioned above, the missile crisis in 1995-96 did not really roll back bilateral trade; it only slowed Taiwan’s investment in China a bit. In his inauguration speech in 1996 Lee also stated:

”The Republic of China has always been a sovereign state. Disputes across the Straits center around system and lifestyle; they have nothing to do with ethnic or cultural identity. Here in this country it is totally unnecessary or impossible to adopt the so-called course of "Taiwan independence." For over 40 years, the two sides of the Straits have been two separate jurisdictions due to various historical factors, but it is also true that both sides pursue eventual national unification. Only when both sides face up to the facts and engage in dialogue with profound sincerity and patience will they be able to find the solution to the unification question and work for the common welfare of the Chinese people. I would like to embark upon a journey of peace to mainland China taking with me the consensus and will of the 21.3 million people. I am also ready to meet with the top leadership of the Chinese Communists for a direct exchange of views in order to open up a new era of communication and cooperation between the two sides and ensure peace, stability and prosperity in the Asia-Pacific region.³⁴

³³ Lee Teng-hui. 1999. *The road to democracy: Taiwan's pursuit of identity*. (Tokyo: PHP Institute, Inc). p.170-171.

³⁴ Lee Teng-hui. 1999. *The road to democracy: Taiwan's pursuit of identity*. (Tokyo: PHP Institute, Inc). p.196

Taiwanese businessman took it as a good sign for the future of normalized cross-Strait relations and hastily poured more investment in China. Lee was alarmed by such a strong surge in capital outflow and in late August 1996, began to voice concerns about Taiwan's over-dependence on the mainland for market outlets and outward investment. Warning that unregulated capital flow to the mainland would drain Taiwan's savings, Lee formally introduced the "no haste, be patient" policy to restrain Taiwan's investment in the mainland. This policy prohibited any participation in the infrastructure sector on the Mainland, restricted investment in high-tech industry there, and subjected mainland-bound projects of any type exceeding US\$50 million to approval on a case-by-case basis. The "no haste, be patient" policy reflected Lee's concerns about the negative externalities of increasing economic ties across the Strait. The concerns were based on a political reading of asymmetric economic interaction: both export dependence and investment flow were one-sided. Since import sources are much easier to substitute than export markets, the pattern of cross-Strait trade could pose a danger to Taiwan.

In the eyes of Lee, investment in a politically hostile host nation posed an even greater threat to Taiwan than its export dependence. It was likely to create hostage problems for the home nation as once investment is committed, the bargaining power shifts from investor to the host country.³⁵

³⁵ However, some social scientist disagree. For example T.J Chang states that this is not necessarily the case. Firms in labor-intensive sectors, especially those with market share abroad, can be relocated to other lower wage countries. The balance of power does not necessary shift from foreign firms to host governments once the investment is sunk, if these firms are highly engaged in R&D, carry reputed brand names and other specific assets, and command their own globally diversified production chains and/or marketing channels. These firms are not easily held hostage, as they can either vote with their feet (the case of most SMEs) or retain bargaining power vis-à-vis host governments (the case of many high-tech firms). Many Taiwanese businesses in Mainland are hostage-resistant. Moreover, once they

Big business had only paid lip service to Lee's "Go South" policy that was launched in 1994. This time, only some of them complied with Lee's initiative. Some big business groups shelved their mainland projects, and Taiwan's investment in the mainland dropped. Lee's appeal resulted in an immediate reduction in cross-strait commercial exchanges, with foreign exchange settlement by Taiwanese companies dropping to US\$137 million in September 1996, down 19.13 percent from the same month of 1995.³⁶

The intended effects were, however, not only short-lived, but more apparent than real. As the stock of Taiwanese investment continued to swell, the "no haste, be patient" policy became the last resort, a decision that even the high-tech sector eventually could not stand. Cost pull and regulation push factors were increasingly overshadowed by the attractiveness of the mainland market itself, as well as by the rapidly improving quality of mainland R&D and skilled labor.

For one thing, the "no haste, be patient" policy did not prohibit small investment projects. For another, it was relatively easy for businessmen to bypass the regulation, but difficult for the Taiwan government to monitor and punish the offenders. A huge investment project could be disaggregated; the President Enterprise Group, for example, adopted a "chain store" approach to build an empire on the mainland. Others hoisted the flag of convenience-parking capital in the British Virgin Islands and investing in China from that platform.³⁷

However, the "no haste, be patient" policy had some results. It did not block massive Taiwanese capital flow to the PRC, but it did help to direct investors to

are harassed, other country's investors in China may be alarmed and FDI disrupted as well.

³⁶ China Informed, November 3, 1997

³⁷ Lee Wei-Chin, Wang Te-Yu, and Wang T. Y. 2003. *Sayonara to the Lee Teng-hui Era* (University Press of America), p. 139.

Hsin-chu Science and Industrial Park, which during 1990s grew to become the mainstay of Taiwan's exports, and the Tainan Science and Industrial Park.

In the early 1997, an important compromise was reached between the governments of Taipei and Beijing. A question about legal conditions for cross-strait trade: whether it would be allowed by foreign-flag ships only, whether it could carry goods for foreign countries only, and whether it must go through intermediate ports such as Hong Kong. In the cause of pragmatic diplomacy, Taipei had proposed that ROC or PRC ships might carry goods between mainland and the island, especially if the commodities were destined for foreign ports and if the vessels flew foreign flags. In early 1997, the PRC agreed to this.³⁸ Shipping between the Mainland and Taiwan began, but only from Fuzhou or Xiamen, and only to Kaohsiung, outside the customs barrier for transshipment elsewhere - largely to the U.S. Each ship had to change its bill of lading en route across the Strait, because status diplomacy prevented recognition by either side of the other's official seals. Lee Teng-hui's decision that Hong Kong would be treated as separate from the PRC, even after the former British colony became legally part of China on July 1, 1997, is considered as one of the most important decisions of his rule. During Lee's time, the great majority of Taiwan's economic connections with the mainland were initiated through Hong Kong.

There were no big ups or downs in the field of politics. The main problem, the "one-China" question, was not decided. However, both sides recognized the idea of "one-China". As Foreign Minister John Chang stated in a speech: "I must emphasize here that the new pragmatic approach on our foreign relations has nothing to do with the so-called independence of Taiwan, and has nothing to do with the so-called establishment of the so-called one China-one Taiwan, or two Chinas"³⁹ Lee himself

³⁸ Ibid. 222-223.

³⁹ Speech before the Los Angeles World Affairs Council on June 16, 1997: His Excellency John Chang

stated to the 1998 Mainland Affairs Meeting of the Executive Yuan: "We must base our handling of Mainland affairs upon the spirits of rationality, peace, equality and reciprocity, as stipulated in the Guidelines for National Unification, and upon the principles of respecting the rights of the Taiwan people and safeguarding their safety and well-being. Meanwhile, through strengthening exchanges and consultations, we hope to gradually dissolve our differences with the mainland and establish a truly constructive relationship between the two sides."

At this point, President Lee's interview with the Voice of Germany on July 9, 1999, took many people by surprise. In the interview, he stated: "Taiwan has an elected, democratic government," and, citing its 1991 constitution, defined cross-strait relations as "country-to-country, at least a special relationship between nation-to-nation, not as a legitimate government or a local government in a one-China theory.... Since the ROC is a sovereign country and under special nation-to-nation relations, there is no longer any need to declare Taiwanese independence."

Not surprisingly such a statement enraged Beijing and tensions between Taiwan and China were greatly heightened. The PRC suspended ARATS' Chief Wang's visit to Taiwan indefinitely, and there were even reports about possible China military actions aimed at Taiwan.

Even the Clinton Administration responded that Lee's statement was not helpful and reaffirmed its "one China" policy and opposition to "two Chinas." After all, Clinton's Administration was in the middle of rebuilding its relationship with the PRC after an American B-2 bombed the Chinese Embassy in Belgrade in 1998 May.

Taipei argued that its future is not a matter of "one country, two systems" (the PRC formula) or "one country, two entities" (the old ROC formula), but rather "one

Foreign Minister of the Republic of China on Taiwan (who is biological son of late President Chiang Ching-kuo)

country, two states” until that blessed moment when a fully democratic, prosperous China justifies a change. Dr. Su Chi, Chairman of the Mainland Affairs Council, summed it up in English on July 12: “two states in one nation.” A day later his deputy, Lin Chung-pin, amplified, “The goal of eventual reunification remains intact.” Finally, on July 20, President Lee himself declared, “We are not seeking independence.”⁴⁰

However, the damage was already done. What pushed President Lee to make this announcement? Ma Ying-jeou states, that the idea of “state-to-state” relationship was Tsai Ying-wen’s brainchild.⁴¹ Tsai Ying-wen, a chairwoman of the MAC, was formerly a professor of international trade law at National Chengchi University. She was associated with the confidential Select Group on Strengthening the Sovereignty Status of the Republic of China, and was appointed by former President Lee Teng-hui to the Presidential Office to be in charge of research on Taiwan’s sovereignty and international status. However, she did not have the power to make President Lee to say something like this without his own approval. Many observers have explained Lee’s motives by his need to prepare for Taiwan’s forthcoming presidential election, in March 2000. KMT’s candidate, Lien Chan, who was Vice-President of the Republic at that time, was not doing well in the polls, lying generally in third position. Ahead of him were James Soong Chu-yu, a KMT dissident of mainland origins as well as the DPP’s candidate, Chen Shui-bian. By helping to increase tension across the Strait, Lee may have wanted to weaken both the front runners.⁴² However, Lee’s later actions

⁴⁰ Sichernan Harvey. 1999. A Linguistic Disturbance: the End of the One-China Policy? Foreign Policy Research Institute).

⁴¹ Ma Ying-jeou. Cross-Strait Relations at a Crossroad: Impasse or Breakthrough? in Zagoria, Donald S. 2003. (ed.) Breaking the CHINA-TAIWAN impasse. (Praeger Publishers). p.39-40.

⁴² Cabest an Jean-Pierre. September - October 1999. “State-to-State” Tension Rises Again Across the Taiwan Strait Taiwan’s new approach to its relations with China: Where will it lead? (China Perspectives no.25), p.4.

strongly contradict this idea.

Another, more domestic, explanation has tended to emphasize the “Lee Teng-hui factor”. Before quitting the presidency Lee wished to set Taiwan’s mainland policy in concrete, doubtless fearing that his successors, more timid or less decisive, would not have the stomach for such an initiative. As Taiwan’s *China Times Express* put it, “He [Lee] does not trust the political line of his successor, so he’s simply taking it upon himself to force the situation to a point of no return.”⁴³

The polls showed that most of the Taiwanese people supported such a new approach. Whereas, on July 12th, 56% of Taiwanese people were already supportive to Lee’s declaration (22% were against it), in August this proportion went up to 67%. At the same time, 87.2% (as against 73% in April) were opposed to the communist “one country - two systems” formula (10.4% supported it, as against 9% in April).⁴⁴ The same time Lee continued to mock the PLA. In a meeting at the Presidential Office on 10 August 1999, he said that the controversy would benefit Taipei in the end. “The more controversy the better, Only this way will everyone pay attention to the key of the Republic of China’s existence. When the whole world knows the Republic of China’s difficult situation, afterwards it will be easier to do things.”⁴⁵

The PRC and US governments were not the only ones who were irritated by Lee’s state-to-state remarks and his trading policy. Many Taiwanese businessmen were also against such an approach as they were afraid of the PRC’s retort. Evergreen

⁴³ *South China Morning Post*, July 13th 1999, p. 8.

⁴⁴ Cabestan Jean-Pierre. September - October 1999. “State-to-State” Tension Rises Again Across the Taiwan Strait Taiwan’s new approach to its relations with China: Where will it lead? (China Perspectives no.25), p.4.

⁴⁵ Sheng Lijun. 2002. *China and Taiwan : cross-strait relations under Chen Sui-bian*. (Singapore : Institute of Southeast Asian Studies : Distributed in the USA exclusively by Palgrave) p.19.

head Y.F. Chang, for example, openly criticized President Lee's opposition to direct trade links with China. Mainland officials also warned in mid-1999 that "Lee Teng-hui's description of 'state-to-state' relations between Beijing and Taipei will result in the island's losing its economic opportunities. In the first eight months of 1999, as compared to the previous year, the number of Taiwan-to-Mainland investment applications was down 33 percent, and the amount of investment was down 42 percent."⁴⁶ These effects were temporary, but Lee's policy increasingly put him in conflict with Taiwanese investors.

As a conclusion to Lee Teng-hui's presidency and the Cross-Strait trading we may say that Lee was, in Hollywood terms, the producer, because he had the enormous party resources to spend, the director, because of his powerful position as KMT chairman and president of the state, and the actor, as demonstrated by his skillful application of Taiwanese dialect in popular appeal and communication to the public.

Cross-strait relations and trading relations as an important part among them was the area that had much to do with Taiwan's security. As a result, the top leader's influence might have been more apparent than in other policy areas. On the other hand, given the highly centralized structure within the KMT, President Lee was very powerful by means of his position in the party. Moreover, the president interpreted the Constitution quite liberally, insisting that he was in charge of national defense, foreign affairs, and Mainland affairs, although such an interpretation was controversial at best. Therefore, to a large extent, Taiwan's Mainland China policy became more or less a one-man show in the Lee Teng-hui era. As he changed his attitude, the policy changed as well.

⁴⁶Lee Wei-Chin, Wang Te-Yu, and Wang T. Y. 2003. *Sayonara to the Lee Teng-hui Era* (University Press of America), p.129.

Chen Shui-bian

Chen Shui-bian was born to an impoverished farming family in Kuantien Township of Tainan County on October 12, 1950. Being a hardworking student, he graduated with the highest score, and in June 1969 was admitted to the National Taiwan University. Initially a Business Administration major, he switched to Law in his first year and became editor of the school's law review. He passed the bar exams before the completion of his junior year with the highest score, earning him the distinction of being Taiwan's youngest lawyer. He graduated in 1974 with a Bachelor's of Law degree in Commercial Law. In 1975, he married Wu Shu-chen, the daughter of a physician. From 1976 to 1989, Chen was a partner in Formosa International Marine and Commercial Law, where he specialized in maritime insurance and held the firm's portfolio for Evergreen Marine Corporation, one of world largest container transport companies. Chen became involved in politics in 1980 when he defended the participants of the Kaohsiung Incident against a military court. While his clients were all found guilty, Chen came to be known for his forceful and colorful arguments. He has stated that it was during this period that he realized the unfairness of the political system in Taiwan and became politically active as a member of the Tangwai movement. Chen won a seat in the Taipei City Council as a Tangwai candidate in 1981 and served until 1985. In 1984, he founded the pro-opposition Civil Servant Public Policy Research Association, which published a magazine called *Neo-Formosa*. On January 12, 1985, Chen was sentenced to a year in prison for libel, when, as editor of a *Neo-Formosa* magazine, he published an article critical of Elmer Feng, a college philosophy professor who was later elected a KMT legislator. As he was appealing the sentence, he returned to Tainan to run for county

magistrate in November 1985. Three days after losing the election, his wife, Wu Shu-chen was hit by a truck twice, as they were thanking their supporters, which left her paralyzed from the waist down. This incident may have had a great influence on his future career.

While he was in prison, his wife campaigned and was elected to the Legislative Yuan. Upon his release in 1987, Chen served as her legislative assistant and practiced law. In 1989, Chen was elected to the Legislative Yuan and served as the executive director of the Democratic Progressive Party Congress. With the support of some KMT colleagues, Chen was also elected convener of the National Defense Committee. He was re-elected to another three year term in 1992, but resigned in two years to become mayor of Taipei. In 1994, largely as the result of a vote split between the highly unpopular KMT incumbent Huang Ta-chou and New Party candidate Chao Shaokong. During his term, Chen drove illegal gambling and open prostitution out of Taipei. He levied large fines on polluters and reformed public works contracts. He closed brothels and demolished the slums to create a new park. During his term, Taipei became one of the top 50 cities in Asia according to Time Magazine's Asia version. After losing his seat in 1998 to the KMT's Ma Ying-jeou, he took some time to prepare himself for presidential elections in 2000. He released his first autobiography "Son of Taiwan" where he meditated upon the job of a President:

Other than the powers conferred by the constitutions, the president must fulfill the following functions in the capacity as the nation's leader: 1. Raise issues and formulate strategy, to attract popular support and attention. 2. Propose a vision and goals. 3. Through words and actions, set a model for others, assuring the public's confidence and hopes. 4. Possess the mettle to take responsibility; have excellent communication skills, so as to build credibility for the administration. 5. Put together an efficient management team, apply collective will and strength.

In Order to put these functions to work, I believe that “speed, simplicity, and confidence” encapsulate the decision-making qualities of Taiwan’s future president.⁴⁷

He also expressed some thoughts about cross-strait relations.

1. We welcome discussion (with China) on any issue.
2. We hope to establish a systemic model for visits and dialogue between Taiwan and China. If obstacles block current channels of discussion, we do not rule out the use of other avenues of communication; whether second or third track, as long as it can help move dialogue forward, it is welcome.
3. We hope to reduce the risk of military conflict through military mutual-assurance mechanisms. Beginning with such measures as two-way personnel visitation, advance of a hotline, we can gradually reduce hostility and enhance mutual trust.
4. Where national security is not compromised, we propose reviewing and evaluating the lifting of restrictions on direct air links, commercial relations, and investment.
5. Under the condition that China recognizes our equal status as a state, abides by the United Nations’ principles for “peaceful resolution of conflict”, and does not presume a set direction for future relations, we advocate signing a peace agreement or foundation agreement as the basis for temporary regulation of cross-strait relations.⁴⁸

In addition, he said that if elected president, he would like to visit China before taking office, and open a new page on normalization of cross-strait relations on the cusp of the new millennium. As we know, he had his chance. In an election similar to Taipei's in 1994, Chen won the 2000 presidential election on March 18 with only 39% of the vote as a result of a split of factions within the KMT, when James Soong ran for the presidency as an independent against the party nominee Lien Chan.

⁴⁷ Chen Shui-bian.2000. The son of Taiwan:The life of Chen Shui-Bian and his dreams for Taiwan. (Upland, Calif. : Taiwan Pub. Co). p.165.

⁴⁸ Ibid. p.132

However, Chen's plan to visit Mainland did not work out. He planned to go to the US, but due to Mainland China's opposition, that trip never took place, either. Instead, he spent much of the time before inauguration trying to reduce tensions with Mainland China and denying his plan to declare Taiwan independence.

In his inauguration speech on May 20, he stated his new policy that later became known as "5 Noes":

I must abide by the Constitution, maintain the sovereignty, dignity and security of our country, and ensure the well-being of all citizens. Therefore, as long as the CCP regime has no intention to use military force against Taiwan, I pledge that during my term in office, I will not declare independence, I will not change the national title, I will not push forth the inclusion of the so-called "state-to-state" description in the Constitution, and I will not promote a referendum to change the status quo in regards to the question of independence or unification. Furthermore, the abolition of the National Reunification Council or the National Reunification Guidelines will not be an issue.⁴⁹

Unlike Lee Teng-hui, Chen Shui-bian favored going ahead. In September 2000 he said, "It is about time to have direct shipping links and we must seriously face the issue. We can no longer act like an ostrich and use national security as an excuse." He added that ending the ban on direct links would require negotiations with the Mainland. He also instructed Tsai Ying-wen, the chairwoman of the Mainland Affairs Council, to work out plans for opening the mini-links between the offshore islands of

⁴⁹ Mainland Affairs Council, the Executive Yuan, The Republic of China Important documents on the government's mainland policy Taipei, Taiwan, R.O.C.

Jinmen and Mazu and the Mainland. Tsai Ying-wen went forward with preparations for the opening of the mini-links on January 2, 2001, even though local officials on Fujian had not been authorized by Beijing to discuss the actual arrangements with their counterparts in Jinmen and Mazu. At the last minute, however, on December 28, a Foreign Ministry spokeswoman in Beijing announced that the PRC would not block the institution of the mini-links, although she criticized the plan as a piecemeal measure. Thus, on January 2, 2001, boats carrying residents of Jinmen and Mazu made the first legal crossing to the mainland since 1949.⁵⁰

In March 2001, President Chen Shui-bian called a meeting of top national security officials in what was widely believed to be a bid to evaluate the country's ties with the US and China, although those involved did not reveal details. The closed-door forum, held inside the Presidential Office and described by aides as being ad hoc in nature, came on the heels of a high-profile visit by Chinese Vice Premier Qian Qichen to Washington, where Qian repeatedly spoke out against US sales of advanced arms to Taiwan. The series of Chinese diplomatic offensives caused alarm within the Chen administration, although they officially said there was no need to "overreact." However, there was another reason for this meeting. An unnamed presidential aide indicated beforehand that Qian's US trip would not be the focus of the meeting, as the president simply wanted to exchange views with his security advisors on the potential of easing of cross-strait trade.⁵¹ National Security Council Secretary-General Chuang Ming-yao, Minister of Foreign Affairs Tien Hung-mao and Mainland Affairs Council Chairwoman Tsai Ing-wen were all asked to attend the

⁵⁰ Clough Ralph N. Growing Cross-Strait Cooperation despite Political Impasse. In Zagoria, Donald S. 2003 (ed.) "Breaking the CHINA-TAIWAN impasse" (Praeger Publishers), p.116-117.

⁵¹ *Taipei Times*, March 25, 2001, Page 3

meeting. Presidential Secretary-General Yu Shyi-kun, Cabinet Secretary-General Chiou I-jen and National Security Bureau chief Ting Yu-chou also attended.

We do not know what conclusions they made. However, as the MAC had stated earlier that the government plans to relax the "no haste, be patient" policy, it seems that this meeting was necessary for Chen to get the security organs' approval for his new cross-strait economic policy. It seems that he got what he needed, as in a televised speech on May 18, 2001, Chen Shui-bian proposed for the first time the idea of convening the Economic Development Advisory Conference (EDAC). He said that the greatest challenges for the country at this point, lie in how to cope with the global economic recession and the structural transformation of local industry. The President demanded the different ministries under the Executive Yuan to present measures and expedite their implementation. In addition, his government had to present mid- and long-term plans on national development during the next six months. The challenges Taiwan must confront, can not be dealt with by government alone. Only with the collective wisdom of the ruling and opposition parties, as well as the private sector, will it be possible for Taiwan to overcome the challenges ahead. In this context, the President planned to convene an economic development advisory conference from across party lines. By doing so, it was hoped that the most suitable remedial measures could be worked out.

The EDAC, composed of 120 business leaders, government officials, academics, and representatives of the ruling and opposition parties, presided over by Chen Shui-bian himself, reached a consensus in late August 2001 on 322 proposals. The willingness of the opposition parties to participate and the ability of EDAC to reach a consensus on a large number of proposals reflected a deep concern among the participants of Taiwan's severe economic recession and the need to act to revive the economy. The commission recommended replacing Lee Teng-hui's "no haste, be

patient” policy on Mainland investment with a policy of “active openness and effective management”, intended to expand cross-strait economic relations. The recommendations of the commission reflected a consensus between the ruling party and the opposition so a more robust cross-strait economic relationship was needed to revive economic growth in Taiwan. Chen Shui-bian and leaders of the opposition parties expressed support for the EDAC recommendations which included ending the ban on direct postal links, taking steps to permit the establishment of direct shipping and air travel, easing restrictions on Taiwan investment on the mainland, and permitting mainland investment in Taiwanese real estate. The President said in his address to EDAC in August 2001:

With regard to the further development of cross-strait relations, the ROC government will use the four principles of “Taiwan first,” “global perspectives,” “mutually beneficial win-win solution.” And “sound risk management” to replace the current “patience over haste” policy with one of “vigorous liberalization and effective management.”

Consequently, we will establish a stable cross-strait policy. A flexible mechanism for the flow of capital between Taiwan and the mainland will be established, and the initiative will be taken in preparing for the opening of the “three links” and accession to the WTO by both sides. Tourist visits to Taiwan by people from the Chinese mainland will be promoted. Lastly, we will continue to push for dialogue between the two sides.⁵²

However, not all the proposals got the approval of the government. Some Taiwanese businessmen investing in China made efforts to persuade the government to allow them to join official People's Republic of China organizations. They called

⁵² Excerpt from Chen Shui-Bian’s Address To The Economic Development Advisory Committee, August 26, 2001.

for a lifting of the ban on Taiwanese businessmen attending the China's National People's Congress and the Chinese People's Political Consultative Conference. Attendance at such gatherings is open only to elite members of the Chinese Communist Party. The issue was raised by Hsieh Kun-tsung, chairman of the Taiwanese Merchant Investment Association in Beijing, who believed that a lifting of the ban would help enhance Taiwan businessmen's interests in China. As he stated: "To help Taiwan businessmen secure greater advantage in China, Taiwan's government should allow them to join China's official organizations by modifying the Statute Governing the Relations Between the People of the Taiwan Area and the Mainland Area". Most of the businessmen present agreed with Hsieh's remarks, and urged the government to explain the national security concerns behind the current ban. "The government refused our requests because of national security, but can they explain what the national security concerns are? Otherwise, the government should not obstruct the upgrading of Taiwan's businessmen's political positions in China," said Ho Hsi-hao, president of the Taiwan Merchant Investment Association in Zhangzhou.⁵³

This request, however, was not accepted by Chen. The concerns about national security overshadowed the possible advantages of this proposal. But as we have seen, many EDAC's proposals became official policy. In his speech on October 10, 2001, President Chen re-expressed his new policy toward China:

In this regard, the ROC government will spare no effort to establish flexible mechanisms for cross-strait capital flow, cope with the challenges of our WTO accession and the "Three Links" across the Taiwan Strait, allow tourists from the Chinese mainland, and continue to promote

⁵³ *Taipei Times* August 8, 2001, Page 3

cross-strait consultations.

I call on the leaders of the Chinese mainland to abandon obsolete and rigid thinking, raise their intellectual horizon in facing cross-Strait relations in the thinking, raise their intellectual horizon in facing cross-Strait relations in the 21st century, considering themes such as humanitarianism to overcome the present impasse between the two sides. With the same cultural heritage, dedication to peace, and eagerness for mutually beneficial results, business, trade, and cultural exchanges will help remove political obstacles between the two sides. Only mutually supportive compassion will resolve unnecessary conflicts of opinion.⁵⁴

On November 8, 2001, the ROC's cabinet officially announced that the previous "no haste, be patient" policy toward mainland investment would be replaced by a new policy defined as "active opening, effective management."⁵⁵ A number of EDAC recommendations concerning mainland investment were adopted. The new policy lifted the \$50 million limit on single investment projects on the mainland, simplified the process for seeking approval of investments under 20 million, authorized Taiwanese banks, through their offshore banking units, to deal directly with mainland financial institutions (thus permitting entrepreneurs to send funds directly across the strait, rather than through a third place), and exempted mainland investments from double taxation. To increase the flow of capital investment into Taiwan, the previous total ban on investment from Mainland China was lifted, with investment being allowed initially in Taiwanese real estate.

On December 11, 2001 the People's Republic of China joined the WTO after

⁵⁴ Mainland Affairs Council, the Executive Yuan, The Republic of China 2004 Important documents on the government's mainland policy Taipei, Taiwan, R.O.C

⁵⁵ Excerpt from Chen Shui-Bian's Address To The Economic Development Advisory Committee, August 26, 2001.

15 years of negotiations. On January 1, 2002 Taiwan also joined under the name "Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu. In February 2002, President Chen attended the Seminar of Heads of Taiwanese Business Associations in Mainland China. Chen said that Taipei and Beijing should engage in proactive dialogue and cooperation instead of passive resistance and confrontation. According to him, Taiwan welcomes any actions or remarks from Mainland China that are conducive to maintaining cross-strait stability, adding that as long as the two sides have good will and sincerity, and carry out exchanges and dialogue pragmatically, there will surely be improvements in bilateral relations that will lead to reconciliation and everlasting peace.

On the other hand, between September 1996 to December 2001, Taiwanese companies that "receive foreign orders in Taiwan but make the products abroad" rose from 16.6 percent to 22.5 percent of Taiwan's firms, a report of Ministry of Economic Affairs said. At the same time Taiwan's domestic investment, which rose 11.3 annually from 1997 to 2000, fell 23.8 percent in 2001. This statistic was rather alarming and at this point, we may see some change in the President's views. His inclinations toward the new paradigm became more pronounced and more frequent. This may be due to the tougher stance taken by the administration of George W. Bush toward Beijing. Secondly, the re-entry of Lee Teng-hui into politics with a clear pro-independence slant may have also strengthened Chen's hand against his domestic opponents. Thirdly The Legislative Yuan elections of December 2001 increased the DPP seats in the 225-member legislature from 70 to 87. For the first time in history, the DPP, allied with the 11-member Taiwan Solidarity Union and some independent members could form a majority in the Legislative Yuan. And finally, as incumbent President, Chen broke the DPP's tradition and assumed chairman of the party in July 2002. By doing this, he could not only govern from a position of greater power, but he

could run his own re-election campaign.

During 2002, he had repeatedly warned that if Beijing doesn't react positively, he would not rule out the possibility of Taiwan going its "own way." As no positive answer from Beijing arrived, Chen announced in a 20-minute video telecast to the 29th Annual Meeting of the World Federation of Taiwanese Associations in Tokyo on August 3, 2002 that there is "one country on either side" of the Taiwan Strait and that Taiwan must now seriously consider passing a referendum law to protect the country's sovereignty. "China's "one China" principle and "one country, two systems" formula means changing our status quo; we cannot accept it. No country, no government, no political party can make decisions for Taiwan," Chen said.⁵⁶

As we may see, it took only 26 months for the first of Chen's "5 No's" to fall. The President's remarks echoed those of former president Lee Teng-hui, who characterized cross-strait relations as "special stat-to-state" in a 1999 interview with the German media. His new paradigm was greeted by pro-independent forces. The Opposition, however, was worried. KMT Chairman Lien Chan warned that Chen's speech could bring disaster to Taiwan. James Soong, chairman of the PFP, said that Chen had broken his promise not to push for a plebiscite on Taiwan's future during his four-year term. Although China did not immediately react to Chen's speech, it is clear that from their point of view, Chen Shui-bian became a person to hardly trust.

His following speeches through 2003 mostly included the same message. He called on all countries in the Asia-Pacific area to jointly hammer out an effective strategy to cope with mainland China's growing "magnetic effect" in luring foreign investments. Describing Mainland China as a key point for future changes in the situation in East Asia, Chen said that economic and political developments in the

⁵⁶ *Taipei Times*, August 4, 2002, Page 1.

mainland will affect the security and prosperity in the Asia-Pacific area.⁵⁷ He also insisted that the opening of direct cross-Strait trade, transportation and mail links should be implemented in stages. Speaking at a seminar and dinner party for leaders of Taiwanese business associations in mainland China, Chen said it was impossible to put in place all measures promoting the so-called "three links" at the same time. However, as the elections approached, The President announced that current direct shipping links between the country's two frontline islands, Kinmen and Matsu, and Xiamen and Fuzhou, the two mainland port cities right across from them, will be extended to other ports of Fujian province in southern China if Beijing agrees in January 2004. Taiwanese businessmen working anywhere in the Mainland, rather than only those working in Fujian Province, were allowed to use the shipping links, Chen said. He also promised to enlarge the planned one-way charter cargo flights from Taiwan to the Mainland to two-way charter flights between Taiwan and the Mainland, and would allow mainland Chinese carriers to provide this service. But the flights should be opened on the condition that Beijing negotiate with Taiwan on the issue without any political prerequisites. The President also promised to cut the red tape for Taiwan's businessmen to claim insurance payments from Taiwan for their medical treatment on the Mainland under the National Health Insurance program. The last of the four measures announced by Chen was to increase government subsidies to Taiwanese schools on the Mainland to about NT\$30,000 (US\$900) per student. Calling them the country's most valuable assets, the President said the government's policy of taking good care of Taiwanese businessmen Mainland China is beyond

⁵⁷ A Written Congratulatory Address to the 30th Symposium on Issues of Mainland China, 2003-03-27, <http://www.president.gov.tw/en/>

any partisan benefit, and would not be affected by any political factors⁵⁸.

Toward the end of his first term, Chen proposed "one principle and four major issue areas" in February 2004 and called for the establishment of a "peace and stability framework" for cross-strait interactions. The "one principle" in this proposal referred to "one peace" in place of "one China," while the "four major issue areas" denote the establishment of a negotiation mechanism, exchanges based on equality and reciprocity, the establishment of a political relationship, and the prevention of military conflicts. Under this framework, the two sides could engage in negotiations to reach a mutually beneficial and reciprocal consensus, which could lead to the creation of a new chapter of permanent peace and long-term stability in the Taiwan Strait.

On Friday, March 19, 2004 Chen was shot in the stomach while campaigning in the city of Tainan. Notwithstanding many conspiracy theories, claims and counter-claims, Chen narrowly won the election on March 30 with a margin of less than 30,000 votes out of 12.9 million votes counted. Both of his referendum proposals⁵⁹ were rejected due to insufficient turnout. In his inauguration speech on May 20, 2004 President Chen declared that as long as the 23 million people of Taiwan agree, no possibility for the development of any form of relations with the other side of the Taiwan Strait should be ruled out. The President also unveiled that his administration would strive to "unite Taiwan, stabilize cross-strait relations, seek social harmony, and reinvigorate the economy." He stressed that the people of Taiwan embrace peace, and spoke of national security as a responsibility of Taiwan, and

⁵⁸ President Chen Attends a Dinner Party for Taiwan Businessmen Working in the Mainland, 2004-01-30, <http://www.president.gov.tw/en/>

⁵⁹ The questions asked were whether Taiwan should buy more anti-missile systems in the face of China's mounting missile threat, and whether Taiwan should negotiate a "peace and stability" mechanism for interaction with China.

Taiwan alone.

In his Double Ten National Day address on October 10, 2004, President Chen mainly spoke about Taiwanese identity and being proud of being Taiwanese. He mentioned cross-strait relations and trade, of course, and said that it is not necessarily a zero-sum game. There will never be a winner unless it's a win-win situation for both sides. He also stated:

At present, both sides are dedicated to pursuing economic development and social stability; both are facing a critical time and opportune moment of transition. The strategy for cross-strait economy and trade in this age of globalization is in accordance with our mindset of peaceful development. If we can reduce the risk of investment in the China market and clearly establish the division of labor in the global supply chain, a new cross-strait economic and trade relations--both competitive and collaborative--can be gradually formed. Meanwhile, Taiwan must expedite its economic transformation, promote development within Taiwan, reaching out to the world, increase comprehensive strength, and disperse risks, so as to effectively utilize the opportunities of cross-strait economic development). The executive branch is currently formulating a plan that provides convenient and efficient means to facilitate chartered flights for passengers and cargo. It is our earnest hope that cross-strait consultations can begin as soon as possible, so as to seek further progress in the Three Link policy.⁶⁰

As we see, the tone of President's message had changed quite a lot. According to this speech, new relations can be formed only after risks are reduced. Until that, Taiwan must take care of its own economy, expedite its economic transformation, promote development within Taiwan and reach out to the world. As before, no

⁶⁰ *Taipei Times*, October 10, 2004, Page. 1.

positive reply from Mainland China followed. Beijing ignored this message and instead on March 14, 2005 passed the so-called Anti-secession Law, which has attempted to provide a legal basis under which China could use military force against Taiwan.

This, in turn, made President Chen adopt an even harder line. He commented on the "anti-secession law" during his 2005 New Year speech: "Such actions will not only unilaterally change the status quo of peace in the Taiwan Strait, but will also pose the greatest threat to regional stability and world peace." In April 2005, he convened a conference of government and ruling DPP heavyweights at which seven conclusions were reached. These were condensed into the "one principle, three insistences, and five oppositions," which then became the overriding direction of government policy in handling cross-strait affairs. The "one principle" is to protect Taiwan and its sovereignty; the "three insistences" refer to not weakening government's convictions in relation to democratic reform, persisting with protecting its separate identity from that of China's and not deviating from the mission to transform Taiwan into a normal, complete, advanced, beautiful and great country; the "five oppositions" refer to the government opposing Beijing's "one China" principle and its "one country, two systems" unification terms as well as the so-called "1992 consensus" which embodies the "one China" principle, any proposal that upholds unification as the only option for Taiwan's future and China's Anti-secession Law that codifies the use of "non-peaceful means" against Taiwan.

As Chen Shui-bian himself stated it in an interview:

Therefore, our cross-strait economic policy is clear: to richly cultivate Taiwan while reaching out to the world. While the China market is one link in the global market, it is neither the only link nor the aggregate of the links. I have emphasized that, as long as our roots are in Taiwan, our

headquarters and our bases are in Taiwan, the China market, like the rest of the world, can provide ample opportunities. At the same time, we must remind Taiwanese businessmen of the potential political risks in investing in China and expanding economic relations. I hope that our Taiwanese businessmen can understand and appreciate why they are respected so much in China. It is because they have Taiwan as their motherland supporting them. Without Taiwan, there would be no Taiwanese businessmen. Therefore, we must allow Taiwan, our motherland, to continue to grow, progress, and prosper. For this reason, we call on Taiwanese businesspeople to work with the government on four priorities: Taiwan first, economy first, investment first, and investment in Taiwan first.

For Taiwan, some items of trade are unrestricted but, in other areas, we must be cautious and effectively manage the process. Certain areas may not involve such highly sensitive technology. We also have our own timetable and our own priorities in opening up, however, and will not open up fully without restrictions. In areas of highly sensitive technology, we are currently working on creating protection through the legislative process in Taiwan. In other words, we are not moving recklessly westward or opening up to China unconditionally. We do so with effective management. Without effective management, we would rather not continue opening up.⁶¹

In his 2006 New Year's Day address, Chen Shui-bian gave a new meaning to his "active opening, effective management" policy. He said that the government must consider the nation's long-term development and take preventive measures to check risks. He said the government must "proactively" shoulder the responsibility of "management," and only via such can it "effectively" reduce the risk of "liberalization." Therefore, "proactive management, effective liberalization" became the new thinking and basis governing Taiwan's cross-strait economic and trade

⁶¹ President Chen at a videoconference with journalists of the Foreign Correspondents' Club of Japan , July 26, 2005.

policies. Presiding over a high-level national security conference on February 27, 2006, he resolved that the National Unification Council ceased to function and the Guidelines for National Unification ceased to apply. The move was made to realize the goal of completely placing power back into the hands of the 23 million people of Taiwan. This was the second of his original “5 Noes” to “cease to function.”

Year 2006 was not the best one for President Chen. After a year filled with scandals around the first family, Chen declared on June 1, 2006, that he was handing control of governmental matters to Premier Su Tseng-chang and announced he would not be involved in campaigning. However, he also stated that he was retaining authority on matters that the Constitution required him to retain authority over, presumably foreign affairs, and defense policy, as well as relations with Mainland China. In the economic realm, a new policy was introduced as a part of Chen’s “Taiwan first, economy first, investment first, and investment in Taiwan first” paradigm. In the end of the year the Investment Commission under the Ministry of Economic Affairs made an important statement. The new rules define “major investments”⁶² as any investment over US\$100 million, or accumulated investments over US\$200 million with any single increment greater than US\$60 million, by Taiwanese individuals, corporations or groups. The companies that apply to make major investments in China are also required to make commitments to ensure the interests of Taiwan’s economy. They include pledges to return a percentage of profits back to Taiwan, and the submission of details on technology transfer, in which companies need to demonstrate how they will safeguard against the transfer of sensitive technology and protect intellectual property rights. The companies also need to list equipment they plan to export to China, their planned investments in Taiwan

⁶² The core industries and technologies include 8-inch or under wafer manufacturing, chip packaging and testing and middle- stream manufacturing of TFT-LCD modules of 4 inches or under.

over the next three years, their level of investment in foreign countries other than China, the proportion of world-to-China investment, and the impact on employment that will occur in Taiwan as a result of the project.

But President Chen's strongest statement yet was still to come. At the 25th anniversary dinner for Formosan Association for Public Affairs (FAPA) in Taipei on March 05, 2007 he said: "Taiwan will say yes to independence. Taiwan will be correctly named, Taiwan will have a new constitution, and Taiwan will develop. There is no left-right political axis in Taiwan, just the question of independence or assimilation." He added: "The name "Taiwan" is the name of our mother. It's the most beautiful, most powerful name; the best name for us to [use to] enter the United Nations. Taiwan needs a new constitution in order to become a normal, complete country," he said. "The continual existence of Taiwan is beneficial to the citizenry, Taiwanese businesspeople and democratic groups. We can only ensure cross-straits peacefulness by implementing democracy, fostering economic prosperity and taking care of the marginalized."⁶³

As we may see, this statement finishes Chen's 180° turn. The "5 No's" have transformed into "5 Yes's." As before, the President's statement was relieved with criticism by both opposition and Beijing. Chang Jung-kung, executive director of the KMT's policy coordination department said that Chen's speech was an attempt to suppress former president Lee Tung-hui's remarks that Taiwan is already independent. It was also an attempt to provoke China when it comes to the issue of cross-straits relations. Beijing called it "a dangerous move that could cause further decay in ties between the two rivals. It indicates that Chen wants to sacrifice the interests of the Taiwanese people."

⁶³ *Taipei Times*, April 4, 2007, Page.1

However, as many critics of Chen have pointed out, his biggest failure of his presidency is the problem with three links.

As we have seen, Chen was very positive towards three links as he took over the job. In 2001 President Chen Shui-bian said Taiwan investors should partner with their foreign counterparts to tap the lucrative China market. As he noted, such cooperation would "establish a strategic alliance for advancement into China and the whole world."⁶⁴ Tsai Ing-wen, chairwoman of the Mainland Affairs Council, made a similar appeal, saying the government, with the help of the National Security Council, has been planning for the implementation of direct links. Chen's vision was very similar to that of US businesses in Taiwan. The American Chamber of Commerce, for example, in a report on enterprise confidence, said that Taiwan should open up direct links as soon as possible in order to establish Taiwan's place as a stepping stone to China.

In order to get the opinion of the security organs, Chen called several meetings (i.e. Tashee and Sanchih meetings) to discuss economic, financial, and industrial affairs. The National Security Council planned those meetings, which included the President and the Vice President, as well as officials from the Presidential Office, the Cabinet, the National Security Council, the DPP, financial, economic and industrial circles, the Mainland Affairs Council, the Council for Labor Affairs and the Ministry of Justice.⁶⁵

Soon after these meetings, the MAC stated that the opening of direct links is a part of the government's policy concerning overall investment in China. What it actually meant was that nothing really happened. Direct links have not been established and the results are well seen. Not only for Taiwanese businessmen but for

⁶⁴ *Taipei Times* June 13, 2001, Page 8

⁶⁵ *Taipei Times* November 14, 2002, Page 1

foreign investors in Taiwan as well, direct transportation links with the mainland are crucial. Despite the American and European chambers of commerce in Taiwan urging the government to establish such links, the DPP administration was simply unresponsive. "Without the direct links, more and more investors would rather establish their R&D centers in China," said Tony Cheng, chairman of the Taiwan Merchants Association in Shenzhen.⁶⁶ According to the International Monetary Fund and Project-link, Taiwan's economic growth in 2006 was the lowest among the four so-called "small dragons" in Asia "This is not what I expect from Taiwan," said Yin Chi-ming, a former vice minister of economic affairs and consultant to the cabinet at that time. He also noted that Taiwan's economy would suffer even more without the promised direct-transportation links with the mainland by 2008. By then Taiwan might find itself isolated from China's economic development and from the several new free-trade zones among the East Asian nations. As he stated: "The direct transportation links would not be a solution for everything, but at least would put Taiwan in the same competitive position as Hong Kong and Korea."⁶⁷

Generalizing the cross-strait relations and trading under President Chen, we may say that his Mainland policy was initially built on Lee's 1999 initiative, which was not only different from the policy of President Chiang Ching-kuo, but also from that of the Mainland policy of the early 1990s, to which the KMT/PFP basically still uphold up to this day. After Chen succeeded Lee as state president, he engaged nearly all members of Tsai's study group, the group behind Lee's Mainland policy in his last years of presidency, for service in the Mainland Affairs Council, the National Security Council, and in other advisory roles. They were put in office to implement their own

⁶⁶ Tsai Ting-I *AsiaTimes*, August 23, 2006

⁶⁷ Ibid.

earlier recommendations.⁶⁸ However, by 1996, Lee had accumulated enormous knowledge and first-hand experience. In contrast, President Chen is not anywhere nearly as knowledgeable and experienced. Although he has reached out so many “olive branches” and made a good start in 2000, he has failed to gain the trust of Beijing. This is one reason that has made him adopt an even harder line. Another thing is, as the democratization process in Taiwan has gone further than ever and Chen’s government cannot ignore this significant sector in Taiwanese society. The effect of this restraint was reinforced by the fact that Chen’s presidency has been continuously plagued by poor economic performance while the Mainland continues to attract the island’s business and professional communities even without the “three links.” “China fever” has become almost irresistible.

As a conclusion we may say that there are many differences between the three leaders. Chiang was an authoritarian ruler who enjoined enormous power and whose decisions were not criticized. Lee Teng-hui gained almost equal power but under much more complicated circumstances. He had to consider many difficulties including opposition within his own party. Chen Shui-bian has never had such a power. His party does not have majority in Legislative Yuan and he has been unable to launch any groundbreaking initiatives.

However, there is one characteristic that all three leaders have in common. They all have firmly controlled the cross-strait economic policy making as well as relations across the Taiwan Strait in general. On the national security vs. closer economic ties axis, they have all sooner or later favored the first one. During Lee Teng-hui’s early years as President, his policy seemed quite friendly towards the

⁶⁸ Su Chi. *Driving Forces Behind Taiwan’s Mainland Policy*, in Tsang Steve. 2004. (ed.) *Peace and Security Across the Taiwan Strait*. (Palgrave Macmillan Ltd). p.49.

Mainland. Relaxation of the Chiang's "three noes" policies, abolishing the law that had maintained the "Period of Mobilization for the Suppression of the Communist Rebellion", and founding the National Unification Council and the MAC all seemed to predict the normalization of cross-Strait relations. However, due to many reasons, he soon changed his approach to a more conservative one. The fast growth of Taiwanese investment was surely one of the main reasons. Chen Shui-bian also started his first term with friendly gestures. Changing the general policy, opening three mini-links and easing restrictions on investment all were meant to win the trust of Beijing. When this did not happen, Chen, too, turned back to good old national security issue.

In the case of Lee and Chen, we may explain it using the Rational Actor model. As the President is the first protector of national interests, it is quite understandable that considering the over-dependence of the Taiwanese economy on Mainland China, they have chosen an approach closer to national security than deeper economical ties. As we have seen, security organs have had great influence on this because even the President has to co-ordinate the policies while considering national security.

But at the same time it is clear that they both have been much more than just rational players in the game. They both have had very close connections with the business community. Lee needed it to strengthen his position in the early 90s. As time went by, and he did not have to worry about re-election, the influence of businessmen on Lee's policies decreased. Chen also had early connections with the business community (especially with Evergreen as its legal adviser). Later on, some of the businessmen supportive of Taiwanese independence sponsored his campaign in order to get advantages in cross-Strait economic relations (see chapter VI.) Considering these factors, it is clear that the Rational Actor Model fails to explain all the aspects of their policies. When we use the Governmental Politics Model, however, we are able

to show that both presidents have been much more than only rational players. On the contrary, they have been political figures involved in the network of different connections and national security has been only one of these factors that have shaped their policies.