Taiwan

Historical Introduction

In the mid-seventeenth century the Ming dynasty was being conquered by the Manchus, who founded the successor Qing dynasty. The last bastion of anti-Qing resistance was based in Taiwan, a large island off the coast of Fujian province. The Ming had not tried to occupy or colonize this island, although it had the military capacity to do so. Both the Spanish and the Dutch had done so, until the Dutch (in the form of the Dutch East India Company) forced the Spanish out in 1642. In 1661, Taiwan was drawn into the military conflicts of the Ming-Qing transition, because Zheng Chenggong (also known as Koxinga) retreated there with his armed forces, after having failed in his military campaign against the Qing (a retreat prefiguring, perhaps, that of Chiang Kai-shek almost three hundred years later). Zheng – the son of a powerful pirate chief turned Ming loyalist – and the Dutch fought over the possession of the island. Both sides used cannons, and the Dutch had other firearms also. But Zheng had a naval force of some 200 ships and 25,00 troops under his command. He laid siege to the Dutch stronghold of Fort Zeelandia, which surrendered in 1662 after nine months, when the defenders ran short of fresh water and no reinforcements came from the Dutch East India Company in Batavia.

Zheng ruled Taiwan under a princely title granted by the Southern Ming. He continued to use the restoration of the Ming to legitimize his regime, and to gain Ming loyalists' support. After his death in 1662, his son Zheng Jing succeeded him. The latter's army carried out invasions of the mainland as opportunities arose. Not being able to dislodge the Zheng forces from Taiwan, the Qing pursued at first a very harsh scorched earth policy along the shores of the five coastal provinces, stretching from

Shandong to Guangdong, in order to make the coasts secure, and to prevent collaboration between the local inhabitants and the Zheng regime.

The Qing found the task of unifying the country to be an uphill battle, full of challenges. It put off resolving the Taiwan issue until after it had succeeded in suppressing a major Ming rebellion led by Wu Sangui, in 1681. Prior to that date, after typhoons had foiled various Qing attempts to invade the island, the court supplemented a defensive policy with repeated efforts to persuade its leaders to surrender to the Qing and return to the mainland peacefully. As China became increasingly united and stable under the Qing dynasty, hopes of restoring the Ming faded. Over the years, many military commanders leading tens of thousands of troops did take up the Qing offer, and returned to the mainland.

In 1681 Emperor Kang XI decided the time was right for a military solution to the Taiwan question, and he appointed Shi Lang, one of the surrendered officers, to command a naval force to take Taiwan. He was exceptionally qualified for the task, combining as he did knowledge of the conditions of the weather, wind and ocean currents, with his experiences of naval warfare off the Taiwan strait.

In June 1683 Shi won a decisive battle at Penghu, a small offshore island that provided a stepping stone to Taiwan. Then at Shi's urging, the government on Taiwan surrendered to the Qing. In August 1683, the Qing troops went ashore, to be welcomed by the local people.

The question then arose at the Qing court as to whether or not to keep Taiwan as part of the empire. Such a question would surely have surprised those at the courts of European countries, busily carving up the world into their possessions. There were many Qing officials, particularly those controlling provinces opposite Taiwan, such as Fujian and Zhejiang, who agued for abandoning the territory, probably because they did not want the responsibility of having to defend it. Shi Lang presented a strong case for keeping the island, and a number of high officials also favored that policy. Emperor Kang Xi, at first hesitant, was eventually persuaded by the merits of the case for keeping Taiwan. This island, the size of Belgium,

became a Qing prefecture, to be administered by the provincial government of Fujian, with military garrisons stationed both on Taiwan and on the island of Penghu.

In 1887, the Qing upgraded the island's administrative status to Fujian-Taiwan Province, with its capital at Taipei. But in 1894 China and Japan declared war on each other. The Qing's military forces were no match for the Japanese, and were soon defeated. The Treaty of Shimonoseki, which brought the war to an end in April 1895, obliged Qing China to cede Taiwan, the Pescadores and the Liaodong peninsula to Japan; to pay Japan an enormous indemnity of 200 million taels of silver; and to open Shansi, Chongqing, Suzhou and Hangzhou to Japanese trade, in addition to allowing Japan to trade in all the existing treaty ports.

Japan ruled Taiwan as a colony until the end of World War II. The Cairo Conference of 1943, attended by Generalissimo Chiang, President Franklin D. Roosevelt, and the British Prime Minister Winston S. Churchill, declared that "all territories Japan has stolen from the Chinese, such as Manchuria, Formosa [which means "beautiful island", the name used by the Portuguese when they first encountered Taiwan], and the Pescadores, shall be restored to the Republic of China". This statement was confirmed by the Potsdam Declaration of 1945, which laid down terms for Japan's unconditional surrender. The recognition by China's powerful wartime allies, that the above-named territories were indeed Chinese land seized by Japan, smoothed the way for officials of the Nationalist government, the ROC (Republic of China), to receive the Japanese surrender of these areas together with the Japanese assets in them.

Chiang Kai-shek's retreat to Taiwan

Soon after World War II ended in August 1945, thousands of Nationalist officials from mainland China led by Governor Chen Yi (not to be confused with the Communist Marshall Chen Yi) descended on Taiwan like a new occupying power to take over the government of this island, and the huge amount of assets which included farm and forest lands, real estate, and factories that were held formerly by the Japanese. Before long, newcomers from mainland China had a monopoly of political, administrative, and security posts, as well as managerial positions of former Japanese-owned land and enterprises, both government and private. (Jay Taylor, *THE GENERALISSIMO, Chiang Kai-shek and the Struggle for Modern China*, The Belknap Press of Harvard University Press, Cambridge, Massachusetts, London, England, 2009, p. 370.) The Native Taiwanese, who – apart from one or two percent of aboriginal islanders - were mostly descendants of the seventeenth century Ming dynasty loyalists who fought against the Manchus invaders and retreated to Taiwan, welcomed the Chinese Nationalists as liberators at first. They soon became alienated when they found that they were excluded from political power, and the economic opportunities that were available only to the newcomers from mainland China. The Taiwanese elites became further enraged when they discovered that they were not trusted by their new Nationalist rulers, who treated many of them as potential or actual collaborators with either the colonial Japanese, or Communist Chinese. (Ibid.; John King Fairbank and Merle Goldman, *CHINA, A New History*, Cambridge, Massachusetts, London, England: The Belknap Press of Harvard University Press, 1992, 1998., p.339.)

This unhappy start, in addition to the corruption and abuse of power of the Nationalists officials, led to a native Taiwanese uprising on February 28, 1947. (Huang Zhang Jiang's *Er Er Ba Si Jian Zheng Xiang Kau Zheng Kao* published by the Academia Sinica of Taipei, Taiwan in 2007

provides a collection of documentary sources for examining the facts on this incident.) Chen Yi immediately declared martial law, and falsely reported the incident to Chiang as a Communist plot. Determined not to have Taiwan tainted by Communism, Chiang sent, on March 9th, a division of his troops from mainland China to Taiwan to join the local garrison to quell the revolt. The violent suppression of this widespread Taiwanese rebellion took a toll of an estimated 18,000 to 28,000 lives before peace was restored a few weeks later. This unfortunate episode, remembered by the native Taiwanese as the Two-Two-Eight Incident, prompted Chiang Kai-shek to made some small concessions to them, such as the establishment of the Taiwan Provincial Government to enable the local people take leading positions in it through elections or appointment. (Jay Taylor, p. 371.)

As the civil war in China raged on, by December 1949 Chiang Kai-shek had indeed carried out his planned evacuation to Taiwan, with his one million or so armed forces. His retreat was accompanied by officials of the Nationalist government, supporters of the Nationalist cause, or anti-Communists from the business and professional communities. The influx of some two million people from mainland China constituted a large addition to the existing population of that island of a little over five million around that time. The Nationalists also brought to Taiwan a major collection of China's art treasures, together with foreign reserves, and gold worth hundreds of millions of U.S. dollars.

The arrival of Chiang's military forces, with gunboats, planes and tight defensive measures, rendered attacking Taiwan across its strait a truly formidable challenge to the PLA which, though massive in manpower, could not lay claim to having either a navy or an air force at that time. Furthermore, in October 1949, a Communist attempt to occupy Jinmen (Quemoy), one of the two

small islands lying about two miles off the coast of Fujian in the Taiwan Strait, was soundly defeated by the Nationalists. Over ten thousand of Mao's best troops either surrendered or were mown down by the enemy's heavy artillery fire. This failure must have made Mao and the PLA generals pause, before launching an attack on Taiwan itself.

In retrospect, it appeared that Mao made a big mistake in not having pushed on with his winning streak to take over Taiwan at that point, despite the difficulties, before the U.S. became involved in the security of Taiwan. On January 5, 1950, President Truman issued a statement, declaring that the United States had "no predatory designs on Formosa" [the Portuguese name for Taiwan]. It also declared that the U.S. had "no desire to obtain special rights or privileges or to establish military bases on Formosa", and furthermore, the U.S. had no intention to "provide military aid or advice to the Chinese Forces on Formosa." Most significantly, the American strategic "defensive perimeter in the Pacific included only Japan, Okinawa, the Ryukyus and the Philippines". It left out both Taiwan and South Korea.

After the start of the Korean War in June 1951, the United States made an abrupt change from its former position. The Truman administration placed its Seventh Fleet on patrol in the Taiwan Strait, which prevented the PRC from invading Taiwan. The status of the island was to remain a major irritant and challenge to the leaders of the PRC, until the present day.

The Two Taiwan Strait Crises

Chiang Kai-shek regarded his government's evacuation to Taiwan as a temporary measure only, and he repeatedly declared his intention to fight back to regain mainland China. To Mao Zedong, Chiang's adversary in the civil war, Taiwan was a Chinese province, ruled illegitimately by Chiang's rebel regime, waiting to be "liberated" soon. To the United States which supported Chiang, but strove to bring the belligerents of the Chinese civil war together to form a coalition government after World War II, the loss of China to the Communists was a bitter pill to swallow. Putting this loss squarely on Chiang's shoulders, the Truman administration had written off Taiwan as a lost cause in the beginning of 1950. Later, the Korean War drew the U.S. closer to Chiang's regime, which gathered intelligence besides providing other services for the Americans. The U.S. rewarded Chiang's support by increasing its aid to Taiwan.

Although unwilling to be dragged into the Chinese civil war, the U.S. became inextricably involved in this conflict after it placed its Seventh Fleet to patrol the Taiwan Strait. Still, Washington made it clear that the purpose of the Seventh Fleet in Chinese waters was not to get into military actions on Chiang's side, but to prevent hostile actions from either side. Although the U.S. stance prevented full scale military confrontation between the PRC and ROC on each other's soil, it did not stop the warring regimes from carrying out military harassment against each other across the Taiwan Strait. Chiang's navy imposed a blockade on shipping along the coast of Fujian and Zhejiang. The Nationalists' possession of small offshore islands such as Quemoy (about two miles from the mainland city of Xiamen) and Matsu (about the same distance from the city of Fuzhou) facilitated their harassment of their Communist enemies by bombarding or shelling coastal cities on mainland China.

The Nationalist control of the above-mentioned offshore islands, which were within artillery shelling distance from the coast of Fujian, also rendered their forces there vulnerable to attack by the PLA. After Eisenhower succeeded Truman as president of the United States in 1953, he let it be known that the U.S. was going pull its Seventh Fleet out of the Taiwan Strait, because the presence of the U.S. fleet there not only protected Taiwan, but also the PRC, an enemy in the Korean War. (Henry Kissinger, *On China*, New York: the Penguin Press, 2011, pp. 153-154.) In order not to let Taiwan's security be undermined by this move, the Eisenhower administration was considering a mutual defence treaty that would commit the U.S. to defend Taiwan and the Pescadores, a group of islands located about 25 miles from Taiwan. Since Washington made no explicit commitment to defend other Nationalist controlled islands in the Taiwan Strait, including Quemoy and Matsu, Chiang endeavoured to strengthen their defence with additional troops and military supplies.

In August 1954, the changed situation tempted Mao to test the extent of the U.S. resolve to defend Taiwan and the latter's territorial interests by shelling the heavily fortified Quemoy. Since the Southeast Asian Treaty Organization (SEATO) had just been founded under American leadership for the security of a group of countries in that region, Mao might also have wanted to test the U.S. commitment to the multilateral defence of this region. With U.S. approval, Chiang retaliated with artillery and aircraft strikes against mainland China. A further test by Mao occurred on January 18, 1955, when the PLA assaulted the Nationalist-held Dachen and Yijiangshan Islands, which were also not included in the U.S.-Taiwan mutual defence treaty. Chiang decided to withdraw his forces from these islands rather than putting up a fight. Interestingly, when the Seventh Fleet

helped Chiang's troops on these islands to evacuate to Taiwan, the PLA were careful not to fire on the U.S. military.

As this First Crisis in the Taiwan Strait continued, U.S. president Eisenhower threatened the PRC with the use of tactical nuclear weapons. Refusing to show weakness, Mao responded blusteringly, proclaiming that "the Chinese people are not to be cowed by U.S. atomic blackmail." In contrast to U.S. willingness to use tactical nuclear weapons in the context of a war over Taiwan, Mao's Soviet ally, Nikita Khrushchev, seemed reluctant to commit to anything more than helping China with its nuclear program. After the passage of an act by the American Congress that authorized Eisenhower to defend Taiwan, the Pescadores Islands, and "related positions and territories in the Taiwan Straits" towards the end of January 1955, together with Eisenhower's warning in March that the U.S. was prepared to use tactical nuclear weapon against any "major new Communist offensive", Mao decided to end his probe. He ordered Zhou Enlai, who was at the Asian African Conference of Non-Aligned Countries in Bandung, Indonesia, to tell the world that the "Chinese people do not want to have a war with the United States of America", and also that "the Chinese government is willing to sit down and enter into negotiations with the U.S. government to discuss the question of relaxing tension in the Far East, and especially the question of relaxing tension in the Taiwan area." By the last week of April, China ended the shelling in the Taiwan Strait.

What followed was a Sino-U.S. dialogue in Geneva that continued off and on for several years. The talks resulted invariably in a deadlock, because each side stood firm on conditions that the other side either could not or would not accept. While the U.S. demanded that the PRC renounce

the use of force against Taiwan as a precondition for further discussion, the PRC insisted on the withdrawal of U.S. forces from Taiwan before any serious negotiation could take place.

In 1957, frustrated by the impasse in the dialogue, the U.S. downgraded it from ambassadorial exchanges to a lower level. This led the PRC to suspend the talks. From late May until July 1958, Mao called an important meeting of the Military Affairs Committee that was attended by a thousand officers. A decision was made to discontinue the building of a modern Soviet-style army, dependent on Russian assistance. Instead, the new policy stressed military self-reliance, combined with guerrilla strategy, and the development of China's own nuclear weapons – this last to be achieved with Soviet help. The conference did not conclude without China declaring her intention to liberate Taiwan. This audacious – even reckless – adventurism, at a time when China had little in the way of advanced modern weapons of the type supplied by America to Taiwan, echoed the bold domestic front policy of commune formation, that ushered in the high tide of the ill-fated Great Leap Forward. On both fronts, Maoist China, lacking in economic and material advantages, hoped to triumph through human energy and will. In fact, the commune movement made great strides when, soon after the conference, hostilities broke out again in the Taiwan Strait.

In August 1958, Mao again resorted to military brinkmanship to test the limit of U.S. commitment to defend Taiwan by starting a propaganda campaign on liberating Taiwan, accompanied by massive shelling of Quemoy and Matsu. Chiang's forces again retaliated by shelling mainland China. Mao chose to time this move after the U.S. military intervention in Lebanon during the summer of 1958, to demonstrate to the world China's combativeness towards the U.S. in East Asia, in contrast to the attitude of the Soviet Union which, under Khrushchev, weakly acquiesced to the U.S. assertion of hegemony in the Middle East. After the U.S. confirmed its readiness to defend

Taiwan and the "related positions of Quemoy and Matsu", Mao goaded Khrushchev, who was by then an advocate of peaceful coexistence with his enemies of the Cold War, into writing a letter to Eisenhower, expressing Soviet support for the PRC, should the Taiwan Strait Crisis escalate into a nuclear war. The Second Taiwan Strait Crisis subsided as Mao, in spite of trumpeting his fearlessness of a nuclear war, had no intention to fight the U.S. over Taiwan, and even less so over the small offshore islands. On concluding the crisis, Mao asserted that he had achieved his objective of making the U.S. willing to negotiate directly with the PRC again.

It is possible that Mao engineered the crisis in order to heighten the mobilization for the Great Leap Forward. An unwelcome side effect of the crisis was an increase in U.S. military aid to Chiang Kai-shek. Although Mao had succeeded in manipulating Khrushchev into promising support for the PRC in case the crisis escalated into a nuclear war with the U.S., the latter had no wish to fulfil that promise. Unsettled by Mao's reckless pronouncement on nuclear war, during June 1959, Khrushchev withdrew his earlier commitment of providing China with a model atomic bomb. As the Sino-Soviet rift deepened, Khrushchev decided in 1960 to terminate all Russian aid projects to China, and to bring back all Russian technicians from China.

We now discuss how Taiwan fared under Chiang's government, before returning to the evolution of the triangular China-Taiwan-U.S. relationship.

The First Decade of Taiwan Under Chiang Kai-shek's Rule

Consolidation of Power

Secure under U.S protection, Chiang proceeded to consolidate his position in Taiwan. On March 20, 1950, he was elected by the National Assembly (an electoral college) to be President of the ROC. Although the Constitution of the ROC limited the presidential terms of office to two, he was re-elected repeatedly, holding this position as well as General of the KMT until his death on April 5, 1975. Having relocated the ROC to Taiwan, he claimed legitimacy for his government to rule all of China from the ROC's temporary capital at Taipei. This claim meant that the members of the National Assembly, the Legislative Yuan, the Control Yuan, and other representatives of various national bodies, who had been elected by their mainland constituencies under the 1946 Constitution, would continue to hold their positions indefinitely. (Jay Taylor, p. 428.)

Since the ROC continued to be in a state of war against Communist Chinese across the Strait, the martial law and other emergency provisions that curtailed people's democratic rights and liberty in the "Temporary Provisions Effective During the Period of Communist Rebellion", that had been introduced as an amendment to the Constitution, was deemed to be justified. It was used to support Chiang's dictatorial powers. Because he believed that factionalism, corruption, and his lack of sufficient power to control his ill-disciplined subordinates, were major reasons behind his losing mainland China to the Communists, he was now more determined than ever to tighten his grip on his rule of the one-party state, through anti-corruption measures and other types of reform. (Jay Taylor, p. 412,) As a result, some of the most prominent leaders of the Nationalist party and government, such as the brothers Chen Lifu and Chen Guofu, and his wife's relatives, T.V. Soony and H.H. Kung, as well as many others high officials had been obliged to step down. Besides dismissing those who were associated with the Nationalists' past failures, Chiang also appointed

a crop of younger and demonstrably able officials, many of whom were American educated, to run such vitally important or sensitive areas as currency stabilization, land reform, economic development, the handling of the U.S. aid, and foreign affairs. (Jay Taylor, pp. 413, 428, and 484.)

Fearing Communist subversion and the opposition of native Taiwanese to his rule, Chiang put his elder son, Chiang Jing-kuo, in charge of security. The active enforcement of the politically repressive laws against sedition resulted in what became known as "white Terror" during the first decades of the Nationalist rule in Taiwan, when tens of thousands of native Taiwanese were imprisoned or executed for real or perceived opposition to his government. Migrants from mainland China would share the same fate if they were suspected of having Communist connections.

Currency Stabilization

Both the U.S. Consulate in Taipei and the CIA expected Chiang's newly evacuated government in Taiwan to collapse economically and disintegrate socially, sinking into a chaotic situation characterized by severe shortages of food and housing and health problems. (Jay Taylor, p. 413.) Thanks to the Taiwanese provincial government's earlier ban on selling food and other products to mainland China, and the enormous assets including real estate surrendered by the Japanese, in addition to the gold and currency funds brought over by Chiang, this pessimistic scenario did not materialize. (Ibid., pp. 412-413.) In fact, the Nationalist government achieved a feat of currency stabilization that had eluded it before its retreat to Taiwan. (Ibid. p. 413.) Inflation was controlled,

and the credibility of the New Taiwan Dollar (Xin Taibi), issued by the Taiwan provincial government, was established when it became freely convertible to gold. (Ibid.)

Land Reform

Although Chiang recognized the importance of land reform, the Nationalist government had been too closely associated with the interests of the landowning class to be able to pursue a program of controlling rent to tenant farmers, and redistributing privately owned land to the landless, during the time when it governed mainland China. Realizing that a healthy economy that would secure people's livelihood was essential to the survival of the KMT, the Nationalists lost no time in initiating land reform in Taiwan. (Jay Taylor, *The Generalissimo, Chiang Kai-shek and the Struggle for Modern China*, Cambridge, Massachusetts, London, England, The Belknap Press of Harvard University Press, 2009, pp. 413 and 485.) This undertaking was facilitated by the fact that the government of the ROC took over from the defeated Japanese all the land that belonged to the Japanese colonial government, enterprises, and individuals. Their total land ownership constituted a striking 67% of the land of Taiwan, including uninhabited mountainous regions. (Ibid., p. 413.)

In the summer of 1949, the ROC government set up, with U.S. support, the Sino-American Joint Commission of Rural Reconstruction (SAJCRR), to run its land reform program. Since a crucial part of the reform was to give land to the tillers through redistribution, Prime Minister Chen Cheng soon sold off 21% of the appropriated arable land on cheap credit to poor Taiwanese farmers. (Ibid., pp. 413-414.) Then in 1953, legislation was enacted to limit each landlord's land ownership

to 7.2 acres of medium-grade rice fields. (Ibid., p. 485.) As a result of this law, landownership of families that tilled the soil rose from 36% to 65%, while tenant families decreased to 11%. A law to help the tenants, reduced the land rent sharply to 37.5% of a main crop, such as rice. In addition to the above, the JRCC also tried to help farmers to increase their productivity and income, for example by supplying farmers with fertilizers through loans. (Ibid., pp. 431-432 and 485.) The land reform helped to increase agricultural production and to lower the price of rice significantly (Ibid., pp. 413-414 and 432.) It did not take long for this policy to win Taiwanese farmers' goodwill towards the KMT, which for the first time enjoyed popular political support in rural Taiwan.

In addition to restructuring the rural economy, the SAJRCC was also seriously involved in projects that improved the health of the rural population, through better provision of maternal and child care, and through controlling infectious diseases, such as tuberculosis, trachoma, and venereal diseases, to reduce their incidences. As time went on, health stations became widely distributed in the countryside to provide affordable basic medical care for farming families. The rural economic and social well-being provided a solid foundation for urban economic growth.

Unlike the Communist land reform on mainland China, the Taiwanese government did not seize landlords' land without giving them compensation. Moreover, it did not arouse the animosity of the peasants and tenant farmers to exact revenge on former landowners as class oppressors and exploiters of the poor. The process in Taiwan was not accompanied by large-scale violence and death as was the case under the Maoist regime in China. In exchange for their expropriated land, the landlords in Taiwan were given bonds, or stocks in government-owned corporations, which had been former Japanese businesses. (Ibid., p. 485.) From the 1950s, the more entrepreneurial

urban landlords invested their capital and managed factories, playing a significant role in diversifying Taiwan's economy, venturing from its old economic sectors into light industries for export. U.S. aid also made an important contribution to Taiwan's economic development. Between 1951 and 1964 America provided Taiwan a total of $1.5 billion in aid, most of which was spent on infrastructure and human resources.

Industrial expansion and Rising Living Standards

The massive U.S. aid, together with the large reserve of U.S. dollars and gold, made maintenance of a stable currency not a difficult task. With a thriving agriculture, a sound government policy, and macro-economic management that encouraged rapid industrialization through protective tariffs and subsidized loans to manufacturers, and the creation of many light industries making products for export to replace imported goods, the value of industrial production tripled in Taiwan in the decade 1949 to 1958. The rate of inflation of 6% to 7% per year between 1952 and 1958 was not unacceptably high for a flourishing economy, especially when wages outstripped the rate of inflation during the first nine years of Chiang's rule in Taiwan. (Ibid., p. 486.) Without the runaway cost of war and huge military expenditure that had plagued Chiang's government for many years in mainland China, Taiwan's budget deficit was a low 6% of the GDP. (Ibid.) During the seventeen years when Chiang ruled China first from Nanjing and then from Chongqing, he never had the gratifying experience of presiding over a state with a healthy and rapidly expanding economy like that of Taiwan.

A decade of exuberant urban economic growth created tens of thousands of new jobs that helped to absorb surplus rural labour, which resulted from an annual population increase of 4% a year in the countryside. (Ibid., p. 487.) The income growth of 7% per year was accompanied not just by a rising standard of living, but also by a narrowing of the gap between the rich and the poor. The rising prosperity prompted the government to lift its austerity measures.

In contrast with the KMT's failure to curb corruption on mainland China, its rule in Taiwan achieved remarkable success in dealing with this formerly intractable problem. Controlling corruption was a high priority with Chiang and his top aides, Chen Cheng and Chiang Ching-kuo. They reformed institutions and appointed well-educated progressive personnel to strengthen proper governance. (Ibid., p. 419.) A successful example was the centralization of payroll and procurement in the military, a measure that greatly lessened the opportunities for corruption in the military. (Ibid., p. 488.) Strict auditing of the accounts of the government and armed services by U.S. personnel no doubt discouraged financial misconduct by government officials, whose corrupt behaviour would be punished if discovered. (Ibid., p. 488.) To reduce tax evasion, the government ordered banks to provide income statements of individuals and corporations to the tax authorities.

We return now to the enduringly difficult relationships between China, the U.S. and Taiwan.

The Sino-American Rapprochement of 1970-72 and the Shanghai Communiqué on Taiwan

The 1960s was a decade of crisis for China both internationally and domestically. Early in the decade, border disputes between China and India had led to a brief Sino-India war that settled nothing. Towards the latter part of the decade, the Sino-Soviet verbal battles culminated in military confrontations along the long frontier between the two Communist neighbours and former allies. By October 1969, the Soviet Union reached the point of contemplating a pre-emptive strike against China's nuclear installations. This led Mao to alert China's nuclear forces as well as to disperse China's top officials from Beijing into the interior for their safety. Even as Mao tried to give the

appearance of being impervious to intimidations by the nuclear-armed superpowers, the prospect of a nuclear war with the Soviet Union moved him into taking a big leap of the imagination, in the direction of welcoming a rapprochement with the United States, his old enemy.

Sino-Soviet hostility reached such a high pitch during the Cultural Revolution that by the spring of 1969 Mao and the other Chinese leaders were preparing for war with Russia on the one hand, and on the other exploring the possibility of normalizing China's relationship with America, in order not to have both nuclear powers as enemies. But during most of the 1960s, the U.S. involvement in the Vietnam war, and China's Cultural Revolution, together prevented any meaningful improvement in the Sino-American relationship, in spite of tentative overtures from America.

When the U.S. withdrawal from Vietnam became more certain during the Nixon administration, Mao began to send Washington friendly signals. He invited Edgar Snow, the American journalist and author whose famous book *Red Star Over China* gave a sympathetic portrayal of Mao and the Communist regime in Yanan during the 1930s, to join him in celebrating the 21st anniversary of the founding of the PRC on October 1, 1970. For his part, President Nixon started to address the Chinese regime as the People's Republic of China for the first time by an American President. Then, in December 1970, China sent an encouraging message through the Pakistani government to Henry Kissinger, Nixon's national security adviser. Thereafter, positive gestures on both sides led to the 'pin-pong' diplomacy of April 1971, when China invited the American table tennis team, then competing in Japan, to visit China on a goodwill mission. In July 1971, Kissinger went in secret to Beijing to see Zhou Enlai, to make detailed plans for a visit by Nixon to China. Soon thereafter, Washington decided that, in the interest of maintaining the rapprochement with China, it would cease its support for the Nationalist government in Taiwan to represent China in the United Nations General Assembly, and on the Security Council as one of its permanent members, and instead allow the PRC to replace Taiwan at the UN. In October 1971, the PRC at last represented China at the UN.

President Nixon's visit to China, accompanied by his wife, on February 21,1972 marked the end of almost two decades of cold war animosity between the two countries, and the beginning of a new realignment in international relations. In Beijing, Zhou Enlai and Mao entertained the Nixons with rounds of banquets and sightseeing tours, while diplomatic issues of substance were hammered out through long private meetings of Chinese and American negotiators. The results of the negotiations were presented as a statement in the form of a 'joint communiqué' during the Nixons' visit to Shanghai on February 28, 1972.

The Shanghai communiqué recognized the obvious differences of opinions rooted in the different social systems and foreign policies between China and the United States, so that complete agreement was not possible. It therefore stated separately the positions from the point of view of each side on global issues of concern to each, without trying to reconcile them. For example, the United Stated pledged its support for South Korea; whereas, China suggested that Korea should be reunited in accordance with the proposal of North Korea.

On Taiwan, the issue of greatest concern to China, the Chinese stated:

"The Taiwan question is the crucial question obstructing the normalization of relationships between China and the United States; the Government of the People's Republic of China is the sole legal government of China; Taiwan is a province of China which has long been returned to the motherland; the liberation of Taiwan is China's internal affair in which no other country has the right to interfere; and all U.S. forces and military installations must be withdrawn from Taiwan."

The Americans stated their position as follows:

"The United States acknowledges that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The United States Government does not challenge that position. It reaffirms its interest in a peaceful settlement of the Taiwan question by the Chinese themselves. With this prospect in mind, it affirms the ultimate objective of the withdrawal of all U.S. forces and military installations from Taiwan. In the meantime, it will progressively reduce its forces and military installations on Taiwan as the tension in the area diminishes."

Both sides agreed to the desirability of more 'people-to-people contacts, exchanges in science, technology, sports, and journalism', and increase in trade. There was also a suggestion of a senior U.S. representative to visit Beijing from time to time. In the absence of a formal diplomatic relationship, the Chinese representative to the U.N. in New York could act for the Chinese government in America. The communiqué ended with the hopeful statement that both China and the United States would work for 'the normalization of relationships between the two countries' as a contribution towards 'the relaxation of tension in Asia and the world.'

Normalization of U.S.- China relations, and the Taiwan issue

After Nixon's visit in 1972, the Chinese leaders had expected that normalization of the relations between China and the United States would proceed quickly. But American politics and issues regarding Taiwan prevented rapid progress on this matter. Five years went by, and China was becoming impatient. When Deng returned to work in 1977, after falling out of favour with Mao during the Cultural Revolution, he considered normalization of relations with the United States to

be a matter of high priority. Deng's desire to build closer ties with America was driven to some extent by the Soviet threat. It was also connected with his recognition that building ties and promoting commercial, technological, and educational exchanges with American would help China's modernization, especially in the post-Mao era, when China's leaders were united behind the pursuit of this goal.

In order to expedite the process of normalization, many issues were negotiable for Deng except for one, and that was Taiwan, on which Deng held, like Mao and Zhou before him, unshakable "principles" based on the "one-China" stance of the PRC. Deng would not normalize relations with the United State unless: (i) the U.S. ended diplomatic relations with Taiwan; (ii) terminated the U.S.-Taiwan Mutual Defence Treaty; and (iii) withdrew all its military forces from Taiwan. From the point of view of the leaders of the PRC, Taiwan was a breakaway province of China, and as such it did not have the right to have diplomatic relations and conclude treaties with other countries in China's name. By the same token, the U.S. behaviour was interfering in China's internal affairs, and the U.S. military presence was a foreign occupational force. Without the U.S. protection, Deng as well as many American officials expected that Taiwan would accept unification with China if pressed, because it had no other options. It was Deng's most cherished hope that Taiwan would be reunited with the PRC as a single political entity during his own lifetime. If the Carter administration could satisfy China's demands on Taiwan, Deng would hasten to normalize relations with the United States.

Deng felt thwarted when the American Secretary of State Cyrus Vance, who visited China in August 1977, took a tough position on retaining American government personnel in Taiwan. Deng was also critical of the "soft" U.S. foreign policy towards the Soviet Union. He compared it to the British policy of appeasement towards Nazi Germany before World War II. Since the Chinese

Liaison Office in Washington lacked sufficient staff to work the U.S. media or lobby Congress, he started to carry out a personal campaign to inform the American public on the China-Taiwan issue. He hosted a high-level U.S. media delegation on September 6, 1977, and lobbied the Congress by inviting Senators Ted Kennedy and Henry M. Jackson, both known to favour normalization, to come to Beijing, and he asked them to help to speed up this process during the early part of 1978. He also tried to contact the White House directly.

Seeing normalization of relations with China as in America's best interest, President Carter was also trying to make a real effort on this matter. Although the American State Department put concluding the Strategic Arms Limitation Treaty, which was being negotiated at that point with the USSR, ahead of normalization relations with China, the Carter administration wanted to move forward with both items on the agenda at once. President Carter was concerned that the strong pro-Taiwan lobby at the Congress might make open negotiations with China on normalization too difficult to proceed. As a result, he decided to send the White House's National Security Adviser, Zbigniew Brzezinski, to China to lay the groundwork for normalization. Since Brzezinski also took a hard line on the Soviets and was as ready as Deng to proceed with normalization, he was just the man Deng hoped to see. Deng responded by asking Brzezinski to come to China as soon as it was feasible for him to do so. After Congress signed the final Panama Canal Treaty, a day was set for Brzezinski to visit China, because the White House no longer feared some pro-Taiwan lobbyists would hold up the signing of this treaty as a bargaining counter on Taiwan's behalf.

After Brzezinski arrived on May 28, 1978, he told Deng that President Carter had authorized him to inform Deng that the United States accepted China's three conditions or "principles" concerning Taiwan in connection with normalization, adding that the U.S. planned to release a statement stressing the importance of the two sides resolving the Taiwan issue peacefully. Deng reacted by

saying that China could not accept peaceful unification as an American condition, for that would compromise China's sovereignty, since Taiwan was a domestic issue. However, Deng reassured Brzezinski that China would make no objection, if the United States went ahead to issue such a statement.

In response to Deng's question on what concrete steps were to be taken to reach the goal of normalization, Brzezinski replied that confidential discussions could start in June, and Ambassador Leonard Woodcock, the head of the U.S. Liaison Office, would be prepared to enter into serious negotiation with Foreign Minister Huang Hua in July to explore the possibility of achieving normalization on mutually agreeable terms. Brzezinski stressed the importance of confidentiality in the negotiation, because too many leaks might make it difficult for the Carter administration to continue with it. Deng agreed and suggested conducting the talks in China, where secrecy could be better maintained. Brzezinski concurred with this suggestion.

Brzezinski was impressed by Deng's sense of purpose, his drive and directness, as well as his quick wit and sense of humour. It did not take long for the two to establish rapport and personal warmth in their relationship. Deng took the opportunity to pour out his concern over Soviet expansionism, the active military cooperation between the Soviet Union and Vietnam that was posing an imminent threat to Southeast Asia and China, and the weak response of the United States to this threat. Brzezinski, while defending his country's position, suggested letting government officials in various departments of the two countries meet and discuss their analyses of issues, such as the Soviet Union, from their different perspectives.

Brezinski detected a sense of urgency in Deng's wish to improve relationships with the United States, because Deng said that he had only about three years left as top leader. This was before the Party Work Conference's "coup" to make Deng the actual paramount leader instead of Hua

Guofeng, later in November that year. Bearing in mind Deng's expressed wish to visit the United States, and the fact that Deng would only do so after the relationship between the two countries had been normalized, Brezinski invited Deng to have dinner in his Washington home to show his confidence that normalization negotiations would be completed quickly and successfully. Deng promptly accepted the invitation. Although Brzezinski's visit only lasted a few days, it provided the kickstart needed to the stalled process for China and America to establish normal diplomatic relations. Anxious about his advancing old age, Deng tried to pressure Washington to speed up this process shortly after Brzezinski left China. On June 2, Huang Hua told Cyrus Vance that if he wanted Deng to visit the United States, which could occur only after normalization of their countries' relations, they had to work harder.

Normalization talks could at last begin after Vance cabled Woodcock on June 28 with the U.S. proposals on this matter, to be presented to Huang Hua. It had been clear to both sides from the beginning that success in the negotiations hinged upon whether all the important issues involving Taiwan could be resolved. Since the Carter administration was prepared to accept the three principles enunciated by China as essential conditions for normalization, these would no longer be obstacles. What remained to be thrashed out through discussions between the representatives of the two countries was the nature of post-normalization relations between Taiwan and the United States, and the content of the formal statement announcing the establishment of normal relations between China and the United States.

The confidential negotiations started in Beijing, on July 5, 1978 between Huang Hua and Woodcock with each side aided by a small team of subordinates. They met more often than once a month subsequently. Huang reported to Deng, who was abroad, busily engaged in diplomatic tours in September, October and November that year. Deng entered into direct talks with

Woodcock during the last three days of the negotiations in December. Woodcock communicated through highly secret channels with the White House. President Carter, Brzezinski, and others supervised and guided his negotiations, which took place entirely in Beijing.

On the question of post-normalization relations between the United States and Taiwan, the U.S. expected cultural, commercial, and other relations to continue on a people -to- people basis without official U.S. government representation. This was how the relations between Taiwan and Japan devolved after the normalization of Sino-Japanese relations in 1972. Deng stated publicly, when he was in Japan in October 1978, that he would accept a normalization agreement with the United States based on the Japanese model. He said that he did not object to the continuation of cultural and economic relations between the United States and Taiwan. However, he was strongly against the continuation of U.S. arms sales to Taiwan, because he believed that would encourage the leaders there to resist peaceful reunification with mainland China.

In Washington, when apprised by the Carter administration that the U.S. would "continue to trade with Taiwan, including the restrained sale of carefully selected defensive arms", Ambassador Chai Zemin replied that continued weapons sale to the "Chiang clique" was not in conformity with the spirit of the Shanghai Communiqué. Huang Hua reiterated this in a prepared statement when he met Vance at the United Nations on October 3, 1978.

President Carter and Brzezinski knew that the U.S. congress would not allow normalization to go through without continuation of U.S. arms sale to Taiwan. By late October, the negotiations had proceeded to the point that China's objection to the arms sale was the only obstacle to their successful completion. Carter and Brzezinski conveyed to Ambassador Chai Zemin that they would like to complete the process by January 1, 1979, and to invite a Chinese leader to come to Washington, because they feared that the longer the talks dragged on the greater the possibility

of leaks that might derail the negotiations. They warned China that if it did not seize this opportunity, American domestic politics might delay serious future discussions on this subject until late 1979. At about this time, the U.S. announced an agreement with Taiwan to continue to sell it F-5E fighter planes, but not more advanced military aircrafts. Pressured by the January 1, 1979 deadline, the U.S. Ambassador Woodcock presented, on November 2, 1978 a draft of the communiqué on normalization to the Chinese Acting Foreign Minister, Han Nianlong.

The Chinese were not able to respond to Woodcock until December 4. This was because Deng was visiting Southeast Asia from November 5, and after he returned on November 14, he was entirely occupied by the demands of the Party Works Conference, which made him the *de facto* paramount leader of China, albeit not in name, as Hua Guofeng retained the top office titles. Han Nianlong, who was substituting for the sick Huang Hua, gave Woodcock the Chinese draft of the announcement on normalization, which contained only slight revisions from the American one. Han told Woodcock that Vice Premier Deng would like to see him personally on a date to be arranged. Woodcock reported back to Washington that although Han opposed arms sale to Taiwan, he had reached a conclusion that this obstacle was not unsurmountable. At this point the world, including the Americans, did not know that Deng Xiaoping was now the top leader of China.

Deng saw Woodcock on December 13 to finalize the joint communiqué. Deng wanted to know why was it necessary to take a year for the U.S. to withdraw its military from Taiwan since its military treaty with Taiwan was going to be terminated. Woodcock explained that although the U.S. intended to break off diplomatic relations with Taiwan as of January 1, 1979, the existing treaty required one-year notice before termination. In actual fact, U.S. was planning to withdraw its forces in four months. Deng agreed with this arrangement, but he hoped that the U.S. would be

willing to leave all references to the one-year notice out of the announcement. He also expressed his wish that the U.S. would not sell arms to Taiwan during that period.

Another item Deng pointed out was that the Chinese draft had an anti-hegemony clause, which the U.S. draft did not include. He suggested it be included by the U.S., so that the two sides did not appear to disagree. Woodcock said that he would let Washington know Deng's views and await guidance from his government. Deng agreed that January 1, 1979 was a good date for normalization. On the U.S. invitation for a state visit, Deng told Woodcock that he would go to Washington himself.

Following his meeting with Woodcock on December 13, Deng delivered his epoch-making speech on "reform and opening" at the closing of the Central Party Work Conference. He could almost count on establishing normal diplomatic relations with the United States. This would be credited to him as an achievement as he assumed the top leadership.

Deng and Woodcock met again twice on December 14. Because Carter wanted to head off a leak that might lead to Congressional interference on behalf of Taiwan spoiling the negotiations at the 11th hour, he wanted to advance the announcement on normalization to December 15. Deng accepted the request for speeding up the announcement. He also agreed to visit the United States on January 28, a date suggested as convenient to his American hosts. Washington accepted Deng's suggestion on the anti-hegemony clause, because it was already included in the Shanghai Communiqué. They quickly reached agreement after discussing some minor changes in the wording of the joint communiqué, and then gave it to their aides to check the English and Chinese texts for correctness and compatibility. Woodcock reported to Washington that Deng was elated, and he requested Woodcock to convey his thanks to President Carter, Brzezinski and Vance.

At this point Brzezinski discovered to his surprise that Ambassador Cai Zemin still thought that the United States had agreed to terminate all sale of military weapons to Taiwan. He wondered whether Deng was also thinking likewise. The United States had agreed to Deng's request of not selling arms to Taiwan during 1979, but it fully intended to resume such sales after that year. Washington feared that if Deng had misunderstood this, he might be shocked, and the relations between China and America would be set back, if an arms deal with Taiwan were announced just as the two countries were about to normalize their relations. Brezinski wired Woodcock to make sure that Deng knew that the United States was going to continue to sell arms to Taiwan, though in moderation, otherwise the normalization agreement they had just reached would not pass Congress. Woodcock then requested an urgent meeting with Deng.

When they met on December 15, at 4 p.m. Beijing time, Woodcock told Deng that President Carter wanted to make absolutely sure that there was no understanding, and then went on to read the statement from the White House explaining that politics in the United States required that arms sale to Taiwan be continued after January 1980. Deng was furious, and he said that was totally unacceptable. He explained that the U.S. arms sales to Taiwan would prevent China and Taiwan from being reunited through peaceful negotiation, leaving military action as the only alternative. Deng was so upset that Woodcock thought Deng might decide against concluding an agreement.

Deng was seriously disappointed, because the U.S. insistence on selling arms to Taiwan rendered the peaceful unification of Taiwan with China so remote as to make it almost impossible for this cherished dream of his from being realized during his lifetime. But being realistic, he now saw that the U.S. was going to continue to sell arms to Taiwan with or without normalization of the Sino-American relations. Since Deng could still see many advantages in going ahead with normalization at this point, he said yes to Woodcock, in spite of the setback.

With Deng's positive response, the governments of the two countries were able to release on schedule the joint communiqué stating:

"The United States of American and the People of the Republic of China have agreed to recognize each other and establish diplomatic relations as from January 1, 1979".

President Carter made the announcement of the agreement to the American public on December 15 at 9 p.m. Washington time. When Chairman Hua Guofeng (still officially the head of the state) held a press conference simultaneously in Beijing on this subject, it was 10 a.m. on December 16. Following the normalization, the diplomatic liaison offices in both Washington and Beijing would be upgraded to embassies.

While the Chinese and their leaders in the PRC were delighted with this news, the people of Taiwan found it upsetting. Chiang Kai-shek's son and successor, President Chiang Ching-kuo was disturbed in the middle of the night to be informed of the impending announcement. Taiwanese politicians and their friends in the U.S. Congress were shocked. However, President Carter reported that the serious opposition his administration had feared from the Congress and the American people did not materialize. Apparently, despite the great difference in their cultures and political systems, the peoples of America and China both desired peace, and found promoting friendly ties to build a peaceful world appealing. The reaction of the world at large was also very positive.

China and Taiwan post 1979

After the death of Chiang Kai-shek and Mao Zedong, the implacable enemies of China's civil war, Deng Xiaoping's government tried, from the beginning of 1979 for a number of years, to induce Chiang Ching-kuo to accept reunification of mainland China with Taiwan by offering him conditions that the PRC leaders thought were "too good to refused". This was a time when the ROC was buffeted internationally by losing recognition from the U.S. and many other nations, and troubled domestically by dissatisfied native Taiwanese agitating for an end to the KMT's authoritarian rule, and more democracy. On January 1, 1979, the Standing Committee of the National People's Congress of the PRC issued the "Letter to Taiwan Compatriots" calling for an end to the state of enmity across the Strait and a quick peaceful reunification. It also proposed three contacts (commercial, postal, and aviation), and five exchanges (culture, sports, art, science and technology) between the people of the two sides.

Other official communications from the PRC following this letter offered to let the KMT leaders continue to govern Taiwan as local rulers (not as ROC) with a high degree of autonomy, if they would accept reunification with mainland China. The KMT-led government in Taiwan could keep its own army, and China would not send its own military or civil officials there, nor would China use Taiwan's air or naval bases for power projection. However, in order to prevent Taiwan from being used by another nation hostile to China, Beijing reserved the power to veto Taiwan's tie to any foreign country. After the PRC leaders developed the ideas of "Special Administrative Region" and "one country, two systems" in connection with their negotiation with Britain for the return of Hongkong, these principles were to be applied to Taiwan. To make the offer even more attractive, KMT elites could assume high official positions in mainland China. For example, Chiang Ching-kuo could be appointed vice-president of the PRC, and Chiang Kai-shek's body could be reinterned in his ancestral home. Should the leaders of the KMT accept reunification with

the PRC on these terms, they would not need to be troubled by the problems of international isolation and the domestic challenges they were then facing.

Besides appealing to Taiwan's KMT elites, who were mostly recent migrants to that island, to re-join China, Beijing also adopted policies and brought out regulations to attract Taiwan's business community to operate businesses in the PRC. Preferences were given to the Taiwan Compatriots to travel, to live, to own houses, to trade, and to invest in mainland China. The export-oriented Taiwanese business community responded enthusiastically to the new opportunities beckoning them from China. As rising labour costs threatened to price goods made in Taiwan out of their export markets, manufacturers in Taiwan found that China's low-cost labour force complemented well their own technological, management, and packaging expertise, to continue to produce goods to supply these markets.

Neither China's threat to recover Taiwan by force, nor its smiling diplomacy with offers of terms that were considered "too good for the KMT rulers to refuse", succeeded in winning over Chiang Ching-kuo to take Taiwan back to China's fold. To Beijing's tempting offers, he replied "No negotiation, no compromise, no contact". Instead, he tried to strengthen Taiwan politically by changing its governance. During the decade of the 1980s, he and his native Taiwanese successor, Lee Teng-hui, quickened the pace of Taiwanization with political reform, towards making Taiwan a fully democratic country. Together they ended martial law, released political prisoners, permitted opposition parties to be formed, relaxed control of the press and speech, and conducted full-scale elections for the National Assembly, the Legislative Yuan, the presidency, and all local offices by the voters of Taiwan alone without mainland representation.

After Chiang Ching-kuo's death in 1988, his successor Lee Teng-hui, who served as president until 2000, transformed Taiwan into a fully-fledged democracy. This change of governance gave

the Taiwanese electorate the decisive voice on the question of reunification of Taiwan with mainland China. Having based itself on a foundation of popular support, the new regime was assured of its legitimacy. Lee's government made an official investigation of the Two-Two-Eight Incident, issued an apology and created a memorial to the victims. By contrast, the PRC government continued to refuse to acknowledge that the June Fourth [Tiananmen] Incident had occurred, and to suppress any public dissemination of information on that subject.

Lee Teng-hui was more flexible than Chiang Ching-kuo in his dealings with the PRC. He was prepared to negotiate with the PRC. Since this could not occur officially as between states as equals, he set up the Mainland Affairs Council to supervise a nominally private but government funded organization called the Strait Exchange Foundation (SEF), to engage in talks as equal partners with the Association for Relations Across the Taiwan Strait (ARATS), an ostensibly private mainland Chinese organization. In 1992, after both sides agreed to the formula of "one China with separate interpretations" (*yige zhong guo, gezi biaoshu*), their delegates were able to meet on a neutral ground in Singapore. In 1993, the two sides signed agreements to facilitate the interaction of peoples across the strait on matters such as deeds, marriage certifications, wills, and the handling of fishing disputes, stowaways, hijackers on so on.

Because the two sides came to the talks with different purposes and conflicting goals, an impasse was soon reached after the practical issues concerning the opening of contacts were settled. The mainland Chinese regime under Jiang Zemin was negotiating for the purpose of reaching an agreement on the peaceful reunification of Taiwan with China in the foreseeable future, even though a target date was not fixed. The Taiwanese regime under Lee Teng-hui strove to resist such an eventuality by consolidating Taiwan's position vis-à-vis China, through negotiating with the PRC on the basis of two equal state entities. Besides fending off reunification with China, Lee's

government also worked hard on promoting the role of Taiwan as an independent state entity on the international stage, by endeavouring to join major international organizations, by offering economic inducements to countries that would recognize the ROC diplomatically, as well as by opening quasi-diplomatic offices in a large number of countries around the world, countries that would only recognize the PRC, for investment, trade and cultural exchanges with these countries.

Notwithstanding Lee's tough cross-strait strategy, he approached the regime on the other side softly at first, by acknowledging the PRC as a political entity controlling mainland China, giving up thereby the fiction that the ROC government in Taiwan still ruled China, but yielding nothing of substance. Then in March 1991, his government issued the Guidelines for National Unification that stated the steps the mainland government was required to follow before any official negotiation on unification between them could even take place. The initial step obliged the PRC to cease threatening Taiwan with the use of force, in order for it to continue to engage in the existing people-to-people contacts. Because Beijing had been blocking the ROC's attempt to join many important international organizations on an equal footing with the PRC, the guidelines also required the PRC to allow the ROC to join these organizations. The ROC had succeeded in joining some, under the name of Taipei Taiwan, Chinese Taipei, or some other designations, which Beijing did not object to. The other two steps required the PRC to undertake economic reform and political democratization to change itself into a more worthy partner, before government-to-government contact could take place on final consultation toward unification. Acceptance of these guidelines would amount to giving up any bargaining leverage the PRC had over Taiwan. Besides, they appeared to be calculated to diminish the prospect of reunification of China and Taiwan, or to delay such an event to an indefinite and long-distant future.

Sensing that Lee was maneuvering towards either independence or a "two-state solution", Beijing issued a white paper in 1993 to warn Lee against such a move. When Jiang Zemin put forward his Eight-point Proposal concerning Taiwan's reunification with China in his New Year's speech in 1995, he highlighted China's resolute opposition to Taiwan's activities "in expanding its living space internationally" aiming at "two Chinas" or "One China, one Taiwan". (Jiang Zemin's Eight-point Proposal Taiwan Affairs' Office of the State Council PRC: http://www.gwytb.gov.cn/en/Special/Jiang/201103/t20110316_1789198.htm). Jiang told the Taiwanese authorities that on the basis of the one-China principle, any matter of concern to them was negotiable. Jiang's liberal proposals implied that if the Taiwanese would acknowledge that Taiwan was a part of China, nothing else in Taiwan needed to be changed. Towards the people of Taiwan, he promised to protect their legitimate right and interest, to respect their lifestyle and their desire to be masters of their own country. While peaceful reunification remained the goal, Jiang reiterated that China did not promise not to use force against those who would pursue "the independence of Taiwan."

Refusing to consider the subject of reunification between Taiwan and China, Lee continued to pursue the strategy of a two-state solution. Lee's response to Jiang's insistence on there being one China was that the one China he acknowledged had separate governments. Lee asked Beijing to recognize this fact and to abjure the use of force against Taiwan. He also urged Beijing to allow the two governments to join international organizations on an equal footing. In 1999, Lee announced to the world through a German radio interview that "the relations between Taiwan and the mainland were not a relationship between a legitimate government and a renegade group or between a central and a local government, but a 'special state-to-state relationship' ". He further

pointed out the reason why Taiwan would not declare independence – namely, because it was already independent.

Lee's two-state approach to the China-Taiwan issue provoked vehement condemnation from Beijing, which suspended the SEF-ARATS talks and ambassadorial and other official contacts with the U.S. To demonstrate further China's determination not to let the authorities of Taiwan indulge in separatist activities, the PLA carried out rounds of missiles exercises in the Taiwan Strait during 1995 and 1996. The U.S., then under President Bill Clinton, responded by sending two aircraft carrier battle groups to the Taiwan Strait, ostensibly to avoid "bad weather". Endeavouring to tread the difficult path of combining a commitment to defend Taiwan, with a policy of maintaining a constructive relationship with China, the U.S. warned Taiwan not to engage in provocative acts on the one hand, and reassured China that it was not going to depart from its long-term one China policy on the other. As Lee Teng-hui persisted in his drive towards acquiring the semblance of statehood for Taiwan, President Clinton again strove to reduce tension between China and the U.S. by telling the leaders of the PRC emphatically, during his 1998 visit to Beijing, that his administration did not support independence for Taiwan, or two Chinas, or one China and one Taiwan. He also said that Taiwan should not be a member of any organization for which statehood was required.

In 2000, Chen Shui-bian, the leader of the Democratic Progressive Party (DDP), a well-known advocate of independence for Taiwan, was poised to be elected President of Taiwan. This was the first time the DDP, the opposition party to the KMT, might come into power. The prospect of Chen's electoral victory prompted China to mount a show of force in the Taiwan Strait to demonstrate its military capability to seize Taiwan's offshore islands if it chose to. Faced with the threat of a military conflict between China and Taiwan that might well involve the U.S., the Clinton

administration again stepped in to restrain the regime in Taiwan from going too far in their drive towards independence for that island. Washington succeeded in restraining Chen from measures towards establishing Taiwan as an independent sovereign state, for the sake of peace between Taiwan, China and the U.S. While Chen endeavoured to heighten the sense of a separate Taiwanese identity for the people of that island, Beijing tried to go over his head to promote economic ties and cultural and media exchanges between Taiwan and China.

In 2008, Ma Ying-jeou won the presidential election as the KMT candidate. Ma, a graduate of New York University and Harvard, was a mainlander who worked under Chiang Ching-kuo and Lee Teng-hui. Without jeopardizing Taiwan's functional independence, Ma opted for a reduction of cross-strait tension by putting the question of the status of Taiwan on hold. Approaching mainland China, now under the leadership of Hu Jintao, with a conciliatory attitude, he pursued a pragmatic policy that would benefit Taiwan's struggling economy by eliminating barriers to investment, trade, financial transaction, travel, and tourism. Beijing responded by resuming the SEF and ARATS meetings, permitted the ROC to participate in the World Health Assembly as observers from Chinese Taipei, and signed the Economic Cooperation Framework Agreement, which resulted in a large cross-strait growth in trade, investment and tourism. The introduction of direct air and sea travel, and shipping no doubt facilitated these developments.

While opening the door wider for the development of economic relationships and other exchanges between Taiwan and mainland China, Ma continued Taiwan's traditional cooperation with the U.S. diplomatically and militarily. On the matter of the island's security, Ma emphasized self-defence rather than relying on the Americans to fight for Taiwan. In order to enhance Taiwan's self-defence capacity, Ma continued to purchase weapons from American. Notwithstanding Ma's

policy of engagement with China, the issue of U.S. arms sale remained a source of tension in the triangular relationship with China on the one side and U.S. and Taiwan on the other.

Unable to draw Taiwan closer to China politically, Beijing fostered economic integration across the strait. Taipei, on the other hand, tried to slow the pace of the economic integration by imposing financial caps, technical limits and licensing requirements on investment in China, erecting barriers to trade, and banning outright many Chinese products from entering Taiwan. However, just as Taiwanese manufacturing enterprises rich in capital, technology, management expertise, and armed with ready-made export markets, found labour costs in Taiwan becoming prohibitively high, they were beckoned by mainland China opening up to foreign direct investment (FDI). The advantages these Taiwanese businesses possessed was what China needed, but did not have at that stage. For its part, China could offer the Taiwanese entrepreneurs low-cost labour, land and utilities, together with tax breaks and many other favourable terms to shift some of their production to the mainland.

These strong cross-strait complementary needs and advantages led to several waves of movement of production from Taiwan to mainland China. (David Shambaugh ed. *Power Shift*, Richard Bush, "Taiwan Faces China: Attraction and Repulsion", pp. 172-173.) The first occurred in the late 1980s and it was largely associated with small and medium enterprises (SMEs), which were engaged in labour-intensive industries, such as shoes, garments, and basic consumer electronics. The second wave rose in the mid-1990s, when larger businesses in fields such as petrochemicals and food processing also joined the move. The third wave surged in the late 1990s. It drove companies in the information technology sector, which had become the dominant sector in Taiwan's economy, to transfer their low-end products to mainland China in order to maintain their competitiveness.

During the first decade of this century, China assumed the role of the final assembly in the Asian regional manufacturing production networks, most prominently in information and communications technology. (Peterson Institution for International Economics, *China-Taiwan Economic relations.* <*http://www.pile.com/publications/chapters_preview/5010/oliir5010.pdf*>). This development included the integration of production chains across the Taiwan Strait. Around this time there was also a new trend of growth in Taiwan-to-China investment in wholesale and retail trade. By the early 2000s, China was Taiwan's number one investment destination, taking up over 50% of its total FDI, producing goods mostly for Taiwan's export markets in the West. According to one estimate, the PRC accounted for 74% of Taiwan's FDI from 1991 to 2002. (David Shambaugh, ed., *Power Shift*, Richard Bush, "Taiwan faces China, Attraction and Repulsion", p. 173.) In 2008, Taiwan's investment in China was between $130 and $150 billion, about 80% of Taiwan's FDI in that year. Accounting for from 15% to 17% of China's inward FDI stock of that year, Taiwan was China's largest FDI investor by far. Taiwan's FDI in China increased in 2009 and 2010. By the end of 2009, around 70,000 Taiwanese firms were invested in China.

Investment from China into Taiwan was of a far lesser scale, partly because many businesses in China were not in a position to invest abroad until the first decade of the twentieth century, and also because before 1992 Taiwan did not permit mainland Chinese investment. After Taiwan revised its inward FDI regulations to comply with its commitment to the WTO in 2002, a handful of mainland Chinese investment projects were recorded in 2008, after mainlanders were allowed to invest in a number of sectors as minority owners.

Investments led to trade: the cross-strait trade in both goods and services grew continuously from 1980s to the present, apart from a brief setback during the global financial crises at 2008. The two-

way trade tripled during the decade of 1990s. Then it averaged a 16% annual growth rate, raising the value of this trade from $30 billion in 2000 to $105 billion in 2008. Before Taipei removed most of the barriers on direct cross-strait transport and trade links in 2008, Hong Kong acted as the intermediate for business between Taiwan and China. This situation led to complications for researchers on the import/export trade data between the two sides. In 2008, Taiwan's export to China reached $74 billion, accounting for 8% of China's total import of that year. China's export to Taiwan in 2008 was $30 billion, giving Taiwan a $44 billion trade surplus. Taiwan's exports to China were predominantly intermediate goods or components imported by Taiwanese-owned firms, or Taiwanese-Chinese joint-ventures for processing in China for exporting again to other markets. Exports from China to Taiwan were mostly finished or almost finished goods for Taiwanese consumers.

Taiwan maintained a large surplus in the two-way import-export trade with China over the years, largely because Taiwan erected highly discriminatory barriers against many basic goods from China, citing economic security as a reason. However, after January 2002, when both China and Taiwan (as a separate customs territory or Chinese Taipei) joined the WTO as members, Taiwan relaxed the restriction somewhat on imports from mainland China. Before that date, Taiwan's exports to China were about five times the value of China's exports to Taiwan. After Taiwan joined WTO Chinese imports to Taiwan grew, and by 2009, the value of goods Taiwan exported to China was lowered to 3 times of the value of goods Taiwan imported from China. China has tolerated Taiwan's large trade surplus, which must have contributed to the island's prosperity as a trade-dependent economy. Although China complained about Taiwan's discriminatory protectionist policy against Chinese imports, Beijing had chosen not to make too much of an issue of it.

By the late 2000s, absorbing around 30% Taiwan's foreign trade, China was Taiwan's number one trading partner in addition to being its top investment venue. (Nathan and Scobell, pp. 218- 219. David Shambaugh ed., Richard Bush, p. 173.) By that time, Taiwan had also become one of China's top ten trading partners. (Timeline: U.S. Relations with China, http://ww.cfr.org/china/china-taiwan-relations/p9223) The three decades of symbiotic economic interaction and growth no doubt benefited the economies on both side of the Taiwan Strait. China's GDP in 2009 was 4.9 trillion, or $3,680 per capita. Taiwan's GDP stood at $370 billion in 2009, while the per capita GDP for its 23 million people was $16,442. Measured by purchasing power parity, Taiwan's and China's respective per capita GDP were $29,829 and $6,546 in 2009.

The symbiotic economic growth was accompanied by increasing educational, cultural, and technological exchanges across the strait. Visitors from Taiwan to China annually grew from one million in the 1990s to more than 4.5 million in 2007, when there were probably one million Taiwanese living and working in China. While Beijing allowed people from Taiwan to travel, do business, work, study, and reside in China freely, Taipei did not give mainland Chinese similar freedom to do so in Taiwan. Visitors from China to Taiwan increased from a trickle in the 1990s to 250,000 in 2008. Business people from China were allowed to visit Taiwan for less than three months from 2005. From 2008 to now, President Ma Ying-jeou and the ECFA negotiations between China and Taiwan progressively liberalized Taiwan's tight restrictions on the movement of goods and people from mainland China. In 2009, Taiwan increased its cross-strait direct flights from 108 to 270 per week, and permitted a ten-fold increase of the daily quota of visitors from China to 3,000. As a result, one million Chinese tourists visited Taiwan in 2009. (Timeline: U.S. Relations with China; <http://www.cfr.org/china/china-taiwan-relations/p9223> . Peterson Institute..)

The growing economic integration between China and Taiwan, and the increasing cross-strait personal contacts and various kinds of exchanges, did not lead to political integration between the two sides as Beijing would have liked. Taipei's fear that the island's increasing economic and other ties to mainland China would render the people of Taiwan less resistant to pressure for political union from China proved to be unfounded. Apparently, the huge growth of economic relationships, and personal, social and cultural contacts across the strait did not alter the political status quo between Taiwan and China, when Jiang Zemin's leadership of the PRC gave way to that of Hu Jintao in 2002.

Since the U.S. has continued to stand by the Taiwan Relations Act that was passed under President Jimmy Carter in 1979, there appears little likelihood of the PRC attempting to take over Taiwan by military means.

The Continuing Taiwan Issue Between the U.S. and China

Not long after President Jimmy Carter steered the bill normalizing the relationship with the PRC through Congress, against the wishes of friends of Taiwan, the Congress promptly passed the Taiwan Relations Act (TRA) on April 10, 1979. This act ensured the continuation of robust economic, cultural and security ties between the U.S. and Taiwan. On the subject U. S. arms sale to Taiwan, the TRA declared the willingness of the U.S. to "make available to Taiwan such defence articles and defence services in such quantity as may be necessary to enable it to maintain a sufficient self-defence capacity".

In January 1981, two years after the normalization of the diplomatic relation between the U. S. and the PRC, Jimmy Carter was succeeded by Ronald Reagan. Since Reagan appeared pro-Taiwan

during his presidential campaign, Deng Xiaoping was anxious to know the new American president's policy on the unresolved issues of mainland China and Taiwan, and especially on American arms sale to Taiwan. After lengthy negotiations, on August 17, 1982, the U.S. and the PRC issued what came to be known as the Third Communiqué that stated the following on U.S. arms sales to Taiwan:

> "[T]he United States Government states that it does not seek to carry out a long-term policy of arms sales to Taiwan, that its arms sales to Taiwan will not exceed, either in quantitative or in quantitative terms, the level of those supplied in recent years since the establishment of diplomatic relations between the United States and China, and that it intends gradually to reduce its sale of arms to Taiwan, leading over a period of time, to a final resolution. In so stating, the United States acknowledges China's consistent position regarding the thorough settlement of this issue." (Taiwan Documents Project: "Joint Communiqué of the United States of America and the People's Republic of China, August 17, 1982". <http//www.taiwandocuments.org/communique03.htm>)

It was important to Deng that the communiqué stated explicitly again that the U.S. "has no intention of infringing on Chinese sovereignty and territorial integrity, or interfering in China's internal affairs, or pursuing a policy of "two Chinas" or "one China, one Taiwan." The U.S. expressed satisfaction that the PRC had adopted a "policy of striving for peaceful resolution of the Taiwan question."

Now, more than three decades later in 2015, U.S. arms sale to Taiwan have neither gradually decreased nor stopped. (Shirley A. Kan, "Taiwan: Major U.S. Arms Sales Since 1990", Congressional Research Service, August 29, 2014.) Arms sales have increased rather than being held to the level of supply of unspecified "recent times". Apparently, the quantitative and

qualitative levels of the U.S. arms sales to Taiwan have been chiefly governed by U.S. considerations of what Taiwan needed for self-defence according to the TRA, rather than by observing the terms of the Third Communiqué. From the 1990s, as the PRC increased its military budget to support the modernization of the PLA, it also positioned a large number different types of ballistic missiles targeting Taiwan. The U.S. countered this move by selling to Taiwan appropriately sophisticated weapons, air craft and other military equipment to enable Taiwan to defend itself against attack from the PRC. (Shirley A. Kan, *"*Taiwan: Major U.S. Arms Sales Since 1990*",* Congressional Research Service, August 14, 2014.) In addition to supplying military hardware, the U.S. also provided training and other services to Taiwan's armed forces.

Apart from what and how much the American sellers of arms would supply Taiwan, Taiwan's internal politics, defence budget, and its changing relationship with China were also factors determining its arms purchases. From the 1990s onwards, as the two sides of the Taiwan Strait became increasingly linked in economic and personal exchanges, the urgency of Taiwan spending a fortune on arms purchases appeared to have been reduced. The U.S. sold and delivered a total of $4.3 billion worth of defence goods and services to Taiwan between 2004 and 2007, a period of heightened tension between the PRC and Taiwan. From 2000 to 2008, Chen Shui-bian, the leader of the Democratic People's Party (DPP), a native Taiwanese well-known for his separatist tendency, was the elected President of Taiwan. Fearing that he might lead Taiwan onto the path to independence, the leaders of PRC tried to intimidate the Taiwanese electorate by conducting military exercises to demonstrate China's newly acquired capacity to seize Taiwan's offshore islands before his election. Reluctant to be dragged into a war with China by Chen, the Clinton administration advised Chen to exercise restraint on this sensitive issue.

In 2008, the KMT returned to power with the election of Ma Ying-jeou as President, who took a less confrontational stance vis-a-vis China on the issue of Taiwanese sovereignty. Although Ma continued to purchase arms from the U.S., the total value U.S. delivery decreased to 800 million in 2011. (Shirley A. Kan, "Taiwan: Major U.S. Arms Sales Since 1990", Congressional Research Service, August 29, 2014.) Taiwan still ranked high as a purchaser of U.S. arms. Between 2004 and 2007, Taiwan ranked fourth behind Israel, Egypt, and Saudi Arabia among worldwide purchasers of U.S. arms. However, in 2011, its rank went down to eleventh.

The continuing U.S. arms sales were facilitated by the vagueness of the wording of the Third Communiqué, which did not specify how long was meant by "long-term", how "gradual" was going to be the reduction, and when the "final resolution" was to take place. The "level" of U.S. arms supply "in recent times" to Taiwan was understood to be held at the time of the Carter administration, but since this was not clearly stated in the communiqué, it was easily flouted. After signing this joint communiqué with China, the Reagan administration promptly gave Taiwan a secret six- point assurance that the U.S intended to continue to sell arms to Taiwan until a peaceful resolution of the difference between the PRC and Taiwan. Despite its ambiguity, the Third Communiqué, together with the Shanghai Communiqué of Nixon's visit and the Normalization agreement between Deng and Carter, formed the basic framework of U.S.-China relationship for over forty years from 1972 to beyond the first decade of the twenty-first century.

These documents did not provide a sufficiently clear guideline on the reduction and cessation of U.S. arms sales to Taiwan, and their continuation remained a source of tension between China and the U.S.. (Shirley A. Kan, *"*Taiwan: Major U. S. Arms Sales Since 1990*"*, Congressional Research Service, August 14, 2014.) For example, when President Barack Obama authorized the sale of four Perry-class guided missile frigates to Taiwan in December 2014, the Chinese government lodged

a strong protest against it. (See http://www.globaltimes.cn/china/diplomacy/) The Chinese Foreign Ministry spokesman, Qin Gang, said at a press briefing: "this [act] seriously violates the three China-U.S. joint communiqués, particularly the U.S. commitments specified in the August 17 [1982] Communiqué". Concerning this move he also said: "it brutally interferes with China's internal affairs, sabotages China's sovereignty and security interests, and runs counter to the trend of peaceful development of relations across the Taiwan Strait." He further declared: "the Taiwan issue concerns China's core interest and has always been the most important and sensitive issue in U.S.-China relations". For the sake of U.S. and China developing steadily healthy bilateral ties, he urged the U.S. to respect China's core interest by stopping U.S. arms sales and U.S.-Taiwan military ties. Besides official protests and warnings, China has sometimes resorted to stopping military-to-military exchanges with the U. S., and refusing to do business with U.S. companies that sold arms to Taiwan. (Shirley A. Kan, "Taiwan: Major U.S. Arms Sales Since 1990," Congressional Research Service, August 29, 2014.)

From the point of view of the leaders of the PRC, the close relations between U.S. and Taiwan continue to pose a serious threat to China's security. Not only could Taiwan be used as an unsinkable aircraft carrier for the U.S.; Taiwan's location rendered China vulnerable to a blockade from Taiwan on its worldwide sea-borne trade. The U.S. commitment to protect Taiwan militarily, together with Taiwan's considerable capacity for self-defence, has so far prevented China from attempting to reunify Taiwan with mainland China by military means. This does not mean that China has abandoned its claim on Taiwan as Chinese territory, together with its right to recover this island by force, albeit as a last resort. In order to show the world China's resolve on this matter, an Anti-Secession Law was passed in 2005. Article 8 of this law stated the following:

"In the event that the 'Taiwan independence' secessionist forces should act under any name or by any means to cause the fact of Taiwan's secession from China or that possibilities for Taiwan's secession from China should occur or that possibilities for a peaceful reunification should be completely exhausted, the state shall employ nonpeaceful and other necessary measures to protect China's sovereignty and territorial integrity."

The PLA was charged with preparing for this task. Since the 1990s, how to take Taiwan by force has absorbed a lion's share of China's military modernization efforts. Across the Strait, Taiwan had been devoting two to three percent of its GDP to keep some 270,000 troops on active duty, and to maintain an arsenal of advanced weapons in order to defend itself against a possible mainland Chinese attack. As a consequence, Taiwan has a military force that ranks among the world's top twenty.

To recover Taiwan by military means, the PLA would have to be prepared strategically for the U.S., Taiwan's informal ally, to join the fight, besides facing the daunting task of having to overcome the resistance of Taiwan's well-armed modern forces across 100 miles of turbulent sea. The PRC leaders must be aware that in the long run, with greater resources at their command for military build-up, the time would come when their military prowess would outstrip that of the ROC. According to some analysts, Taiwan has already fallen behind in terms of the balance of military power across the Strait. (Andrew J. Nathan and Andrew Scobell, *China's Search for Security*, p. 308 and note 21.) Furthermore, as China's military becomes increasingly modern and strong, the cost to the U.S. of military intervention could become prohibitively high. Although the PRC leaders prefer to win over control of Taiwan through peaceful means, they feel obliged to maintain the credibility that China would use force to retrieve Taiwan if necessary.

As China's modernization develops further during the twenty-first century, the trend of increasing economic and culture integration between Taiwan and China is likely to continue in the foreseeable future. However, political unification is another matter. Unless Taipei tries to take further moves towards statehood, or Beijing attempts to subjugate Taiwan by force, risking U.S. military intervention, Taiwan is likely to continue to exist and function as an independent country in peace, albeit without being officially recognized as one by the majority of the community of nations in the world. Evidently, according to polls 75 to 80 percent of people of Taiwan support President Ma's policy of peace, and the preservation of Taiwan's political *status quo* vis-à-vis China. While unification will remain Beijing's ultimately goal, Jiang Ze-mins' successor, Hu Jintao (2002 - 2012) was content to abide by the cross-strait political *status quo.* Xi Jinping, who became the PRC President in 2012, was initially preoccupied with strengthening his position domestically to enable him to curb corruption, and to carry out much needed major internal reforms. Even he might prefer to leave the deadlocked issue of China's unification with Taiwan to the future. Scholars have speculated on how the relationship between China and Taiwan might evolve, and on the different strategies China might employ to bring Taiwan to its fold short of military invasion; however, no one would hazard a guess as to exactly how and when the PRC and Taiwan will be united as a single country, if ever.