

Behind the political crisis in Taiwan

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Chen Shui-bian was formally installed for a second term as president of Taiwan on May 20 despite the fact that his election win still faces a series of legal challenges in the country's High Court. The inauguration follows two months of political turmoil sparked by the March 20 presidential ballot that produced huge demonstrations—both for and against Chen.

In his acceptance speech, Chen struck a conciliatory note on the central issue at stake in the hard-fought election: Taiwan's relationship with China. Chen, who is head of the Democratic Progressive Party (DPP), had campaigned on a promise to declare Taiwan a fully independent state—a move that is strongly opposed by Beijing. At his inauguration, the new president promised not to implement constitutional reform “related to national sovereignty, territory and the subject of unification and independence”.

However, while the political crisis may have abated temporarily, none of the underlying issues that provoked the confrontation have been resolved. Lien Chan, the defeated candidate and chairman of the Kuomintang (KMT), plans to unite with the Peoples First Party (PFP) to establish a stronger opposition party to challenge the DPP. In the election campaign, the KMT-PFP opposed any move to declare independence, preferring instead to seek a political accommodation with Beijing, which insists the island is an integral part of China.

Immediate political, electoral and even personal considerations may have played a role in the conflict. But the intractability of the tensions demonstrates that the crisis is the product of deep-seated differences in ruling circles. At stake is the future direction of the island—a question that impinges directly on the conflicting interests of different layers of the corporate elite.

Significant sections of Taiwanese big business have joined the flood of international investors exploiting China's cheap labour. Half of Taiwan's total overseas investment, or about \$70 billion, is now in China, which is home to at least 200,000 Taiwanese corporate personnel. If the Taiwanese government antagonises Beijing, the tensions, and potentially armed conflict, will have a devastating impact not only on business in Taiwan but on projects worth billions of dollars in China itself.

At the same time, however, Taiwan has increasingly become integrated in the global processes of production. Some 80 percent of its gross domestic product is dependent, in one way or another, on foreign trade. For the island's business elite, Taiwan's status as a semi-state, formally recognised by only a handful of smaller nations and excluded from many international organisations, has become an increasingly intolerable barrier.

The dilemma confronting the Taiwanese ruling class has been compounded by a series of interconnected factors: the collapse of the Cold War framework in the early 1990s, the undermining the old nationally regulated economy by the processes of globalised production and deepening economic problems following the Asian financial crisis of 1997-98. As elsewhere in Asia and internationally, the decay of the old state structures in Taiwan has raised fundamental political and economic contradictions, deeply rooted in historical processes, for which the bourgeoisie has no progressive solution.

The separation of China and Taiwan has its origin in the aftermath of World War II when the nationalist KMT government—a corrupt regime of

capitalists and landlords—was overthrown by Mao Zedong's peasant army and fled to Taiwan in 1949. Backed and protected militarily by the US, the KMT established a military dictatorship on Taiwan, insisting that it remained the legitimate Chinese government.

The stated intention of KMT leader Chang Kai-shek was to invade the mainland and seize power from the “Communist” usurpers in Beijing. Until the 1970s, the KMT regime, known as the Republic of China, was recognised internationally as the representative of China in international forums including the United Nations. Until the 1990s, Taiwan's legislature was structured as a government-in-exile, with seats reserved for “delegates” from each of the 29 mainland provinces.

Despite Washington's Cold War rhetoric, there was nothing democratic about the KMT's rule over Taiwan, which had been a Japanese colony since the late 1890s. The KMT took control of the island before the Chinese revolution, brutally suppressing all forms of local opposition. In one of the most notorious incidents on February 28, 1947, the security forces massacred tens of thousands of native Taiwanese protesters.

For more than three decades, the KMT ruled through a legislature stacked with KMT representatives and martial law edicts. Some 160 repressive laws and regulations outlawed all basic democratic rights, including freedom of assembly and the formation of political parties. An extensive network of secret police and state-controlled unions was established to suppress any political opposition, particularly from the working class.

Some two million mainland Chinese fled to Taiwan after 1949—including wealthy businessmen, KMT officials and soldiers. The KMT deliberately fostered ethnic divisions as a political base for its rule by discriminating against the native Taiwanese, who constituted 85 percent of the population. Mandarin was promoted as the official language. Native dialects and customs were banned on the radio and in schools.

The so-called Chiang dynasty—the wealthiest businessmen and political cronies connected to Chiang—dominated every aspect of the highly regulated economy. Major industries and banks were “nationalised” by the KMT regime and regulated through a “four-year plan”. A largely agricultural economy was heavily dependent on state subsidies and preferential trade deals with the US and its allies.

In late 1960s and early 1970s, these economic relations started to change. Taiwan and the other so-called “Asian tigers”—South Korea, Hong Kong and Singapore—opened up to foreign direct investment. Private firms largely run by native Taiwanese became the spearhead for low-wage export operations.

Taiwan also confronted a political upheaval. Facing a debacle in Vietnam, Washington made a political orientation to Beijing in 1971 as a means of shoring up US interests in Asia and forging a tacit alliance with China against the Soviet Union. The political price demanded by Mao Zedong was the “one China” principle: the recognition of the Peoples Republic as the legitimate government of all China, including Taiwan, and the exclusion of Taiwan from most international organisations.

The impact on Taiwan was immediate. The KMT's Republic of China lost its UN seat along with diplomatic ties with its strongest ally—the

US—and other countries. The only compensation was that Washington maintained a policy of “strategic ambiguity”—while recognising Chinese sovereignty over Taiwan, the US nevertheless guaranteed to defend Taiwan against any military attack from the mainland. The US stance was formalised in the Taiwan Relations Act in 1979, which also opened the way for arms sales to Taiwan.

The loss of international recognition occurred at the point when Taiwan was becoming a major cheap labour platform, particularly for Japan. Tokyo closed its embassy in Taipei in 1972 but bilateral trade between the two countries multiplied 20-fold over the following two decades. Japan became the principal supplier of capital goods and components to Taiwan for the manufacture and export of products to the US. By the early 1990s, Japan controlled all the top 10 Taiwanese auto companies and most of its supermarket chains.

From the 1980s, Taiwan became a centre for the manufacture and export of computer chips and hardware based on technology from, and markets in, Japan and the US. Stock exchanges and private financial firms also emerged, based on the island’s ability to attract foreign capital.

All these processes combined to undermine the KMT’s economic and political dominance. A Taiwanese corporate elite began to develop, demanding an easing of the KMT’s grip on power and a say in government policy. At the same time, the lack of international recognition was a barrier to Taiwan’s economic ambitions—Taiwanese corporations lacked access to many of the international mechanisms for doing business.

Beijing offered one option. The opening up of China for foreign investment accelerated rapidly under the leadership of Deng Xiaoping, who came to power in 1978. As a means of incorporating Taiwan and attracting Taiwanese capital to China, Deng elaborated, in the early 1980s, the policy of “one country, two systems”. As long as Taipei formally recognised the sovereignty of Beijing over the island, Deng was prepared to allow Taiwan complete autonomy—including its own independent military forces, government and currency.

Formal recognition of China meant, however, that access to international institutions, including economic ones, would be via Beijing—a condition that sections of the Taiwanese ruling elite were not prepared to accept. With the KMT’s dream of a reconquest of the mainland increasingly remote, pressures began to mount in Taiwan for the transformation of the island into an independent state.

Following the death of Chiang Kai-shek in 1975, his son Chiang Ching-kuo became president and commenced a program of “Taiwanisation”—the recruitment of members of the Taiwanese-born elite to the KMT. He initiated a series of political reforms that led to the abolition of martial law in 1987 and paved the way for a loosening of the KMT’s stranglehold on power.

A key factor in these “reforms” was the growth of the industrial working class in Taiwan. In the 1980s, the KMT confronted militant struggles by workers outside the confines of the state-run unions demanding basic democratic rights and better wages and conditions. To deal with this threat, the ruling class increasingly fostered ethnic divisions—“native Taiwanese” as against “mainlanders”—to divide working people.

It was in this political climate that the DPP emerged in 1986, firstly among dissident layers of the Taiwanese middle class, who regarded the KMT regime as an intolerable imposition. The DPP, which was initially illegal and suffered police repression, sought to make a broader appeal to native Taiwanese by calling for an independent state of Taiwan.

A shift was also taking place inside the KMT. When Chiang Ching-kuo died in 1988, Lee Teng-hui, who was born in Taiwan, was installed as president. Following the collapse of the Soviet Union in 1991, ending the Cold War framework, Lee moved to change Taiwan’s anachronistic state structures. He declared that the “period of communist rebellion” was at an end and lifted the “temporary provisions”—in place since 1948—that gave

the president sweeping powers. Hundreds of senior KMT members were forced into retirement from the National Assembly, the legislature and other government councils.

To secure support against the KMT old guard, Lee turned to the DPP, urging it to abandon its grassroots agitation in return for the promise of full parliamentary elections in December 1992. The growing influence of the DPP irritated Beijing, which sharply warned that its agenda of Taiwanese independence was “playing with fire”. In the wake of its brutal crackdown on the Tiananmen protests in 1989, Beijing remained sensitive to any opposition. Its criticism of Taiwan served to whip up Chinese nationalism and act as a warning to other separatist tendencies within China itself.

Far from resolving the contradictions confronting Taiwan, the last decade has exacerbated them. The Tiananmen Square crackdown set the stage for a massive influx of foreign investment into China, transforming the mainland into what is termed the “workshop of the world”. Sections of Taiwanese capital joined the stampede, adding to the pressures for a settlement between Beijing and Taipei.

At the same time, political parties, confronted with the necessity of campaigning in elections, have increasingly stirred up Taiwanese nationalism to create a social base for themselves. The KMT split over the issue in 1994 and again in 2000, with sections of the old guard accusing Lee of abandoning the party’s previous perspective.

Before the first-ever direct presidential elections in 1996, Lee confronted growing hostility to his program of economic restructuring. In a desperate bid to avert defeat, he guardedly declared that his policy toward China would involve “special state to state relations”. While the remark fell short of calling for Taiwan’s independence, it nevertheless provoked an angry response in Beijing.

China reacted by firing missiles into the Taiwan Strait, raising tensions to fever pitch after Washington dispatched two aircraft carrier battle groups to the area. Lee won the election as war loomed over the island but the confrontation destroyed the KMT’s credentials among powerful sections of business. The outbreak of the Asian financial crisis the following year undermined the KMT’s claims to have brought prosperity to the island and further heightened political and social tensions.

Taking advantage of the divisions in the KMT and popular opposition to its rule, Chen and the DPP won the presidency for the first time in 2000. To placate those who feared that his win would raise tensions with Beijing, Chen pledged not to change the status quo with China. Economic pressures for a resolution to the vexed question of Taiwan’s status have continued to grow, however.

In 2001 for instance, Taiwan was able to join World Trade Organisation (WTO) but only in the wake of China’s entry and as a “Separate Custom Territory”—a lower status that meant Taiwan could not enjoy the same treatment and privileges as other countries. Taiwan faces growing competition from China, including in areas such as IT. China is now the world’s third largest supplier of IT products, ahead of Taiwan.

Chen responded to the growing economic problems by stepping up the program of economic reforms. In the name of ending corruption, his administration introduced legislation to break up the KMT’s business empire of banks, investments firms, petrochemical companies and media networks. Restrictions were lifted on foreign ownership in telecommunications and other public sectors; credit cooperatives that used to provide cheap loans to farmers were abolished.

These policies only heightened social tensions. Two years after Chen’s installation, the number of billionaires on the island had doubled, while unemployment reached the unprecedented level of 5.17 percent. With no solution to mounting social inequality at home, Chen resorted to the methods of his predecessor Lee by playing on the politically contentious issue of a referendum on independence.

Chen’s policies immediately alienated powerful corporate interests.

China is now Taiwan's largest trade partner and the main factor behind its recovery from both the Asian crisis and the collapse of US hi tech bubble in 2000. These business layers threw their weight behind a revamped KMT under party chairman Lien Chan, who had expelled Lee and adopted a policy of improving relations with China.

In the wake of the election, none of the issues have been resolved. The bitter differences in ruling circles will only intensify, aggravated by political instability in China and the antagonist and unpredictable character of the Bush administration's attitude to Beijing.



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