Former Taiwanese president indicted for embezzlement

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The indictment of former Taiwanese president Lee Teng-hui on embezzlement charges on June 30 is another sign of the ongoing political battle in ruling circles over the island's policy toward China. Lee, who was president from 1988 to 2000, is well known for aggressively advocating the formal independence of Taiwan from China.

Another ex-president, Chen Shui-bian, who held office from 2000 to 2008, was convicted and jailed on similar charges in 2009. His Democratic Progressive Party (DPP) also cautiously supports steps toward independence from China, even though Beijing has threatened military action if a formal declaration were ever made.

Both prosecutions have proceeded under the current Kuomintang (KMT) government headed by President Ma Ying-jeou, which has sought to improved relations with Beijing in order to capitalise on China's massive economic expansion.

The charges against Lee are directly related to Taiwan's foreign policy. A special Supreme Court Prosecutions Office task force alleged that Lee and his aide Liu Tai-ying stole $US7.79 million from a secretive fund used to bribe small countries to establish diplomatic ties with Taiwan, formally known as the Republic of China (ROC).

Lee reportedly promised $10.5 million in foreign aid during a visit to South Africa in 1994, which was at the time a diplomatic ally of Taipei. Taiwan's foreign ministry, however, did not have the funds, so Lee's aide Liu instructed the National Security Bureau to provide the money from a secret diplomatic fund. Over the next two years, the bureau covered the money from its annual surpluses. In 1998, Lee allegedly asked the bureau to obtain the $10.5 million in aid from the foreign ministry, which on retirement he used to finance the expansion of his private think tank.

Although there is little prospect that either Lee or his aide will be sentenced to jail, as both are over 80, the KMT is the obvious beneficiary. With a presidential election due next January, opposition DPP candidate Tsai Ing-wen questioned the timing of Lee's indictment and said the charges appeared to be a "tool to serve political interests." President Ma denied the accusation.

As well as silencing an electoral rival, the charges are designed to intimidate other critics of the government's steps towards political reconciliation with China.

Lee was initially installed in power in 1988 as the KMT dictatorship was compelled by protests and strikes to make limited democratic reforms. The KMT had held power on the island since 1949 when it fled the Chinese mainland after the Chinese Communist Party seized power. The Kuomintang ruled as a government in exile, claiming to represent all of China. But that became increasingly difficult after 1972, when the US rapprochement with Beijing recognised the CCP regime as the government of all China, including Taiwan.

Lee, a native-born Taiwanese, won the presidential elections in 1994 and began to shift the KMT policy toward eventual independence. In the mid-1990s, Lee provocatively called for Taiwan to have a "state-to-state" relationship with China. Beijing responded by

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holding live missile exercises in the sea near Taiwan, prompting the US to send two aircraft carrier battle groups to the area.

Lee's policy represented the interests of powerful sections of Taiwanese business. In the 1980s and 1990s, Taiwan was one of the much vaunted Asian Tigers that acted as cheap labour platforms for globalised production. The lack of formal diplomatic recognition acted as a barrier for Taiwanese corporations seeking to do business with the world.

Lee's pro-independence stance provoked a breakaway from the KMT by James Soong, who insisted that Taiwan be regarded as part of China. Lee broke from the KMT in 2001 to form the Taiwan Solidarity Union (TSU), which aggressively advocates formal independence.

The split in the KMT enabled the opposition DPP to come to power in 2000 with the election of Chen as president, but this only intensified the political brawling in ruling circles over the island's orientation regarding China. Chen was narrowly re-elected in 2004 on the sympathy vote that flowed from a dubious election-eve assassination attempt.

The election of Ma in 2008 and a new KMT administration represented a decisive shift in Taiwanese policy, reflecting the island's growing dependence on the burgeoning Chinese economy. Ma signed the Economic Cooperation Framework Agreement (ECFA) with Beijing in 2010, along with 14 other agreements to open up trade, investment and transport links between Taiwan and the mainland.

The shift of Taiwanese capital to the mainland is illustrated by various statistics. The annual growth in fixed asset investment on the island in the first decade of the twenty-first century has been miniscule—just 0.06 percent—compared to an average of 7.5 percent during the 1990s. By comparison, more than $US90 billion in Taiwanese capital has been invested in China since 1991 when Taipei formally lifted its ban on investment to China. Taiwanese companies produce around 90 percent of the world's PCs and laptops, but most are labelled "Made in China."

At the same time, the Ma administration maintains close relations with the US. Despite its shift to a "One-China" policy after 1972, Washington has continued to guarantee Taiwan's security from any Chinese attempt to intervene militarily and to sell arms to Taipei. One sign of the Obama administration's aggressive intervention in Asia to undercut Chinese influence was its decision last year to approve a $6.4 billion sale of arms to Taiwan, prompting Beijing halt military exchanges with the US.

Taiwan, sometimes dubbed "the unsinkable aircraft carrier," has long been regarded by the US military as vital to any strategy to contain China. It forms a key link in what is referred to as the "first island chain" off the Chinese coastline, stretching from Japan and South Korea to the Philippines. If Taiwan were integrated into China and the Chinese navy and air force stationed on the island, it would be a major strategic setback to the US position in Asia-Pacific.

As the US has stoked rising tensions with China over the South China Sea, the issue of Taiwan has resurfaced. Just after the US Senate passed a resolution last month condemning China's so-called threat in the South China Sea, 45 senators called on the White House to sell sophisticated F-16C/D fighters to Taiwan. While currently not supported by Obama, such a step would provoke a furious reaction from Beijing.

While he seeks to maintain his delicate balancing act between China and the US, President Ma faces rising social discontent over levels of unemployment and falling living standards as Taiwanese businesses have shifted operations to the mainland. The indictment of Lee has the character of a pre-emptive political strike against the opposition parties as the KMT government expands its ties with China.

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