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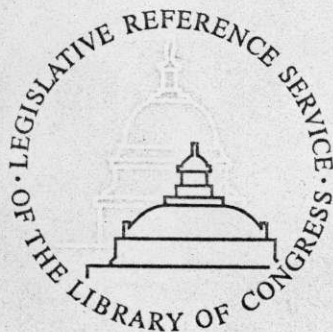
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THE REPUBLIC OF CHINA:
POLITICAL AND ECONOMIC DEVELOPMENTS, 1969.

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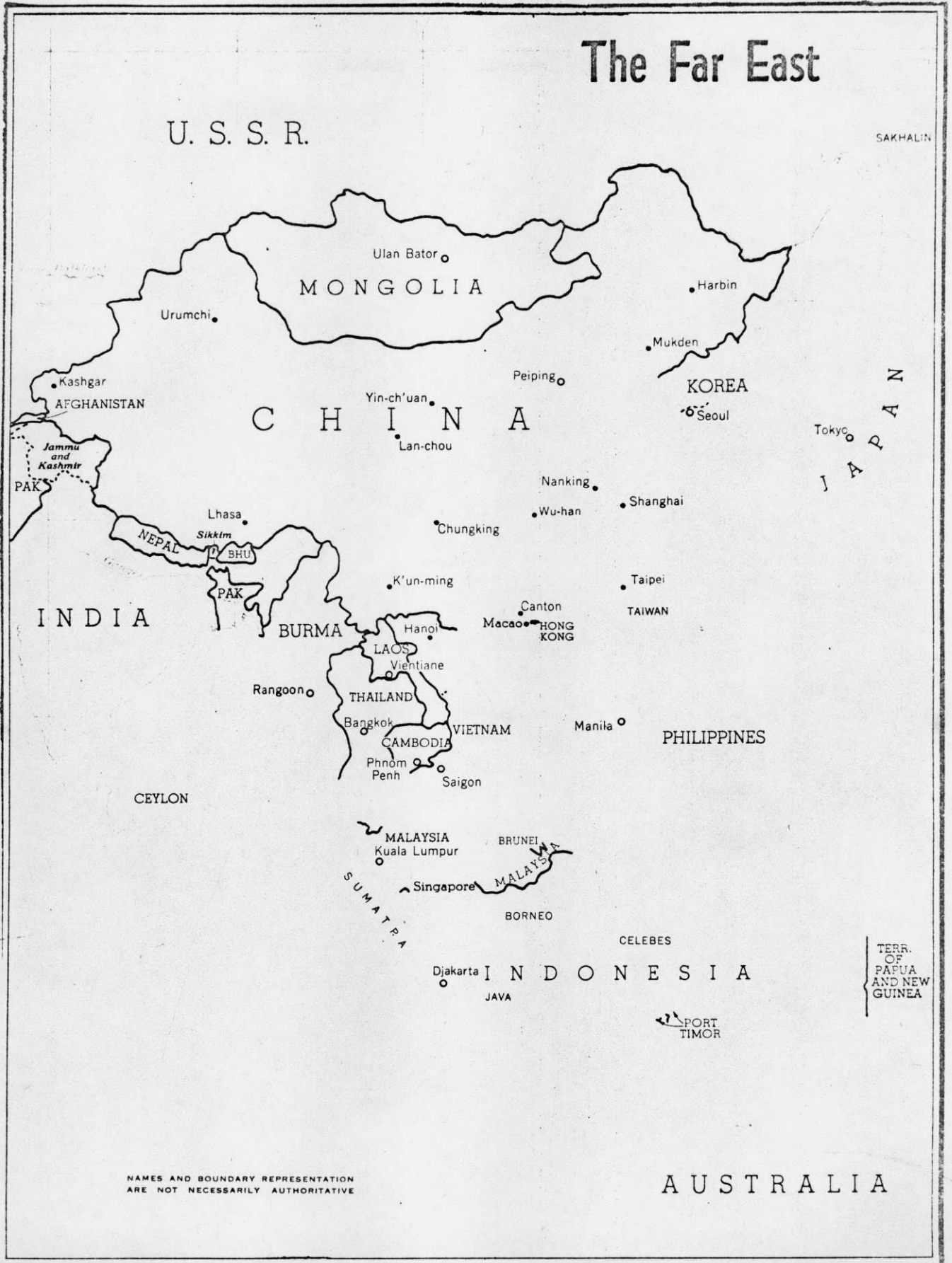
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The Far East



U. S. S. R.

SAKHALIN

MONGOLIA

Ulan Bator

Urumchi

Harbin

Mukden

AFGHANISTAN

Kashgar

CHINA

Yin-ch'uan

Peiping

KOREA

Seoul

Tokyo

JAPAN

Jammu and Kashmir

PAK

Nanking

Shanghai

Lhasa

Chungking

Wu-han

NEPAL

Sikkim

BHU

K'un-ming

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LAOS

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THAILAND

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AUSTRALIA

THE REPUBLIC OF CHINA: POLITICAL AND ECONOMIC DEVELOPMENTS

Summary

In contrast to many other Asian nations plagued by political unrest and economic difficulties, Taiwan^{1/} has experienced twenty years of internal stability and remarkable economic progress. The durability of the Republic of China on Taiwan is due largely to the tight control maintained by President Chiang Kai-shek and his Kuomintang (KMT) lieutenants. At the national level the government has limited the political participation of the native Taiwanese, who constitute some eleven million out of the island's total population of 13.7 million. In provincial affairs, however, all segments of the population are now involved in the political

^{1/}Many different names have been used in newspapers, periodicals, and books to designate the Republic of China. The Kuomintang (Nationalist) Party of Chiang Kai-shek established a new National Government in Nanking in 1927. The National Government of China after World War II gradually lost its struggle with the Chinese Communists for the control of the mainland. The Nationalists were forced in 1949 to retreat from the mainland and establish their government on the island of Taiwan. The Government of the Republic of China began to function on Taiwan in December 1949 in the capital city of Taipei. Because of this background, the government of President Chiang Kai-shek is often referred to as the Republic of China, the Government of the Republic of China (GRC), the Nationalist Government, the Chinese Nationalist Government, the Kuomintang Government, and the Taipei government. The island itself, as explained later, is now generally known as Taiwan, although until recently it was more widely referred to in the West as Formosa -- as indicated by official U. S. pronouncements on China in the forties and fifties.

process. The "return to the mainland" theme stressed by the KMT power structure has now become more of a myth than an operational reality; nonetheless, this theme still has relevance to Taiwan's domestic policies and its international position.

Well recovered from the setbacks suffered in the immediate postwar period, Taiwan's economy has flourished under a dynamic program of modernization. The government has taken impressive measures to strengthen both the social structure and the economy through progressive programs in education, land reform, and the promotion of foreign investment. Today, the people of Taiwan, after the Japanese, enjoy the highest standard of living in Asia.

In recent years the international status of the Republic of China has been strengthened. As a result of its efforts to join its neighbors in plans for regional cooperation and its program to aid other developing nations throughout the world, the Nationalist Government has succeeded in holding its own in the competition with Peking. These efforts of Taipei, along with continuing U.S. assistance and the negative effect of the Cultural Revolution on Peking's foreign image, have been sufficient to block any motion in the United Nations to replace the Republic of China with the Communist People's Republic of China. Thus, through its quiet diplomacy Taiwan has been able to hold its own in the international arena without the vehement declarations of support by the United States which it enjoyed in the 1950's.

The purpose of this report is to explore the political and economic aspects of Taiwan's endeavors to maintain and to improve its position within the international community. The report includes analyses of internal political developments, economic and social progress, and the thrust of Taiwan's foreign policy.

I. Background

The origin of the first inhabitants of Taiwan^{1/} is not known, but indications are that they came from Malaya or the islands of Indonesia. Large-scale Chinese immigration to Taiwan began in the 17th century, although Chinese settlement had begun several centuries earlier. No real effort seems to have been made by the various Chinese dynasties prior to the Manchus to establish firm control over Taiwan. Under the Manchus the island was administered as a part of Fukien Province for over 200 years. During this period, there were a number of unsuccessful rebellions. Finally, in 1887 Taiwan was made a separate province and administrative reforms were introduced and economic development stressed.

Taiwan and the Pescadores were ceded to Japan as a result of China's defeat in the war of 1894-95. Japan's control of the island was ended after her defeat in World War II. Under the terms of the Cairo and Potsdam Declarations it was agreed that Formosa and the Pescadores would be returned to the Republic of China. Thus the government of President Chiang Kai-shek took over the administration of the island in September 1945. As the situation on the mainland progressively deteriorated for

^{1/}Taiwan is also known as Formosa, a name coming from its description by sixteenth century Portuguese sailors who called it "Ilha Formosa," meaning "the beautiful island."

the Nationalists, Taiwan became a haven for a wave of refugees. Between 1945 and December 1949, when the Republic of China reestablished itself in exile on Taiwan, approximately two million Nationalists sought refuge on the island.

The Republic of China's rule on Taiwan took the character of a military government in the early period between 1945 and 1947. Under the governorship of General Chen Yi, the Nationalist Government quickly took control of the former Japanese enterprises and generally treated the native Taiwanese population as second-class citizens. Taiwan was not slated to attain local autonomy until December 1949, even though the mainland provinces were scheduled under the new constitution to receive local self-government in 1947. In March 1947 the Taiwanese revolted against the corrupt and unpopular administration of Chen Yi. President Chiang Kai-shek soon moved to correct the deficiencies in the administration on Taiwan and in 1947 the island became the thirty-fifth province of China.

Since the withdrawal to Taiwan in 1949, the Chiang Kai-shek government has continued to rule under the Constitution of 1947^{2/}.

^{2/}Because the Constitution cannot be amended before the return to the mainland, obstacles to the effective operation of the government have been overcome by the adoption of "Temporary Provisions." Some of the most important of these Temporary Provisions have been the establishment of martial law, the granting of extraordinary powers to the President, and the waiver on the constitutional limitation on the number of terms one individual may serve as President.

This constitution follows Sun Yat-sen's five-way division of power and thus provides for five branches: an Executive Yuan, a Legislative Yuan, an Examination Yuan, Judicial Yuan, and a Control Yuan. In the Legislative department there are both a National Assembly and a Legislative Yuan. The National Assembly has the power to elect and recall the President and Vice-President, to amend the Constitution and to ratify amendments proposed by the Legislative Yuan. The functions of the Legislative Yuan are to rule on statutory legislation or bills concerned with the budget, martial law, general amnesty, the declaration of war, the conclusion of peace treaties and other important affairs of state.

The President is head of state and commander-in-chief. His emergency powers allow him to issue decrees during the recess of the Legislative Yuan with the approval of the Council of the Executive Yuan.^{3/} In practice, President Chiang Kai-shek remains the paramount political power on Taiwan. The Generalissimo's power is derived not only from his position as President and Commander-in-Chief, but also from

^{3/}Members of the Executive Yuan are appointed by the President of the Republic upon the recommendation of the President of the Executive Yuan, who is also appointed by the President of the Republic.

his standing as Director-General of the all-powerful Kuomintang (Nationalist) Party, which is organized on the principle of democratic centralism. This principle allows for debate within the ranks during the decision-making process, but once the decision is made by the top level all party members are expected to follow party discipline and unquestioningly accept the decision.

II. Political Developments

As a developing nation, the Republic of China has reached the point of "take-off" in its political as well as its economic life. In many developing countries political issues are necessarily oriented around the economic questions which arise out of the drive for modernization. The Government, however, has proved its ability to provide the political stability which has enabled Taiwan to establish a sound base for its now booming economy. Thus in the political "take-off phase", the major issues facing the Nationalist Government focus on the nature and style of domestic political life.

The KMT's dominant position has been maintained by government controls which have sharply restricted other political activity. Opponents of the KMT center their grievances around three areas of public life: freedom of expression, political participation through political parties and new general elections, and what might be called self-determination in regard to Taiwan's future international status.

A. The Press and Freedom of Expression

Restrictions upon freedom of the press arise out of a tacit agreement between publishers and the Government on a list of topics

for self-imposed censorship. Forbidden areas for journalistic coverage are: criticism of the President, Vice-President and their families; calling into question the Government's dedication to recovery of the mainland; criticism of the armed forces; and any serious discussion of altering the political status quo. Newspapers and magazines are free to criticize Government policies on administrative and economic matters.

The publications which have suffered most from these limitations on free expression are those which circulate primarily in intellectual circles. Two prominent intellectual periodicals, Free China (bi-monthly) and Time and Tide (weekly), have been closed down as a result of violations of the unwritten publishing code. Public political expression is also limited under martial law regulations which forbid street assembly of more than three persons. Consequently, protest marches, demonstrations and street-corner orations are not part of the style of Taiwan's political life.

B. Political Participation and General Elections

Participation in the political system in Taiwan is highly structured according to the guidelines of official government policy. The Kuomintang Party (KMT) is the dominant political

force on Taiwan. Organized according to the principle of democratic centralism, the Kuomintang is a tightly-knit structure and receives little competition from the weakly-organized opposition parties. Members of the KMT dominate the bureaucracy of the central government, and the membership of the National Assembly and the five Yuans is made up largely of KMT personnel. Nevertheless, the KMT has recently established several new policies in an attempt to broaden its popular base. Party executive posts are now open to non-professional party members and may now generally be held for only four years. Under this policy, party executives will no longer have the status and rank of government officials. Consequently, when these policies are fully implemented, the party will draw its leadership from all segments of society and will be less of an integral part of the Government.

Two opposition groups, the Young China Party and the Democratic Socialist Party, have been allowed to organize, but these groups carry little influence and have been described by critics as "house pet" parties. Several serious attempts have been made to form an effective opposition party; however, these groups have come under close government scrutiny and their leaders have been harassed with charges of sedition and Communist sympathies.^{1/}

^{1/} In 1958 a group of intellectuals formed the "Society for the Study of Local Autonomy in the Republic of China" and petitioned the government for permission to organize as a political party. The permission was not granted. Following the 1961 elections the "Society for the Discussion of Better Elections" was organized and appealed to the government to end its subsidies to the KMT, decrease military spending, and increase personal liberties. Seven well-known mainlanders were among the petitioners. This group was also repressed and one of its leaders Lei Chen, the editor of Free China, was charged with sedition.

Student activists have a difficult time finding legitimate outlets for their political beliefs. The only large, organized student political group is the China Youth Corps, a government-sponsored group for high school and college students. Almost all students belong to this organization, which is headed by Deputy Premier Chiang Ching-kuo, Chiang Kai-shek's son and heir apparent.^{2/} Through its series of lectures, service clubs, summer activities and military training programs the Youth Corps leans more towards indoctrination than political participation.^{3/}

^{2/} President Chiang on June 25, 1969, named Chiang Ching-kuo as Deputy Premier in a general reorganization of the government. He was replaced as Minister of Defense by Huang Chieh, the Provincial governor of Taiwan.

^{3/} The structured atmosphere which the Youth Corps lends to student life in Taiwan has over the years produced a fairly apathetic student population. However, this youthful complacency appears to wane among Taiwanese graduate students studying abroad. Many of these students are active in exile groups advocating Formosan independence. There have been several celebrated incidents where graduate students returning to Taiwan for vacations or to do research have been arrested on charges of sedition. Taiwanese students also demonstrate their opposition to current government policies by remaining abroad once their studies are completed. Of the 2,500 Taiwanese students coming to the United States yearly, estimates indicate that only about 5% return to Taiwan.

Many Taiwanese feel that there should be new general elections to fill the many vacancies in the two national legislative bodies and to reallocate the number of representatives delegated to the mainlanders and the native Taiwanese in proportion to their current ratio in the population.^{4/}

The last national general elections were held on the mainland in 1948. The present members of the Legislative Yuan and National Assembly were chosen by the electorate in the thirty-four provinces on the mainland and the thirty-fifth province of Taiwan. The 1947 Constitution established the National Assembly with 773 delegates and the Legislative Yuan with 3,045. Today there are 459 surviving delegates in the National Assembly; only seven of the original 773 seats were assigned by the 1947 Constitution to the Taiwanese. In the Legislative Yuan there are now around 1,500 members, 18 of whom are representatives of the native Taiwanese.^{5/}

^{4/} Native Taiwanese complaints in the area of political participation are not limited to their lack of elected representatives. Many Taiwanese also protest the fact that the majority of the civil service posts go to mainlanders. In addition, only two top administrative posts traditionally go to native Taiwanese, the Interior Ministry and the Presidency of the Legislative Yuan. The army is 85% Taiwanese but only 8% of the officer corps are islanders. Some 80% of the members of the police department are mainlanders, though an effort is now being made to see that the majority of the new trainees are Taiwanese.

^{5/} At the tenth National Congress of the KMT held in April 1969, the 150 members of the newly-elected central committee included only 13 Taiwanese. A new party advisory committee had one Taiwanese among its 11 members.

The question of holding new general elections is complicated by the effect that they might have upon the claims of the Nationalist Government to represent the people of China. The Nationalists assert that in order for the Government to conduct national general elections, the people of all thirty-five provinces of China must participate; this of course is impossible in light of present realities. If the Republic of China were to hold general elections only in the thirty-fifth province, Taiwan, this action might serve in part to repudiate its position as a government-in-exile and open the Government to charges of being an occupying force on Taiwan. Consequently, the Nationalist Government has so far refused to hold new elections for the national legislative bodies, although Presidential elections have been held on schedule.^{6/}

Elections for the Provincial Assembly, which has limited law-making functions, are held regularly, as are elections for local and municipal offices. Voter participation is generally high but these elections do not provide a forum for the discussion of national issues or fulfill the function of a referendum on national questions, since campaigns are legally restricted to the discussion of local issues and personalities; candidates are prohibited from attacking national policy and the constitution. Native Taiwanese hold the overwhelming majority of local and provincial offices, although the appointed governor of Taiwan province is a mainlander.^{7/} In the local and provincial elections held in January and April 1968, KMT candidates won 80% of the city council and

^{6/} The Government did announce in June 1969 that elections would be held in December to choose 11 new members to the Legislative Yuan, 18 members to the National Assembly and two members to the Control Yuan. These elections will be the first of their kind to be held since the central government moved to Taiwan in 1949.

^{7/} The governor, Huang Chieh, was named Defense Minister on June 25, 1969.

village chief seats and 61 out of the 71 Provincial Assembly seats. However, at least half of the new local officeholders were not incumbents. With a new emphasis on youth, the average age of the local and provincial elected officials is now forty. Some inroads on KMT dominance were made in these recent elections as independent candidates were victors in the mayoralty elections in Kaohsiung and Taichung. The appointed mayor of Taipei is also an independent.^{8/}

C. Self-Determination and Taiwan's Future Status

What some regard to be the repressive aspects of life on Taiwan -- the impediments against free expression and political participation -- grow out of restrictions which the Government feels are necessary in order to strengthen the nation to meet the challenge of returning to the mainland. At present there are no strong indications of any changes in the Nationalist focus on recovery of the mainland.

Chiang Kai-shek's heir apparent Chiang Ching-kuo continues publicly to support the objective of reclaiming the mainland, though some analysts feel that he may be inclined toward a more pragmatic view of Taiwan's future status. However, observers doubt that he would be inclined to move toward a more liberalized political atmosphere on Taiwan even if the drive for national recovery were abandoned. Ching-kuo, who was educated in the Soviet Union, is by training and experience accustomed to the use of authoritarian tactics, particularly in his role as head of the secret police.

^{8/} Mark Plummer, Taiwan: The New Look in Government, Asian Survey, January, 1969, p. 19.

The appeal of the return to China theme is diminishing among the new generation of "mainlanders," whose attitudes are increasingly shaped by their common schooling and military training with Taiwanese. Many Taiwanese and liberal mainlanders would like to see the question of Taiwan and the Republic of China's future international status become a matter for official reconsideration. There is some support for the establishment of an independent Republic of Taiwan, and several exile groups operating in Japan and the United States favor self-determination for the population of Taiwan and the creation of an independent republic.

The fate of the Nationalist Government will remain intimately linked to developments inside Communist China as long as the Government maintains the recovery of the mainland as a national objective and as long as the leaders in both Taipei and Peking reject the two-China concept. The turmoil created on the mainland by the Cultural Revolution has given fresh intensity to Nationalist hopes for a return to the mainland, though few observers believe that the Nationalists would actually take the initiative to reinvade and reestablish themselves there. The Nationalists now appear to place their emphasis on political rather than military strategies. Seeing the recent internal unrest in Communist China as an historical vindication of his views, Generalissimo Chiang Kai-shek called upon his countrymen in his 1967 New Year's message to "plan the counter-attack against the Peiping rebels, remove the ashes of disaster from the mainland, relieve the suffering of the mainland people, and re-establish security and peace for east Asia and the Pacific. . . by relying on,

strengthening, and multiplying our national, cultural, and revolutionary forces. . ."

The Republic of China has responded to the Cultural Revolution with two programs with implications for both domestic and foreign policy. The first is Chiang Kai-shek's answer to the Cultural Revolution: the Republic of China's Cultural Renaissance. Launched by the President in November 1966, this program seems to have had little effect as a cultural revival. The second is a new program for the development of contingency plans for retaking and governing the mainland. The National Security Council was established in February 1967 in order to coordinate these plans for national mobilization and the administration and reconstruction of mainland China.

III. Economic and Social Developments

Learning from its mistakes on the mainland, the Republic of China has developed an intensive program on Taiwan for economic modernization in which plans for land reform, education, and social welfare have played an integral part. The success of this economic effort has been quite dramatic, since the Government has at the same time continued to maintain one of the largest standing armies in the world in proportion to population.

Taiwan's development program has had three major phases: strengthening the agricultural base of the economy, expansion of the industrial sector, and in recent years growth through trade and foreign investment.

A. Agriculture

Between 1949 and 1953 land reform was emphasized. With the assistance of the Sino-American Joint Commission on Rural Reconstruction, the government organized a three-stage program. The first step was taken in 1949 with the statutory reduction of rents to a maximum of 37.5% of the main crop. Under the second phase, which was begun in 1951, the sale of public lands broadened the base of land ownership. In 1953 the "land-to-the-tiller" program stepped up the land distribution effort through government purchase of large land holdings and their resale on easy terms to tenant farmers. The former land owners were compensated with government bonds and shares in large public enterprises. Market credit and agricultural extension services were also part of the land reform program.

Taiwan's land reform plan has been considered quite successful. The subsistence cycle of her agricultural society has been broken and new capital has been made available by the investments of former large land owners. Since the inauguration of the land reform effort, Taiwan's agricultural production has more than doubled. ^{1/} In 1967 the rice crop set a new record of 1.1 million metric tons. Thanks to its booming agricultural economy and a birth control program, Taiwan, unlike many other Asian nations, may not be threatened by a food-population problem. ^{2/}

B. Industry

In 1953 the government turned its attention toward industrialization with the implementation of its first Four-Year Economic Plan. Taiwan inherited from the Japanese a sound infrastructure which was capable of providing a strong base for industrialization. During the Japanese period, the Taiwanese had possessed many agrarian and some industrial skills and a high standard of living. At this time the economy was oriented primarily toward agriculture and the processing of agricultural products. Taiwan's prewar industrialization was limited: in 1945 the island had two cotton mills, two jute mills, and one woolen mill.

^{1/} Agricultural Productivity Index: 1952=100, 1966=227.3. Far Eastern Economic Review Yearbook, 1968, p. 331.

^{2/} Taiwan has one of the highest population densities in the world, but as the result of the limited birth control program begun in 1965, Taiwan's growth rate is now down to 2.7% per annum with a goal of 1.6% in the next ten years.

Taiwan's late start in modern industrialization has nonetheless worked to its advantage; by being able to begin with modern plants, industry has not been handicapped by the need to replace obsolete equipment. A sound internal transport system and a strong communications network, in addition to an easily trained labor force, are other factors which have contributed to Taiwan's capacity for rapid industrialization. The industrial sector of the economy is split between state-owned monopolies under the direction of the Ministry of Economic Affairs, and privately owned enterprises. 3/

Textiles, electronics, manufactured goods, and building materials are now the principal products of Taiwan's industrial sector.

During the past two years, the construction industry has served as the pacesetter for the economy. Taiwan's industrial growth has been a principal factor in its economy's ability to reach economic "take-off." 4/ Since 1958 Taiwan's industrial output has increased at a rate of 10% more per year. In 1966 industrial production for the first time exceeded agricultural output, and in 1967 textiles replaced sugar as the leading export. Taiwan has the second highest per capita GNP growth rate in Asia. 5/

3/ Public corporations account for 34.5% of Taiwan's gross fixed capital formation while privately owned firms contribute 65.5%. Gurtov, Melvin. Recent Developments on Formosa, China Quarterly, July-September 1967, p. 75.

4/ Industrial index: 1952=100, 1966=565 (FEER Yearbook, 1968, p. 332)

5/ Based on a compound rate between 1957-58 average and a 1965-66 average, Japan had the highest GNP per capita growth rate of 9.0%; Taiwan's was 6.1%. However, taking the average annual GNP growth rate for the period 1961-67, Taiwan's average was 9.7%.

Though the economic picture in Taiwan is quite rosy, the island is not without economic problems. Inflation caused a price rise of about 12% between April and August of 1968 alone. A shortage of managerial talent and a growing lack of natural resources could pinch the continued expansion of Taiwan's booming economy.

In recent years, the Government's program of development has emphasized foreign investment and trade. The Government has launched a program to increase the level of foreign investment in an effort to create more employment opportunities.^{6/} Investment incentives such as a five-year tax holiday for qualifying companies, the creation of special industrial districts, and wage levels 50% below those of Hong Kong and 25% below those of Japan, have already resulted in a high level of foreign investment.^{7/}

It had been predicted that overseas investment would fall off in 1968 but the influx of foreign capital continued at a record rate. In 1968 foreign investment reached a record level of more than \$100 million.^{8/} Economists have credited high levels of foreign investment with sustaining and accelerating Taiwan's economic boom.

^{6/} Taiwan's employment problem stems largely from its proportionally very young population. Forty-four percent of its 13.7 million people are under 15.

^{7/} American firms such as General Instruments Corporation, IBM World Trade Corporation, Philco-Ford, and TRW, Inc., play an important part in Taiwan's booming electronics industry. The new industrial park at Kaohsiung, which operates as a customs-free zone for foreign industry, has already attracted twenty-six firms, which have invested approximately \$3.8 million.

^{8/} In 1967 the total foreign investment was \$63 million.

Foreign trade has also made an important contribution to Taiwan's phenomenal economic growth. In 1965 and 1966 Taiwan's imports and exports totaled more than \$1 billion each year. Textiles are the top foreign exchange earner, followed by bananas and sugar. In 1967 exports increased by more than 14%; leading gains were in textiles, lumber, chemicals, and cement. Figures for the first six months of 1968 indicate exports were up by 11%. Part of this export boom may be attributed to the Republic of China's increased commerce with South Vietnam.^{2/}

C. Defense Expenditures

An important aspect of the Republic of China's economic picture is its military establishment and the defense expenditures necessary to maintain it. For a developing nation, Taiwan has been unusually successful in balancing the demands of development with the maintenance of a constantly modernizing military force. U.S. military assistance has clearly lessened the burden; but, nonetheless the Government has assumed the majority of the financial obligations for military expenditures. The Nationalist Government now puts \$3 into its military establishment for every \$1 of U.S. assistance. Taiwan buys approximately \$8 million of military equipment from the United States every year.

^{9/} In 1967 Taiwan exported \$74.4 million worth of goods to South Vietnam, an increase of more than \$35 million over 1964. However, exports to South Vietnam accounted for only 11.4% of Taiwan's total exports. Japan and the United States remain Taiwan's leading customers.

Current estimates set the Government's yearly defense expenditures at 10% of the nation's GNP, 80% of the national budget and 55% of the combined central and provincial budgets. Nationalist China's armed forces have around 600,000 troops. A reserve training program which was initiated in 1956 has readied more than a million men for emergency military service. The average age of soldiers has been kept in the early twenties by a continuing recruiting program.

Recent reports indicate that the Nationalist Government is thinking of reorganizing the army into a smaller, elite mobile strike force. Deputy Premier and former Defense Minister Chiang Ching-kuo reportedly supports the plan. A desire to create financial savings in order to raise military salaries is an element which reportedly figures in the new plan. The Nationalists apparently have also been influenced by the Israeli example of what a small well-armed and mobile strike force can accomplish when pitted against superior numbers. U.S. assistance is currently aiding the Nationalists in increasing their firepower. The Nationalists are about to acquire Bell Uh-1h (Huey) helicopters and recently received F-5 fighter planes and several hundred tanks.

D. Education and Welfare

Despite the high proportion of the national budget devoted to defense, the government has made progress in the social welfare field. The social welfare program as of the end of 1966 extended benefits

to 680,000 people. It provides benefits for birth, injury, illness, disability, old age and death. 10/

Education has not been overlooked. The government recently launched a nine-year compulsory education program and plans to invest more than \$1.9 billion in education in the next six years. 11/

In the field of higher education Taiwan has become a center for university training for the overseas Chinese spread throughout Asia. Taiwan has 10 universities, 11 colleges, and 48 junior colleges. To diminish the brain drain which plagues Taiwan as a result of the fact that so many of her students go abroad for postgraduate training and do not return, the nation is also attempting to improve its facilities for postgraduate study and research.

10/ Estimating five persons to a family, officials believe the program covers approximately 3,000,000 people or almost one-fourth of the population.

11/ Approximately 22% of the nation's population is in school.

IV. Foreign Policy

A. Role of the United States

As a military ally of the Republic of China, the United States has occupied a central position in the country's external relations. U.S. military and financial assistance has been a major factor in the development of Taiwan's economy and defense establishment.

Since President Harry Truman ordered the Seventh Fleet to patrol the Formosa Straits in June 1950, the United States has been committed to the defense of Taiwan.^{1/} This order, however, signaled a reversal of earlier policy of the Truman Administration. As recently as January 5, 1950, President Truman had stated that in light of the Communist victory in mainland China, the United States had no "intention of utilizing its armed forces to interfere in the present situation. The United States Government will not pursue a course which will lead to involvement in the civil conflict in China. Similarly, the United States Government will not provide military aid or advice to the Nationalist Chinese forces on Formosa." At this time Formosa was not included in the United

^{1/} With reference to the dangers created by the North Korean invasion of South Korea, President Truman on June 27 stated: "In these circumstances the occupation of Formosa by Communist forces would be a direct threat to the security of the Pacific area and to the United States forces performing their lawful and necessary functions in that area. Accordingly I have ordered the Seventh Fleet to prevent any attack on Formosa. As a corollary to this action I am calling upon the Chinese Government on Formosa to cease all air and sea operations against the mainland. The Seventh Fleet will see that this is done."

States' defense perimeter in the Pacific, as outlined by Secretary of State Dean Acheson on January 12, 1950, in a speech before the National Press Club. ^{2/}

Though the U.S. commitment to defend the Chinese Nationalist Government was established in June 1950, it was not until May 1951 that the U.S. policy toward the international position of China took a definite course. During the period immediately following the withdrawal of the Chiang Kai-shek government from the mainland, the U.S. position toward the international status of Taiwan was conditional. ^{3/} Even at the time of the deployment of the Seventh Fleet in the Formosan Straits, President Truman carefully added to his June 27 announcement the statement that "The determination of the future status of Formosa must await the restoration of security in the Pacific, a peace settlement with Japan, or consideration by the United Nations." But by May 1951 the U.S. was ready to clarify its position and stated that it regarded the Republic of China as the authentic national

^{2/} The line drawn by Acheson ran from the Aleutians to Japan to the Ryukyus to the Philippines. Both Korea and Formosa, as areas West of this line, would have to provide for their own defense, backed "by the commitment of the entire civilized world under the Charter of the United Nations."

^{3/} There was some feeling in U.S. foreign policy circles that the possibility of a U.N. Trusteeship for Formosa should be considered. Some members of the Senate Foreign Relations Committee including Senators Vandenberg and Taft, felt that the people of Taiwan should be granted the right of self-determination even if this resulted in the establishment of an independent Republic of Formosa.

government of the people of China and declared that this government would receive the support and assistance of the United States. ⁴/

Under Presidents Eisenhower, Kennedy, Johnson, and Nixon, U.S. policy toward the Republic of China has continued to focus upon the firm commitment of the United States to defend Taiwan and support the Republic of China within the international community. (During his August 1969 visit to Taiwan, Secretary of State William Rogers reassured the Nationalists that in spite of Washington's new emphasis on Asian self-reliance, the United States would continue to honor its treaty commitments).

During the Eisenhower Administration, President Truman's commitment to defend Taiwan was formalized by the Mutual Defense Treaty of 1954 and the Joint Resolution of Congress on the Defense of Taiwan which was passed in January 1955. The Mutual Defense Treaty provided that both the United States and the Republic of China in the case of armed attack against the territory of the other party

⁴/ On May 18, 1951, Assistant Secretary of State for Far Eastern Affairs Dean Rusk outlined the essentials of U.S. China policy: "We do not recognize the authorities in Peiping for what they pretend to be....It is not the government of China. It does not pass the first test. It is not Chinese....We recognize the national Government of the Republic of China, even though the territory under its control is severely restricted. We believe it more authentically represents the views of the greater body of the people of China, particularly their historic demand for independence from foreign control. That Government will continue to receive important aid and assistance from the United States."

would "act to meet the common danger in accordance with its constitutional processes." 5/ The Formosan Resolution authorized the President "to employ the Armed Forces of the United States as he deems necessary for the specific purpose of securing and protecting Formosa and the Pescadores against armed attack, this authority to include the securing and protection of such related positions and territories of that area now in friendly hands and taking of such other measures as he judges to be required or appropriate in assuring the defense of Formosa and the Pescadores." 6/

5/ An important understanding followed the signing of this treaty. In an exchange of notes, Secretary of State John Foster Dulles and Foreign Minister George K.C. Yeh expressed the understanding that for both countries "the use of force" from Nationalist-controlled territory "will be a matter of joint agreement, subject to action of an emergency character which is clearly an exercise of the inherent right of self-defense." Thus, according to this interpretation of the Mutual Defense Treaty, the United States would have to agree before the Nationalists could launch an offensive against the mainland.

6/ During the Quemoy-Matsu crisis of 1958, President Eisenhower used this resolution as the basis of his authority to commit U.S. forces to the defense of the outer islands if circumstances indicated to him that Communist harassment was a preliminary to a major assault on Taiwan. President Kennedy in 1961 indicated he supported the Eisenhower position. In 1968 it was rumored that the Johnson Administration might ask the Nationalists to withdraw their troops from Quemoy and Matsu, as it considered the islands no longer vital to the defense of Taiwan. State Department spokesman Robert McCloskey denied these rumors and stated that U.S. policy towards China still rested on the Mutual Defense Treaty of 1954. (Washington Post, March 21, 1968).

Since the Eisenhower era the United States has consistently stood behind the Republic of China and refused to endorse the admission of Communist China to the UN or to extend diplomatic recognition to that nation.^{7/} However, Presidents Kennedy, Johnson,

^{7/} In March 1957 Secretary of State Dulles declared that U.S. recognition of Communist China "would serve no national purpose but would strengthen and encourage influences hostile to us and our allies and further imperil lands whose independence is related to our own peace and security."

Similarly, Secretary of State Dean Rusk in a 1961 news conference dismissed the immediate possibility of recognizing the mainland regime: "Peiping has made it clear that they would not themselves even consider such a matter quite apart from our attitude unless we were to abandon Formosa, which we are not going to do."

At a press conference on January 27, 1969, President Nixon indicated that "The policy of this country and this Administration at this time will be to continue to oppose Communist China's admission to the United Nations. There are several reasons for that. First, Communist China has not indicated any interest in becoming a member of the United Nations. Second, it has not indicated any intent to abide by the principles of the UN Charter and to meet the principles that new members admitted to the United Nations are supposed to meet, and finally Communist China continues to call for expelling the Republic of China from the United Nations..." At a March 4 press conference President Nixon suggested that hopes for a better understanding with Communist China would probably not be realized in the near future: "...being very realistic in view of Red China's breaking off the rather limited Warsaw talks that were planned, I do not think that we should hold out any great optimism for any breakthroughs in that direction at this time."

and Nixon all expressed their willingness to reappraise U.S. China policy if a change in conditions, particularly a change in Communist Chinese attitudes, made such reevaluation a wise and prudent course.^{8/} Indications of movement in U.S. China policy, both inside and outside the government, understandably cause tremors in Taipei. ^{9/}

The problem of the international status of Taiwan poses a fundamental question which must be resolved in any attempt by the U.S. to reorient its China policy. Essentially there are three basic alternatives for a new China policy, all of which would have some effect upon the status of the Republic of China:

^{8/} In his last press conference President John Kennedy extended an offer for conciliation between the United States and Communist China. He stated that "When the Red Chinese indicate a desire to live at peace with the United States, with other countries surrounding it, then quite obviously the United States would reappraise its policies. We are not wedded to a policy of hostility to Red China."

Similarly in his 1967 State of the Union address, President Lyndon Johnson spoke of his willingness to reevaluate U.S. China policy when he stated: "We shall continue to hope for reconciliation between the people of Mainland China and the world community--including working together in all the tasks of arms control, security, and progress on which the fate of the Chinese people, like their fellowmen elsewhere, depends."

In an article appearing in the October 1967 issue of Foreign Affairs, Mr. Nixon said: "Taking the long view, we simply cannot afford to leave China forever outside the family of nations..."

^{9/} The Senate Foreign Relations Committee hearings in 1966 on U.S. policy toward Mainland China caused a severe reaction on Taiwan.

- 1) to attempt to achieve unification of Taiwan with Mainland China,
- 2) to establish an independent Republic of Taiwan, or
- 3) to adopt a two-China policy.

The first alternative may perhaps at present be rejected as impractical in light of current realities. It appears highly unlikely that the present governments of either Mainland China or the Republic of China would be willing to consider such a solution to the "China problem" unless they were to control the government of the mainland. The second solution, an independent Republic of Taiwan, has found some support among the Taiwanese and in the United States. One version of the proposal calls for the holding of a plebiscite on the future status of Taiwan; all sides would agree in advance to abide by the choice of the people of Taiwan. An independent Republic of Taiwan could be expected to retain its General Assembly seat while the Security Council position possibly would be opened to Mainland China.

The third alternative, a "two-China" solution, has perhaps received the most discussion in U.S. foreign policy circles. However, one of the most formidable objections to any kind of two-China policy is that both Taipei and Peking have flatly rejected such a solution as they both claim that Taiwan is an integral part of China. Several versions of a "two-China" policy have been advanced. One

formula calls for the acknowledgement of China's residual sovereignty over Taiwan but with an indefinite postponement of any basic change in the island's political status. In this way the status quo could be frozen for a period of years and a major source of conflict between the United States and Communist China would be removed. Nonetheless, the difficulties inherent in such a solution are many. The question of seating in the U.N. Security Council would remain unresolved. Furthermore, both Peking and Taipei would be unlikely to accept a proposal which could weaken their respective claims to represent China. Many Taiwanese who do not wish to acknowledge Chinese sovereignty would also reject this plan.

A second major variant of the "two-China" solution is for the United States to "reconcile" itself to Peking's claim to govern Mainland China by repudiating the claims of the Republic of China to represent "China." Concurrently, the United States would also repudiate its World War II acknowledgement of Chinese sovereignty over Taiwan. This second step would theoretically maximize the long-term prospects for the emergence of an independent Taiwan as a separate and sovereign state. The U.S. would retain its commitment to defend Taiwan but it would then rest on more realistic ground. The Republic of China could continue to insist that it represented China, but without U.S. support this argument would have little meaning. Separating Taiwan policy from China policy would

allow the debate in the United States and within the United Nations to shift to a more realistic basis and deal with the China situation as it exists today.

After any reappraisal of U.S. China policy, there is the possibility that a fourth alternative could emerge -- to continue the current policy of keeping all options open and allowing time for a further clarification of trends on the mainland.

With the goal of developing Taiwan into a self-sufficient country, the United States has poured into the island vast sums of both military and economic assistance. Between 1950 and 1957, the Republic of China received in terms of per capita investment more aid than any other country covered by the American assistance program. Less repayments and interest, The Republic of China since 1946 has received \$4.8 billion in foreign assistance from the United States. In terms of economic development the U.S. aid program has been highly successful; the program was terminated in 1965 and Taiwan has now launched its own foreign assistance effort. ^{10/}

U.S. military assistance has over the years also gradually been reduced. The high point of U.S. military assistance to Taiwan was the 1953-57 period, during which the United States

^{10/} The economic aid which Taiwan received in FY '66 and FY '67 came from funds which had been allocated but not yet disbursed before the 1965 termination of the aid program.

delivered \$1.14 billion in military aid. In comparison the U.S. commitment for military assistance in 1967 was only \$72.2 million. Because of balance of payments problems, advisory personnel under the Military Assistance Program have been substantially reduced in recent years. The proposed FY '70 authorization provides for 393 men. 11/

11/ As a result of the Vietnam war the U.S. has developed facilities at Ching Chuan Kang air base at Taichung. Several thousand U.S. military personnel are stationed at this installation which services various aircraft used in the Vietnam war.

B. Relations with Japan

Japan is second only to the United States in importance to the Republic of China's overall foreign policy. As Taiwan's leading trading partner, Japan has a substantial economic impact upon Taiwan. With a 3:1 favorable balance of trade, Japan exported \$471.6 million worth of goods to Taiwan in 1968. (During the same period, the United States as Taiwan's second largest trading partner exported \$292.2 million worth of goods to Taiwan.) Japan is also a major creditor of Taiwan, with large-scale private investments on the island. Taiwan has hopes of gaining an increasing share of the Japanese market by exporting light industrial products which can be used as components for Japanese finished products.

Politically, Taiwan's relations with Japan have significant domestic implications for the Nationalist government. Many of the 11 million indigenous Taiwanese still feel strong ties with Japan because of the 50-year period of Japanese rule from 1895 to 1945. During this time thousands of Japanese lived on Taiwan and many Taiwanese were educated in Japan and married Japanese women. As former Ambassador Edwin Reischauer has pointed out, many native Taiwanese are unique among former colonial peoples in preferring their past rulers over the present. Japan's attitudes toward Taiwan and the whole China question also assume a special importance to the Nationalists because of Japan's potential emergence as the leader of the East Asian region.

The history of Taiwan's post-war relations with Japan is largely colored by United States attitudes toward both Nationalist China and Japan. At United States urging, Japan signed a bilateral treaty with Nationalist China in 1952 to officially end its war with China. 12/ Neither Mainland China nor Nationalist China had signed the multilateral peace treaty with Japan which resulted from the San Francisco Conference in 1951. In the bilateral treaty, Japan repeated the renunciation included in the San Francisco treaty of its claims on Formosa and the Pescadores and of special rights within China. It did not, however, acknowledge the Nationalist government's sovereignty over the mainland. 13 /

An earlier exchange of letters between Japanese Prime Minister Shigeru Yoshida and Secretary of State John Foster Dulles in December 1951 made it clear that Japan would have some regard for the close geographic proximity of Mainland China. Mr. Yoshida stated that though Japan intended to conclude a bilateral treaty with the Nationalist Government and not the Communist regime, "The Japanese

12/ Treaty of Peace between Japan and Nationalist China, Taipei, April 28, 1952.

13/ Japanese policy on this issue was slightly clarified in a 1961 speech to the General Assembly by Japanese United Nations Ambassador Okazaki. He stated that the Communist Chinese had "effective control of the mainland."

document and not binding upon the government, and Foreign Minister Miki indicated that decisions on the extension of credit through the Japanese Export-Import Bank would be made on a case-by-case basis.

The Nationalist Chinese government was also agitated by the 1968 trade agreement between Japanese businessmen and Peking which includes three political principles: (1) that Japan will not assume a hostile attitude toward China; (2) that Japan will not "plot" to form a two-Chinas policy; and (3) that Japan will not stand in the way of better Sino-Japanese relations. These principles were reaffirmed in the 1969 Japan-China trade agreement concluded in April. The Japanese Foreign Office has asserted that these principles are not binding upon the Japanese government. Upset over what he regarded as a breaking of the Yoshida pledge and about the new trade agreement, President Chiang Kai-shek stated in a June 1968 interview that if the Japanese government ever established relations with Peking, Taiwan would cut diplomatic relations with Japan and perhaps annul the Sino-Japanese Peace Treaty of 1952.

China policy is one of the thornier issues facing Japanese government leaders. The Republic of China is always sensitive to an improvement in Japanese economic or political relations with Peking; the Japanese business community is anxious to expand trade with the mainland while retaining its lucrative Taiwan markets. The ruling Liberal Democratic Party (LDP) in Japan is divided into a pro-Peking group and a pro-Taiwan group.

Eighty-six of the LDP Diet members belong to the Asian-African Problems Study Group which advocates the recognition of Peking and Mainland China's admission to the United Nations. The pro-Taiwan Asian Problems Study Group has 161 Diet members and is the group which tends to dominate the Sato Government. They believe that only Taiwan should be recognized and that trade relations with Taiwan should be favored over those with the mainland; in order for Mainland China to gain entrance to the United Nations they feel that Peking must first demonstrate its good will and adherence to the principles of the Charter. Though the pro-Taiwan group is presently larger, there is a strong sentiment in Japan for modifications in China policy. Former Foreign Minister Miki stated that he believed that Japan may play a special role as a bridge between the United States and Mainland China. 15/

Japan's attitude toward the Nationalist Government and Communist China may well have important implications for the United States. The support that the idea of an independent Republic of Taiwan receives among the Japanese people could have an important effect on the United States-Japanese Mutual Security Treaty, which can be continued, revised, or terminated after the initial ten year period ends in 1970. 16/ A significant segment of the Japanese people is opposed to the use of Japanese bases to launch a defense of Taiwan. The Nationalist

15/ Miki resigned on October 29, 1968, and was replaced on November 30, 1968, by Kiichi Aichi.

16/ About 25,000 native Taiwanese, one-tenth of whom are postwar political refugees live in Japan. Some Taiwanese independence organizations also have their headquarters in Japan.

Chinese Government can, however, perhaps draw comfort from the fact that Japan does consider Mainland China a "threat," as was asserted in the 1967 Sato-Johnson Communique. Furthermore, the island of Taiwan does guard sea lanes which are important to Japan's Southeast Asian trade.

Thus, diplomatic observers in Taiwan closely watch Japanese attitudes toward Mainland China and use trade relations as a barometer for possible future political trends. Because of past political ties and present economic bonds between Japan and Taiwan, relations with Japan remain of special importance to the Republic of China. If Japan recognized Mainland China, it would deal a severe blow to the Chiang Kai-shek government's program to maintain its present position on Taiwan and in the international community.

C. Other Nations

The Republic of China's relations with nations other than the United States and Japan have been oriented largely toward gaining friends and thus support within the United Nations. The 1968 vote on the Cambodian-Albanian resolution to seat Communist China in the United Nations and expel the Nationalist Government, which failed by a vote of 58 to 44 with 21 abstentions, indicates that this policy has enjoyed some success.

Taiwan's foreign assistance program has been the chief instrument of this UN-oriented policy. In 1968 the foreign assistance budget was about \$10 million. The funds for this program came primarily from U.S. counterpart funds returned to Taiwan upon termination of the U.S. aid program in 1965 and from savings gained by the purchase of U.S. agricultural goods under the P.L. 480 agreement.^{17/}

Africa, with almost one-third of the votes in the General Assembly, has been the major target of Taiwan's vote-gathering strategy. Nationalist China was supported by 20 African nations in the UN while Communist China was backed by 15 in the 1968 UN vote.^{18/} There are currently some 580 technical advisers from the Republic of China in 21 African nations, and the Chinese-African Technical

^{17/} See Washington Post, February 9, 1969, p. A 29.

^{18/} Six African countries abstained in the vote on November 19, 1968, which separated (44-58-23) an effort to seat Peking and expel the Republic of China.

Cooperation Center, which is located on Taiwan, has since 1965 conducted eight seminars in agriculture and served as host to some 350 technicians from 30 African nations. The Nationalists also displayed their interest in Africa by dispatching Vice-Minister of Foreign Affairs Yang Hsi-kun for a tour of twenty African countries in 1967. ^{19/}

In recent years, and especially since the Cultural Revolution began on the mainland, the Republic of China has enjoyed warmer relations with its neighbors in Asia. Taiwan has been somewhat disappointed, however, that the Asia and Pacific Council (ASPAC) of which it is a member along with Japan, Australia, Thailand, South Korea, New Zealand, the Philippines, South Vietnam, and Malaysia, has not become more of an anti-Communist alliance. The Nationalist Government has favored the establishment of a mutual defense organization in the area to assure its protection in case of any reduction in the American commitment in Asia, but has recognized that opposition within ASPAC makes such a course unlikely at present. Japan has consistently opposed any such course of action within ASPAC. At the conclusion of ASPAC's fourth ministerial conference, held in Japan on June 11, 1969, Japan's Foreign Minister Kiichi Aichi suggested that Communist China, North Korea and North Vietnam might some day become members. The Republic of China is also a member.

^{19/} Taiwan is also expanding its foreign aid program in Latin America; it already has programs in Chile, the Dominican Republic and Brazil.

of the Asian Development Bank (ADB). The ADB was founded in 1966 with 18 Asian and Pacific members and 13 Western members in order to provide additional capital for economic development.

Perhaps one of Taiwan's closest allies in the Far East is South Korea. Their strongest bond is their common attitude toward Communist China. In 1964 South Korea and Taiwan concluded a treaty of amity and agreed to economic, political, and military cooperation. A cultural convention was held in 1965, and the Sino-Korean Economic Conference in 1966 considered the feasibility of joint industrial projects. While both Taipei and Seoul have expressed interest in a Northeast Asian military alliance against Asian communist countries, Chiang Kai-shek recently acknowledged that present conditions are not amenable to such an alliance, but indicated that Japan must be willing to fulfill its regional responsibilities by giving more economic assistance to Asian countries.

Since Indonesia's break with Peking, there has been an improvement in relations between Indonesia and the Republic of China. Indonesian Foreign Minister Adam Malik has indicated that Indonesia could support the principle of an independent republic of Taiwan, although it could not recognize Taiwan as the only China. In May 1967, Taipei began subsidizing textile sales to Indonesia.

Recent indications that Canada and several European countries have made initial moves toward or are considering establishing relations with Communist China have deeply disturbed officials on Taiwan. Taipei publicly expressed its displeasure when Ottawa opened negotiations with Communist China to discuss the possibility of establishing diplomatic relations. ^{20/} The Republic of China's Ambassador to Canada, Yu Chi-hsueh, stated: "The Canadian action is tantamount to giving encouragement and support to the tyrannical rule of the Chinese Communist regime and deals a severe blow to the 700 million people in their struggle for freedom." Several European countries, including Italy and Belgium, are reportedly set to follow Canada's initiative.

To combat this trend, ambassadors of The Republic of China met in Taipei in April 1969 to exchange information and coordinate tactics. Taiwan is apparently preparing for a reinforced diplomatic effort; a number of shifts have been made in personnel in overseas posts, both at the ambassadorial and lower levels.

A possible counter in Europe to the generally somewhat gloomy diplomatic picture for the Republic of China can be seen in the recent reports that Moscow has moved toward improving relations with Taiwan. The Soviet initiatives are apparently an attempt to agitate Peking as the Sino-Soviet dispute has become increasingly

^{20/} Both Taipei and Peking refuse to establish or maintain full diplomatic relations with any nation which has relations with the other.

bitter. Consequently, Taipei has appeared to be more cautious in its references to the Soviet Union and has made only brief mention of the border clashes in March 1969 along the Ussuri River.

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of the border classes in March 1973 along the Soviet border. Consequently, Tajik has appeared to be more active in its relations to the Soviet Union and has made some progress in the border classes in March 1973 along the Soviet border.