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THE POLITICAL ENVIRONMENT ON TAIWAN

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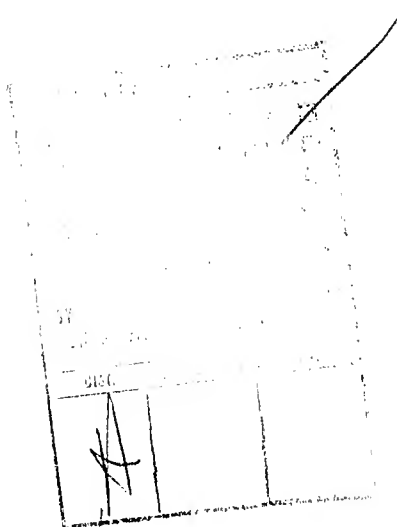
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## THE POLITICAL ENVIRONMENT ON TAIWAN<sup>\*</sup>

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This paper examines the political framework within which foreign businessmen operate on Taiwan. In brief, the government supervises the economy and the foreign businessman more closely than has been the case in, for example, Singapore and Hong Kong. On the other hand, the Taiwan government does not approach the extremes of protectionism and interventionism that are practiced by the Japanese government. In fact, Taiwan actively seeks many kinds of foreign investment and provides encouragement and practical assistance to the potential investor.

The discussion of government and politics in Taiwan is divided into three sections. A first part reviews some relevant aspects of the Chinese political heritage. Taiwan's government still pays annual homage to the 2000-year-old Confucian tradition and it is important to grasp the image that Chinese officials have of their social functions and the role of government in society. A second part notes some major themes in the political history of the Republic of China and the ruling Nationalist party in the twentieth century suggesting how past experiences have shaped the government's view of its present situation. This section also sketches the present governmental structure of the Republic of China and briefly examines a question relevant to potential foreign investors, namely the question of Taiwan's ability to defend itself against external attack in the 1970s. A third part discusses the specific government agencies with which foreign investors must deal. Drawing on the typical experience of

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<sup>\*</sup> This paper was written in 1973 and will appear in 1975 in the book, *Developing Taiwan*, edited by Paul Hsu and Edwin Winckler.

several foreign firms, this section describes in some detail three agencies' administrative goals and practices, the background and training of their personnel, and the various advantages and disadvantages they may possess for the foreign businessman.

### POLITICAL TRADITION AND BUREAUCRATIC HERITAGE

#### Chinese Political Tradition: Confucian Appearance and Legalist Reality

There is a popular saying on Taiwan that suggests the nature of politics throughout Chinese history: "It looks Confucian, but it's really Legalist." Other Chinese proverbs point out that the surface appearance of things is often not their true nature. Public titles and honorary names used to describe particular offices may be dismissed in private by the common saying: "In name, but not in fact." The principle in these sayings is simple and consistent. Things should look good, but one must always be shrewd enough to perceive the reality behind attractive appearance.

In Taiwan today, the teachings of Confucius are revered and his name is spoken only with the title "Master" added. His works are required study for all school students who memorize long passages of moral instruction to repeat in class before their teachers. The Mayor of Taipei city leads an elaborate ceremony in honor of the sage on his birthday every year, and other senior officials are sure to be in the audience at the Confucian temple. A large statue of Master Confucius has been erected in central Taipei and there are temples in his honor throughout Taiwan. What kind of politics did Confucius advocate? How different were his views from the Legalists? What is the significance of the "cult of Confucius" on Taiwan today?

Is it possible to view Chinese political history as a slow, quiet struggle between the Confucian and Legalist approaches to politics? Neither approach can be described as a rigorous, systematic philosophy nor a religion nor even a set of laws. Rather, Legalism is distinguished from Confucianism by a few key principles concerning the nature of man and the most efficient techniques for governing mankind.

Confucius said, "When those who are in high positions perform well all their duties to their relations, the people are aroused to virtue." According to this view of the nature of political man, the power of moral examples set by the rulers is all-important in running the state. Citizens must be encouraged by the moral examples of the ruler to find their naturally good selves. In Confucian thought, specific relationships are spelled out between five kinds of partners and the duties of both sides in each relationship are defined clearly. The ruler and high officials carry out their obligations to these specific relationships not just because they are naturally good men, but also because this moral example is vital to preserving the virtue and harmony of all citizens.

The Legalist approach to politics accepts the Confucian principle of the importance of moral examples. The difference between the two is a question of emphasis. Legalists argue that truly virtuous citizens and truly moral rulers may arise only every thousand years. In the meantime, other political techniques must be relied upon. Some of these Legalist techniques anticipated the "newspeak" and "thought police" of George Orwell's novel *1984* by over 2000 years. For Legalists, moral examples remain useful, but the manipulation of "rewards and punishments" is far more significant in producing good citizens and a well-administered state. Strict enforcement of the laws is a higher obligation of government officials than fulfillment of social obligations to the various relationships. This is the key difference between the Legalists and the Confucianists.

Legalists have proposed and put into operation specific techniques for political control that have striking parallels in both Taiwan and mainland China today. While the Communist Party on the mainland continues to attack and ridicule Confucius and his teachings, however, the Nationalist Party on Taiwan preserves the traditional quiet struggle between Confucian appearance and Legalist reality. Early Legalists suggested that to ensure compliance of the citizens, the state should give rewards to political informers, set up an efficient secret police, enforce group responsibility for criminal actions of any of its members, and suppress questionable or seditious literature.

Legalists stressed the moral perfection of certain past political orders in Chinese history, the moral purposes behind these actions, and the high moral standing of the leaders of the state. Thus, Chinese officials act as though the Legalist measures of rewards and punishments, of harsh enforcement of the laws, may be carried out as long as the purpose is to further Confucian morality and as long as the appearance of Confucian morality is preserved. The shrewd observer must appreciate the balance among these historical and modern traditions in Chinese history and understand that even while aspiring to the advantage of Western liberal democracy the moral leaders of Taiwan believe they have every right to use Legalist techniques to preserve Confucian virtue.

#### Chinese Political Tradition: The Bureaucratic Heritage

Chinese have two very different kinds of political heroes. The orthodox scholar-officials described in traditional histories are often pillars of virtue who respected all the required social obligations and served the Emperor well in time of crisis. They display characteristics that make for the ideal bureaucrat. It is no surprise, then, to find government officials at Chinese opera performances laughing and cheering their favorites. Several of these historical operas are broadcast on national television each week and historical novels are still best sellers in Taiwan's bookstores. Some Westerners may see obvious similarities between Taiwan officialdom and such heroes:

The scholar-hero has no nerves. Neither good news nor bad news affects his composure; he displays neither hatreds nor affections. He has infinite patience. He can prepare and wait twenty years to take revenge, and, in the meantime, he smiles and talks courteously to the man on whom he intends to wreak vengeance. Knowingly, he watches and interprets others' actions, but he seldom reveals his own feelings. Lifelong concentration helps him to hide his quick and intense sensitivity under a mask of relaxed self-confidence. The impassivity which he exemplifies is a virtue traditionally ascribed to fathers, judges, and administrators in this country where uncontrolled emotional outbursts even within the family are exceptional and considered childish and uncivilized.

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\* See Bibliography, p. 29, Item C.

The popularity of this kind of hero today suggests another aspect of Chinese tradition as important as the Confucian and Legalist ideas. This is the vast experience with bureaucratic organization that distinguishes Chinese history sharply from the West. Leaving aside the semi-colonial organizations of the Roman empire which were not restored in later Western history, Europe and America have had continuously functioning, large-scale national bureaucracies for no longer than three hundred years. China, on the other hand, possesses historical archives that amount to a bureaucratic file system going back at least one thousand years with additional records continuing back another thousand years. Chinese history, in a very real sense, is the record of a vast bureaucracy through periods of accomplishment and expansion as well as failures and breakdown.

Naturally it is difficult to say what influence history may have on particular present day Chinese officials. To some it may be merely a burden, a hindrance to the knowledge and experience gained while studying for a Ph.D. in economics at Stanford or a Master's at Harvard Business School or a law degree at a German university. Indeed, several cabinet members appointed in 1972 had such degrees. To many, however, Chinese history presents a standard of personal behavior, a set of moral examples or, at the least, a list of practical lessons in success and failure. In contrast to Westerners, most Chinese take their history quite seriously, even if only to tell jokes about it using past examples to illuminate the present.

#### The Chinese Personnel System: Spreading Responsibility

The influence of the personnel systems of China's past on present day organizational behavior may be seen in the concept of sponsors or guarantors which have been an important part of each of China's major dynasties. During the hundreds of years of each dynasty, a variety of recruiting, training and promotion systems was tried, but the range of variation was not very broad. Admission into the civil service was generally by passing a series of examinations and by recommendation of one or more guarantors. Chinese are proud of the degree of social mobility that such a system produced, but another less noticed effect was the creation of a slow, cautious and conservative

working style on the part of officials, a style which served China poorly in the modern period. In the early 1970s on Taiwan, one of the most frequently discussed issues is the recruitment of talented persons into government and the necessity to reform the examination system for entrance into college and into government. "Working style" is still a much-studied problem, and, as anyone who has ever applied for a visa to Taiwan knows, sponsors or guarantors are still required for a variety of activities.

In the traditional Chinese civil service, each junior official had at least one guarantor if he entered that system. If he performed well in the following years, his guarantor gained honor and rewards. If he did poorly and made mistakes, his guarantor would be punished almost as severely as the offending official himself. Obviously, in such a system, the more guarantors a junior official could attract, the greater his future promise and the higher he would be promoted. By the same token, however, the cost of any mistake to an official would be correspondingly higher. Even a minor error, if discovered, could have consequences far beyond the officials' immediate career, extending to other officials and their families. Traditionally, heavy fines, public beatings and even death sentences were possible punishments for administrative mistakes. Chinese officialdom could hardly be blamed for preferring deliberate caution over other goals such as speed and efficiency. There was nothing to be gained by exceeding established work quotas, yet there was literally everything to lose by a single careless mistake. Thus, a working style that required a signed document from the proper authority for almost everything was most rational; deviations from the rules to accommodate exceptions were most irrational -- and dangerous.

Other features of the administrative environment reinforced this spirit. Initial recruitment into civil service often came after years or even decades of meticulous study and preparation. Junior officials often served as private secretaries and advisors for years while preparing for the next higher civil examination. These exams called for familiarity with massive amounts of memorized material. The best-known type of question was the "eight-legged essay" which required commentary on a given topic from classical literature using eight different sorts of literary composition. After many expensive years of tutoring, memorizing and apprenticeship, one did not lightly consider innovations in revered classical tradition.



Further reinforcement of a cautious working style probably came from the system of efficiency reports. These ratings included categories like moral reputation and diligence, but conspicuously absent were categories for creativity, innovation and flexibility. Administrative reform remains a major recognized problem in Taiwan today. It would be no exaggeration to say that the burden of two thousand years of bureaucratic history is still visible in some ways today in officials' working style. However, the government is addressing itself more and more seriously to the administrative reform needed to improve this situation.

#### The Checks and Balances System: Limiting Responsibility

A second important aspect of China's political tradition and bureaucratic heritage remains relevant today. This is the elaborate network of checks and balances that characterized the Chinese civil service both at the local level and in the capital. The specific origin of these practices is unknown, but similar administrative techniques have been used in the West in recent centuries since the growth of bureaucracies has increased. The vast size of the Chinese empire and the many administrative levels of the civil service from county to district to province to region may have prompted the growth of checks and balances in early dynasties. Emperors often had well-founded suspicions of plots against rulers and of conscious attempts by officials to frustrate the Emperor's policy in collusion with other officials. To guard against such schemes, many bureaus were balanced in power by other organizations. In addition, the jurisdiction and authority of one office would overlap to some degree with another rival organization. In this way, no single official possessed sole responsibility for anything significant. Almost everything an official did would later be subject to review. Obviously, in such circumstances, slavish obedience to rules and precedents would be preferred, unless one was protected by many powerful friends.

In addition to administrative balances of power and overlapping jurisdiction by rival organizations, Chinese government has been distinguished by the existence of special inspector-investigator-type organizations called the Censorate. Although there were variations from dynasty to dynasty, the

common core of such organizations consisted of officials with special powers of investigation and secret channels of communication to the Emperor. Secret reports about questionable actions and decisions of any official might be forwarded to the Emperor or senior officials without his even knowing about it or having an opportunity to defend himself unless a powerful friend or guarantor was able to tip him off. Such secret reports were important in the evaluation of an official before his promotion or transfer to other assignments. Needless to say, the tendency of officials to perform their duties carefully and absolutely correctly was reinforced by the Censorate system.

#### Relationship of Political Tradition and Bureaucratic Heritage

Now that Confucian and Legalist political thought and the Chinese bureaucratic heritage have been briefly discussed, some aspects of their interaction can be examined. It has been noted that a doctrine of progress and notions of happiness-through-achievement were not part of the Chinese tradition. Confucius' precept is sometimes compared to Christianity, but the difference is crucial: Confucius said, "Do not do unto others what you do not wish done to yourself." This is a negative kind of proverb compared to the demand to "Do unto others as you wish them to do unto you." Similarly, Chinese tradition urges the official to perform the proper rites and ceremonies, to set a moral example for the people and to enforce the laws -- but he is not urged to exercise his own initiative to bring about success of any endeavor. When this tradition is combined with a bureaucratic system of rigorous classical examinations, guarantors, efficiency reports, overlapping jurisdiction, and administrative checks and balances like the Censorate, the resulting behavior will not resemble Western patterns.

One example of interest may be given. In the late 1800s, a group of reform-minded Chinese officials debated the reasons why China lagged behind the West in economic development. According to one historian, the phrase that these reformers used again and again to explain the failure of enterprises was "feng-ch'i pu-k'ai," or "the spirit has not begun." Another historian of Japanese economic development during this same period of the

late 19th century contrasts the situation in Japan by stressing the growth in Japan of the spirit of "personal initiative and entrepreneurial responsibility in increasingly pervasive fashion." The Chinese reformers were not able to explain why this "entrepreneurial spirit" was absent in the Chinese officials responsible for economic enterprises, but they saw clearly that it was missing. It has been argued here, to sum up, that the burden of political tradition and bureaucratic heritage were responsible for this working style of Chinese officials.

#### RECENT POLITICAL HISTORY AND GOVERNMENT STRUCTURE

##### Recent Political History: The Rise and Fall of Japanese Influence

Throughout the first half of the twentieth century, Taiwan was ruled by the Imperial Japanese government from colonial offices in Taipei. Many of the important buildings of these fifty years of colonial rule remain important in Taiwan's political structure today, yet there are few traces of the political experience of Japanese rule. Rather, the half century of Nationalist Party history on mainland China is the relevant place to search for the political background of government on Taiwan today.

A whole generation of Taiwanese had been educated in Japanese schools and studied in Japan. Indeed, during the final years of Japanese rule, some Taiwanese sought to have Taiwan incorporated more closely into Japan's empire, under a plan of local self-government. The arrival on Taiwan of hundreds of thousands of Nationalist officials, soldiers and merchants who had themselves helped to make the history of Nationalist China brought about a resinicization of politics on Taiwan. Most Japanese administrators, businessmen and technicians returned to Japan.

##### Political History of the Chinese Nationalists: 1896-1949 -- Some Relevant Lessons

The Kuomintang, or KMT as the national people's party is often referred to by Westerners, is the ruling party on Taiwan. Thus the history of the Chinese Nationalist Party constitutes the major relevant experience that we should examine in order to understand the political framework on Taiwan today. Several books and articles are suggested in the bibliography

for this chapter for those with interest in the complete history of the Chinese Nationalist Party. The Chinese Nationalists have passed through four significant historical experiences relevant to the present and future of Taiwan. The four major periods of Chinese Nationalist Party history are the 1911 Revolution, the 1927 Northern Expedition Against Warlords, the 1937-45 Anti-Japanese War, and the Anti-Communist struggle. The period of Chinese Nationalist rule on Taiwan since 1945 represents about one-quarter of the total history of this revolutionary party in China since it was established in 1896. Most senior officials in the Taiwan Government today have lived through three of the four key periods in party history. The junior officials who staffed many of Taiwan's posts after World War II when they were in their early thirties now still have another ten years of active government service ahead of them. A completely new generation of Chinese Nationalist officials born and raised on Taiwan since 1949 will begin to take over key positions by the 1980s.

The first formative episode in the history of the Kuomintang was the 1911 Revolution which overthrew the Manchu dynasty. The 1911 Revolution was complex historical process involving actions by many people over many years. One category of actors involved was a generation of young and often idealistic military officers with modern, usually Japanese military educations. Another category was a coalition of overseas Chinese businessmen, politically alert students and secret society members assembled by Sun Yat-sen. Acting at various times and places with greater and lesser coordination, these two categories of actors combined to deliver the coup de grace to the staggering and demoralized Manchu dynasty. In the absence of institutionalized channels for political competition, the revolutionary Chinese Nationalist Party necessarily relied on covert politics and alliances with military officers, secret societies and even foreign governments to achieve its aims.

The second formative period in Chinese Nationalist Party history extends from 1911 immediately after the Chinese Revolution until about 1927. Some of the young military officers who had played such a major role in 1911 became dissatisfied with the direction that post-revolutionary

China was taking. They seized power in their provinces and ran them as independent (warlord) kingdoms. Chiang Kai-shek, relying partly on Soviet models, organized a politicized army and a disciplined party to continue the Nationalist cause. According to Chinese Nationalist Party history, he destroyed the warlords in a daring military expedition of military academy cadets which marched from South to Central and eventually North China. Once again political stratagem and military power had joined together to overthrow a system of government.

The third period in Chinese Nationalist Party history began with the Japanese invasion of Manchuria in the early 1930s and continued until the defeat of Japan in 1945. For more than a decade Japanese puppet governments ruled much of China while the Nationalist Party struggled to overthrow them. Crucial support for this effort again came from students, military officers, overseas Chinese and foreign governments. This successful underground struggle continues to be commemorated on Taiwan through popular stories in the mass media and public shrines.

In the fourth period of their history the Chinese Nationalists, who had three times in their history overthrown and replaced the ruling regime of China, were themselves replaced for the present by the Chinese Communist Party. Both the Nationalist analysis of the reasons for their temporary defeat and their plans for retaking the Chinese mainland stress the same factors of covert politics, patriotic military forces and foreign support which have proved decisive in earlier crises. Three times in its relatively brief history the Nationalist party has succeeded in counter-attacking opposing regimes. The first "counterattack" was launched from overseas Chinese centers by Sun Yat-sen to overthrow the Manchus in 1911. The second "counterattack" was launched from Canton and the Whampoa Military Academy to overthrow the Warlord government in Peking in 1927. The third "counterattack" was launched from Chungking in western China to overthrow the Japanese puppet regime in 1945. Proud of this impressive record, the leaders of the Nationalist government do not rule out the achievement of this long-term goal as a possibility.

In this brief review of the history of the Chinese Nationalists, possible influences at work on the government of Taiwan have been indicated. For the Western businessman, an important point to note is the

high status and prestige of Chinese military officers and members of the security services relative to their counterparts in the West. In other words, if the manager of a company or a member of its board of directors is a military officer and a graduate of the Whampoa Military Academy, then his political status on Taiwan is high and his network of political contacts correspondingly wide.

A second point relevant to the Western businessman on Taiwan concerns Chinese Nationalist policy toward foreign countries in the past. The Nationalists have received aid and cooperation from both the United States and the Soviet Union at key points in their history and are well able to persuade foreign governments to assist them in times of need. The government is grateful for political and military support from foreign countries, an attitude of enormous benefit to Western investors.

#### National Security and Foreign Relations: Is Taiwan Defensible?

Foreign investors in Taiwan cannot avoid being directly concerned about the political stability and military security of the island. Investors must consider the possibility of a Communist invasion of Taiwan, a Communist boycott of shipping to and from Taiwan, a deterioration of political stability on the island leading to labor strikes, student demonstrations and economic nationalization of foreign property, and other measures of possible harm to foreign investors. Risks of this kind of course are common to all foreign investment in the developing areas of the world. In this section it will be argued that the political stability and military security of Taiwan is as great as that of South Korea, Hong Kong, Singapore, or other Asian nations in which Western corporations continue confidently to invest.

According to *Newsweek* magazine, interviews with Western investors in Taiwan in 1972 indicated a widespread belief in continuing political stability on Taiwan for the next five years. Some large corporations are more cautious, however. They have categorized Taiwan as too risky a nation for any long term investment. There is good reason to believe that these pessimistic estimates of Taiwan's future are overly cautious and rather naive in their political and military assumptions.

Let us deal with the question of Taiwan's future military security, which is the most important factor in its continuing political stability. Taiwan's future depends on three related factors:

1. The intentions and capabilities of Communist China.
2. The intentions and power of the U.S. and Japan.
3. The political intentions and capabilities of Taiwan itself.

Political intentions of course are more difficult to estimate than military capabilities because political intentions can change more quickly. Nevertheless we can analyze each of these three factors with some confidence about the next few years.

If one judges only by the standards of territorial size and total population, Communist China seems to overwhelm Taiwan on the map. Communist China's 800 million people and 3.7 million square miles of territory seem like a giant dragon ready to devour the tiny morsel of Taiwan with its mere 15 million people and 14,000 square miles of territory. Pessimistic estimates of Taiwan's future often have their origins in this kind of unsophisticated interpretation of maps and population statistics. In fact, however, Taiwan's military strength and foreign trade level is roughly equivalent to Communist China. This is so for two reasons. American military and economic aid to Taiwan in the last two decades has totaled nearly \$5 billion. Secondly, Taiwan's geographical position as an island 100 miles off the China coast provides it with a priceless military advantage. A military invasion of Taiwan would first have to cross 100 miles of the Taiwan Straits that is defended by over 200 jet fighters, surface-to-air missiles and an air defense radar warning network. In addition, an invading fleet would have to contend with Taiwan's navy which has about as many large surface ships as Communist China's navy.

An additional natural defense advantage is that the area of mainland China across the Taiwan Straits is mountainous with poor communications linking it to the power center of Communist China. This means that many months would be required to assemble a Chinese Communist invading force to attack Taiwan. Thus, the mountainous terrain opposite Taiwan and the 100 miles of the Taiwan Straits provide an early warning system for Taiwan's military protection. It is most unlikely then that in the next

ten years Communist China could mount a military invasion of Taiwan to achieve successful conquest of the island.

There is a second important constraint on the military capabilities of Communist China with respect to Taiwan's military security. During the Korean War, Communist China had a powerful Soviet ally to the north who contributed massive amounts of military assistance. At present, the Soviet Union represents a hostile threat to Communist China, and any attempt by Communist China to invade Taiwan would require the transferal of military units away from its threatened northern border which in the past few years has been the site of armed conflict between China and Russia. It is likely that throughout the 1970s a million man Soviet Army with hundreds of armored tanks and tactical-nuclear missiles will continue to stand along China's northern border. A two-front war with Taiwan and Russia would be out of the question for Peking's military planners. Thus, the Sino-Soviet dispute together with the Taiwan Straits protects Taiwan's military security for the foreseeable future.

The above analysis is strengthened when it is considered how relatively weak Communist China is in conventional military power. Here are some surprising comparisons: Mainland China has fewer armored tanks than Japan; it has no aircraft carriers at all while Australia and India each operate one; it has fewer paratroopers than Indonesia and a smaller military airlift capacity than Japan; Communist China has a smaller surface navy than Japan, India, or Australia. The conventional military power of the USSR and the USA further dwarfs Communist China's military strength. Communist China has about four destroyers and thirty submarines, whereas the Soviet Union has 500 submarines and 125 destroyers and cruisers around the world. The United States has global naval power totaling 24 aircraft carriers, 240 destroyers and cruisers, over 100 submarines and 250 amphibious ships.

There is much that Communist China could do to disrupt the political stability of Taiwan short of a major invasion. At the present time, it appears that Communist China has a maximum program for the future of Taiwan that amounts to a complete Communist take-over by propaganda and diplomacy. Chou En-lai has told visiting Taiwanese in Peking that he does not expect



Taiwan to be liberated during his lifetime, but that he expects the pattern of Taiwan's future to follow the example of Tibet. Chou En-lai softened this statement by adding that he thought Taiwan could have a unique status in Communist China such as an "independent province." Tibet is called an "autonomous region," but is controlled by a Communist army. In support of this maximum program of the Chinese Communists, radio and newspapers have carried propaganda speeches encouraging political defectors from Taiwan, offering Taiwanese students in the United States a chance to visit the mainland for a few weeks, and arguing in international organizations like the U.N. that Taiwan has no legitimacy as an independent country. Additional propaganda appeals have been made to foreign business corporations and shipping lines not to deal with Taiwan at risk of losing the opportunity of doing business with the mainland. Such nuisance tactics have also been combined with specific propaganda appeals to people on Taiwan such as the future abolition of income tax and jobs for the unemployed on the mainland in their home provinces after a Communist take-over. In the future Communist China may repeat a significant offer that was made to Taiwan in the mid-1950s, namely that the Taiwan government can keep control of its own army, if it simply shows its allegiance to Communist China. The sum total of these actions amounts to the maximum program that the Chinese Communists envisage for Taiwan.

The foreign investor should note that the above discussion has concerned only Communist China and Taiwan, not the policies or the military capabilities of the United States, Japan, and the Soviet Union. When the additional factors of Japanese and American political policies are considered, it is clear that the outlook for Taiwan's military security is further improved. After Japan recognized Communist China and established an embassy in Peking, there were no economic or political sanctions taken against Japanese interests on Taiwan. Indeed, before Japan recognized mainland China, a minister of the Taiwan government promised that no sanctions would be taken and Japanese interests would be protected.

The official communique signed by Premier Tanaka and Chou En-lai bears close examination because the Japanese agree to "respect the claim" of Communist China to Taiwan. A few weeks after the communique was signed, however, an official spokesman of the Japanese foreign ministry announced

that the status of Taiwan remains an undetermined question. Obviously, the Japanese have not fully accepted Communist China's claim to Taiwan. American policy toward Taiwan appears to be very similar.

Any foreign investor considering long-term investments on Taiwan should examine the Shanghai Communique in some detail. This communique, signed by President Nixon and Chou En-lai, states that the American government does not "challenge" Communist China's claim to Taiwan. The communique has often been misinterpreted as an American abandonment of Taiwan. A close reading of the communique shows that this is not the case. The previous official American position that the status of Taiwan remains an undetermined question remains completely consistent with the language of the Shanghai communique. Indeed, the text of the communique suggests that American protection of Taiwan must continue as long as any non-peaceful attempts to resolve the Taiwan problem may be made.

The Shanghai communique avoids stating that the United States will put pressure on Taiwan to negotiate with Communist China. The communique welcomes a peaceful solution to the problem and promises that American forces on Taiwan will be reduced as "tension in the area decreases." If the Taiwan government chooses never to negotiate with Communist China, the Shanghai communique will not have been violated. The U.S.-Taiwan mutual defense treaty will remain in effect, and American military assistance to Taiwan can continue.

Will negotiations between Taiwan and Communist China ever take place? The State Department official in charge of Taiwan affairs wrote in 1971:

All of the evidence suggests to me the overwhelming majority of the people are opposed to any organic union with mainland China for the foreseeable future . . . The practical effect of America's major programs and policies on Taiwan for the past twenty years has been to strengthen the capability of the people of Taiwan to maintain a secure and prosperous existence free from mainland control. I do not think that the U.S. Government can now simply turn its back on those people with a "Good Luck! You're on your own."\*

One final aspect of Taiwan's future military security needs to be considered -- the matter of nuclear weapons. Although Communist China has often repeated its pledge never to be the first to use nuclear weapons,

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\* See Bibliography, p. 29, Item A.

we should consider the question, what would be the consequences of a nuclear threat by Communist China to Taiwan combined with a demand for the immediate surrender of Taiwan's army? Taking this possibility one step further, what if Communist China actually exploded a nuclear bomb in an unpopulated, mountainous area of Taiwan? Taiwan would have two defensive options. First, two international treaties guarantee the protection of Taiwan in such circumstances: the Mutual Defense Treaty with the United States, and the Non-Proliferation Treaty signed by most of the world's major powers. The Mutual Defense Treaty states that the United States will defend Taiwan against unprovoked attacks from mainland China. The nonproliferation treaty which Taiwan signed and ratified provides that in the event of nuclear blackmail by any nonnuclear power, the nuclear signatories will protect the threatened nonnuclear power. The signatories include both the United States and the Soviet Union. Since a nuclear threat by Communist China to Taiwan would affect the security of other nonnuclear powers who had signed the nonproliferation treaty with the expectation of being protected against nuclear blackmail, it is possible that the U.S. and USSR would consider joint action against Communist China in this case.

A second line of defense available to Taiwan would be to develop its own nuclear weapons for defensive purposes. At present Taiwan has nuclear reactors in operation which could be altered to produce materials for nuclear weapons. Since neither the U.S. nor the USSR wish Taiwan or other nonnuclear countries to develop their own nuclear weapons, this gives an additional incentive to Moscow and Washington to prevent Communist China from making such demands on Taiwan. In fact, Communist China can clearly anticipate that any nuclear threat to Taiwan would very likely boomerang and create a worse situation for Peking than the present one in which Taiwan has no nuclear weapons.

Thus, reasonable optimism about the future military security of Taiwan is justified. This conclusion has been confirmed by the remarks of a former high State Department official:

The great amount and variety of weaponry now on Taiwan, juxtaposed against that available to the mainland now and in the foreseeable future, renders virtually impossible any successful invasion of Taiwan, even without involvement by American forces. Peking has not developed a large amphibious capability necessary for a major landing against heavy defensive positions. Its air-drop strength is miniscule compared to the ground forces on Taiwan. The PRC air force lacks the all-weather and night-fighter capability necessary to protect a sea-borne and air-drop invasion. Until recently Peking has not even had a bomber force to support an attack. Production of TU-16s now promises a modest fleet capable of 1650-mile ranges, but Taiwan's air and ground defenses are being upgraded to meet this threat. Finally, the Chinese Communist navy consists primarily of destroyer escorts, submarines, and PT boats, providing a useful interdiction capability for or against blockade but one that is wholly inadequate to shield an invasion fleet across more than one hundred miles of ocean. In short, the combination of a token invasion and widespread subversion that could have delivered the island to Peking in 1950 seems utterly beyond reach in the 1970s.\*

In sum, then, the future prospects for the military security of Taiwan are better than was the case in the 1950s and 1960s.

#### Government Procedures for Foreign Investment Approval

The road to setting up an investment on Taiwan begins by filling out an application form and submitting it to the Overseas Chinese and Foreign Investment Commission (OCFIC) of the Ministry of Economic Affairs. Investors may either file the application themselves or allow a Chinese lawyer accountant or agent to represent them in this transaction. Investors may go first to the Industrial Development and Investment Center in Taipei and seek advice and information from this helpful government organization before submitting their investment application. Investors who contemplate setting up manufacturing facilities in the export processing zones of Taiwan may apply directly to the zone administration in the Ministry of Economic Affairs. No matter where you start, the final approval of an investment application is given by the Overseas Chinese and Foreign Investment Commission of the Ministry of Economic Affairs. This investment commission is staffed by representatives from all Taiwan government organizations concerned with foreign investment. By its own regulations,

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\* See Bibliography, p. 29, Item A.

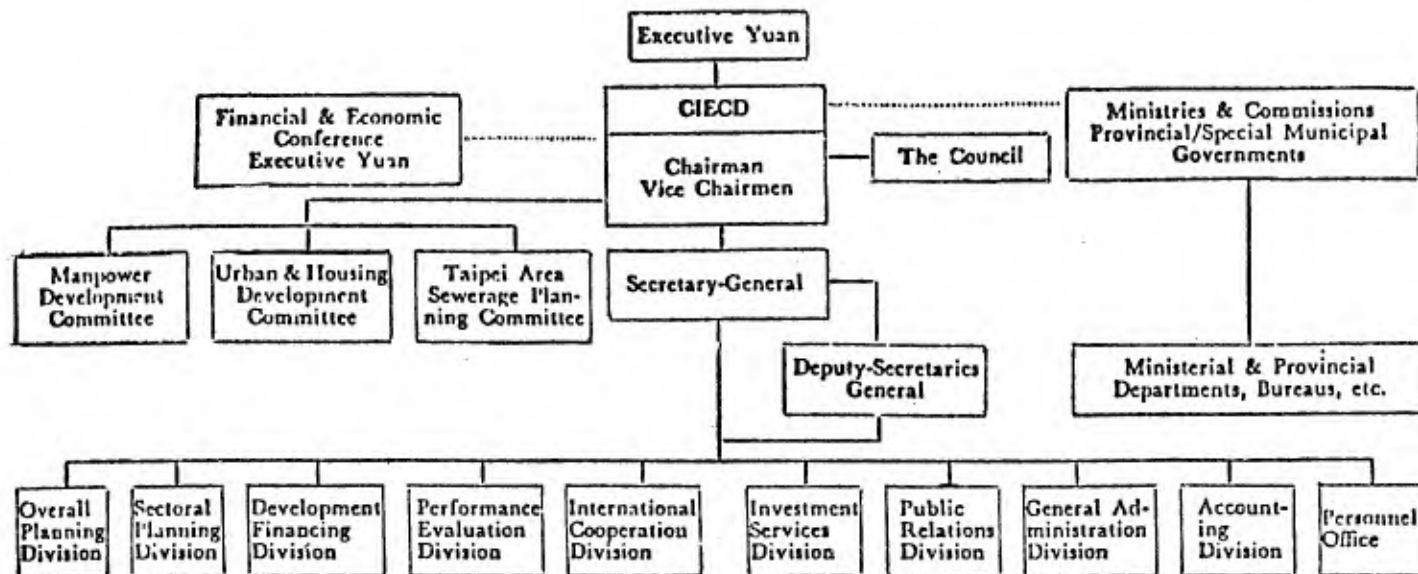
the Foreign Investment Commission must reach a decision on every investment application within at least one month after it is filed.

The purpose of this section is to describe the operations and background of these government agencies concerned with foreign investment in Taiwan. The accompanying chart shows the path which an investment application follows from when it is first submitted until the investment begins to return a profit. Before dealing with the question of how the Taiwan government makes its decisions about foreign investment, let us recommend where the potential foreign investor may first go for advice. The two most helpful sources are the American Embassy and the Industrial Development and Investment Center of the Overseas Chinese and Foreign Investment Commission (IDIC of the OCFIC).

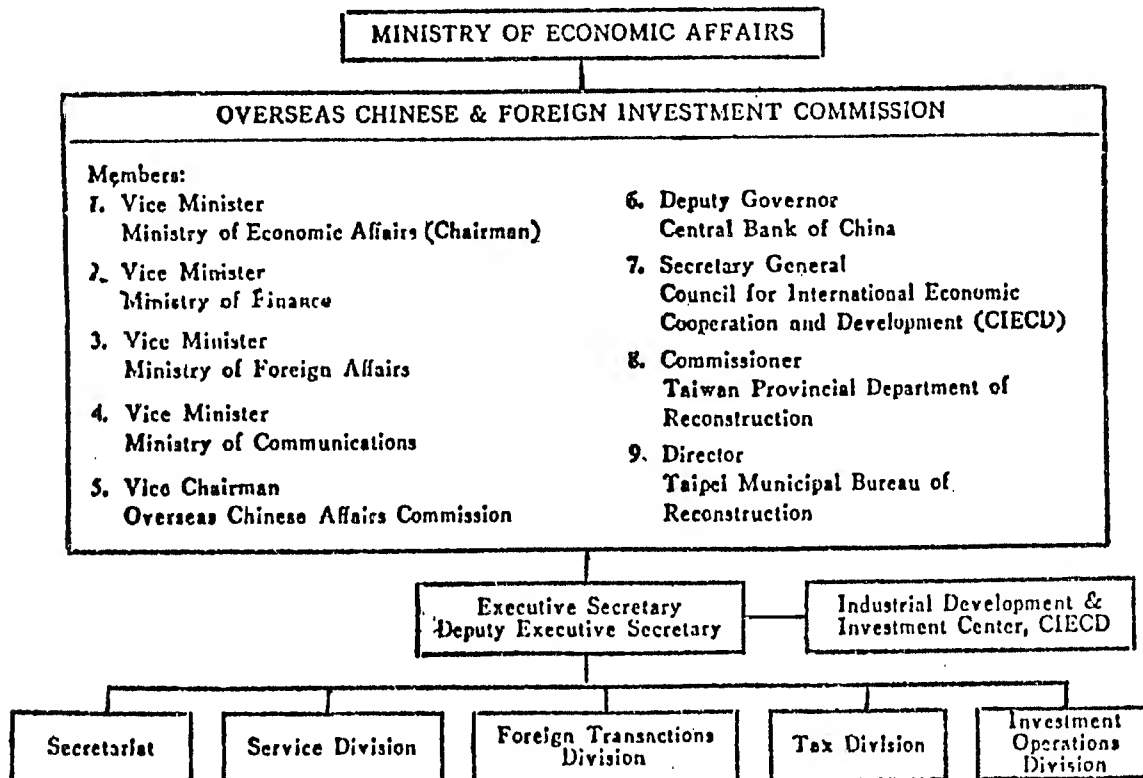
In the past two years over 2500 American businessmen have visited the U.S. Embassy in Taipei annually. This has meant a heavy work load for the staff of four or five officials who have dealt with economic and commercial questions. The key figure in the Embassy is the economic counselor assisted by the commercial attache, agricultural attache, and the assistant attaches. Embassy officials do not have the time to wet-nurse American businessmen, but this is almost never necessary since independent international investors know what they need. The Embassy can supply publications concerning the economic and political situation on Taiwan in recent months and maintain a list of qualified lawyers and accountants. Officials can describe investment approval procedures and explain tax and other regulations limiting foreign investment activity. They may also give advice on negotiations with the Taiwan government concerning taxes and other matters, on recent activities of the American Chamber of Commerce with regard to foreign investment, and the services available both in Taiwan and Washington, D.C., to foreign businessmen.

A second type of U.S. Embassy support to the Taiwan investor is the World Trade Directory Report. For a small fee, the American businessman can request a complete rating of any company on Taiwan. The report includes the number of sales personnel, banking reference reports, annual sales volume, paid-up capital, the working experience of top managerial personnel, and an overall rating. In addition, U.S. Embassy officials

## CIECD ORGANIZATION CHART



## ORGANIZATION CHART OF THE OVERSEAS CHINESE &amp; FOREIGN INVESTMENT COMMISSION



arrange briefings for business executives and potential foreign investors. For example, a briefing may include descriptions of U.S. policy commitments to Taiwan, the political stability of the island and recent progress made in bringing about reforms and improvements in the atmosphere for foreign investors on Taiwan. Conversations with Embassy officials make investors aware of the channels that already exist for proposing reforms in Taiwan.

Unfortunately, it should be noted that the services that the U.S. Embassy can provide do not compete with the vast capability of Japanese trading companies to assist Japanese nationals on Taiwan. Because they have had decades of experience doing business on Taiwan, Japanese trading companies have excellent economic intelligence on specific sectors of the economy and even specific companies. Taiwan trading companies are able to maintain contacts with the legislators of Taiwan in order to influence and lobby for beneficial legislation. Japanese trading companies and other Japanese associations are also able to discuss and make decisions about market conditions, pricing, and wages on Taiwan. The anti-trust laws of the United States prohibit much of this kind of activity for American businessmen. To associate formally to discuss wages, prices, and market conditions might, in a strict reading of the law, be acting in "restraint of trade." Nevertheless, American investors can receive helpful publications by writing the American Chamber of Commerce in Taipei, the U.S. Embassy and the Department of Commerce in Washington, D.C.

The next stop for the prospective investor should be the Industrial Development and Investment Center in the Union Building in Taipei. IDIC's mission is to help investors plan and implement their projects. IDIC belongs to OCFIC, the agency handling all overseas Chinese and foreign investment and related matters on Taiwan. IDIC can mail the prospective investor copies of translations of relevant laws and regulations concerning foreign investment on Taiwan. Through the New York City office, IDIC can set up appointments for prospective investors to meet with government officials, potential local partners, and relevant authorities and specialists



during a trip to Taiwan. IDIC provides assistance to about 1000 cases a year and their services include pre-investment studies, investment planning, assistance in filing applications, advice on improving business operations, plant expansion, and foreign trade promotion. All of IDIC's services are rendered free of charge. The staff of forty men and women at IDIC is justly proud of their past role in improving investment climate on Taiwan. IDIC has helped to simplify investment regulations and broaden tax incentives, reduce the time required for government decisions on investment applications, and drastically reduce the amount of paperwork required. IDIC publishes periodically revised lists of the most attractive investment opportunities for foreign investors.

The five divisions of IDIC all serve useful functions. The most important is the Investment Promotion Division which provides consultations and research on foreign investments and sets up appointments for prospective investors. The Investment Promotion Division can reply by telegram to inquiries made to the CIECD<sup>\*</sup> office in New York City concerning such special problems as the costs of industrial electricity, the relevant taxation rates, whether tax incentives are available in a given industrial sector, the cost of water and transportation, freight rates, the availability of supporting industries on Taiwan for the manufacture of components such as, for example, whether the Kao-hsiung Aluminum Plant can make aluminum sheet in the proper thickness required, the prices of raw materials available on Taiwan, and the current prices for components required in the electronic industry.

A second division of IDIC, the Coordination Division, studies and makes recommendations on the simplification of investment procedures and sets up meetings between foreign investors and responsible government officials to handle problems at various government levels in Taiwan. In other words, IDIC maintains local chapters or branches at important cities and counties throughout the island. By financing one-half of the cost of these local branches, IDIC is able to maintain close liaison with local conditions such as land availability and local taxes. This can be an important service for the prospective investor. The third division of the IDIC is the Industrial Land Division whose specialists advise investors

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\* Council of International Economic Cooperation and Development.



on plant sites and locations and will actually assist in negotiations to purchase private land for investors, if required. The Investment Research Division defines the list of investment opportunities of current interest to prospective investors. The Information Division publishes a wide range of materials in English concerning foreign investment obtainable by writing IDIC or CIECD's New York City office.

The advantages of IDIC to the prospective foreign investor go beyond the list of services mentioned above. In part to avoid many of the problems inherent in Chinese bureaucratic tradition referred to in the first section of this chapter, economic development and planning in Taiwan have been separated from the traditional government structure and made the responsibility of the Council of International Economic Cooperation and Development. Before 1969, the CIECD was chaired by Taiwan's Vice President, Yen Chia-kan. During this period CIECD was responsible for the follow-up, evaluation, and planning of projects financed by the Sino-American fund for Economic and Social Development and for foreign grants and foreign loans in economic development. After 1969, when Chiang Ching-kuo became Chairman of CIECD, its scope was broadened to include all economic development projects. Since 1969, the CIECD has been responsible for formulating Taiwan's ten-year and four-year economic development plans, its annual operational plans for economic development, reviewing and compiling budget estimates for all capital investments, and overall programming of foreign capital and technology in economic development plans. CIECD is the nucleus for promoting economic development. As shown in the organizational chart, the CIECD consists of chairman Chiang Ching-kuo, three Vice-Chairmen, and an eleven-member Council. Council members include the Minister of Finance, the Minister of Economic Affairs, Minister of Communications, Governor of the Central Bank of China, Secretary General of the Executive Yuan, Director General of the Budget, Governor of the Taiwan Provincial Government, Chairman of the Joint Commission on Rural Reconstruction, and three additional persons appointed by the Premier. Of the ten divisions of the CIECD established in September 1963, shown along the bottom of the organizational chart, it is the investment services division or IDIC with which the prospective foreign investor will have the most contact.

Now we turn our attention to the Overseas Chinese and Foreign Investment Commission (OCFIC), which actually approves or rejects overseas investments in Taiwan. In the past, the OCFIC was merely a committee of the ministry of economic affairs for preliminary screening of investment applications, not an independent agency manned with full-time members. As the number of applications grew steadily, the ninth national congress of the Chinese Nationalist Party fifth plenum in November 1967 requested that the central government establish a new agency which would present a more attractive image to overseas investors.

On June 1, 1968, the new OCFIC began operations with staff members assigned by the Ministry of Economic Affairs, Ministry of Finance, CIECD, Overseas Chinese Affairs Commission, Taiwan Garrison Command, Central Bank of China, Taiwan Provincial Department of Reconstruction, and the Bureau of Reconstruction of Taipei City Government. One of the Vice-Ministers of the Economic Ministry serves as the Chairman. OCFIC thus consists of representatives from the same government organizations included on the Council of CIECD. However, OCFIC consists of vice-ministers, whereas the CIECD Council and the cabinet of the national government are composed of full cabinet ministers (refer to the organization chart).

Most decisions of the OCFIC generally are reached by these representatives from other government organizations without referring the cases to their parent agencies. They are all located together in one office building. Significantly, the OCFIC organization allows the traditional Chinese bureaucratic heritage to be circumvented. Authority for decisions is centralized in one group. The time required for the travel of official documents from one agency to another is massively reduced. If the OCFIC cannot reach a decision about an investment application, it may be referred upward to the cabinet for final decision. About one-half of the foreign investors apply for tax incentives, and most of these are also approved. The tax division of OCFIC consists of personnel from the Ministry of Finance.

Investors should note that the tax division of OCFIC first approves "in principle" the application of a foreign investor for tax incentives. However, actually to receive tax exemption the investor must apply again within one year, submitting evidence, including certified accountant reports, that the equipment he has imported and the production he is engaged in is exactly as specified in his original foreign investment application. Some foreign investors have misinterpreted the original approval "in principle" of their tax incentives and forgotten to apply within the stipulated one-year limit for the actual tax exemptions to have their tax exemptions put in practice. As a result, they have lost their exempt status.

Responsible for raising revenues needed by government, the Ministry of Finance is inclined to give the requirements for such tax exemptions a stricter reading. Although agencies responsible for promoting development, such as the Ministry of Economic Affairs, might favor a more lenient reading, it is up to the prospective foreign investor to justify his request to the representatives of the Minister of Finance on OCFIC.

Most investment applications to OCFIC are approved. Since reorganizing June 1, 1968, OCFIC has met once a week to screen investment applications. During its first three years, the Commission discussed a total of 2315 investment cases and approved 1845. The remaining 470 cases were either rejected or withheld for further deliberation. Such further deliberation may involve forwarding of the application to the Executive Yuan<sup>\*</sup> for discussion by higher level authorities in cases of questionable interpretations of the investment regulations. The Executive Yuan may then return the application to the OCFIC or the foreign applicant for further revision and discussion. One of the most common reasons for rejection of investment applications is that the products to be produced are already produced in adequate quantities on Taiwan and the market would be over crowded by additional manufacturing. Given the strict quota system for export of textiles to the United States, for example, it is obvious that further production of ordinary textiles would not be approved.

It would be difficult to present details on the red tape involved in relationships between all government departments and foreign investors

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<sup>\*</sup>The Executive Yuan is the central executive or cabinet on Taiwan.

because the government is continually making improvements in this area. For example, in January 1972 a progress report by a special inspection team of the cabinet reported the following improvements:

1. Registration of new industrial plants has been reduced to 7 days instead of 10 days by the Ministry of Economic Affairs and the local and central governments concerned.
2. Construction permits for one-story houses have been eliminated. For buildings over one story the Ministry of the Interior has delegated to township and other local administrative departments responsibility for issuing construction permits direct to contractors in order to shorten the period of application.
3. Ministry of the Interior has also decided to simplify the household registration process. The trial of the project in eight towns and villages has proved successful. In addition, the Ministry of Interior has decided to omit the record of previous crimes in the household registration in order to give ex-convicts more opportunities to get jobs.
4. The Ministry of Finance has streamlined all taxation procedures.
5. The Taiwan Garrison Command has set up a joint service center to handle all exit-entry permit applications for foreigners and overseas Chinese going in and out of Taiwan.
6. The Ministry of Justice has instructed all courts to expedite the conclusion of lawsuits.
7. Improvements have been made for foreign exchange remittance and bank loan procedures.
8. A Joint Inspection Center has been set up at Kaohsiung and Keelung ports to arrange ship accommodations at the harbor.

9. The Taiwan Power Company has improved application procedures for new electricity and power users.
10. The Ministry of Interior will further simplify the registration of land and real estate. Fourteen forms which were used before have now been abolished.

It can be expected that in future years the Taiwan government will continue to eliminate miles of red tape. The attitude of CIECD has always been to welcome the comments and criticism of prospective foreign investors and to take concrete actions to remedy specific problems. However, possible pitfalls for the foreign investor remain, and it is always wise to consult legal counsel and to have a Certified Public Accountant advise on tax matters, because local tax officials of the city and county governments have the responsibility of checking the accounts of foreign investors and measuring profits according to Taiwan law. The tax division of the OCFIC receives official documents from customs or the local reconstruction office before it evaluates how much tax a foreign investor must pay and whether his application for a special tax incentive and exemptions can be approved. A Certified Public Accountant is necessary in the process.

It is also important, of course, to have skilled Chinese managerial personnel. Taiwan government agencies, including CIECD and IDIC, are unwilling to get involved in recruiting financial support or hiring managerial personnel. As discussed in the section above on Chinese bureaucratic tradition, if CIECD recommended hiring a specific manager who later failed, then according to tradition CIECD would be directly responsible to the investor. This kind of responsibility must remain with the foreign investor.

Officials of IDIC recommend that foreign investors consider that six months is the minimum time required from the initial submission of an application to OCFIC until the first day of effective operations can begin. Six months is an optimistic estimate based on fairly rapid remitting of capital to Taiwan, importing necessary equipment, buying factory buildings and land, recruiting management and labor personnel,

adequate training for labor, and completing all required arrangements for export of products. Unfortunately, IDIC officials lament, some foreign investors do not plan adequately for the necessary details of factory, land, personnel, and training and too easily become frustrated. This is one reason why IDIC assists free of charge in all aspects of investment, planning, and implementation for approximately one thousand cases a year.

In the first part of this chapter we reviewed the recent political history of the Chinese National Party and described the bureaucratic traditions of the Chinese empire. In this final section we have discussed the modern, Westernized, and highly educated, youthful officials of CIECD, ICID, and OCFIC who deal with the problems of foreign investment on Taiwan. There is a contradiction between these sections. Foreign investors on Taiwan in the 1950s and 1960s would find the first part of the chapter far more relevant than is the case today. As a result of the threat of international abandonment, enormous pressure has been put on Taiwan's bureaucratic system by the top leaders of the island to bring about rapid modernization of the agencies handling economic development and foreign investment.

Agencies such as CIECD have been set up outside the constitution of Taiwan. Chiang Ching-kuo has personally supervised many aspects of the economic development and foreign investment process. Joint commissions have been set up to bring together more traditional agencies. Responsibility has been centralized far more than was the case a few years ago. A high percentage of personnel employed in these agencies are Western-trained, and receive higher salaries from a personnel system separated from the rest of the Taiwan government bureaucracy. These officials are well-educated and well-traveled, and often better able to anticipate foreign investors' problems than the investor himself because of their broad experience in dealing with foreign businessmen.

To a surprising extent, then, the political framework on Taiwan, insofar as it deals with foreign investment, will seem familiar to Western businessmen. To a foreigner arriving in the 1970s, Taiwan may seem new and different and exotic but to the Chinese he meets and works with he is only the latest of over a million foreigners who have come to

Taiwan in the last twenty years. He will be well treated, well handled and well received, as long as he stays within the boundaries that past foreign investors have established. The more he ventures out of this familiar territory, the more relevant will be the first two sections of this chapter. Prospective foreign investors should bear in mind that total foreign capital in Taiwan amounts to no more than five or six percent of the total capital on the island. In this sense, and more so in the future, Taiwan still belongs to the Chinese people.

BIBLIOGRAPHY

- A. For a variety of reasons, there is a distinct shortage of recent books on politics in Taiwan. Some material may be found in the articles and conference discussion contained in *Taiwan and American Policy* by Cohen, et al., published by Praeger in 1971. The quotations for this chapter from two U.S. State Department officials are found on pages 31 and 88.
- B. The reader interested in recent developments in Taiwan politics should consult the index of *The New York Times*, *The Christian Science Monitor*, and *The Wall Street Journal*. Events of the last few years are discussed in these articles:
  - "The KMT and Modernization in Taiwan," by Hung-chao Tai, in Samuel Huntington, *Authoritarian and Single Party States*, pp. 406-436.
  - "Recent Leadership and Political Trends in Taiwan," by Bruce Jacobs in *China Quarterly*.
  - "Peking and Washington: Is Taiwan the Obstacle?" by Edward Friedman in *China and Ourselves*, edited by Bruce Douglass and Ross Terrill, pp. 155-173.
- C. Several important books for the study of the Chinese bureaucratic tradition are John Fairbank, *The United States and China*, *The Legacy of China*, edited by Raymond Dawson (especially the chapter by E. A. Kracke, Jr., "The Chinese and the Art of Government," *Friends, Guests, and Colleagues* by Kenneth Folsom), and the collection of articles in *The Confucian Persuasion*, edited by Arthur Wright (especially the article by Robert Ruhlmann, "Traditional Heroes in Chinese Popular Fiction," from which the quotation about scholar-heroes was drawn for this chapter).
- D. Studies of the political history of the Chinese Nationalists are plentiful. The biography of Sun Yat-sen mentioned in the chapter is Harold Schiffrin, *Sun Yat-sen and the Origins of the Chinese Revolution*. A paperback history of the Nationalists written with a critical perspective is Ch'ien Tuan-sheng, *The Government and Politics of China, 1912-1949*. Also helpful is O. Edmund Clubb, *Twentieth Century China*, another paperback. The article on Chiang Kai-shek in Howard Boorman's *Biographical Dictionary of Republican China* is brief, complete and required reading because it accurately, concisely summarizes the whole period.
- E. Readers with an interest in the government agencies involved in doing business on Taiwan should consult the publications of IDIC, CIECD, and Neil Jacoby's *U.S. Aid to Taiwan*, especially Chapter Ten, "U.S. Influence on Chinese Economic Policy." Robert Barnett's article in the 1972 (Fall) issue of *Foreign Affairs*, also suggests the Taiwan government's role in maintaining the island's economic strength.