



The Political Economy of Taiwan's Foreign Policy

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Introduction

Foreign relations form the most essential safeguard of existence and the foundation of development of the modern state in the international community. From the standpoint of the state, the most important concept for foreign policy decision-making is naturally the interests of the state (Olson, 1987:122-35). This is quite independent of the fact that such questions as how and by whom such interests are defined involves complex political and economic exchanges and contentions within the state (Skocpol, 1979:3). Besides, since a country's foreign relations can only be carried out in the international community, the international political economy and the geopolitical, economic and strategic interests other countries assume, among other things, will definitely constitute important constraints or opportunities affecting the foreign policy of the country (Gilpin, 1987:65-117). In sum, the formulation, development and change of a country's foreign policy may be considered to be a result of the interaction between three major structural causes: the internal political-economic dynamics of the country, the interests of the state of the country as an autonomous political entity, and the international political economy in which the country finds itself (Bloom, 1990:76-104).

Since the United States (US) abruptly broke off all its official diplomatic relations with Taiwan in 1979, Taiwan has almost been plunged into total international isolation, which has in turn forced the Taipei government to make sustained and profound adjustments and changes to its foreign policy. Of these adjustments and changes, the most prominent trend has been the change from the uncompromising one-China policy before the late 1970s to the

so-called "practical diplomacy" in the late 1970s and early 1980s, then to the "pragmatic diplomacy" after the early 1980s, and finally to the deepening of the "pragmatic diplomacy" into the formal upholding of the "divided nation" model in the early 1990s. These adjustments and changes have been studied and analyzed by scholars from different angles and with different methodologies in recent years (Wu-yueh Chang, 1992; Tsai et al., 1993; Chao, 1994; Kao, 1994; Lasater, 1991; Kau, 1992; Gu, 1995; Chan, 1996; Klintworth, 1994a, 1994b; Chen, 1996; Wong, 1997). Their efforts all provide a substantial foundation to understand the recent trends in Taiwan's foreign policy development. Nonetheless, these and other related studies have shared a common weakness: they are either pure historical descriptions or explorations emphasizing only one or at most two of the aforementioned three major structural causes shaping foreign policy. Very few of them represent a conscious and comprehensive examination of Taiwan's foreign policy changes within the context of the historical interaction involving all the three structural causes. Such an examination is absolutely necessary, as only thus can the multifarious structural elements influencing a country's foreign policy be balanced against each other and positioned more clearly (Neack, Hey and Haney, 1995; Zhao, 1996). This paper attempts to re-examine the changes in Taiwan's foreign policy since the breaking-off of US-Taiwan diplomatic relations from the angle of the complex interaction between internal and external political and economic factors and, on such basis, delineate the future trends in these changes.

In short, the study is an analysis of the political economy of Taiwan's foreign policy changes in recent years. The major political and economic changes external to Taiwan have been the end of the Cold War and the dawning of the post-Cold War era and the changes in the relations between the two sides of the Taiwan Strait. Both of these changes have brought restraints and opportunities to differing degrees on the national development of Taiwan. Within Taiwan itself, the major political and economic changes have come from the island's economic restructuring and transfor-

mation (particularly the change from capital importation to capital exportation) and its political indigenization and democratization. These changes have wrought profound impact on Taiwan's self-understanding of its national image and national interests. This study will mainly analyze how the four sets of internal and external changes have singly or in combination worked to shape Taiwan's foreign policy. That is to say, the analysis will treat Taipei's foreign policy formulation as a product of Taiwan's internal and external political and economic changes. This may seem to be downplaying the active role of the central government, which is after all taking diplomatic action on behalf of the state. Yet, such concern is unnecessary, because any rational government, responding to the changes in its internal and external political and economic situations, must adopt a foreign policy it perceives to be best suited to its national interests. It goes without saying that once the foreign policy has been drawn up and put into action, it will necessarily effect changes in the internal and external economic and political environment. Hence, in the conclusion of the study we will discuss the impact of the present foreign policy of the Taipei regime on the political economy both external and internal to Taiwan and its possible course of development in the changing situation. In other words, we will look at the regime as the main agent in making its foreign policy decisions. We believe that the regime's foreign policy is more or less a rational choice made on the basis of its constant evaluation of the internal and external situations. Of course, we also realize that no matter how rational the choice is, it is inevitably bounded by various constraints of uncertainty and miscalculation inherent in all forms of human interaction, both individual and collective. However, this is the kind of thing that is hard to avoid completely when one agent takes action in relation with the action of another. Before we proceed with the analysis, let us first briefly review the major changes in Taiwan's foreign policy since it severed diplomatic ties with the US.

Taiwan's Foreign Policy in Retrospect

There are three reasons for us to select the breaking-off of US-Taiwan diplomatic relations in 1979 as the point of departure for our analysis. First, the US had since 1950 been Taiwan's most important supporter in the international community, and its breaking-off of diplomatic relations with Taiwan brought about a sudden change in Taiwan's foreign relations line-up. Secondly, in 1979 Beijing not only established diplomatic relations with the US, but also declared that it was embarking on a course of economic reform and opening, which plunged the other aspect of Taiwan's external relations — the relations across the Taiwan Strait — into a situation where major adjustments were absolutely needed. Thirdly, tumultuous changes had also taken place within Taiwan itself in the latter half of the 1970s. On the one hand, the labour-intensive export-led industries that had spearheaded the rapid development of the economy in the past had come to an end under the dual pressure of drastically rising wage costs at home and fierce competition from newly developing economies abroad, so that restructuring had become unavoidable. On the other hand, with the rapid growth of the economy, the populace had become highly conscious of their right to political participation, and the authoritative regime of the Kuomintang (KMT), or Nationalist Party, had been faced with a growing challenge from opposition forces. In short, at the turn of the decade, Taiwan had been confronted with various changes of great import both internally and externally, which naturally had produced an extremely momentous impact on its foreign policy, dictating that it should proceed to seek and protect Taiwan's national interests under the new situation.

In order to give a clear account of Taiwan's major foreign policy changes after 1979, we must have a clear idea of what the basic standpoint of the policy had been before that time. As is well known, from the very beginning right up to the present, Taiwan's foreign policy has been closely bound up with the fact that the

civil war between the KMT and the Chinese Communist Party (CCP) did not achieve a decisive completion in 1949. Although the CCP had succeeded in driving the KMT government out of the mainland by war and in founding the People's Republic of China (PRC), the defeated KMT did not topple and disappear from the scene altogether. Separated by the Taiwan Strait from the PRC on the mainland and supported by the US under the umbrella of the Cold War system, the Republic of China (ROC) on Taiwan managed to keep up the *status quo* of division *vis-à-vis* the PRC on the mainland, which has remained unresolved ever since.

Before 1979, with the support and protection of the US as well as being urged on by its anti-Communist ideology, the KMT had adopted an adamant one-China policy. It had emphatically proclaimed that the ROC government, albeit having retreated to Taiwan, had been the only legitimate government of China and that the political power established by the CCP on the mainland had only been an insurgent group. Therefore, it had persisted in adhering to its goal of "opposing the Communists and recovering the country" as its basic mainland policy. Correspondingly, its foreign policy had upheld the principle that the ROC, as the legitimate government, was the orthodox regime invested with all the Chinese sovereignty and, therefore, must insist on "no coexistence of the orthodox and the rebel regimes on an equal footing" in the international community. This firm stand had not undergone any fundamental change even after it had been driven out of the United Nations (UN) in 1971. In his first political report to the Legislative Yuan after he assumed the Premiership of the Executive Yuan, Mr Chiang Ching-kuo had pointed out:

Because of the changing international situation, many compatriots have the mentality of "seeking change." They wish that the government would counter change with change. Even many international friends expect us to institute changes. True, in its administration of the affairs of the state, the government shall take corresponding action directed at the changes in the subjective and objective environments and in consideration of the importance and urgency of the case. However,

though we shall be flexible to contingencies and be open to change, we shall never deviate from the cardinal principle when we are dealing with the contingencies in a flexible manner. That is to say, whilst we are open to change, we shall retain our cardinal principle which shall not be changed. This unchangeable principle is none else but to firmly hold on to the basic national policy of opposing the Communists and recovering the country. (*Bulletin of the Legislative Yuan*, 30 September 1972:32)

On a similar occasion three years later, Chiang had reaffirmed the same stand, saying:

There are, as a rule, always many changes in a country's foreign policy. However, we have two unchangeable principles. First, the Republic of China is the only legitimate government of China. Second, we shall unite all freedom-loving nations of the world to stand with us in opposing Communism. (quoted from Kao, 1994:20)

Subsequent to the loss of US support upon the termination of US-ROC diplomatic relations in 1979, Taipei also lost its seats in the International Monetary Fund, the World Bank, the International Financial Corporation and the International Development Association. On the other hand, with the progressive consolidation of the PRC position in the international community, Beijing actively pursued its one-China policy, making persistent overtures to the few countries with which Taipei was still able to maintain diplomatic relations. At the same time, in order to curtail further Taiwan's international presence, it also endeavoured to block Taiwan's attempts to join non-governmental international organizations. At the time of the breaking-off of diplomatic relations with the US in 1979, Taipei was able to maintain diplomatic ties with only 22 countries in the world, and the figure was an all time low in quantitative terms. Taking advantage of such a situation, the growing opposition forces in Taiwan raised shrill criticism against the government's foreign policy, denouncing it as self-deceiving, self-defeating and outdated. Faced with increasing international isolation and domestic pressure, Chiang Ching-kuo,

the then ROC President, started making adjustments to Taiwan's foreign policy by differentiating between inter-governmental organizations (IGOs) and non-governmental organizations (NGOs) so that Taipei could have more flexibility in participating in the international community. As to IGOs, he remained committed to the uncompromising one-China principle, while with NGOs he adopted a flexible principle of "no avoidance and no surrender" (Kao, 1994:29). The foreign policy of the time was also known as "practical diplomacy," composed mainly of attempts to make up for the insufficiencies of formal diplomacy with a new kind of unofficial foreign relations constituted by economic, trade, civil and cultural exchanges (Chao, 1994:197). The most representative of the efforts at participating in NGOs was the "Olympic Games Model." In March 1983, the ROC Olympics Committee reached an agreement with the International Olympics Committee. In the agreement, the ROC Olympics Committee accepted to change its name to "China Taipei Olympics Committee" and to substitute its national flag with the new flag of the Committee, one with a plum flower design enclosing the national emblem of the ROC and the five-ringed Olympic logo. The "Olympic Games Model" was Taipei's first successful attempt at solving the problem of flag and name of country when participating in NGO activities. However, with IGOs the Taipei government still firmly adhered to its stand of ROC orthodoxy by refusing dual participation with the PRC on an equal footing, as it involved the central ideological issue of sovereignty and national dignity. For example, when the Interpol designated the ROC with a new name, "China Taiwan," Taipei refused to accept the arrangement and withdrew in protest. Until the death of Chiang Ching-kuo, the Taipei government also had not attended the plenary sessions of the Asian Development Bank because of the question of country name.

The "practical diplomacy" of Taipei was maintained without major changes till the death of Chiang Ching-kuo in early 1988. However, in his last years both the internal and external situations had already been fraught with undercurrents of change. Some of the changes in fomentation were: First, Chiang Ching-kuo intro-

duced political reform in Taiwan in 1986, triggering an almost uncontrollable upsurge of democratic development and effecting tumultuous changes in Taiwan's political structure. Secondly, Chiang later declared lifting the ban on family visits to the mainland, lessening significantly the enmity in the relationship between the two sides across the Strait. Thirdly, in 1984 the *Sino-British Joint Declaration* was signed, and the question of the mainland's recovery of Hong Kong was basically settled. The settlement created a great impact on the relations betwixt and between the two sides of the Strait involving three territories. Fourthly, in 1985 the Soviet Union, under the leadership of Mikhail Gorbachev, started to introduce the policy of political reform and economic opening, ushering in an all-round loosening-up of the Cold War strigencies. Consequently, this led to a corresponding rapid weakening of Beijing's strategic role in helping the West to balance the Soviets in the Cold War system. Fifthly, in the late 1980s, mainland China began to show signs of political instability, and the attitude of the West towards Beijing took a conservative or even negative turn. Faced with all these changes, Mr Lee Teng-hui, who had succeeded Chiang Ching-kuo as President, further adjusted Taipei's foreign policy, from "practical diplomacy" to "pragmatic diplomacy." In fact, it was Lee himself who first coined the term "pragmatic diplomacy" to characterize Taiwan's new era of foreign policy under his leadership (*China Times*, 6 June 1989:2).

Taipei's policy of "pragmatic diplomacy" in that period consisted mainly of adjustments to three aspects. First of all, Taipei moved to relax the ideological principle of no coexistence of the orthodox ROC and the resurgent PRC regimes on an equal footing and, at the same time, set on to achieve membership and participate in international organizations. In March 1988, Mr Ting Mao-shih, the then Foreign Minister, declared that the ROC would accept diplomatic relations with countries that had established diplomatic relations with the PRC (Chen, 1988:224). In January 1989, Mr Lien Chan, the new Foreign Minister, stated that the resolution of the question of dual recognition rested with Beijing

and not with Taipei (*China Times*, 1 January 1989:2). In June of the same year, President Lee Teng-hui admitted for the first time that the actual jurisdiction of the ROC did not extend to the Chinese mainland (*China Times*, 6 June 1989:2). In December of the same year, Lien Chan openly abandoned the idea of no coexistence of the ROC and the PRC on an equal footing in the international community (*China Times*, 17 December 1989:4).

Foreign policy adjustments of a second kind centred on the treatment of the ROC national flag and name in joining IGOs. The former uncompromising attitude of attaching an absolute importance to the principle of using the ROC national flag and name in international participation was softened. In May 1989, Taipei attended the 22nd Plenary Session of the Asian Development Bank held in Beijing, and it did so under the name of "China Taipei." In January 1990, Taipei applied for membership to GATT (General Agreement on Tariffs and Trade) under the name of the "Tariff Area of Taiwan, Penghu, Jinmen, and Matsu." It became obvious at the time that, though Taipei still stuck to the basic principle that the ROC would do its utmost to maintain its name of choice on the international scene, it would not forcibly impose it on any country (Chao, 1994:196).

Foreign policy adjustments of a third kind aimed at improving relations with Communist states other than the Chinese Communists. In the past, conditioned by its anti-Communist ideology, Taipei viewed all Communist states as arch-demons and perforce forbade all kinds of interaction with them. In 1989, Taipei reversed the rigid policy by agreeing to engage in direct trade with seven Communist states: Poland, Hungary, Czechoslovakia, Yugoslavia, East Germany, Romania and Bulgaria (*Zihyou shihpao*, 16 April 1989:15). In 1990, Taipei extended its direct trade to the Soviet Union, Albania and Vietnam (*United Daily News*, 1 January 1990:1). By now, Taiwan had direct trade with all Communist states in the world, except mainland China and Cuba.

In the early 1990s, Taiwan saw further changes in its internal and external environments. On the one hand, with the collapse of the Soviet Union and the Communist states of Eastern Europe, the

Cold War came to an end and the international power system underwent a process of radical restructuring. On the other hand, democratic development in Taiwan continued to gain momentum, rapidly transforming the former authoritarian mainland-erled ROC state into one characterized by liberal democracy and indigenization. Under such circumstances, the KMT regime further deepened its "pragmatic diplomacy," which was already in place, proceeding from the past stance of a passive non-avoidance of dual recognition with Beijing in the international community to one of actively seeking dual recognition. Instances reflecting this change were the adoption of the *Guidelines for National Unification* in 1991 and the bid to return to the UN starting in mid-1993. According to the said *Guidelines*, Chinese reunification should be based on the principles of rationality, peace, equity and mutual benefit and should be carried out in three stages: near, intermediate and final. The near stage was the "stage of exchange and mutual benefit." One of the targets of this stage was that "the two sides of the Strait should renounce the state of enmity and, on the basis of one China, should solve all disputes by peaceful means, while internationally they should act according to mutual respect and refrain from mutual exclusion." The intermediate stage was described as the "stage of mutual trust and cooperation," in which the two sides across the Strait "should co-operate with concerted effort to participate in the international bodies." The final stage was the "stage of consultation and unification." In this stage, the two sides shall set up an institution of consultation for reunification as the vehicle to discuss the important cause of reunification in accordance with the wishes of the people on both sides of the Strait. Though the *Guidelines for National Unification* dealt with questions pertaining to relations between the two sides, it defined at the same time the relations on the basis of a divided nation. This became the new starting point for Taipei's foreign policy. In fact, since the proclamation of the *Guidelines for National Unification*, Taipei has officially defined the existing situation as "one China, two political entities" and, in mid-1993, started making active efforts to push for Taiwan's return to the UN in accordance with

the "divided nation" model. As such, Taipei claims that the ROC on Taiwan is a state with independent sovereignty and should be allowed to participate in the UN and other international bodies on an equal footing with the PRC on the mainland. It argues that its claim is simply based upon the same models as the East and West Germanys before reunification and the present North and South Korea. To this day, the "divided nation" model is still Taipei's basic stand in its endeavour to develop foreign relations.

Changes in the International Environment

In the ROC's short foreign relations history after 1949, the attitude of the international community, especially that of the US, has always occupied an extremely crucial position. As pointed out earlier, in January 1979 the US finally announced its termination of diplomatic relations with the ROC on Taiwan, accompanied by the immediate setting up of diplomatic relations with the PRC on the mainland. The US's decision was primarily based upon the consideration of its national and strategic interests, particularly of its perceived strategic need to check the Soviet Union and the perception that the state power of the PRC had remained generally stable since its founding in 1949. In a period lasting from the establishment of diplomatic relations between the PRC and the US to the Soviet Union's introduction of political reform and economic opening, new frictions persistently appeared within the world's Cold War line-up, thereby contributing to the further strengthening of Sino-US relations. In the autumn of 1979, the Soviet Union invaded Afghanistan, and the invasion strained the already stagnating US-Soviet relations. In order to retard the military expansion of the Soviets, the US announced sanctions on sales of high technology to the Soviet Union in April 1980. At the same time, it agreed to sell a limited amount of US military technology to China (Shen, 1982:240). In the early 1980s, events such as the shooting down of the Korean Flight 007 by the Soviets, the labour unrest in Poland, and the Soviet deployment of middle-range missiles with nuclear warheads in Europe further escalated

the US-Soviet tension. Hence, the PRC role in helping the US to check the Soviet Union became more important. As the strategic importance of the PRC to the US soared, the US even considered strengthening the military cooperation between the two countries to counter the Soviets (Gass, 1984).

Against the backdrop of sustained antagonism between the two sides of the Strait, the *rapprochement* between the PRC and the US naturally brought serious strain on US-Taiwan relations. In 1981, Taipei requested to buy high-performance warplanes from the US in order to strengthen its defence capabilities. Initially, the US considered selling Taipei some FX planes but desisted when Beijing protested (Kao, 1994:27). On 23 August 1982, under consistent pressure from Beijing, the US signed the US-PRC Joint Communiqué, promising Beijing that "its arms sales to Taiwan will not exceed, either in qualitative or in quantitative terms, the level of those supplied in recent years since the establishment of diplomatic relations between the United States and China, and that it intends to reduce gradually its sales of arms to Taiwan, leading over a period of time to a final solution" (Hu, 1987:138).

Since the US exerted an absolute influence on Taiwan's foreign relations and security, the straining of US-Taipei relations inevitably posed serious challenges to the latter. Chiang Ching-kuo's moving away from the rigid one-China policy towards "practical diplomacy" with some flexibility after the breaking-off of US-Taiwan diplomatic relations was, to a large extent, an attempt to resolve the predicament in which Taipei's diplomatic space of manoeuvre was substantially narrowed and Taiwan's national security was under serious threat. As pointed out above, "practical diplomacy" mainly aimed to counter the national insecurity incurred by the growing diplomatic isolation by means of strengthening participation in NGOs.

Nevertheless, it must be emphasized that the US's termination of diplomatic relations with the ROC did not imply American abandonment of Taiwan. To the US, the termination was only a reluctant choice made under the pressure from Beijing after a painful consideration of the pros and cons of the issue. Yet, after

all, the US had developed long-lasting historical ties with Taiwan, having profound political and economic interests in the island to take care of. In addition, to continue keeping a divided China across the Strait would be strategically beneficial to US interests (Zhu, 1996). Hence, no sooner had diplomatic relations been formally established between the US and the PRC in January 1979 than the US Congress adopted in March of the same year the Taiwan Relations Act directed at remedying the effects of the termination of US-Taiwan diplomatic ties. In April, the Act was signed by President Carter, which has been effective since then. One major feature of the legislation was that in the form of an act of Congress it bound the future of Taiwan closely to US security in the western Pacific (Lasater, 1984:161; Myers, 1989). Judging from the provisions of the Act, the Taiwan policy of the US was to let Taiwan settle its future relations with the Chinese mainland in a peaceful way. In fact, the Act stated that the US had the legal responsibility to protect the security of Taiwan, including the provision of weapons of defence and services. In other words, the US would not tolerate the PRC's resolving the Taiwan question by the force of arms. This was the reason why in the following decade and more the US successfully upgraded the bulk of Taiwan's outdated defence systems, though the Sino-US Joint Communiqué of August 1982 had imposed a number of restrictions on US arms sales to Taiwan. It has been recorded that actual sales included "a fleet with anti-fleet, anti-submarine, and anti-aircraft capability, advanced fighters, modern battle tanks and a series of surface-to-air, air-to-air, and anti-fleet guided missiles" (Bush, 1992:352).

From the mid-1980s on, the international political situation took a turn in favour of Taiwan, and commensurate changes appeared in Sino-US and US-Taiwan relations. First of all, the strategic importance of the PRC to the US diminished apace since the USSR under Mikhail Gorbachev introduced political reform and economic opening and endeavoured to improve its relations with the West beginning in the mid-1980s. Towards the end of the 1980s, the Cold War system crumbled overnight with the almost

instantaneous collapse of the whole Communist camp in Eastern Europe and the Soviet Union. As a result, the PRC was left standing alone as the only power of regional importance that remained ideologically antagonistic to the US-led capitalist world. The predicament further intensified after the outbreak of the June 4 Incident in 1989 on the mainland, which destroyed Western optimism about the PRC's peaceful transformation to a democratic society under its economic reform and open policy. Besides, with the loosening and eventual disintegration of the Cold War system, regionalism reared its head in different places. Traditional ideological emphasis on national sovereignty was progressively eroded by the needs of regional economic cooperation, which created a new opportunity for the return of Taiwan with an ambiguous sovereignty status to the international community. Furthermore, the rapid democratization of Taiwan plus its growing economic might created moral and practical difficulties for the West in continuing to maintain a rigid one-China policy.

The confluence of the above developments eventually created a positive impact on the attitude of the international community towards Taiwan. In September 1992, the US agreed to sell 150 F-16 fighter aircraft to Taiwan. At almost the same time, a similar deal of 60 French Mirage 2000-5 fighters was concluded by the French government. The PRC, of course, reacted angrily to the sales because they not only signaled the West's moving away from the one-China principle, but also would improve Taiwan's defence capability significantly and, thereby, lower Taipei's willingness for reunification under Beijing's proposed model of "one country, two systems." However, the US and the French governments had more or less anticipated Beijing's anger and opposition. Apart from economic considerations, that they still went ahead with the deals in spite of the PRC's opposition to a certain extent signified the increasingly sympathetic tendency of the international community towards the situation of Taiwan. In this regard, American scholar Richard C. Bush's following observation should provide a point of reference:

The US was to ensure that if and when Taipei chose to engage Beijing regarding the island's future, it would not do so from a position of military weakness.... This is not a conclusion that the Chinese would accept, but there is no reason to accept their definition of the situation. (Bush, 1992:355)

Some analysts even believed that the international hegemonic order led by the US was doing its utmost to "contain" China, which was rising as a great power in the East (Hsiao, 1996:29).

In addition to sales of advanced weaponry to Taiwan, the US also spared no effort to elevate Taiwan's international status. In July 1994, James Lilley, former US ambassador to Beijing, spoke at a congressional hearing in support of Taiwan's participation in the UN. About two months later, the Clinton administration announced that it would adjust and improve the stymied US-Taiwan relations after the US had broken off relations with Taiwan 15 years earlier, including resuming high-ranking official economic and cultural contact, upgrading the name of Taiwan's representative office in the US from the Coordination Council for North American Affairs to the more official-sounding Taipei Economic and Cultural Representative Office and reaffirming its continued adherence to the Taiwan Relations Act as the basis of the US-Taiwan relations (*United Daily News*, 9 September 1994:1). In June 1995, the US even approved of a "private" visit by President Lee Teng-hui to the US. The visit was highly symbolic because it marked the first US visit by a ROC President since the breaking-off of ROC-US diplomatic relations. The series of changes obviously highlighted the US's mounting emphasis placed on Taiwan in the triangular relations among the US, the PRC and the ROC on Taiwan. Of course, whether the US was departing from its one-China principle and making use of Taiwan in its effort to "contain" China is still subject to further debate and confirmation. Nevertheless, judging from the above evidence, probably no one would dispute that the US was giving increasing importance to the role of Taiwan in the international community and was ready

to award a more clear-cut recognition to its autonomous political status.

Development of Taiwan's Domestic Economy

In political science, a country's foreign relations are often seen as the extension of its domestic development. This view may be a bit exaggerated, but it reflects the important role a country's domestic development has in the development of its foreign relations. It thus goes without question that the economy as an important component of a country's domestic development should naturally exert tremendous influence on its foreign policy. From an interactive perspective, Taiwan's domestic economy contributes to shape the island's foreign relations on the one hand and comes under the restraints imposed on it by international political and economic developments on the other. As Amsden (1985), Gold (1986) and Koo (1987) pointed out on separate occasions, until the end of the 1970s international political and economic developments created the necessary conditions for Taiwan's economic take-off. These developments include the outbreak of the Korean War and the advent of the Cold War era, Taiwan's geopolitical importance and the huge amount of US military and economic aids such importance entailed, the unconditional opening of the US market to Taiwan's exports, the voluminous inflow of US and Japanese capital into the Taiwan market and the continued prosperous development of the Western capitalist economy. In fact, in the 1960s Taiwan's economy took off mainly because of the energy of the labour-intensive export processing sectors. In the late 1960s and early 1970s, Taiwan's foreign trade was grossing an average of some 70-80 per cent of its gross domestic product (GDP). This ratio was sustained for quite a few years, and exports to the US amounted to more than 50 per cent of all exports (Ranis et al., 1981). However, after the mid-1970s, these favourable international conditions began to weaken or disappear altogether.

The primary cause of this was the gradual lessening of the Cold War tension. Signs of the *détente* included the West's admis-

sion of the PRC into the UN in 1971 and the subsequent Sino-American normalization and the corresponding termination of US-ROC diplomatic relations in 1979. The progressive relaxation of the Cold War system released many developing countries into the world arena of capitalist economy. These countries were highly competitive as far as Taiwan's export-led economy was concerned, especially in terms of their abundant natural and human resources. What proved to be more serious, however, was the US's termination of diplomatic relations with Taiwan. The most direct economic impact on Taiwan was that the US gradually removed the favourable conditions it had used to accord Taiwan to boost the latter's economic growth. Such tendency indicated that the US was shifting the basis of its economic policy guidelines towards the island from a political onto an economic orientation. Considerations of mutual economic benefit, such as the trade balance between the two countries and mutual opening of markets, were placed in a central position. Albeit painful at the beginning, the shift proved to be beneficial to Taiwan's economic development in the long run. First of all, Taiwan was compelled to open up its domestic market to the outside world, which, as a consequence, served to accelerate the liberalization and rationalization of its economy. Secondly, as over-dependence on the US market had entailed uncontrollable risks of various kinds, Taiwan began to make efforts to explore other markets so as to diversify its foreign trade. These two factors, i.e., the opening of the domestic market and the diversification of foreign trade, yielded many benefits which later helped pave the way for Taiwan's successful economic restructuring in the 1980s and beyond.

Apart from the unfavourable development of international politics, the pressure for economic transformation Taiwan was faced with also came from economic factors, both international and domestic. The first one was the rapid increase of the island's trade surplus and the appreciation of the New Taiwan dollar. Taiwan had enjoyed a favourable balance of payment from 1976 onward and had accumulated a foreign reserve of more than US\$80 billion by the end of 1980s. The result was a surplus in

capital supply, which in turn pushed the investors to look for investment opportunities abroad. At the same time, the persistently and excessively huge foreign reserve also created appreciation pressure for the New Taiwan dollar. Starting from the mid-1980s, in face of its widening huge foreign trade deficit with Taiwan, the US forced the Taiwanese currency to appreciate sharply in a relatively short period of time, and this significantly dampened the competitiveness of Taiwanese products in the international market. As a result, massive Taiwanese industries and capital moved out from Taiwan to find their way outside (Wong, 1994:355).

The second factor was the rapid deterioration of the investment and production environment in Taiwan. In addition to the appreciation of the Taiwanese currency, problems arose with the limited land resources of the island. The continuous influx of excessive capital in the property market sent property prices skyrocketing and the factory rents increased year after year. Also, the shortage of labour and the increase of wages became serious in the mid-1980s. Many labour-intensive enterprises were faced with the predicament of unreasonably high labour costs or even being unable to hire enough workers. In addition, the rapid increase in wages raised the workers' labour awareness, making labour disputes a commonplace occurrence. As the living standard continued to increase, a growing sense of environmental protection on the part of local residents also forced the government to implement more stringent environmental measures, which, in turn, added further costs to the manufacturing industries. All of these factors combined forced the entrepreneurs in low-capital, labour-intensive enterprises to look for alternative investment opportunities outside Taiwan (Wong, 1994:354-55).

The third factor came from the change in the world economy, which generated pressures on Taiwanese exports. As mentioned above, the US had long been the most important export market for the Taiwanese products. However, since the early 1980s, it had continuously suffered from economic stagnation, pushing it to adopt the policy of neo-protectionism in world trade. The new

policy seriously affected Taiwanese exports to the US. In 1989, Taiwan even lost its Generalized System of Preferences (GSP) status for zero tariff treatment with its trade with the US and the Taiwanese products suffered a further blow on the American market (Gilpin, 1987:196-97). At almost the same time, the second-tiered newly developing ASEAN countries and mainland China started launching their export-oriented economic development programmes. With their abundant natural and labour resources, these countries managed to take over, bit by bit, Taiwan's place in the American market. To diversify the market and to reduce the cost of production became crucial to the survival and development of Taiwanese enterprises. As far as lowering production cost was concerned, most of the Taiwanese export enterprises were concentrated in the manufacturing of low-capital, labour-intensive products, and the room for reducing the cost of production through technological innovation was quite limited. Therefore, the only alternative for these enterprises to lower the production cost was to move out of Taiwan to seek cheaper labour, land and other production resources (Wong, 1994:355-56).

In order to solve the problems of rising labour costs and more stringent Western import restrictions, the ideal long-term strategy would be to encourage and promote the upgrading of the economic structure. This would mean to pressure the labour-intensive industries to transform themselves into high-tech industries, as a means of raising the labour productivity of workers and the value-added content of export goods. The Taiwan authorities had recognized this as early as the late 1970s and had not stunted in putting huge amounts of capital into infrastructural construction and the strategic development of the petrochemical and electronic industries (Kuo, 1983:216-17). Nevertheless, owing to the three factors discussed above, a host of owners of low-capital, labour-intensive industries hastened one after the other to transfer their capital and production lines from Taiwan to Southeast Asia, the Chinese mainland, and other regions in an attempt to save their "sunset" industries. They made full use of the abundant cheap labour and resources in these regions as well as the export quotas

these regions enjoyed, igniting a phenomenal upsurge of capital outflow after the early 1980s (Wong, 1994:354-56).

As Table 1 indicates, since the early 1980s the gross amount of approved Taiwan foreign investments has increased rapidly, from only US\$0.27 billion in the period of 1952-1986 to US\$1.83 billion in 1991 and then to US\$4.5 billion in 1997, registering a growth of almost 20-fold in a dozen years. With the exception of the US, the important receiver countries of investment were all marked by cheap and abundant labour. In fact, only the investments in the US went mostly to high-tech industries. Investments in other countries were mainly concentrated in labour-intensive and low-capital export industries. These countries were mostly located in Asia, including Malaysia, the Philippines, Thailand, Indonesia, Singapore, Vietnam, Cambodia and the mainland. Nevertheless, there also has been a tendency in recent years for investments to be made in Europe and Central and South America.

In general, in spite of strong international competition, Taiwan's economic transformation has been quite successful. In the 1980s, the average annual gross national product (GNP) growth rate was about 9 per cent. Though this figure declined slightly in the 1991-1996 period, it still maintained at a rate of 7 per cent (Republic of China, Accounting and Statistics of the Executive Yuan, Directorate-General of Budget, 1997). Likewise, foreign trade rose steadily and increasingly diversified to different geographic areas in the same period. As Table 2 shows, Taiwan's foreign trade totaled US\$64 billion in 1986, and it rose to US\$139 billion in 1991 and then further to US\$217 billion in 1996. Moreover, from Table 3 we can see that, from the mid-1980s onward, Taiwan's foreign trade kept on diversifying to the world's major continents, resulting in a gradual increase of trade with Europe and Asia with a gradual decrease in its dependence on US trade. Furthermore, because Taiwan recorded a huge trade surplus annually after the early 1980s, since the late 1980s the foreign exchange reserve of the island has remained at between US\$80 to 100 billion, for many years ranking second or third in the world without sign of coming down.

Table 1 Taiwan's Approved Foreign Investment, 1952-1997

	(US\$1 thousand)					
	Asia					
	Mainland China	Hong Kong	Japan	Singapore	Philippines	Indonesia
1952-86	—	8,381	1,057	9,733	10,184	27,555
1987	—	1,283	3,481	1,301	2,640	950
1988	—	8,060	1,972	6,433	36,212	1,923
1989	—	10,372	335	5,209	66,312	311
1990	—	33,092	1,807	47,622	123,607	61,871
1991	174,158	199,630	3,431	12,540	1,315	160,341
1992	246,992	54,447	5,321	8,790	1,219	39,930
1993	3,168,411	161,918	63,297	69,473	6,536	25,531
1994	962,209	127,284	22,731	100,732	9,600	20,571
1995	1,092,713	99,555	8,811	31,649	35,724	32,067
1996	1,229,241	59,927	6,798	164,978	74,252	82,612
1997	1,614,542	141,593	32,342	230,310	127,022	55,861
Total	8,488,266	905,542	151,383	688,770	494,623	509,523

Source: *The Monthly Journal on the Republic of China's Investments by Overseas Chinese and Foreign People, External Investments, External Technical Cooperation, Indirect Investments in the Mainland and Technical Cooperation with the Mainland*, Taipei: Economic Ministry of the Republic of China, December 1997, pp. 4-45, 59.

Table 1 Taiwan's Approved Foreign Investment, 1952-1997
(Continued)

	Asia				
	Thailand	Malaysia	Vietnam	South Korea	Others
1952-86	15,284	7,299	1,437	360	6,537
1987	5,366	5,831	—	450	—
1988	11,886	2,708	—	105	—
1989	51,604	158,646	—	1,454	2,129
1990	149,397	184,885	—	602	27
1991	86,430	442,011	17,139	100	6,882
1992	83,293	155,727	20,167	35	1,000
1993	109,165	64,542	158,396	463	4,193
1994	57,323	101,127	108,378	375	11,350
1995	51,210	67,302	108,146	2,727	30,552
1996	71,413	93,534	100,479	6,021	1,703
1997	57,546	85,088	85,414	345	3,222
Total	749,917	1,368,700	599,556	13,037	67,595

(US\$1 thousand)					
America	Europe	Australia	Africa	Others	Total
170,605	4,458	5,857	3,085	—	271,832
80,250	199	—	1,000	—	102,751
130,335	12,005	6,134	963	—	218,736
624,431	2,333	—	7,850	—	930,986
838,711	96,176	1,397	13,012	—	1,552,206
658,958	60,289	2,441	4,523	—	1,830,188
449,096	45,933	5,426	16,875	—	1,134,251
740,110	255,913	983	415	—	4,829,346
988,336	22,209	28,048	18,700	—	2,578,973
787,105	59,868	13,373	28,789	—	2,449,591
1,442,953	11,875	18,469	20,890	9,500	3,394,645
1,915,948	58,508	27,900	—	72,727	4,508,368
8,826,838	629,766	110,028	116,102	82,227	23,801,873

Table 2 Taiwan's Total Imports and Exports

	Imports	Exports	Total
	(US\$1 million)		
1985	20,102	30,725	50,827
1986	24,181	39,861	64,042
1987	34,983	53,678	88,661
1988	49,672	60,667	110,339
1989	52,265	66,304	118,569
1990	54,716	67,214	121,930
1991	62,861	76,178	139,039
1992	72,007	81,470	153,477
1993	77,061	85,091	162,152
1994	85,349	93,049	178,398
1995	103,350	111,659	215,009
1996	102,370	114,942	217,312

Source: Republic of China, Accounting and Statistics of the Executive Yuan, Directorate-General of Budget (1997).

The tremendous capital exports, voluminous foreign trade and huge foreign exchange reserves worked both to raise Taiwan's sense of economic autonomy and to provide a sound material basis for Taipei to enhance its international presence. First of all, the export of capital involves various investment risks. Hence, investors will naturally take into consideration the host country's condition of investment protection. As Taiwan has no formal diplomatic ties with the major powers of the world, better safeguards for foreign investments can only be secured by bilateral agreements signed by the Taipei government and the host country. Thus, Taipei is in a position to utilize the export of capital to strengthen its ties with the countries receiving Taiwanese capital investments. It may even achieve its goal of elevating bilateral

Table 3 Taiwan's Total Imports and Exports by Regions (%)

	Asia		Europe		North America		South America		Africa		Australia	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1985	20.74	18.66	4.83	5.90	10.06	30.93	0.86	0.33	1.05	1.10	1.74	1.78
1986	19.94	18.15	5.05	7.46	9.24	31.68	0.72	0.42	0.94	1.16	1.54	1.63
1987	20.62	18.74	5.95	8.90	9.36	28.47	0.66	0.35	1.16	1.22	1.30	1.51
1988	21.29	19.38	7.26	8.96	12.65	22.70	0.96	0.27	1.14	1.24	1.38	1.49
1989	22.00	20.95	7.07	9.24	10.96	21.76	1.18	0.27	0.99	1.06	1.56	1.55
1990	22.27	22.22	7.86	10.03	11.03	19.11	0.95	0.35	1.00	1.03	1.53	1.26
1991	23.06	23.73	7.17	10.07	10.90	17.22	1.18	0.52	1.01	0.99	1.65	1.17
1992	24.00	23.95	8.13	9.08	11.04	16.43	1.05	0.54	0.95	0.90	1.54	1.11
1993	24.40	25.66	8.36	7.96	11.00	15.50	0.96	0.63	1.07	0.82	1.51	1.19
1994	24.72	26.83	8.94	7.25	10.81	14.46	0.96	0.69	0.79	0.76	1.47	1.10
1995	25.64	28.30	8.70	7.31	10.40	12.95	0.97	0.79	0.80	0.76	1.42	0.99
1996	24.36	29.09	9.27	7.80	9.81	13.01	0.88	0.82	1.10	0.71	1.54	1.04

Source: Republic of China, Accounting and Statistics of the Executive Yuan, Directorate-General of Budget (1997).

foreign relations to a higher footing through the export of capital. The so-called "*sudpolitik*" the Taipei government put forward in the early 1990s consisted in the government's guiding of Taiwanese capital to invest in Southeast Asia in a planned manner. The purpose of "*sudpolitik*" is basically three-folded. It puts relations with the receiving countries on a higher footing; it strengthens Taiwan's economic leadership in the region; and it helps diluting Taiwanese investment on the Chinese mainland so as to provide a hedge against the risk, both economic and political, of over-investment (Chan, 1996; Chen, 1996). Judging from Taiwan's close and frequent exchanges with Southeast Asian countries in recent years, including economic and trade agreements, investment projects, cooperation schemes, visits by high-ranking officials and export of capital, the "*sudpolitik*" has proved to be an extremely important means of extending its international reach (Kao, 1994). In fact, apart from the "*sudpolitik*," Taipei has been engaged in a cutthroat competition for greater international presence in every corner of the world against Beijing by means of capital export as well as by other non-economic means.

Secondly, the progressively expanding and diversifying foreign trade has also brought about potent opportunities for Taiwan to remake its foreign relations. As a matter of fact, the rapid growth of trade has pushed Taiwan into the inner circle of the international economic system, further strengthening its link with international economic interests. Despite the fact that Taiwan has no diplomatic relations with most of the countries in the world, both the Taiwanese government and the governments having trade with or receiving investments from Taiwan are, with a view to increasing trade or promoting investment, bound to give each other necessary conveniences. These conveniences may start out with facilitating visits by business people through shortening the time needed for obtaining visas and loosening the restrictions imposed on each other. While bilateral economic and trade relations are growing stronger, in order to promote business these countries have mostly approved of the expansion and change of name of Taiwan's representative offices and granted their person-

nel certain rights that are usually only given to formal diplomats. Increased exchange of goods and personnel naturally brings with it unavoidable frictions, necessitating bilateral official contact, negotiation, signing of agreements, etc. (Kao, 1994:103). According to Taiwan's official statistics, since the mid-1980s Taipei has recorded immense growth in the number of representative offices it has set up in foreign countries, in the number of high-level visits abroad and in the number of agreements it has signed with foreign governments. For example, in 1996 Taiwan had representative or administrative offices in 65 countries with which it had no diplomatic ties, up from 30 in 1991 (Republic of China, Government Information Office, 1997:138). It should be borne in mind that the growth of such foreign ties occurred in a context in which the number of countries Taiwan had diplomatic relations with did not change much. It thus suffices to highlight the extraordinarily important role foreign economic and trade relations have played for Taiwan's endeavour to expand its international relations during the period of diplomatic isolation (Kao, 1994).

Thirdly, Taiwan's enormous and still rapidly rising economic and trade capacity, together with its foreign exchange reserves of some US\$90 billion, has made it very difficult for the capitalist world to continuously exclude Taiwan from the post-Cold-War international economic environment characterized by ever greater cooperation, regionalization and globalization. This fact has become an important prop in Taipei's drive to join regional and international organizations, in spite of the various glitches occurring when it comes up against Beijing's political stand in the course of the campaign. In view of its success in keeping its membership in the Asian Development Bank and in joining the Asia-Pacific Economic Cooperation (APEC) on the one hand and the repeated rebuttals it has experienced in its endeavour to join the World Trade Organization (WTO) and the UN on the other, Taipei should know very well its own strength as well as the practical difficulties involved.

Development of Taiwan's Internal Politics

In contrast with its economic accomplishments, the domestic political development in Taiwan in recent years has had an even more prominent and important impact on its foreign orientation. Until the mid-1980s, KMT-dominated Taiwan basically preserved an authoritarian state system, though the system underwent a metamorphosis from the "hard" authoritarianism of the early years into a "soft" one lately (Winckler, 1987; Wong, 1997:174-77). Authoritarianism here refers to any political system that "emphasizes the centralization of power, the flow of decisions from top down rather than demands from the bottom up, deference to authority, limited pluralism, and the use of violent repression when other methods of co-optation and control fail" (Purcell and Kaufman, 1980:204). However, during the 1980s the authoritarian system in Taiwan became increasingly untenable, and the rapid democratization unfolding in the mid-1980s led to its transformation into a libertarian-civic state backed by popular support. According to Liah Greenfeld (1992), a libertarian state is said to exist when the political system of a country is based upon liberal democracy in which the state's sovereignty is the sovereignty actually exercised by the citizens of the country. The cardinal organizational principle of the libertarian-civic state, therefore, is liberal democracy, whose power structure is open and institutionalized (e.g., through regular elections). Liberal-democratic politics makes state and society mutually permeative and reinforcing and, thus, nurtures a stable, self-adjusting sociopolitical system. To put it differently, a libertarian-civic state is a sociopolitical collectivity constituted by independent, autonomous citizens through institutionalized democratic participation (Habermas, 1994:25-28). In the modern world, the transition from the authoritarian state to the libertarian-civic state symbolizes mainly the process of state building. Once this process is completed, new state behaviours commensurate with the structural necessity of the new state system will emerge. Especially with foreign affairs, state sovereignty

and autonomy are always closely linked with the internal structure of the state (Nettl, 1968).

As mentioned earlier, Taiwan's rapid democratic reform started in the last years of Chiang Ching-kuo's presidency, a period during which Taiwan's society and economy were getting pluralized and prosperous. Yet, nowadays, very few scholars would see the democratization in the past decade as the result of the KMT's, and in particular Chiang's, reform initiatives, or just a natural product of social and economic development. A consensus is that Taiwan's democratization involves at least five interactive structural forces. The first one is the withering of the first-generation mainlanders, which has weakened the Chinese identity and unification awareness. The second one is the booming of political opposition forces and the rising call for political democracy. The third one is the determination on the part of the ruling KMT elite to launch political reforms. The fourth one is the maturity and pluralization of the civil society due to the rapid economic development and, subsequently, the challenges the society posed against the KMT party-state authoritarianism. The fifth one is the influence of the then unfolding global democratic waves and the pressure of the international democratic community (especially the US) on Taiwan's domestic politics (Wong, 1997:178; Feigenbaum, 1995:8; Chang, 1992:27-34; Tien, 1992:15-18).

Due to the interactive effect of these five structural factors, Chiang Ching-kuo's sudden death in January 1988 did not alter Taiwan's democratization process. His successor, Lee Teng-hui, an ethnic Taiwanese, continued the process and, then, accelerated it after his power was consolidated in the 1990 presidential election, where he was proclaimed the eighth ROC President by the National Assembly. Under the presidency of first Chiang and then Lee, as well as other favourable subjective and objective conditions formed in the process, Taiwan has managed to remove or alter many of the authoritarian structures of the past, including the lifting of martial law, the broadening of the freedom of the press and of expression, the legalizing of opposition parties, the

releasing of political prisoners and the reducing of the use of the judicial system to stifle dissent and, last, but not least, introducing for the first time in 40 years full elections for the National Assembly in 1991, the Legislative Yuan in 1992, the Governor of the Taiwan Province in 1994, and the President of the ROC in 1996.

Among these political structural changes, the most important one should be the legalization of opposition parties. In August 1986, the first opposition party, the Democratic Progressive Party (DPP) was founded. The party advocates Taiwan independence, and 98 per cent of its supporters are ethnic Taiwanese (Twenty First Century Foundation, 1996:88). Since the formation of this new party, the KMT authorities have taken no repressive action. With the lifting of martial law in July 1987, Taiwan has obviously moved into a new political era in which the emerging competitive multi-party politics and representative parliamentary democracy have become the most important driving impetus for political development. Under the new rules of the game, though the DPP is still subject to various institutional and resource constraints, it has rapidly emerged as a significant opposition party by gathering strength through elections in the following years: in the 1989 Legislative Yuan supplementary elections, it captured 29.9 per cent of the popular vote; in the 1991 National Assembly full elections, 23.6 per cent; in the 1992 Legislative Yuan full elections, 31.4 per cent; in the 1993 Mayors and County Magistrates elections, 41.2 per cent; in the 1994 Mayors of Taipei and Kaohsiung and Governor of Taiwan Province elections, 32 per cent; in the 1995 Legislative Yuan elections, 33.2 per cent; in the 1996 National Assembly elections, 29.9 per cent; and in the 1997 Mayors and County Magistrates elections, 43.5 per cent. In the mean time, the KMT's popular support has been declining; it even failed to get the majority of votes in the Mayors and County Magistrates elections, the Taipei City Council elections, the National Assembly elections and the Legislative Yuan elections between 1993 and 1997. Even worse, in the 1997 Mayors and County Magistrates elections, the KMT only won 8 seats out of a total of 23, sliding unbelievably from the previous 16, while the seats the DPP cap-

tured increased dramatically from 6 to 12 and the independents got the rest of 3. For the first time, the KMT had lost control of the local political regimes to the DPP. Besides, in 1993, a group of KMT élite accused the KMT leadership of moving away from the ideal of unification; they split from the KMT to form the New Party (NP). Openly upholding the ideology of reunification with mainland China, the NP has captured about 13 to 15 per cent of the popular votes in the subsequent elections, of which about 40 per cent are ethnic mainlanders. It now appears to be the third biggest political party and renders the party politics in Taiwan even more competitive. Furthermore, during the election for the Governor of Taiwan Province in December 1994 and the presidential election of the ROC in March 1996, the KMT's James C. Y. Soong and Lee Teng-hui won the majority and retained their seat. After the presidential direct election, Taiwan's central and local regimes have been fully democratized. Parallel to the unfolding electoral process has taken place the reorganization of many old conflictual constitutional structures (e.g., the conflicts between the presidential system and cabinet system and between the central and local regimes, and the huge discrepancy between the ROC's *de jure* sovereignty and *de facto* sovereignty) through a series of four waves of successive constitutional reforms conducted by the National Assembly between 1990 and 1997.¹ As a result of these reforms, a democratic parliamentary multi-party system built upon merely Taiwan's popular support has been formalized constitutionally and begun to dominate Taiwan's political development. Although the KMT still maintains its ruling status, it is seriously constrained by the existing party-politics. Especially after the 1995 Legislative Yuan elections, in which the KMT only captured a thin majority of the total seats (85 out of 164), if the KMT wants to maintain political stability, it must compromise and seek cooperation with the opposition forces. From the perspective of state development, Taiwan's democratization has indeed completely separated the ROC from mainland China. The ROC has no longer remained the state formerly claimed by the KMT as representing the whole of China, and is just the ROC on

Taiwan. It is the Taiwan society that is the existing ROC's base of legitimacy. Reunification or the ideal of one China is therefore not a must, but an option. Such a structural change is deemed to have had a profound impact on cross-Straits relations.

One of the immediate results has been the upsurge and rapid development of separatism. In the international political system constituted by nation states, the development of multi-party politics and representative democracy also means the development of popular sovereignty (Greenfeld, 1992:10). If Taiwan were an independent nation-state, it would certainly consolidate the cohesiveness of its people and strengthen the legitimacy of the ruling state. In fact, as democratization deepens, Taiwan will increasingly look more like a popular nation-state with its own sovereignty than a regional government under a higher sovereign state. Paralleling the popular sovereignty of the state is the state's natural desire to participate in the international community. Nevertheless, due to its unique historical relationship with the PRC, i.e., being one of the two competing states of a divided nation (Weng, 1995), the ruling KMT still insists on the ideal of one China and claims that the ROC on Taiwan is still representative of the whole of China. As a result, the ROC's *de facto* sovereignty over Taiwan and its *de jure* sovereignty over the whole of China defined in the ROC constitution inevitably appear sharp contradictions. Even worse is that most parts of the world do not recognize its Chinese sovereignty, even in a limited sense. The PRC on mainland China also claims that Taiwan is only a province of China. It even threatens that it may resort to force to bring Taiwan back into China under the PRC sovereignty if it considers this necessary, especially should Taiwan opt for *de jure* independence.

Under the above historical circumstances, along with the prolonged cross-Straits separation and the institutional and social differences between mainland China and Taiwan, there has appeared in Taiwan a movement for separating politically from mainland China. Most of the supporters of the movement are ethnic Taiwanese. Other things being equal, many ethnic Taiwanese support the movement because they have witnessed the Chi-

nese mainlanders' political domination in Taiwan and, therefore, have become more or less alienated from the Chinese nation. In any case, the movement has grown stronger and more salient amidst the deepening democratization, with the withering influence of old mainlanders.² This development has seriously challenged the Chinese awareness of the ROC. Hence, the unfolding of a crisis that focuses on the *national* culture (Wong and Sun, 1998). Taiwan's separatism is a crisis of national culture because it directly interrogates or even negates the national identity of the ROC during the search for and reconstruction of a new national identity (Wu, 1993:27-52). Nevertheless, separatism in Taiwan is not entirely equivalent to Taiwanese nationalism, which has a specific political-cultural meaning (Hobsbawm, 1990; Smith, 1986),³ as most of the Taiwan people still regard themselves as ethnically Chinese in a broad sense. Even many of the Taiwan independence advocates do not deny that most of the Taiwan people are Chinese in an anthropological sense. What they are against is the political interpretation of the anthropologically Chinese. They generally believe that "people who share the same language and ethnicity do not necessarily mean that they must belong to the same country" (*Taidu Jikan*, 1982:113-14). To a large extent, the current national identity problem in Taiwan is caused by the completion of the state-building process brought about by democratization. When the legitimacy of the ROC state retreats from the whole Chinese population to only the people of Taiwan, the huge tension between the Chinese nation and the new ROC state in the modern concept of nation-state is obviously unavoidable. In addition, given the enormous asymmetry between the ROC on Taiwan and the PRC on the mainland in terms of territory, population and international status, the tension tends to be further intensified because the feeling of being fatally small and weak on the part of Taiwan will easily make any ideal of reunification look impractical and costly (Cheng, 1995:1-5; Wong, 1995:4.21-4.22).

Yet, separatism is not necessarily identical with the search for an independent Taiwan, though to make Taiwan an independent

country may be a choice for separatism. For example, Taiwan can preserve its *de facto* separation from mainland China, without claiming a *de jure* independence. In general, Taiwan's separatism embodies at least six forms of ideas or feelings, which are interrelated and are drawn by the separatists, with different degrees and emphases, to support their identities and actions. Firstly, the existing territory of Taiwan, especially the Taiwan island, is the place the Taiwan people to identify with in the meantime. Those people outside the territory should belong to other ethnic groups, though they may be Chinese in a broad sense. Secondly, though the people in Taiwan arrived in Taiwan at different times, they have formed their own ethnic group, having a common history, culture and destiny. Thirdly, Taiwan should maintain enough military forces to protect Taiwan and its people's freedom. Fourthly, the future of Taiwan, be it independent or unified with mainland China, should be decided by its citizens' free will and should not be dominated by the PRC or the international community. Fifthly, Taiwan should enjoy an international status corresponding with its economic power. Sixthly, no matter whether it is recognized diplomatically, Taiwan has its international personality different from the PRC's, and thus, like other countries, it should have the right to fully, equally and autonomously participate in international affairs. These six forms of ideas aside, according to Wong and Sun's Q methodological study, which combined both qualitative and quantitative research, there are at least five distinctive yet interrelated discourses on national identity in Taiwan: Chinese nationalism, "status quoism," Taiwan prioritism, Taiwan nationalism and confused identity. The most interesting discourse is Chinese nationalism. It embodies a tendency of separatism to a certain extent, emphasizing the independent sovereign status of the ROC on Taiwan *vis-à-vis* the PRC on the Chinese mainland (Wong and Sun, 1998:264-66).

The problem of separatism in Taiwan is not a simple product of cross-strait separation or directly provoked by democratic politics. It is instead traceable to the history of the 50 years of Japanese colonial rule and the subsequent KMT-mainlander domination, in

which a special kind of Taiwan-oriented awareness developed (Gold, 1986:32-46; Robinson, 1992; Chun, 1994). What the continuing cross-strait separation has done is to help deepen this Taiwan-oriented awareness and enrich its experience. Furthermore, the main function of democratic politics is that, on the one hand, it provides a space for the free discussion about separatism, and, on the other, its own institutions can accommodate different political choices. An example is the DPP's call for the building of a libertarian-civic state independent of mainland China. In the early 1990s, the DPP even included the use of referendum to determine Taiwan's future relationship with mainland China in its constitution, indirectly strengthening the libertarian foundation of the current separatist development (Wong, 1996:283). Moreover, even though officially the KMT still identifies itself with "China," it also increasingly emphasizes the Taiwan-oriented awareness, along with the rapid indigenization under democratization. It also allows open discussion about the issue of indigenization and makes relevant policies. In the authoritarian era, the discussion about this matter was either prohibited or fully controlled; there was little space for free discussion in society, not to mention free political choices or the encouragement by the ruling government. With the growth of cross-strait social and economic exchanges since the mid-1980s, the myths of overthrowing the CCP, of restoring the ROC on the mainland and of establishing a unified China under the KMT rule have all gone bankrupt. The CCP-controlled mainland China has become Taiwan's important trading partner (see next section for more details). It is no longer an evil opponent of Taiwan but a place for huge economic benefit, and the ROC on Taiwan also no longer represents the whole of China.

As an unfolding movement, Taiwan's separatism has attracted more and more people. According to the opinion polls conducted by the Center of Electoral Studies at the National Chengchi University in recent years, the supporters of an independent Taiwan (including "make Taiwan independent as soon as possible" and "maintain the *status quo* and then move towards an independent Taiwan") have been on the rise, from 14 per cent

in 1993 to 18.4 per cent in 1997, while the supporters of unification (including "unify with mainland China as soon as possible" and "maintain the *status quo* and then move towards unification") have been declining, from 34.7 per cent to 20.5 per cent. Meanwhile, the supporters of "maintain the *status quo* forever" and "maintain the *status quo* and decide Taiwan's future later" have also risen from 10.1 per cent and 22.0 per cent to 11.0 per cent and 38.8 per cent, respectively. Moreover, if we put together the supporters of "maintain the *status quo* forever," "maintain the *status quo* and decide Taiwan's future later," "maintain the *status quo* and then move towards an independent Taiwan," and "make Taiwan independent as soon as possible," all of whom are separatists to various degrees, the percentage is much higher, reaching 68.2 per cent in 1997 compared with 46.2 per cent in 1993. These figures forcefully show that the ideal of unification has been moving away from Taiwan (see Table 4).

Under the combined pressure of both democratization and separatism, Taipei's mainland and foreign policies based on the development of the libertarian-civic state tend to be more and more independent and Taiwan-oriented. Before democratic reform was introduced in the mid-1980s, the ruling KMT's mainland policy had been that the CCP on the mainland had been an insurgent regime and that the ROC on Taiwan had been the only legitimate representative of China. As such, the ROC could not develop any normalized relationship with the PRC; nor could it allow simultaneous or dual representation of the ROC and PRC in the international community. The only solution to the CCP-KMT conflict had been that the KMT retake mainland China under the ROC unitary state system (Wu, 1995:138). Such a policy has been subjected to more and more constraints derived from Taiwan's emerging democratic politics. As Andrew Nathan succinctly pointed out in 1990:

Political reform in Taiwan has changed the fundamental assumption on which China's Taiwan policy has hitherto been based that the KMT has the power single-handedly to negotiate the future of the island with the

Table 4 Taiwan People's Attitude towards Unification and Independence (%)

Time of survey conducted	Early unification	Maintain <i>status quo</i> and then move towards unification	Maintain <i>status quo</i> and decide Taiwan's future later	Maintain <i>status quo</i> forever	Maintain <i>status quo</i> and then move towards independence	Early independence	N.A.*
January 1993	7.3	27.4	22.0	10.1	8.3	5.7	19.3
January 1994	4.2	23.2	32.1	12.5	8.1	4.3	15.7
January 1995	3.6	23.1	33.5	10.7	10.4	3.5	15.0
January 1996	2.9	25.5	29.9	16.5	6.7	1.9	16.5
January 1997	2.4	18.1	38.8	11.0	13.8	4.6	11.2

* N.A. includes both don't know and no answer.

Source: Center of Electoral Studies, National Chengchi University.

CCP. Democratization has so complicated the internal politics of Taiwan that it is now impossible for any deal to be struck with the Mainland that does not command popular support in the island. Given the enormous risks that unification would pose for the people of Taiwan, this new political reality bodes ill for reunification on anything like the terms that have hitherto been offered by Peking (Nathan, 1990:153).

Andrew Nathan's observation was openly supported by the former DPP President Shi Ming-de, who admitted in 1994 that the KMT's views on national defence and foreign affairs had been converging with the DPP's (*Far Eastern Economic Review*, 23 June 1994:23). National defence and foreign affairs are the two principal areas in which a state demonstrates itself as a sovereign actor. When the KMT and DPP converge on their views of these matters, the convergence to a large extent signals the formation of a broad consensus between the ruling and the opposition parties on the role of the new Taiwan state. Many scholars believe that under the pressure of democratic politics, the KMT does not but have to absorb the DPP's political ideas and policies so as to keep its ruling position. Hence, the inevitability of the KMT's tendency to share views with the DPP over the status of Taiwan (Tsai et al., 1993). Yet, it should be noted that the DPP has also been gradually giving up its radical call for an independent Taiwan and has begun to actively formulate the kind of cross-strait policies that the Taiwan people can feel comfortable and acceptable. For example, during the presidential election in March 1996, the DPP leaders repeatedly explicated that what they meant by an independent Taiwan was simply the ROC on Taiwan as an independent sovereign state, and that even if the DPP candidate won the presidency, there was no need for the DPP to hastily change the ROC's name (*United Daily News*, 10 March 1996:1). Such an explication more or less represents the DPP's gradual adjustment of its state policies (Kuo, 1998). Thus, if the KMT has been subjected to the influence of the DPP, the DPP has also been influenced by the KMT in the process of party interaction. Not only do the KMT and DPP mutually affect each other, the NP, which has been seen as most obses-

sive about unification with mainland China, has also tried to forge an alliance with the separatist DPP after the Legislative Yuan elections in 1995. Under such circumstances, for the first time, the unification-independence struggle has been marginalized in Taiwan. What has emerged instead in the centre of politics is the search for the ROC's autonomy and objective recognition in the international community, a consensus that is shared by all major political parties in Taiwan. It is under such trend of consensus building propelled by inter-party interaction that the ROC under the leadership of the KMT is able to pursue vigorously a kind of increasingly autonomous foreign policy based mainly upon the libertarian-civic state in Taiwan. If this point can be understood, it is then not difficult to see that the change in Taiwan's foreign policy in recent years, particularly from the "one China" policy to the introduction of "practical diplomacy" in 1988 and, finally, to openly pursuing Taiwan's return to the international community under the principle of "divided nation," has largely been a reflection of the transformation of the ROC on Taiwan into a libertarian-civic state, which has its own goals to achieve as a sovereign actor. As a matter of fact, the DPP's winning close to one-third of the seats in the 1992 Legislative Yuan elections and then beginning to exert significant influence on Taiwan's central politics obviously had a profound causal relationship in time with the crystallization of Taipei's foreign policy into the "divided nation" model.

Changes in Cross-Strait Relations

Taiwan's foreign policy change is also deeply rooted in the structural changes in cross-strait relations. For over three decades since 1949, the relations between the two sides across the Taiwan Strait had been characterized by political confrontation and economic segregation in the wake of the unsettled Chinese civil war between the CCP and the KMT and in the global context of the prolonged Cold War (Hsiao, 1996:28). However, the adoption of a more open policy by Beijing after 1978, the rise of regionalism in

the global economy and the ending of the Cold War after the mid-1980s all generated tremendous pressures on the then existing cross-Strait relations, pushing both sides to continuously adjust their policies towards each other.

The first sign of change came from mainland China. In December 1978, the CCP held its third plenary session of its Eleventh Central Committee, in which it was announced that the CCP would shift its national development priority from class struggle to modernization under socialism. Correspondingly, Beijing readjusted its policies towards Taiwan in the light of the PRC-US normalization of diplomatic relations and its shifting focus on economic construction, the changes in international politics, and the rapid economic development and indigenization in Taiwan. On 1 January 1979, the Chinese National People's Congress (CNPC) announced the *Statement to the Compatriots in Taiwan*, making an appeal for cross-Strait peaceful reunification. The *Statement* particularly called for "earlier establishment of direct links of transportation and communication to facilitate the people of the two sides across the Strait to have direct contact, visits and tours, and exchange activities in the academic, cultural, sports and arts fields," and "to promote development in trade, mutual benefits and economic ties" (Guo, 1992:331). From then on, Beijing abandoned its former policy of "liberating Taiwan by military force" and, in its stead, has adopted "peaceful reunification" as its basic policy until now.

On 30 September 1979, Ye Jianying, Chairman of CNPC, issued a declaration entitled *A Further Statement on Taiwan's Return to the Mother Country and Implementing Peaceful Reunification* which details Beijing's nine points of newly formulated policy measures towards Taiwan (commonly referred to as Ye's Nine-Point Statement). The nine points are as follows: (1) The CCP and the KMT should engage in a third round of cooperation between the two parties on an equal basis and start talks on the reunification of China to end the undesirable state of separation for the nation. Representatives of the two sides can make initial contacts to fully exchange the views of the two sides. (2) The people of the two

sides across the Strait should promote bilateral communication, family visits, trade and understanding. The two sides should take the initiative at creating conditions and eventually reaching related agreements to facilitate communication, trade, business, air and sea links, visits and tours, and academic, cultural and sports exchanges. (3) Upon reunification, Taiwan will become a Special Administrative Region which will enjoy a high degree of autonomy and retain its military forces. The central government will not interfere with Taiwan's local affairs. (4) The existing social and economic systems of Taiwan will not be changed, nor its way of living. Taiwan will keep its existing economic and cultural ties with foreign countries. Private ownership of property, housing, land and enterprise, legal inheritance and foreign investment will be protected by law. (5) Taiwan authorities and representatives of different sectors can become heads of national political institutions so as to participate in the administration of the country. (6) When Taiwan is faced with financial difficulty, the central government may consider providing assistance in accordance with the concerned conditions. (7) Taiwan people from all ethnic groups and sectors seeking permanent residency in the mainland are welcome to do so. They will be given proper and good treatment with no discrimination. No restriction on their freedom of entering and leaving the country will be imposed. (8) Entrepreneurs in Taiwan are encouraged to invest and to set up businesses in the mainland and their legal rights and profits will be guaranteed. (9) Every Chinese bears the obligation for national reunification. Taiwan people from all ethnic groups and sectors are welcome to make suggestions and discuss the issue through any channel and by any means (Guo, 1992:412-14).

Ye's Nine-Point Statement conveys two major themes. One is to set forth the ideas of "peaceful reunification" and "one country, two systems" as the basic principles and objectives of Beijing's policies towards Taiwan. Under these basic principles, Beijing for the first time proposes to Taiwan the notions of "Special Administrative Region," "high degree of autonomy" and "retention of military forces" and promises no change in the socioeconomic

system, foreign relations and private ownership in Taiwan after reunification. The other is to emphasize the establishment of direct links of communication, trade and transportation and the development of economic cooperation and exchange activities as a strategic means of achieving its policy objectives (Zhang, 1996:249).

Soon after the announcement of Ye's Nine-Point Statement, the issue of Hong Kong emerged. After a long process of continued negotiations, in 1984 Beijing and London eventually reached an agreement on the return of Hong Kong to mainland China and officially signed the *Sino-British Joint Declaration*. In the *Joint Declaration*, Beijing offered to solve the problem of Hong Kong's return to mainland China on the basis of the principle of "one country, two systems," a concept that had basically originated from Ye's Nine-Point Statement. Since then, the "one country, two systems" principle has become the cornerstone for Beijing's policy on reunification across the Strait. Yet, from Beijing's perspective, its treatment of Taiwan is even more lenient than its treatment of Hong Kong. For example, it proclaims that Taiwan can keep its military forces, which is absent in its dealing with Hong Kong. On 15 October of the same year, Beijing published an article in its official weekly, *Liaowang*, entitled "A Design of Great Significance: Cadre Deng Xiaoping Talking on 'One Country, Two Systems'," offering a more systematic elaboration of the notion. In the article, Beijing pronounced its intention to and insistence on using the "one country, two systems" principle for the peaceful reunification of Taiwan with the mainland (Editorial Board of *Liaowang Weekly*, 1988:20-24).

Adopting the principle of "one country, two systems" for cross-Strait peaceful reunification, Beijing has taken initiatives since 1979 to push for the establishment of direct communication, trade and transportation and for promoting economic cooperation and exchange activities. Between 1979 and 1981, stations were set up in the provinces of Zhejiang, Fujian and Guangdong to assist Taiwanese fishermen caught up in storms and forced to drift to the mainland. These stations helped the Taiwanese to mend their

boats and nets, replenish their supply of food and water and other materials. In 1979, more objective, less-ideologically-toned reports of Taiwan's development of its economy, culture, science and technology began to appear in newspapers and magazines and on radio and television in the mainland. Also in 1979, Beijing specifically accorded Fujian a status enjoying "special policies of flexibility and openness" so that the latter could have greater policy space to develop close economic and civilian relations with Taiwan and the outside world. The move was based upon the consideration of Fujian's geographic proximity and close cultural and historical ties with Taiwan, and the principal objective was to attract investment from Taiwan and to pave the road for better development of economic and trade relations across the Strait.

At the end of 1979, Xiamen became one of the four "Special Economic Zones" (SEZs) in China, the other three being Guangdong's Shenzhen, Shantou and Zhuhai. For Beijing, the establishment of Xiamen as an SEZ again reflected its strategic thinking. It intended to change the city from a former military stronghold against Taiwan into a gateway to attract Taiwanese capital, to re-establish economic and trade relations and civilian exchanges across the Strait and to facilitate the process of peaceful reunification in the long run (Zhang, 1996:193-205). Beijing's positioning of the development of cross-Strait economic and civilian relations as its strategic foundation for the mainland's peaceful reunification with Taiwan was made clear in the *Temporary Provisions on the Development of Trade Relations with Taiwan* promulgated in May 1979. The first Article of the *Provisions* openly stated that "trade with Taiwan is a unique form of trading in the transitional process of Taiwan's reunification with Mainland China. Its purpose is to develop and strengthen economic ties between the Mainland area and the Taiwan area, to win and consolidate the support of the industrial-business people in Taiwan, and to create the conditions for the reunification of our mother country" (Chen, 1994:49).

Beijing's policy formulation of developing economic and trade relations with Taiwan in the 1980s was thus to serve the

purpose of national reunification. Under such premises, Beijing offered preferential conditions and measures to encourage industrial-business people in Taiwan to establish economic and trade links with the mainland and took initiatives to push for direct links of communication, trade and transportation between the two sides across the Strait. As stated above Ye's Nine-Point Statement made an appeal to Taiwan's industrial-business circles to invest in the mainland and set up businesses there, promising to safeguard their legal rights and economic returns. In 1983, Beijing announced for the first time its *Special Provisions on Investment in the Special Economic Zones by the Taiwanese Compatriots*, which offered favourable terms to attract Taiwanese investors to the SEZs. Later in July 1988, Beijing promulgated the *Provisions on Encouraging the Taiwanese Compatriots to Invest in the Mainland*, which offered further extensive favourable terms and legal protection to Taiwanese entrepreneurs doing business in the mainland. Beijing also made other efforts to attract more investment from Taiwan, such as appealing to national sentiments, enhancing its publicity work, providing political status for Taiwanese investors and improving the mainland's investment environment (Chen, 1994:51). In the 1990s, Beijing published two more policy documents: *The Notice of the State Council on Enhancing the Work on Economic and Trade Relations with Taiwan* and *The Notice of the Chinese Communist Party Central Committee on Further Enhancing the Work of Taiwan-related Activities*. The two documents reiterated the emphasis on promoting further development of economic and trade relations with Taiwan, on improving the management of trade with Taiwan, on attracting more investment from Taiwan, particularly the Taiwanese tycoons, and on pushing for direct links of communication, trade and transportation with Taiwan. Such objectives were basically a continuation of the policy of the 1980s, reflecting that they remained the key components of Beijing's policy towards Taiwan (Chen, 1994:52).

Faced with Beijing's proposals and initiatives, Taipei's initial reaction was very passive. It continued to insist that the ROC on Taiwan was the sole legitimate government representing the

whole of China and adopted a non-reconciliatory stance on the issue of national reunification. In particular, it reacted to Beijing's proposals and initiatives with a policy commonly referred to as the "Three Nos": No contact, No negotiation and No compromise (Zhang, 1996:227). Taipei believed that, even though Beijing had shifted its emphasis onto peaceful reunification, the ultimate goal of the "one country, two systems" policy was the annexation of the ROC by the PRC, or, in Taipei's rhetoric, the destruction of a free society by a totalitarian regime. Taipei also believed that the push for developing economic and trade ties and civilian exchanges across the Strait was a means to serve Beijing's end of devouring Taiwan. Therefore, Taiwan must denounce any such move and continue to insist that the ROC on Taiwan was the sole legitimate representative of China (Wong, 1997). However, owing to the rapid economic development in the mainland and the growing pressure for relaxing trade and civilian exchanges from within Taiwan, Taipei was forced to gradually lift its ban on visits, tours and investment in the mainland, soon after the martial law was ended in 1987. Since then, waves of mainland investments have been developed by the Taiwan commercial sector, showing no sign of abating (see Table 1). Driven by such powerful economic forces, the two long-segregated economies across the Strait have begun to experience increasingly close exchange, mutual interdependence and rapid integration, contributing to the emergence of a kind of "soft regionalism" commonly known as "greater China" (Shambaugh, 1995).

As discussed in the earlier section, Taiwan's continuous capital outflow after the mid-1980s was a result of a number of factors internal and external to Taiwan. These factors aside, that many Taiwanese investors eventually chose the mainland rather than elsewhere depended upon some other specific factors. The first specific factor is the mainland's moving towards economic reform and opening and the relations across the Taiwan Strait becoming more relaxed. Since Beijing's adoption of the economic reform and open policy, the mainland's economy has become increasingly powerful and its investment environment has continuously im-

proved, making it an attractive place for foreign investment. More importantly, as stated above, Beijing has offered extensive favourable policies and measures to attract Taiwanese investors, a new situation that has greatly boosted their interests in investing in the mainland. As to Taiwanese investment in the mainland, Taipei had initially reacted with a policy prohibiting only direct investment but leaving ungoverned indirect investment. However, with the increase and expansion of such investment activities, Taipei declared for the first time its *Regulations on Managing Indirect Investment or Technological Cooperation in the Mainland Area*, taking stock of the expanding Taiwanese investment in the mainland and further relaxing its grip on indirect investment. Since then, Taipei has changed its passive role of prohibition on direct investment and no government on indirect investment into a more active one of "limiting direct investment and regulating indirect investment." In February 1993, Taiwan's Executive Yuan ratified the *Regulations on Licensing Investment or Technological Cooperation in the Mainland Area*, giving further reign over mainland investment by allowing direct investment in mainland China from a third place under a ceiling of one million US dollars. This was quite an encouragement for small- and medium-size enterprises. In January 1995, Taiwan's Executive Yuan took another big step and declared that the port of Kaohsiung would soon become a centre for cross-Strait transshipping. Several months later, it formally passed the *Regulations on the Setting up and Operation of the Transshipment Center*, stating that foreign or expedient vessels (i.e., vessels that were registered in a foreign country and carrying a foreign flag), under the principle of "no custom clearing and no entry in Taiwan," could use the Kaohsiung port as a transshipment centre and operate *en route* across the Strait to and from a third place outside Taiwan and the mainland. The move was to alleviate pressures from Beijing and from inside Taiwan for direct sea link (Republic of China, Mainland Affairs Council, 1997:198-99). On the other hand, with the further deepening of economic reform in the mainland and Beijing's continued insistence on its stand for peaceful reunification, coupled with Taiwan's rapid de-

mocratization unfolding since the mid-1980s, Taipei shifted its non-reconciliatory policy towards the mainland to one of peaceful coexistence (more discussion on this point will be given later). Such policy change in turn provided further momentum for the Taiwanese entrepreneurs to invest in the mainland (Tsai, 1995:264-65).

The second specific factor lies, of course, in the same blood ties, language and culture as well as in the geographic proximity the people of the two sides across the Strait share. The people in Taiwan and the mainland mainly belong to the same nation, speaking the same language and sharing the same historical and cultural heritage, and they are adjacent to each other geographically. These factors reduce Taiwanese entrepreneurs' potential costs for cultural-psychological adjustment and transportation for investing in mainland China as compared with other countries. Hence, as the tensions across the Strait subsided, the mainland naturally has become one of the most attractive investment areas to Taiwanese capital (Tsai, 1995:266; Sung, 1992:7).

Another point of attraction of the mainland for the Taiwanese investors is its market. First of all, as a country of vast territory and with the world's largest population, the mainland naturally appears to be an attractive market that cannot be easily ignored by investors from any country. What is more is its remarkable economic accomplishments made in a decade or so of rapid development under the economic reform and open-door policy. Such accomplishments have attracted business people from all over the world to tap into the potentiality of this huge market. The Taiwanese investors are no exception; they also want to have a piece of the pie (Tsai, 1995:267).

Due to the factors explained above, soon after Taipei had gradually relaxed its restrictions set on the mainland, economic and civilian exchanges across the Strait accelerated and multiplied. The nature of the transactions became increasingly more meaningful. According to Taiwan's official statistics, cross-Strait trade amounted to only US\$553.3 million in 1984, but in 1996, it had risen phenomenally to US\$23,787.1 million (see Table 5). Be-

Table 5 Cross-Strait Trade, 1981-1997

(US\$1 million)			
Year	Taiwan to mainland	Mainland to Taiwan	Total
1981	384.8	75.2	460.0
1982	194.5	84.0	278.5
1983	201.4	89.9	291.3
1984	425.5	127.8	553.3
1985	986.8	115.9	1,102.7
1986	811.3	144.2	955.5
1987	1,226.5	288.9	1,515.4
1988	2,242.2	478.7	2,720.9
1989	3,331.9	586.9	3,918.8
1990	4,394.6	765.4	5,160.0
1991	7,493.5	1,125.9	8,619.4
1992	10,547.6	1,119.0	11,666.6
1993	13,993.1	1,103.6	15,096.7
1994	16,022.5	1,858.7	17,881.2
1995	19,433.8	3,091.4	22,525.2
1996	20,727.3	3,059.8	23,787.1
1997 (January to June)	10,404.7	1,800.9	12,205.6

Source: Republic of China, Executive Yuan, Mainland Affairs Council, (1997:371).

sides, although Taiwan still prohibits mainland investment in Taiwan and direct Taiwan investment in the mainland, mainland authorities encourage Taiwan investments in the mainland by giving them preferential treatments. As a result, indirect investments through a third place (e.g., Hong Kong) in the mainland by Taiwan investors had grown steadily since the late 1980s, as pointed out before, cumulating to over US\$10 billion by the end of 1997 (see Table 1).⁴ Moreover, by 31 July 1997, there had been

Table 6 Cross-Strait Visits, 1988-1997

(trip)			
Year	Visitors from Taiwan to mainland	Visitors from mainland to Taiwan	Total
1988	430,766	385	431,151
1989	530,534	4,849	535,383
1990	925,768	7,523	933,291
1991	995,714	11,116	1,006,830
1992	1,511,990	13,177	1,525,167
1993	1,541,628	18,445	1,560,073
1994	1,150,000	23,654	1,173,654
1995	1,265,000	42,295	1,307,295
1996	1,526,000	56,545	1,582,545
1997 (January to July)	1,108,000	42,379	1,150,379
Total	10,985,400	220,368	11,205,768

Source: Republic of China, Executive Yuan, Mainland Affairs Council (1997:367, 369).

10,985,400 trips to the mainland made by people of Taiwan and 220,368 reciprocal trips made by mainlanders (see Table 6). Non-governmental cultural and academic exchanges between the two sides have also become increasingly frequent in recent years.

Nevertheless, so far as political contact is concerned, since 1979 the two sides have not made any significant progress towards convergence as in the economic sphere. Instead, the conflict has moved on from the competition over the sovereignty of China (which side represents the whole of China) to the competition over split sovereignty (whether the ROC on Taiwan can be in possession of a part of the sovereignty over the part of China not ruled by the PRC on the mainland). This shift has come mainly from the corresponding dual shift in the internal political structure of Taiwan and in its way of understanding the existing polit-

ical relations across the Taiwan Strait, whereas on the part of Beijing there has been little change in its Taiwan policy since the early 1980s, when the "one country, two systems" policy was set.

To cope with the emerging democratic reality driven by popular support, as well as the rapid unfolding of the cross-Strait economic and civilian exchanges, the KMT has abandoned its past, dogmatic mainland and international policies and replaced them with a more active approach. The most distinctive feature of this new approach is to abandon the former ideology of claiming representation of the whole of China by handling the existing cross-Strait and international problems more flexibly and pragmatically. More specifically, Taipei no longer wants to continue the zero-sum struggle against Beijing anymore; it attempts to engage in a peaceful coexistence with Beijing and reverse the trend of international isolation brought about by de-recognition of the ROC by the UN in 1971. To achieve this objective, it has launched a two-fold strategy: one towards the mainland and the other towards the international community.

Taipei's new mainland policy is to urge the PRC to normalize cross-Strait relations by making the PRC recognize Taiwan as a political equal. According to Taipei's agenda, it must first normalize the cross-Strait separation and, then, on the basis of normalization negotiate with Beijing over the unification matter. Towards this end, Taipei unilaterally went ahead and relaxed its historically antagonistic relationship with Beijing. In May 1989, Shirley Kuo, Taiwan's Minister of Finance, led a delegation to attend the annual meeting of the Asian Development Bank in Beijing, the first time ever in 40 years that high-ranking KMT government officials made their appearance on the mainland. In October 1990, President Lee set up the National Unification Council to delineate Taiwan's new policies towards China. In January 1991, the cabinet-level Mainland Affairs Council (MAC) was established, and in February, the semi-official Straits Exchange Foundation (SEF) was founded under the MAC to carry out "unofficial" contacts with the PRC authorities and deal with "non-governmental" matters. Since 1993, the SEF had met with its counterpart, the Association

for Relations Across the Taiwan Straits (ARATS), rather regularly to resolve questions arising from bilateral exchanges, until the cross-Strait crisis emerged in mid-1995.

In February 1991, the National Unification Council announced its *Guidelines for National Unification* in which short-, intermediate- and long-term policies towards mainland China were clearly spelt out. As pointed out earlier, the *Guidelines* particularly underlined that equal recognition was the most important objective of the short-term policy, without which any transition to the intermediate term would be impossible. In May 1991, President Lee officially abolished the *Temporary Provisions Effective During the Period of Communist Rebellion* and, in effect, announced that the CCP was no longer a "bandit" organization and the PRC no longer an "illegitimate" government.

The above measures and actions reflect the KMT's rapid policy adjustment in response to Taiwan's changing political reality and the rapidly growing cross-Strait economic and civilian exchanges. The aim of the adjustment is to develop a peaceful coexistence with Beijing, while unification is not so urgent and therefore the negotiation of it should wait until the peaceful coexistence is achieved. In September 1992, the MAC finally issued the long-awaited report on "Issues and Prospects of Direct Transportation Links across the Taiwan Strait." The report stated that the ROC was willing to open direct air and sea links with mainland China, on the condition that the CCP renounce the threat of force against Taiwan and recognize the ROC as an equal political entity. The opening of direct transportation links had been repeatedly proposed by the PRC since 1979. This report indicated Taipei's baseline of reunification, which was equal recognition.

At the same time, while working hard to make Beijing negotiate on the unification issue on equal terms, Taipei was well aware of the importance of military might in determining the game (Lasater, 1989). Hence, although the annual defence budget had steadily decreased since the 1950s, it still amounted to around 25 per cent of the total government budget from 1991 to 1995 (Republic of China, Ministry of National Defense, 1996). Apart from the

regular budget, there was also a special budget line called "Procurement of High Performance Fighters." In 1993 and 1994, this budget amounted to 4.38 per cent and 3.75 per cent of the total government budget, respectively (Republic of China, Ministry of National Defense, 1992:126). With this huge military investment and help from the American government, Taiwan successfully updated its military defence system. As mentioned earlier, in the fall of 1992, the American and French governments even agreed to sell 150 F-16 aircraft and 60 French Mirage 2000-5 fighters to Taiwan, respectively. These two deals greatly strengthened Taiwan's defence capability, thereby enhancing Taipei's ability to withstand the military pressure from Beijing amid its search for more national autonomy.

Besides, in order to increase the people's confidence in the military, Taipei also stepped up the nationalization and depoliticization of the military, including cutting greatly the power of the Garrison Command headquarters and passing the National Security Bill to institutionalize the supervision and management of the military (Feigenbaum, 1995:19). In 1992, the KMT government also published for the first time *1991-1992 National Defense Report*, ROC. The motive behind the publication was, first, to channel the pressure from the DPP⁵ or to succumb to the democratization by increasing the transparency of the military and, secondly, to make known Taipei's new defence policy to its people as well as to the PRC. The report contained at least four key points about Taipei's current defence policy: (1) Taiwan had abandoned the use of military means to achieve unification. (2) The locus of Taiwan's defence policy was protection, not aggression. (3) Taiwan would strengthen its defence capability in accordance with the PRC's military development. (4) The main objective of Taiwan's military development was to build a modernized, self-sufficient security system; it would focus on quality instead of quantity (Republic of China, Ministry of National Defense, 1992). The *National Defense Report* is a biannual. It has been published four times already, and the views expressed are basically identical with those of the first publication.

While seeking equal recognition from the PRC and strengthening its defence capability, Taipei also launched the so-called "pragmatic diplomacy" to break its current international isolation, as well as to define the cross-Straits relations through participation in the international community. In other words, the "pragmatic diplomacy" carried an important policy objective of leveraging cross-Straits relations. Taipei's calculation was that if it could obtain diplomatic recognition from the international community, it would be difficult for Beijing to negate the political existence of Taipei. Moreover, no matter how small the chance of gaining international recognition, the very action of "pragmatic diplomacy" itself should help internationalize the Taiwan question. In 1993, Taipei openly expressed its interest in re-entering the UN. This idea had been first put forward by the DPP in 1988. At that time, the KMT had refused to entertain the proposal because it had been considered to be unrealistic and had conflicted with the one-China policy. After five years of rapid democratization, the KMT radically changed its position on the question, and this to a large extent reflected the decisive impact of party politics on the formation of state policies. It also signified the emergence of a popular state in Taiwan rallying for its own identity and autonomy. In June 1993, President Lee endorsed the idea by referring to the models of Germany and Korea, arguing that the ROC's changed position was not inconsistent with the one-China policy. At about the same time, Taipei's Foreign Ministry successfully mobilized seven Latin American states to sponsor a resolution admitting Taiwan in the name of the ROC on Taiwan into the UN as one of the two independent states in a divided nation. However, the resolution was vetoed at the UN General Committee before reaching the UN General Assembly. Since then, the rally for returning to the UN has become ritualized as one of Taipei's most important annual internationalizing activities. Though the effort has not made any significant breakthrough, it has never stopped.

Apart from the bid to re-enter the UN, Taipei also actively pursues the so-called "vacation diplomacy" as part of the larger "pragmatic diplomacy" by sending ROC leaders to visit countries

that have no diplomatic ties with Taiwan. For Taipei, the visits, supported by Taiwan's rising economic power, not only have the purpose of enhancing Taiwan's international presence, they, as said earlier, also aim to direct part of the Taiwanese investment from mainland China to Southeast Asia and other areas, strengthening Taiwan's economic potentials in those regions and lessening the political risks of Taiwan's undue heavy economic dependency upon mainland China. In December 1993, Premier Lien Chan spent his "private vacation" in Singapore and met a number of Singaporean officials. Then, in February 1994, President Lee took a bolder step visiting Thailand, Indonesia and the Philippines. During the visits, Lee signed a number of trade and investment agreements with the hosting countries. In May 1994, Lee extended his international tour to visit Nicaragua, Costa Rica, South Africa and Swaziland — four of the then 29 countries that officially recognized the ROC on Taiwan. Lee met with more than 20 of the foreign leaders who attended Mandela's inauguration, most of them from countries with no formal ties to Taipei (*Far Eastern Economic Review*, 9 June 1994:18). In April 1995, Lee directed his "vacation diplomacy" to the Middle East, visiting the United Arab Emirates and Jordan. Two months later, he even visited the US.⁶

Taipei's new national policy is systematically explained in its official *White Paper on Relations with the Mainland* issued on 5 July 1994, as well as in the six-point proposal regarding unification made by President Lee at the National Unification Council on 8 April 1995. Both documents conclude the major current views on unification and foreign relations Taipei developed and articulated in recent years. On the whole, the *White Paper* contains seven points: (1) The present separation of China across the Strait is a result of the establishment of the PRC in October 1949 and the subsequent retreat of the ROC government from Nanjing via Guangzhou to Taipei. Since then, the two governments have maintained separate rule over the two sides of the Taiwan Strait. (2) The existence of a divided China is not simply a power struggle between the KMT and the CCP; it has been heavily shaped by

international politics and external ideological domination, both of which eventually gave rise to the confrontation between a Nationalist China and a Communist China. (3) Taiwan has relinquished the use of force as a means of reunification. (4) The model of "one China, two equal political entities," not "one country, two systems," should be employed to resolve the present ROC-PRC conflict. The ROC-PRC relations are neither international nor purely internal to a sovereign nation. (5) The model of "one country, two systems" proposed by the PRC does not work, because "one country" means annexation of the ROC by the PRC and "two systems" implies subjecting Taiwan to the PRC's arbitrary determination. (6) ROC-PRC relations should be based upon the principles of reason, peace, equality and reciprocity. (7) If the PRC moves to practise democracy, the people of Taiwan will support unification rather than separation. Conversely, if Beijing continues to use the threat of force and to isolate Taiwan internationally, it will only provoke separatism in Taiwan (*United Daily News*, 6 July 1994:2).

Lee's six-point proposal includes: (1) Taiwan and mainland China are under the rule of two separate political entities, which constitute the current divided rule across the Strait. Both entities therefore should relate upon the reality of a divided nation to search for a viable method for reunification. (2) Both sides should use the Chinese culture as a base to strengthen cross-Strait exchanges in general and to promote information, academic, technological and sports cooperation in particular. (3) Both sides should deepen economic and trade exchanges and develop a mutually beneficial, complementary relationship. (4) Both sides should have the equal rights to join international organizations, and their leaders should meet in international arenas, so as to lessen political confrontation and promote a harmonious atmosphere for exchange. (5) Both sides should insist on solving their conflict through peaceful means. (6) Both sides should work together to maintain the prosperity and to promote democracy in Hong Kong and Macau (*United Daily News*, 9 April 1995:2).

Putting the viewpoints of the *White Paper* and Lee's six-point proposal together, it is obvious that Taipei's current national pol-

icy is that: the existing China is divided; if both sides want reunification, they must return to the reality of separation and conduct peaceful negotiations on equal terms. Military and international pressure will push the people of Taiwan to support separatism. Under this policy baseline, it is natural for Taipei to reject reunification through "one country, two systems." Also natural is to rally for equal recognition in cross-Strait political relations and for equal participation of Taiwan as a sovereign state in the international community. In other words, what Taipei is currently concerned about is the objective sovereign status of Taiwan before unification with the mainland. When Taipei stresses that the ROC on Taiwan is a sovereign state and that it can coexist with the PRC on the mainland in the international community on equal terms, the logical conclusion is undoubtedly that the Chinese sovereignty can be split and separately shared across the Strait. Taipei even believes that the normalization and peaceful reunification of Taiwan and mainland China must take place on the foundation of the progressive process from "sovereignty split" to "sovereignty unification" (Shih, 1993:154-60). On the other hand, Taipei also emphasizes the need to deepen cross-Strait economic and cultural exchanges and to maintain regular cross-Strait communication, partly because of practical interests and partly because of the desire to soothe the cross-Strait political tension arising from its campaign for dual representation in the international community. Nevertheless, Taipei is still unwilling to develop direct transportation links with the mainland due to political and security considerations.

Taipei's new national policy has not changed much since 1993. Though between July 1995 and March 1996 Taipei was seriously threatened by Beijing verbally and through repeated military exercises near Taiwan, President Lee reiterated in his presidential inauguration on 20 May 1996 that Taipei would continue to pursue the two-fold national policy of equal recognition and "pragmatic diplomacy." Nonetheless, in order to somehow lower the existing cross-Strait tension, Lee did indicate some conciliatory gestures by saying that Taipei was willing to negotiate

with Beijing to end the cross-Strait hostility and that he was willing to visit the mainland (*United Daily News*, 29 May 1996:2). All in all, to date, it appears that Taipei has still firmly held that "one China is only an ideal" and Taiwan's current position is that "there are two Chinas at the present stage and Taiwan is moving towards one China as its ultimate goal."⁷ As there are two Chinas before unification, Taiwan and the mainland should be equal and have the same sovereign status and rights to participate in the international community.

All the time, Beijing regards the ROC on Taiwan as a local regime only, which has not yet been eliminated or incorporated. The PRC instead has successfully inherited the sovereignty over the whole of China since 1949. It is the only legitimate representative of China, and Taiwan does not have any sovereign status. As such, it is irrelevant to speak of sovereignty split or the question of Taiwan's return to the UN as a split sovereign state. Upon this understanding, while cross-Strait relations have gradually calmed down and turned positive since the early 1980s, Beijing has laid out "one country, two systems" as the proper model for unification with Taiwan. This unification model attempts to deny Taiwan having any political status equal to mainland China and insist on a vertical unitary state structure in which Beijing is the central government, while Taiwan is a local regime with a high degree of autonomy (Weng, 1986:351).

Obviously, Taipei's new national policy has been running against Beijing's principles of one China and "one country, two systems" in recent years. More importantly, Beijing believes that the motive behind Taipei's new national policy, including its insistence on no direct transportation links with the mainland, its "pragmatic diplomacy" and its rally for equal recognition, is not to promote unification but to objectify and eternalize the cross-Strait separation. Obstructing direct transportation links is to discourage the development of the positive forces of unification; rallying for equal recognition and launching the "pragmatic diplomacy" are to split China peacefully and, therefore, to pursue Taiwan's independence in a hidden form. From Beijing's perspec-

tive, once it accepts Taipei's theory of equal recognition and sovereignty split, Taiwan will become a truly independent sovereign state, while unification will lose its necessity. If this happens, there will be no difference between the ROC on Taiwan and an independent Taiwan, not to mention the huge negative impact the acceptance might have on Chinese national integration.⁸

To counter, apart from carrying out real actions to isolate Taiwan internationally and insisting not to give up the threat of force, Beijing issued the *White Paper on the Question of Taiwan and Chinese Unification* on 31 August 1993, systematically criticizing Taipei's policy changes in recent years. The *White Paper* comprises four major points: (1) Since any sovereign state is entitled to use any means it deems necessary, including military ones, to uphold its sovereignty and territorial integrity, Beijing will never give up the use of force in the pursuit of reunification as demanded by Taipei. (2) As Taiwan is part of China and has no independent sovereignty, Beijing strongly opposes Taipei's bid to return to the UN in any form, including the German and Korean models. The question of Taiwan is purely an internal affair of China, which is different from the questions of Germany and Korea under international agreements after World War II. The international community — especially the US — should not attempt to interfere in China's reunification without facing serious political and other consequences. (3) Besides UN organizations, Taipei is ineligible for membership in other categories of IGOs without Beijing's prior approval. (4) The idea of "one country, two systems" is the paramount principle of cross-strait peaceful unification. The central government is in Beijing. Under the one-China principle, mainland China's socialism and Taiwan's capitalism will coexist and develop together. Taiwan will become a special administrative region and enjoy a high degree of autonomy (People's Republic of China, State Council, Taiwan Affairs Office and Information Office, 1997:74-113).

On 30 January 1995, the PRC President, Jiang Zemin, further concluded an eight-point proposal on Beijing's current position on unification with Taiwan. The eight points are as follows. (1)

The one-China principle is the basis and prerequisite for the realization of peaceful unification. Beijing thus strongly opposes such theories as "Taiwan's independence," "split sovereignty and divided rule" and "transitional stage of two Chinas." (2) Beijing does not forbid Taiwan to develop civilian, economic and cultural relations with foreign countries, but it disallows Taiwan the right to conduct such activities as to "expand international survival space" with the aim to promote "two Chinas" and "one China, one Taiwan." (3) Both Beijing and Taipei should enter negotiation and reach a peace agreement to end their hostility under the one-China principle. (4) Beijing will not promise to abandon the use of force in order to prevent Taiwan's independence and foreign interference in the unification of China. (5) Both sides should step up their direct links and negotiate a civilian agreement to protect the rights and interests of Taiwan's investments in mainland China on the basis of mutual benefit. (6) Both sides should use Chinese culture as a major foundation for their peaceful unification. (7) Beijing welcomes the political parties and groups in Taiwan to constructively promote and discuss the development of cross-strait relations. (8) Beijing welcomes Taiwan's leaders to visit the mainland in an appropriate capacity; mainland China's leaders are also willing to visit Taiwan by invitation (*Wen Wei Po* (Hong Kong), 31 January 1995:1).

Both the *White Paper* and the eight-point proposal reiterate Beijing's opposition to Taipei's new policy of equal recognition and "pragmatic diplomacy," fearing that it will make the cross-strait split an objective fact. They also emphasize the PRC's appropriateness of using military force as a sovereign state to solve the country's internal problems when necessary. Yet, peculiarly the eight-point proposal does not mention the central status of Beijing nor the model of "one country, two systems" that Beijing used to emphasize in the past, and this seems to leave some room for Taipei to manoeuvre. Moreover, other points of the proposal, such as Beijing's willingness to negotiate with Taipei to end their hostility and sign a civilian agreement to protect Taiwanese business people's investments in mainland China and its welcoming of

both sides' leaders to exchange visits, also reflect Beijing's goodwill to make a *rapprochement*. Since Beijing has had a very high expectation from its show of goodwill, it believes that Taipei should reciprocate actively (Ming, 1996:188). However, Beijing met with disappointment when, two months later, Lee's six-point proposal still insisted on divided rule and "pragmatic diplomacy," responding to Jiang's call for negotiation on ending the cross-Straits hostility by requesting Beijing to relinquish the use of force as a precondition. To further show its goodwill by action, Beijing held hidden its disappointment and, in early May 1995, endorsed Taipei's suggestion for the second highest level talk between the SEF and ARATS — Wang-Koo talk — to be held during July that year. Totally out of Beijing's expectation, the worst was yet to come when Lee suddenly visited the US providing him a high international profile in June 1995.⁹ From Beijing's perspective, Lee's American visit carried at least three implications. (1) It meant that Taipei was moving towards Taiwan independence instead of reunification with mainland China, while cross-Straits talks only served as a guise for it to carry out the objective more easily. (2) It signaled Washington's initial intention of openly deviating from the traditional one-China policy, leading to possibly "two Chinas," "one China, one Taiwan," or even Taiwan independence. (3) If other major powers, such as Germany and Japan, followed the American precedent, Beijing might face a diplomatic debacle (Ming, 1996:192). Hence, Beijing swiftly decided to intimidate Taipei through a series of military exercises off the Taiwan Strait. For Beijing, the military exercises at least served three purposes: to retaliate against Taipei's "return evil for goodwill"; to warn the US and the international community not to interfere in the Chinese unification; and to stop the menacing development of separatism in Taiwan (Wong, 1997:195). Especially with regard to the third purpose, it appears that Beijing attempted to use military pressure to bring Taiwan back from moving towards peaceful split to peaceful unification (Xin, 1996:450-54).

Conclusion and Discussion

The breaking-off of US-Taiwan diplomatic relations in 1979 was an important watershed in the development of Taipei's diplomacy. Under the general circumstances of international diplomatic isolation, the Taipei regime continuously readjusted its mainland policy in response to its growing economic strength and rapid transition to a democratic polity at home, on the one hand, and to the changing cross-Straits relations and the loosening-up and disintegration of the Cold-War system abroad, on the other. The readjustments have eventually led to a new stage of cross-Straits relations characterized by economic convergence and political divergence. Proceeding from its uncompromising adherence to the one-China policy before 1979, Taipei moved gradually towards a position of sticking to the policy only in inter-governmental and international activities, yet adopting a flexible "practical diplomacy" policy in NGOs. From there, it moved further towards the stand of "pragmatic diplomacy" of not avoiding dual diplomatic recognition of both sides of the Strait. Finally, it explicitly defined "pragmatic diplomacy" as an active pursuit of the ROC's sovereign status in the international community under the principle of "divided nation." In the course of Taipei's progressive readjustment of its foreign policy, the emergence of a libertarian-civic state in Taiwan obviously laid an important foundation; Taiwan's enormous and still fast growing economic strength provided a powerful means; and, the loosening and disintegration of the Cold-War setup offered a good opportunity. The congruence of these three factors constituted the comprehensive framework for Taipei to confidently direct the development of cross-Straits relations and Taiwan's foreign relations in a dialectical way as the best means to favour Taiwan's national interests. Around 1993, Taipei basically completed the readjustment of its foreign policy. Since then, it has set a firm course to seek dual recognition of the ROC on Taiwan by the international community and by the PRC on the mainland under the model of "divided nation."

In retrospect, it appears that for Taipei its "pragmatic diplomacy" motivated by the pursuit of the "divided nation" model is simultaneously both an end and a means. As an end, it seeks in the international inter-state system the formal recognition of the sovereign status for the libertarian-civic state of the ROC founded solely on the people of Taiwan. As a means, the "pragmatic diplomacy" is employed to counter all attempts by Beijing to subject Taiwan to the kind of reunification in which Beijing is the central government whereas Taiwan is a local one.

Judging from the reaction of the Beijing government and the international community to the promulgation of this policy and subsequent interactions, apparently insurmountable obstacles still exist in the way of Taipei's endeavour to obtain official international recognition of the ROC's sovereign status. As mentioned above, after President Lee Teng-hui's US visit in June 1995, Beijing conducted a series of large-scale military manoeuvres near the Taiwan Strait as a threatening gesture, thereby igniting a crisis in the Strait not seen for many years. At the same time, in order to protect its strategic interests in the Asia-Pacific area, the US was compelled to dispatch two aircraft carrier battle groups to the seas close to Taiwan to "monitor" the situation. This left the US open to the danger of getting involved in a war across the Taiwan Strait.

The said crisis was finally alleviated for the time being when the People's Liberation Army ended its military manoeuvres in March 1996. Yet, the military moves on the part of both the PRC and the US showed clearly the two countries' bottom line on the Taiwan question. On the one hand, Beijing could not tolerate any deviation on the part of the US government from the one-China principle, neither would it suffer Taiwan to go down the road of independence. From Beijing's standpoint, the US government's approval of Lee Teng-hui's visit to the US was a reflection of the collusion of Taiwan's independence forces and the international anti-China forces at splitting China. On the other hand, the US government could not tolerate Beijing's attempt to resolve the Taiwan question by force, in which case it would be duty-bound to get involved.

These bottom lines forced the two countries to return to the original consensus they had shared before the outbreak of the Taiwan Strait crisis. At the end of October 1997, the PRC's President, Jiang Zemin, and the US President, Bill Clinton, met at a Sino-American summit in the US, in which a reaffirmation of the consensus was made. At the summit, the two sides agreed on a Joint Declaration, in which the US government reiterated its continued adherence to the one-China principle and the three existing Sino-US joint communiqués. Besides, at the press conference that followed, Clinton supplemented that the US would continuously observe the Taiwan Relations Act in dealing with US-Taiwan relations, while Jiang tactfully stated that China would respect the US insistence on peaceful coexistence between the two sides of the Strait on the basis of non-violation of the one-China principle. In June-July 1998, another Sino-US summit was held in Beijing. In a trip to Shanghai after the summit, Clinton publicly stated that: "We don't support independence for Taiwan, or 'two Chinas' or 'one Taiwan, one China,' and we don't believe Taiwan should be a member in any organization for which statehood is a requirement" (*Asiaweek*, 10 July 1998:39). The statement was, of course, welcomed by Beijing, because it was the first time that an American president had spelled out the policy of not supporting Taiwan's pursuit of statehood.

The return to the consensus between the PRC and the US on the Taiwan question has undoubtedly turned Taiwan's aspirations to pursue a formal sovereign state status through "pragmatic diplomacy" into so much wishful thinking. Nevertheless, such pursuit is only the highest ideal of Taiwan's "pragmatic diplomacy," as the policy carries other more practical policy goals. These include strengthening ties and contacts with the world's nations under varying names, and actively striving to join in all sorts of inter-governmental and non-governmental international and regional organizations. In view of Taiwan's important position in the global economy, Beijing is simply unable to block Taiwan from achieving these goals easily, unless it further tightens its definition of one China. Even if Beijing wants to do so, it

must think carefully whether the international community is ready to comply with the new definition. How will the world of nations react if it opposes the new definition? US National Security Advisor Sandy Berger, for example, pointed out on the day of the July 1998 declaration during the Sino-US summit that the US administration was still committed to helping Taiwan defend itself, though it also opposed the island's independence (*Asiaweek*, 10 July 1998:39). This means that Washington is far from being ready to accept whatever meaning unilaterally put forward by Beijing regarding the formula of one China in spite of its open opposition to Taiwan's independence. What is more, after the Asian financial crisis had broken out in mid-1997, many countries in the region, including Singapore, the Philippines, Indonesia and Malaysia, accepted the visits of high-ranking Taiwan officials in disregard of the strongly-worded protests made by Beijing. This was enough to show Taiwan's extraordinarily important status in the economy of the region. Though this status is still not important enough for the countries concerned to openly challenge Beijing's one-China policy, the importance is enough to make them find ways to strengthen their practical ties with Taipei, especially in times of economic difficulty. In fact, so far as these policy targets of a lower level are concerned, Taiwan has achieved impressive gains in its "pragmatic diplomacy" in recent years. By the end of 1996, though it had diplomatic ties with only 30 countries, most of which even wielding negligible influence in the international community, Taiwan succeeded, as pointed out earlier, in maintaining representative offices in more than 65 countries with which it had no official diplomatic relations. A complete list gives one consulate-general, 64 representative offices and 30 administrative offices, more than double the number in the mid-1980s (some countries have more than one office, like the US) (Republic of China, Government Information Office, 1997:138). In addition, Taiwan had acquired membership status in as many as 893 international NGOs by the end of 1995, though in terms of participation in IGOs Taiwan had failed to make any significant breakthrough due to Beijing's insistence on the one-China princi-

ple (Republic of China, Government Information Office, 1997:135-36).

That is not all. As mentioned above, Taipei's "pragmatic diplomacy" serves as a means of leverage in balancing the relations between the two sides of the Strait. As such, before a completely satisfactory resolution is achieved in settling the political differences between the two sides, there is always a need for Taipei to continuously use "pragmatic diplomacy" as a "means" of negotiation. Of course, how this "means" is effectively used depends on the actual development of the international political economy and cross-Strait relations. After the sustained military intimidation and strong press attacks launched by Beijing during the months from July 1995 to March 1996, Taipei still insisted on pushing ahead with its "pragmatic diplomacy" as it had done in the past. This in itself is sufficient to prove the immense practical and symbolic significance Taipei sees in its "pragmatic diplomacy." As a matter of fact, "pragmatic diplomacy" is not only Taipei's inveterate foreign policy guideline, but it also enjoys wide popular support in Taiwan. According to the opinion polls conducted by the Twenty First Century Foundation, since 1993 those among the populace supporting the "pragmatic diplomacy" have continued to exceed 60 per cent every year, and the figure has even displayed a rising tendency. The tendency suffered no marked change even after the crisis of an imminent military conflict across the Strait between 1995 and 1996 (Twenty First Century Foundation, 1996:36).

In other words, from the perspective of the Taiwan government and society, since "pragmatic diplomacy" is endowed with special meanings and functions, it will not be easily changed or abandoned in the foreseeable future, as long as the *status quo* in the international environment and the cross-Strait relations remains unchanged. To put it differently, whether there will be fundamental changes in the respective special meanings and functions, thereby forcing Taipei to make major adjustments to its "pragmatic diplomacy," will depend on the interactive development of

the international political economy, the cross-Straits relations and Taiwan's internal political and economic dynamics.

Notes

1. The fourth revision of the Constitution done in the summer of 1997 had the most profound impact. The resulting Constitution defined in a rather more clear-cut manner that the constitutional governance of the ROC should be along the lines of a presidential system. On the other hand, a moratorium on the election of a governor for Taiwan province and the phasing out of government organs at the provincial level resolved the problem of having a large range of central and provincial offices and departments which duplicated each other to a high degree.
2. According to a study conducted in 1987, in that year those born on the mainland before 1950 amounted to less than 5 per cent of the population. With the natural demise of the aged, the percentage would certainly be smaller today; see *Tienhsia*, 1 March 1987.
3. According to Hobsbawm and Smith, nationalism must contain certain specific cultural elements (e.g., language, religion, customs, values, etc.) which can bind ethnic members together, though it also emphasizes the need to construct a modern nation-state.
4. These figures are significantly small compared with those released by the mainland. For example, the figure of 1996 released by the mainland was US\$5,141 million as opposed to US\$1,229 reported by Taiwan. The gap was believably caused by the fact that many Taiwan investors did not report their investments in the mainland to the Taiwanese government in order to avoid political interference.
5. The Taiwan Research Fund, which has a close relationship with the DPP, published *The White Paper on National Defense in*

1989. The *White Paper* explores in detail Taiwan's strategic circumstances and the national defence policy Taiwan should pursue. Its main points seem to have left a significant impact on the later official report. This again can show the convergence of the official and non-official views on Taiwan's national security.

6. In terms of raising international attention, Taipei's "pragmatic diplomacy" should be considered very successful. But, in terms of its rally for returning to the UN, it is obviously strategic rather than practical. First of all, among the 30 countries that have diplomatic ties with Taiwan, only South Africa has some influence in international politics, but even South Africa had announced in November 1996 that it would terminate its diplomatic relationship with Taipei at the end of 1997 and replace it with Beijing. Secondly, as the permanent member of the UN Security Council, Beijing has the power to veto any country applying to join the UN. In fact, Beijing has repeatedly stated that it will not allow Taipei to join the UN in any form. Nevertheless, Taipei's strategy seems to be that the very action of rallying for joining the UN can help internationalize the so-called "Taiwan question" and open international discussion on its policy of dual recognition.
7. This position was reiterated by President Lee on 9 September 1998 in a speech to a study group of high-ranking officials of the Executive Yuan, see *China Times*, 10 September 1998:2.
8. Beijing always worries that allowing Taiwan to go for independence will create a demonstrative effect on the minorities and local regimes on the mainland, thereby posing a severe challenge to its existing unitary state structure.
9. The frustration with the setback was expressed rather directly in Chinese Premier Li Peng's speech, entitled "To Accomplish the Reunification of Our Country is the Common Will of all the Chinese," presented at an anniversary seminar of Jiang's eight-point proposal on 30 January 1996. Li said: "Jiang's eight-point proposal represents the CCP's sincerity to solve

the Taiwan question.... But since the Taiwan authorities still have not slightly changed its plan to divide the mother country, they not only did not actively respond to the above proposal, but also requested unrealistic preconditions, creating various barriers to the cross-Strait negotiations." See *Wen Wei Po*, 31 January 1996.

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The Political Economy of Taiwan's Foreign Policy

Abstract

This paper analyzes the development of Taiwan's foreign policy since 1979 from a political economy perspective. It points out that the breaking-off of US-Taiwan diplomatic relations in 1979 was a watershed for Taiwan's foreign policy development. Under the general circumstances of international diplomatic isolation, Taipei continuously readjusted its mainland policy in response to its growing economic power and rapid transition to a democratic polity at home, on the one hand, and to the changing cross-Strait relations and the loosening up and disintegration of the Cold-War system abroad, on the other. The readjustments have eventually led to a new stage of cross-Strait relations characterized by economic convergence and political divergence. Proceeding from its uncompromising adherence to the one-China policy before 1979, Taipei moved gradually towards a position of sticking to the one-China policy only in inter-governmental and international activities, yet adopting a flexible "practical diplomacy" policy in non-governmental organizations. From there, it moved further towards the stand of "pragmatic diplomacy" of not avoiding dual diplomatic recognition of both sides of the Strait. Finally, it explicitly defined "pragmatic diplomacy" as an active pursuit of the ROC's sovereign status in the international community under the principle of "divided nation." In the course of Taipei's progressive readjustment of its foreign policy, the emergence of a libertarian-civic state in Taiwan obviously laid an important foundation; Taiwan's enormous and still fast growing economic strength provided a powerful means; and, the loosening and disintegration of the Cold-War setup offered a good opportunity. The congruence of these three factors constituted the comprehensive framework for Taipei to direct the development of cross-Strait relations and Taiwan's foreign relations in a dialectical way that served to maximize the political autonomy of Taiwan.

台灣外交的政治經濟學

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(中文摘要)

本文從政治經濟學的角度，分析一九七九年以後台灣外交政策的發展與趨向。本文指出，一九七九年美台斷交是台北外交發展的一個極重要分水嶺。在國際外交孤立的大形勢下，台北政府盱衡並因應其內部不斷發展的經貿實力和快速的民主政治轉型，以及外部冷戰體系的鬆動瓦解和兩岸關係中經濟匯合政治分歧的微妙發展，持續而積極地調整其外交政策，從一九七九年前對「一個中國」政策毫不鬆動的堅持，逐步邁向只在政府間國際往來堅持「一個中國」政策，但對民間國際組織活動參與則採取彈性原則處理的「實質外交」，再進一步邁向不迴避兩岸之間在外交上雙重承認的「務實外交」，而最終將「務實外交」明確地定位於「分裂國家」的主動追求。在這外交政策逐步調整遞進的過程中，台北政府明顯地以台灣民主化公民國家建構為基礎，以快速上升的龐大經貿實力為手段，以冷戰體系的鬆動瓦解為契機，以及以兩岸關係的平衡為對象。這三方因素的匯聚構成了台北主導兩岸關係和外交關係的整體框架，而台北則藉這兩種關係的辯證發展以取得其最大的政治自主性。