



# Asia Program

## SPECIAL REPORT

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## Taiwan and the Global Economic Storm

EDITED BY BRYCE WAKEFIELD

**ABSTRACT** This Special Report examines how the global economic crisis has impacted the economy and politics of Taiwan. **Peter Chow** gives an overview of the Taiwanese economic situation and evaluates the performance of the administration of Ma Ying-jeou, Taiwan's current president. **T.Y. Wang** assesses the nexus between economics and security in Taiwan, focusing in particular on the question of Taiwan's relations with mainland China. **Thomas Bellows** reviews dynamics in the Taiwanese legislature, as well as examining the extra-legislative protest activities of the opposition party during the economic crisis. And **Yu-long Ling** assesses Ma's leadership style and personal performance in office.

### INTRODUCTION

BRYCE WAKEFIELD

Taiwanese president Ma Ying-jeou has much to fear from the political repercussions of the current global financial crisis. During his election campaign in 2008, Ma staked his political fortune on his ability to improve the Taiwanese economy. However, Taiwan has been hard hit by the slump in global demand. With the island's economy heavily dependent on exports, particularly in the high-tech electronics sector, the reluctance of consumers in China and the United States to spend on non-essential items in tough economic times has meant that Taiwanese businesses have seen export opportunities decrease sharply. Figures released in 2009 showed that exports for the month of May were down 34 percent compared to the same period in 2008, which

actually represented a slight *improvement* over the figures for the previous four months. Meanwhile tourist numbers, cross-Strait investment, consumption, and employment rates have all decreased, and Ma has had to revise the economic targets he promised during his election campaign.

In the midst of the economic doom-and-gloom, Taiwan's relationship with mainland China, as always, looms large. One part of Ma's strategy that he has not sought to adjust is his stance on relations with the mainland. Eight years of rule by the Democratic Progressive Party (DPP), whose electoral politics center on the creation of a purely Taiwanese national identity, strained the cross-Strait relationship. Nevertheless, commerce and communication between China and

Taiwan grew informally even while the official cross-Straits relationship deteriorated under Ma's DPP predecessor, Chen Shui-bian. Ma's party, the Kuomintang (Chinese Nationalist Party, or KMT), stresses Taiwan's "Chinese" identity and, as part of its policy of reconciliation with the mainland, has formalized avenues for trade, communication, and travel between China and Taiwan.

Ma and the KMT are intent on advancing the cross-Straits relationship by implementing an Economic Cooperation Framework Agreement (ECFA), a cross-Straits trade agreement between China and Taiwan. However, attempts to move forward on the ECFA are highly controversial. After months of calls for the government to make the negotiation process more transparent, the Ministry of Economic Affairs (MOEA) released an economic impact assessment of the ECFA in August 2009. The report was positive, noting that possible benefits of an agreement with the mainland included insulating the Taiwanese economy from the adverse effects of the formation of other trade areas in Asia that exclude Taiwan. However, critics of the KMT, led by the DPP, charge that MOEA manipulated the figures in the report to inflate the economic benefits and job prospects the ECFA would provide Taiwan.

The ECFA debate has also overtly touched on issues of national and ethnic identity. For example, despite Ma's pledges to the contrary, the DPP has claimed that China will attempt to sneak veiled rhetoric on reunification into the text of the proposed agreement. Meanwhile, MOEA faced fierce criticism when it released a cartoon advertisement featuring a cosmopolitan woman from Taiwan's north, where the KMT vote is strong, explaining

the ECFA to an unsophisticated salesman from the south, a DPP stronghold. While the woman spoke standard Mandarin, the man, speaking a "local" dialect, was shown as largely ignorant about economic relations between Taiwan and China. The advertisement was eventually pulled after it sparked accusations that it was an exercise in ethnic stereotyping, but the episode is a good example of how insecurity about the ECFA feeds into suspicion about the Ma administration's views on Taiwanese national aspirations.

Notwithstanding widespread concerns on the island about the ECFA, the DPP faces an uphill battle in opposing Ma's plans to implement his policies of closer relations with China. Although the DPP captured 38 percent of the votes for single member districts in the 2008 legislative election, it retained only 27 seats out of 113 overall. The KMT now presides over the executive and holds a safe majority in the legislature, meaning that it has the formal power to enact laws unimpeded by the opposition. In response, the DPP has launched a highly public campaign, encouraging supporters to take to the streets in protest. While the global recession has taken its toll on Taiwan's economy, the island knows no deficit when it comes to heated political debate.


Not all commentators, however, blame Taiwan's economic position solely on the global recession. **Peter Chow**, professor of economics at the City College of New York, argues that while the global financial crisis has hit Taiwan hard, Ma's government is also responsible for declines in growth, industrial production, and consumer confidence. Chow notes, for example, that stock prices were falling well before the international crisis made

## THE ASIA PROGRAM

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its presence felt. Soon after Ma was elected, many Taiwanese found that the president's promises to increase growth dramatically and provide a much higher standard of living, while cutting unemployment to three percent, were overly optimistic. Chow believes that Ma's inability to deliver on his promises has led to a "confidence crisis" in the Taiwanese business community.

With the onset of the global crisis, confidence in Ma's ability to deliver has decreased even further. Chow focuses on Taiwan's lack of both an indigenous industrial sector and export diversification, and on what he deems an overly swift move towards economic integration with China, as factors that have deepened Taiwan's recession. According to Chow, the Taiwanese government's ambiguous stance vis-à-vis the mainland has also eroded the "animal spirits" of Taiwanese investors as they wait and see what the outcome of cross-strait negotiations will be. Ma's cross-strait policy, Chow argues, was implemented too fast and too early to allow for a reasonable cost-benefit analysis, and came with a hidden cost of eroding Taiwan's "*de facto* independence."

Indeed, many see Taiwan's economic policy as inherently linked to issues of national security. **T.Y. Wang**, professor of political science at Illinois State University, for example, notes that the island's economic relations with China have been influenced by two conflicting forces. On the one hand is the desire of Taiwanese investors to take advantage of the proximity of the huge Chinese market and its abundance of resources and cheap labor. On the other hand, however, lies the danger that Beijing may well use warmer economic relations to move to political integration in the future. This explains both why the Chen administration attempted to curb economic links to the mainland and why it was so unsuccessful in halting the informal outward flow of investment to China.


While the political thaw between Taipei and Beijing that followed Ma's inauguration has been welcomed by policymakers in Washington and elsewhere, Ma's approaches towards China have evoked fears that he may be "selling out Taiwan." Wang therefore notes that the Ma administration needs to provide greater transparency in economic negotiations with China, which will require more

effective communication on the part of the president. Unfortunately, Wang believes this is not one of the administration's strengths. Nevertheless, Ma has one significant advantage over his opponents, namely the latter have not outlined sufficient alternative strategies to the president's policy of engagement with China.

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While Ma's opponents hold very little formal power to block the president's agenda, they nevertheless have ample opportunity to make their voices heard. Indeed, **Thomas Bellows**, professor of political science at the University of Texas, argues that in spite of KMT dominance of both elected branches of Taiwan's government and the sense of urgency created by the global economic crisis, legislative politics in Taipei have barely changed at all. Stalling tactics by the opposition in the Legislative Yuan are tolerated by KMT legislators and even the speaker of the house. Meanwhile party political activity outside the legislative chamber is just as raucous as it always was, if not more so.

Bellows sees tolerance for opposition tactics in the Legislative Yuan as the result of changing priorities for KMT legislators. Before 2008, when the KMT had only a slight majority over the DPP in the legislature, its main focus was to erode the support of the DPP. Now KMT legislators are



tolerating the objections of the DPP to demonstrate to the executive that their branch of government should not be taken for granted in a KMT-dominated political environment. Meanwhile, the DPP is determined to show that while it may have relatively few legislators, it is still a political force in Taiwan. This has led to boisterous behavior in the debating chamber as well as fierce protest action on the streets of Taiwan's cities.

According to **Yu-long Ling**, political science professor and Williams Chair in Law at Franklin College, KMT control of both elected branches of government is ultimately an asset for the Ma administration, but warns that Ma should not become too complacent about popular opinion. However, in contrast to Peter Chow and T.Y. Wang, who hold that the Ma administration has so far opted for opacity over transparency when it comes to explaining government policy, Ling believes that, personally at least, Ma is an effective communicator who understands more than most politicians how to work the media.

Nevertheless, Ling believes that in order to survive politically, Ma needs to convince voters to be realistic about their expectations in tight economic times. Voters will also need to be constantly reassured that greater interaction with China does not necessarily entail compromising Taiwan's sovereignty. Ma also needs to understand that he cannot lose sight of issues like law and order, education and government corruption that affect the everyday lives of most Taiwanese, because not all political issues in Taiwan concern the nation's status vis-à-vis China. Nevertheless,

relations with China raise issues of self reliance and national identity. At the same time as he is reassuring Taiwanese that he can guarantee their *de facto* independence from the mainland, such reassurance cannot just be for show. Ma needs to believe in his own statements about the status quo in Taiwan.

The government's release of the ECFA economic impact report has created new difficulties for Ma. While, predictably, opponents are already criticizing the supposed economic benefits said to follow negotiations with China, pro-China forces within Taiwan have started to express hope that Ma's trade policy will eventually lead to peaceful reunification with the mainland, directly contradicting the stated policy of the president, as well as flying in the face of public opinion. The debate around the ECFA has not enhanced Ma's image among his people, and the president's lackluster response to disaster relief efforts in the wake of Typhoon Morakot have led many Taiwanese to question Ma's leadership abilities. A CNN poll taken after the typhoon, for example, showed that 82 percent of Taiwanese wanted the president to resign over his delays in assisting disaster victims.

It is clear that Ma has much to do to win back public trust in his leadership. On the other hand, East Asian economies have demonstrated an unexpected resiliency, and by mid-2009 many had recorded astonishing rebounds. If Taiwan is able to demonstrate similar progress in the months ahead, Ma may well be able to show that he has what it takes to steer Taiwan through the global economic storm.



# THE IMPACT OF THE FINANCIAL TSUNAMI ON TAIWAN'S ECONOMY

PETER C.Y. CHOW

The current economic slump in Taiwan has been aggravated by the global financial crisis. Growth had already slowed after the second quarter of 2008, even before the major American financial institutions collapsed, signaling the onset of the global economic downturn. This essay contends that the global financial crisis is not the sole reason for the poor performance of the Taiwanese economy. Instead, Taiwanese President Ma Ying-jeou's policy of engagement with mainland China has resulted in a "confidence syndrome." This has dampened Taiwanese business professionals' "animal spirits,"<sup>1</sup> that is, their "spontaneous urge to action rather than inaction." Indeed, the response of the business community to Ma's mainland-oriented policies led to a slowdown of business investment and capital flows even before the financial crisis began. This essay begins by outlining the current economic situation in Taiwan and introduces data to show that Taiwan was already facing a downturn of its own before the onset of the global crisis deepened this trend. It then examines the causes of the downturn in Taiwan, before assessing the prospect of engagement with China as a panacea for Taiwan's economic woes.

## THE CURRENT ECONOMIC SITUATION IN TAIWAN

As a candidate for the Kuomintang (Chinese Nationalist Party, hereafter KMT) in the 2008 Taiwanese election campaign that would elevate him to the presidency, Ma promised the Taiwanese people that he would work on a visionary economic "6-3-3" plan, which would raise annual growth to 6 percent of GDP, lift per capita income to U.S. \$30,000, and lower unemployment to 3 percent. Ma's camp further promised that the stock

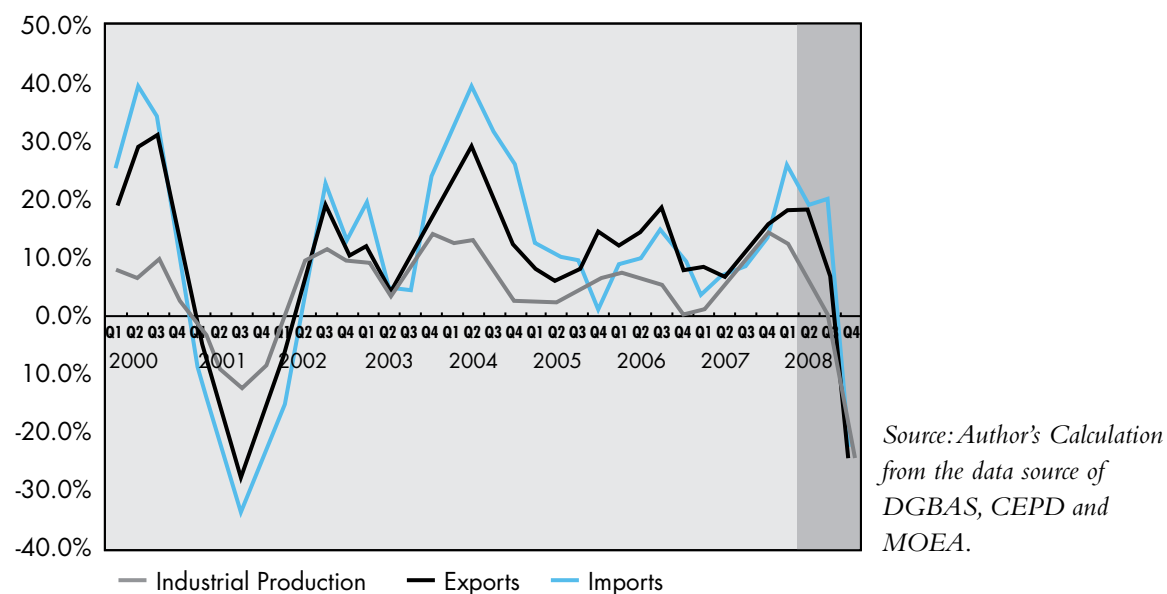
market index would rise to 20,000 points after he became the president. These were optimistic goals, and over-enthusiasm and irrational expectations generated by Ma's campaign rhetoric shortened his administration's honeymoon period. Ma's popularity slipped sharply within two to three months of his inauguration on May 20, 2008.

Figure 1 shows the negative growth of exports, industrial production, and imports after the second quarter of 2008, whereas Figure 2 shows the downward trend of the economic growth rate, rising unemployment and a collapse in consumer demand between the third and fourth quarters of the same year.

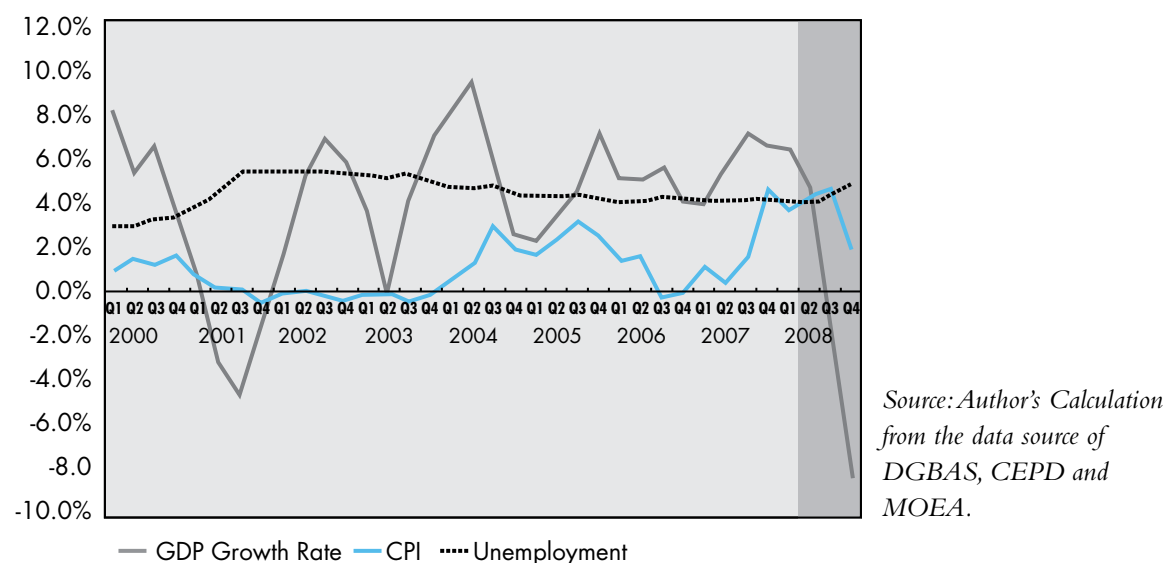
Ma's inauguration was immediately followed by a negative 1.05 percent GDP growth rate in the third quarter of 2008. The economy then shrank by 8.36 percent in the last quarter of 2008—aggravated by the outbreak of the global financial crisis (DGBAS 2009). Industrial production, which experienced double-digit growth in the first two quarters of 2008, grew by only 1.8 percent in July, and 0.7 percent in August. It then continuously declined from a rate of negative 1.2 percent in September, and negative 12.6 percent in October, to an unprecedented negative 28.4 percent in November. The double-digit growth of exports came to a halt after June 2008. Exports also declined from negative 1.6 percent in September, negative 8.3 percent in October, and negative 23.3 percent in November, to negative 34.9 percent in January 2009 (after seasonal adjustment). Inflation surged as the hike in the price of crude oil from May pushed the consumer price index up by 5.8 percent in July. The hike in energy costs led to an increase in the cost of living, especially for the working class, whose salaries and wages had been frozen for several years.

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**FIGURE 1. Main Economic Indicators in Taiwan, 2000-2008**



**FIGURE 2. Growth, Inflation and Unemployment in Taiwan, 2000-2008**



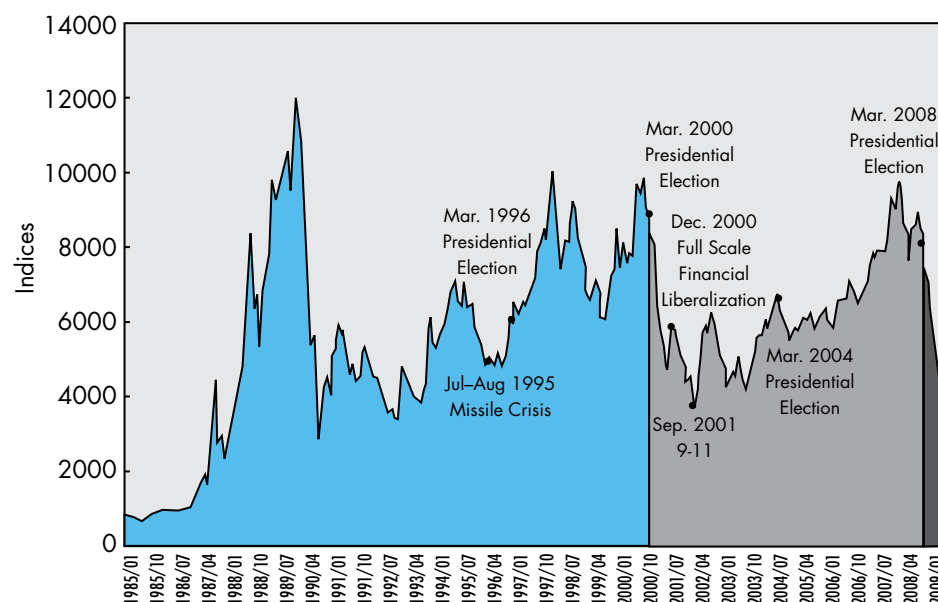
The most dramatic shift occurred in the volatility of the Taiwan stock exchange, as shown in Figure 3. The average stock price index steadily declined over seven months from 8619 points at the end of May 2008 to 4248 by the end of January 2009. In fact, it dropped to 7046 by the end of August, even before the bankruptcy of Lehman Brothers on September 15, which caused a drop of 295 points (4.89 percent) in a single trading day on September 16, 2008.<sup>2</sup>

## THE IMPACTS OF THE FINANCIAL TSUNAMI ON TAIWAN'S ECONOMY

### *The financial sector*

After full financial liberalization in December 2000, foreign investment in the Taiwan stock market increased by an average of 6.21 percent per year between December 2000 and June 29, 2007. This was markedly faster than the average annual increase in aggregate market value of

**FIGURE 3. Taiwan Stock Exchange Index, January 1985 to January 2009**



*Source: Author's calculation from Taiwan Economic Journal*

2.69 percent for the same period. Foreign portfolio investment accounted for nearly 35 percent of capitalization in Taiwan's stock market by the end of 2008 (Hsu, 2007).

It is said that when Wall Street sneezes, Tokyo catches cold. And when Tokyo catches cold, Taipei suffers from pneumonia. In Taiwan, the stock market index is highly correlated with the Dow Jones Industrial Average. Nevertheless, when U.S. stocks were high, the Taiwan stock market did not fully capture the bullish atmosphere prevalent on Wall Street. When U.S. stocks were down, Taiwan's markets were even more bearish than those in the United States, and Taiwanese stocks decreased further (Hsu, 2007). Hence, there is an asymmetric synchronization between the Dow Jones Industrial Average on Wall Street and the index of the Taiwanese Stock Exchange.

With daily transactions averaging New Taiwan (NT) \$80 billion in recent months, it is clear that a withdrawal of NT \$200 billion from stocks within a space of three months put downward pressure on the stock market. Moreover, domestic investors monitor foreign investors closely and are likely to follow their lead. Thus, the repercussions of the global financial crisis on the Taiwan

stock market are two-fold; they consist of the dramatic capital outflows of foreign portfolio investment and the repercussions of these outflows on domestic investment confidence due to contagion and herd behavior.

This lack of investment has had severe consequences. According to the Cabinet-level Financial Supervisory Commission (FSC), the total outstanding loans held by the 37 domestic banks declined each month by an average of NT \$153.2 billion (U.S. \$4.8 billion) in 2008. Meanwhile, the percentage of dishonored checks and bills increased steadily from 0.57 percent in June 2008 to 0.90 percent in December 2008. This is because business failures tightened banks' lending. The loss to the Taiwanese banking sector from the global financial tsunami totaled NT \$80 billion.

Nevertheless, the news has not been all bad. The foreign exposure of the seven banks that dealt with overseas financial markets only accounted for 0.1 percent of their total assets. Among those seven banks, the ratio of foreign-currency denominated loans (liabilities) to total loans (liabilities) increased only modestly from 2006. Therefore, the risk of foreign exposure remains rather limited and well under control.

### *The real economy*

Taiwan has been particularly vulnerable to the global financial crisis due to its high dependence on exports. Domestic demand simply cannot compensate for the drop in exports triggered by the crisis, because the export sector accounted for 71.7 percent of total GDP in Taiwan (CEPD 2008). Also, Taiwan's exports were concentrated in information technology and computing (ITC) products which proved highly volatile in the downturn of the world business cycle.

## What may be in the interests of Taiwanese business may not be in the interests of Taiwan.

Moreover, domestic consumption is also falling. The declining stock market, low interest earnings, and the shrinking of other financial assets made consumers feel poorer now than they were before. The slowdown of the real estate markets and the lack of confidence in the economy have caused house prices to drop dramatically. As a result, private consumption expenditures, which accounted for 57.6 percent of total GDP in 2007, were adversely affected by the asset and housing prices. Government sources projected a 0.3 percent decline of consumption expenditures in 2008 (CEPD).

Statistical data released by the government confirmed that declining private investment was not offset by investment by public enterprises, which also dropped by 2.58 percent in 2008. In spite of 7.89 percent of government investment in fixed capital formation for infrastructure in the fourth quarter of 2008, the aggregate domestic demand (the sum of private consumption and private and public investments) shrank by 7.71 percent in the last quarter of 2008. This contributed toward the negative GDP growth rate in the same period.

### WHAT WENT WRONG WITH TAIWAN'S ECONOMY?

Taiwan suffered from the current financial tsunami with the worst performance among the four "little tigers" (Hong Kong, Korea, Singapore, and Taiwan). A negative growth rate of 8.36 percent in the year to the fourth quarter of 2008 was the lowest since the government began releasing quarterly national income accounts in 1961. The current economic slump was no doubt aggravated by the financial crisis. However, Taiwan's predicament can be explained by the transfer of industrial capacity overseas in recent years, its narrow export structure and, not least, the erosion of investor confidence due to the Taiwanese government's stance towards mainland China.

First, Taiwanese firms have relied on original equipment manufacturers (OEM) overseas without developing indigenous "core industries." A focus on industrial relocation through offshore production without simultaneously fostering domestic investment and upgrading industrial structures generates a drag on the domestic economy. Hence, as those high-tech firms migrated to low-cost developing countries, the "hollowing out" of the Taiwanese economy became more and more evident. Chow (2007) has long advocated that foreign investment is a *means*, not an end in itself. Rather than acting as a substitute for domestic investment, outward foreign investment should complement structural transformation by upgrading indigenous industrial structures and globalizing the production networks of Taiwanese enterprises.

Second, Taiwan has not diversified its exports significantly and is overly dependent on a single market. Export commodities are highly concentrated on a few sectors, which has made Taiwan vulnerable to volatilities in the world market. Although it felt the consequences to a greater degree than either Japan or Korea, Taiwan did not derive any lessons from the 2001 recession in information and computing technologies. In fact, the trend toward concentrating exports in these sectors accelerated even after the 2001 ITC recession, as exemplified by government plans to develop the "twin stars" of ITC products—thin-film transistor and liquid crystal display technologies—by setting annual produc-

tion targets at NT \$2 trillion worth of products per year. Moreover, the asymmetric dependency on the Chinese market as an export destination for machinery and unfinished products due for processing further aggravated the export slump when China suffered from the unprecedented export decline triggered by the global financial crisis.

Third, with export industries highly reliant on OEM contracts, Taiwan is extremely vulnerable to the hollowing out of industry, as evidenced by rising unemployment and declining wage rates since the mid-1990s. With limited repatriations from foreign investors, the incongruity between what is “made in Taiwan” and “made by Taiwan” has become more evident. Taiwanese businesses may conceive of products and design them at home, but if they are reliant on overseas production, their work may not benefit the macro-economy of Taiwan as a whole. What may be in the interests of Taiwanese business may not be in the interests of Taiwan.

Finally, there is President Ma Ying-jeou’s stance towards mainland China. Since Ma’s inauguration in May 2008, there has been a drastic policy shift toward the mainland, based primarily on the premise of “postponing sovereignty disputes” (*gezhi-zhuquan*) with China. In the past, Ma has voiced his support for the “1992 consensus” (*jiuergongshi*), a compromise allegedly reached between Beijing and Taipei where each side agreed that there was “One China” but accepted that the other side, under a “One China, different interpretations” (*yigezhongguo, gezibiaoshu*) principle, could agree to its own definition of what this meant. Yet, Beijing has never officially endorsed the 1992 consensus. Moreover, despite Ma’s stance, numerous polls showed that a great majority of Taiwanese people still want to maintain the status quo of *de facto* independence for the island and the absence of Chinese Communist Party rule. It is important to understand that while amicable relations with China may be diplomatically desirable, any trade-off between *de facto* independence and economic interests, which could jeopardize the status quo, would not be acceptable to the people of Taiwan.

Indeed, many Taiwanese have concerns about economic integration with China, the consequences of which may be eventual unification. Even among those who favor unification, many

claim that this should only be subject to democratization on the mainland. The “confidence syndrome” that has resulted from ambiguity on the part of the Taiwanese government over the question of Taiwan’s statehood has depressed the “animal spirits” of the Taiwanese business community. Therefore, Taiwan’s economic problem is not a “liquidity trap” in the monetary sector, but rather a “confidence trap.” The Taiwanese people lack confidence in their current government and in the “great leap westward” that it has undertaken by leaning lopsidedly toward China.


### **WILL CHINA RESCUE TAIWAN FROM ITS CURRENT RECESSION?**

The Ma administration invited Chinese business to invest in its “Love Taiwan 12 projects” (*aitai shier jianshe*), which consist of real estate and other infrastructural projects. However, it is questionable whether Beijing can or will rescue Taiwan from its current economic slump in the short term, or let its businesses invest in Taiwan’s economy in the long term, without the satisfaction of ulterior political motives.

It is important to note that China itself is not insulated from the financial crisis. The decline of China’s exports in 2008 was the worst since it inaugurated its economic reforms three decades ago. Moreover, foreign direct investment, which had suffered from consecutive decline for four months, dropped an unprecedented 33 percent in January 2009. It is estimated that every one-percentage drop in the Chinese GDP growth rate equates to roughly two million Chinese job losses. Compared to China’s recent double-digit economic expansion, more modest growth rates of around 6.8 percent equate to millions of job losses in urban areas, where unemployment has already reached 9.4 percent. It is doubtful that Beijing would actively work to help Taiwan while China itself reels from this unprecedented economic slump.

There are also both political and economic reasons for Taiwan to reassess its current relationship with the mainland. Firstly, despite Ma’s stated commitments that he will not erode Taiwan’s *de facto* independence, his approaches to the Chinese leadership cannot but raise questions about his com-





mitment to Taiwanese political autonomy. Both business and diplomacy consist of the tactics of give and take. It would be too naïve to think that China would offer economic “gifts” to Taiwan without asking for anything in return. From Beijing’s perspective, the most attractive outcomes of negotiations with Taipei are those that erode Taiwan’s *de facto* sovereignty and downgrade Taiwan’s international status. However, it is doubtful that Taiwanese really want to pay for ostensible economic benefits from China by letting the mainland erode the island’s *de facto* independence.

Taiwan is increasing its dependence on China, a nation that refuses even to acknowledge its existence as an independent political entity.

Even on a purely economic cost/benefit analysis, Taiwan is already asymmetrically dependent on China, exporting some 40 percent of its total exports to China and Hong Kong. This is not the first time Taiwan has been dependent on a single trading partner. The United States used to be Taiwan’s largest market, accounting for 48 percent of Taiwan’s total exports in the mid-1980s. China has since claimed this position. By 2007, the U.S. market only accounted for 13 percent of Taiwan’s exports, while China and Hong Kong accounted for 40.7 percent. Ma’s policy of engagement with Beijing will likely further accelerate Taiwan’s economic dependency on China.


There are a number of reasons why overdependence on Chinese trade is undesirable for Taiwan’s economic and political future. Taiwan’s economy is now vulnerable to any sudden upheavals that may occur in China’s still-developing economy, and trade with low-wage countries such as China undercuts wage incomes in Taiwan. Taiwan’s per

capita income accelerated from the 1960s to the 1980s but decelerated since then because Taiwan shifted its major trade flows from the United States to China. Trade with China is also unlikely to generate the “spillover effects”—the acquisition of technological expertise and sophistication through deals with more technologically advanced trade partners. Finally, the United States has been and still is the major supplier of defensive weapons for Taiwan, while China continues to target thousands of missiles at Taiwan. Taiwan is increasing its dependence on China, a nation that refuses even to acknowledge its existence as an independent political entity. For both economic and security reasons, therefore, Taiwan should re-direct its trade and investment policy to the United States and other industrialized countries, rather than further integrating itself into China’s economy.

#### **FREE TRADE WITH CHINA: THREE SCENARIOS**

To marginalize Taiwan from emerging regional economic integration, Beijing has been blocking Taipei from signing free trade area (FTA) agreements with countries or groupings, including the Association of Southeast Asian Nations (ASEAN). The Chinese leadership has thus adopted a “carrot and stick” policy toward Taiwan. On one hand, it has been insisting that Taiwan is part of the sovereign territory of China and has continued to build up its missiles targeted at the island. On the other hand, it has enticed Taiwan to further integrate its economy by offering *Chinese* trade pacts such as the “Comprehensive Economic Cooperation Agreement” (CECA) and the Economic Cooperation Framework Agreement (ECFA). There are, at least, three scenarios to explain and predict Beijing’s moves (Chow, 2008), with one standing out as the most likely path China will attempt to take.

First, Beijing may simply be extending economic deals to Taiwan without regard to the sovereignty question. But this is unlikely. President Hu Jintao has already declared that China would only sign trade pacts with Taiwan that come with a guarantee that Taipei respects the “One China” principle. Neither Beijing nor the world community recog-



nizes that there is “another China” as interpreted by the Ma administration. It goes without saying that Ma’s adherence to the so-called “1992 consensus,” his interpretation that Taipei is the legitimate political authority of the “One China,” and his apparent assumption that Beijing will allow him to hold this interpretation, are nothing more than a way of avoiding the issue of Taiwan’s place vis-à-vis the mainland.

In contrast, a second scenario predicts that along with the economic “deals” offered by China, Taiwan’s *de facto* sovereignty would suffer erosion and eventually be surrendered to Beijing without any economic benefits for the island’s inhabitants. This is a more likely outcome of significant trade deals with China than the first scenario, and is the path that Beijing would like to lead Taipei down in the future. Beijing has never recognized the existence of Taiwan as a member of the international community, and the trade deals China is offering constitute lip-service to entice Taiwan to unite with its “motherland.”

## Ma’s current policy of engagement with China has the potential to redefine Taiwan’s future forever.

The third scenario—a trade off of sovereignty for economic benefit—is the most likely result of increased trade negotiations with China. This would eventually lead Taiwan to adopt a position similar to Hong Kong, and it would be a bitter pill for many Taiwanese to swallow, no matter how much it is sugared with economic inducements. However, it is also the most likely outcome for three reasons: first, the softening of Taiwan’s *de facto* sovereignty is the most attractive *quid pro quo* that Taipei has to offer Beijing. Second, sovereignty is a public good. That is, unless it is well-specified—or indeed, completely taken away—sovereignty and its protection are seen by individuals as somebody else’s business, meaning that there are few who will

voluntarily defend it in the face of other enticements. On the other hand, the economic benefits of tariff reductions benefit well-organized interest groups. Taiwanese groups that rely on trade with Beijing—for example, Taiwanese associations linked to the textile or petrochemical industries—are highly active in political circles. In any democracy, public choice theory suggests that an organized minority usually gains its preferred policy options, and Taiwanese democracy is no exception to this rule. Third, some believe that Ma’s government will not adequately inform the public or even legislators about its deals with China, while attempting to entice them with economic bait from Beijing. Such public concern about hidden concessions to Beijing on sovereignty issues has resulted in the “confidence syndrome” shown in the lack of investment detailed above. This syndrome has been holding back any large-scale long-term investment for sustainable development and has generated strong repercussions on the investment climate and capital outflows.

## CONCLUSION

The slowdown of Taiwan’s economy was aggravated by the global economic recession triggered by the financial crisis. Given its limited exposure to foreign assets and liabilities, Taiwan was less affected by the financial problems than by its overdependence on exports. Taiwan’s financial exposure to the global market was rather limited, but the global economic slump has driven Taiwan’s economy toward an extended downturn. The effect of the financial crisis on Taiwan’s economy will be over once the world economy recovers. However, in the meantime, Ma’s current policy of engagement with China has the potential to redefine Taiwan’s future forever.

The time is not right for Ma to engage with China. Like other great powers in the region and beyond, China is not immune from the global crisis. Engagement with China must be managed cautiously. Taipei needs to ensure that Taiwan’s interests are clearly signaled and upheld, and that the entire process can be monitored by the public. Ma’s approach to China was too fast, and did not adequately weigh up the costs against the benefits,

many of which are still unclear. It also comes with a hidden cost of eroding Taiwan's *de facto* independence. Without consensus on Taiwan's statehood, Ma's policy caused a great degree of uncertainty about the future of Taiwan, which has held down domestic investment and hastened capital outflows. Taiwan's main problem is that it is subject to a "confidence trap" rather than a "liquidity trap."

Taiwan's best interests do not lie in further economic integration with China at a hidden cost of eroding Taiwanese sovereignty. Taiwan needs to upgrade domestic industrial structures by nurturing its indigenous core industries so as to generate comparative advantage in the world market, to diversify its exports so as to reduce the vulnerability of its reliance on a single market, and to speed up the spillover effect of technology by increasing its trade, investment, and technological flows with the United States and other industrialized countries. This is also consistent with American economic and strategic interests in the Asia-Pacific. Engagement with China should never be at the cost of Taiwan's *de facto* independence, which would jeopardize Taiwanese freedom, democracy and economic prosperity. Contrary to President Ma's current stance, globalization should not be synonymous with Sinicization.

## NOTES

1. This term was first formulated by John Maynard Keynes. See John M. Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), 161-162.
2. There is a cap of 7 percent of maximum volatilities either way on the stock market.

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# ECONOMIC RATIONALITY AND NATIONAL SECURITY: TAIWAN'S NEW GOVERNMENT AND THE GLOBAL ECONOMIC RECESSION

T.Y. WANG

Taiwan's economy was already showing signs of trouble before President Ma Ying-jeou took office on May 20, 2008. The ensuing global financial crisis hit the island hard just as the new government was implementing a series of measures designed to boost the economy. According to government statistics, Taiwan's exports dropped by a record 42 percent from a year earlier, including a precipitous drop of 33 percent in December alone. The island's economy is heavily dependent on exports, which fell over 40 percent in the first quarter of 2009, as compared to the previous year. Gross domestic product (GDP) fell by 8.36 percent in the fourth quarter of 2008, the sharpest contraction in nearly half a century. With the unemployment rate rising to 5.75 percent, more than 624,000 Taiwanese citizens lost their jobs in February 2009. Other employees were forced to take unpaid leave as a cost saving measure (All statistics mentioned are from the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Republic of China). With government reports noting that "the island is now entering into recession" (Government Information Office, 2009)—its first since the 2001 terrorist attacks on the United States—Ma's campaign pledge of a 6-3-3 program (6 percent annual GDP growth, a per capita income of U.S. \$30,000 by 2016, and an unemployment rate below 3 percent) now appears far out of reach. These grim statistics led to a feature article on Taiwan by the *Economist* with the subtitle of "The Ugliest Economy of Them All" (*Economist*, 2009).

In an attempt to revitalize the reeling economy, Taipei's new government has carried out a series of measures, including providing a blanket guarantee

for all domestic bank deposits to stabilize the financial system, implementing a stimulus package to expand investment in public infrastructure (known as the "Love Taiwan 12 Projects"), and pushing forth various plans to address short, medium, and long term unemployment issues, including job training for individual citizens who have been on unpaid leave. The Ma administration also gave each citizen a New Taiwan (NT) \$3,600 (U.S. \$106) voucher totaling NT \$83 billion (U.S. \$2.52 billion) in an attempt to boost consumer spending. Although some economists are skeptical about whether the voucher will result in much new spending, inflation has been kept relatively low so far, somewhat reducing the effects of the shrinking economy on the island's general population.

In addition to measures on domestic spending and infrastructure investment, the Ma administration's economic policies also depend on improving cross-strait relations to provide additional economic stimulus. After proclaiming that his administration would pursue a "3-no's" policy of "no independence, no unification, and no use of military force," aiming to maintain the cross-strait political *status quo*, the government relaxed restrictions on Taiwanese investment in the mainland economy and reached agreements with Beijing that realized "three links": direct flights, direct shipping, and direct postal mail between Taiwan and the Chinese mainland. While these measures were criticized by members of the opposition Democratic Progressive Party (DPP), which has a party plank of pursuing Taiwan's *de jure* independence, they were generally well received on the island, particularly by Taiwanese businesspeople who have economic stakes on the Chinese mainland. The Ma administration further

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proposed negotiating a Comprehensive Economic Cooperation Agreement (CECA) (later renamed the Economic Cooperation Framework Agreement [ECFA]) with Beijing. This set of policies pursuing rapprochement with China has generated substantial controversy on the island.

### THE CONTROVERSY: ECONOMIC RATIONALITY VS. NATIONAL SECURITY

The controversy over Ma's economic policies can be characterized as a debate between those who emphasize economic rationality and those who stress national security. Since the early 1990s, Taiwan's economic relations with China have been influenced by two powerful but conflicting forces. On the one hand, the Chinese mainland is very attractive to Taiwanese investors due to its proximity, shared culture, cheap labor, abundant natural resources, and huge market. As a consequence, the island's businesspeople have been drawn to the Chinese mainland. On the other hand, the Taipei government is fully aware of Beijing's tactic of "economic integration," which aims to create a "spillover" effect into noneconomic areas of contact so that the political union of Taiwan and China can be achieved. Given that relations between Taiwan and the Chinese mainland are highly asymmetric, the former Taiwanese government under the leadership of Chen Shui-bian expressed genuine concern that the island's increasing economic dependence on the Chinese market would threaten its national security. It also worried about the "hollowing-out effect" on Taiwan's economy, as unrestricted investments in China would not only aid the mainland but also exhaust the capital and technologies necessary for the island's own economic development. Noting Beijing's attempts to "cajole people to influence officials" (*yi-min bi-guan*) and "cajole business to affect politics" (*yi-shang wei-zheng*), the Chen administration was suspicious of Taiwanese business people in China, fearing that they could become a mainland "Trojan horse" and undermine Taipei's policies from within.

As a result of these concerns, the Chen administration continued his predecessor's approach of "no haste, be patient" (*jie-ji yong-ren*), designed to slow down cross-Straits economic relations, and

implemented the "effective management, active opening" policy (Wang 2002). The policy imposed tight control over cross-Straits economic exchanges, publicized the risks and weaknesses of the mainland's investment environment, and encouraged Taiwan businesses to diversify their investments to other countries. However, these policy measures have proven ineffective because Taiwanese enterprises have routinely evaded government policies. Speaking from the perspective of economic rationality, Taiwanese business interests have justified their investments by insisting that the only way for them to stay competitive was to move large segments of their businesses to the mainland, where the operational costs were much lower. They repeatedly asked Taipei to loosen restrictions on investment in China and to lift the ban on the "three links" between the two sides of the Strait, as the lack of these direct contacts only added inconvenience and costs to their business operations. The Taipei government has been repeatedly forced to "catch up" to economic reality by retroactively relaxing restrictions and legalizing widespread business activities that had been going on underground, sometimes for years.

The controversy over Ma's economic policies can be characterized as a debate between those who emphasize economic rationality and those who stress national security.

As a result, cross-Straits economic exchanges have expanded rapidly over the past decade, even though the political relationship between Beijing and Taipei was frigid during Chen's tenure as president. As Table 1 shows, two-way trade between China and Taiwan has risen from U.S. \$31 billion in 2000 to more than U.S. \$102 billion by the end of 2007.



**TABLE 1: Cross-Strait Trade and Investment**

| Year | Trade Between Taiwan and China (in U.S. \$millions) | Taiwan Investment in China (in U.S. \$millions) |
|------|---|---|
| 2000 | 31,253  | 2,296   |
| 2001 | 31,510  | 2,980   |
| 2002 | 39,497  | 3,971   |
| 2003 | 49,311  | 3,377   |
| 2004 | 65,722  | 3,117   |
| 2005 | 76,365  | 2,152   |
| 2006 | 88,116  | 2,135   |
| 2007 | 102,260   | 1,774   |

Source: Mainland Affairs Council. 2009. "Monthly Report on Cross-Strait Economy" (*Liang-An Jing-ji Tong-ji Yue-Bao*), No. 191, Table 5 and Table 10. Available at <http://www.mac.gov.tw/>.

Before President Chen left office in 2008, cross-Strait trade accounted for 22 percent of Taiwan's total foreign trade. The Chinese mainland is the island country's number-one market for exports, and more than 62 percent of Taiwan's U.S. \$73 billion surplus comes from trade with China. The Chinese mainland is also the number-one venue for Taiwanese investors. For seven years during Chen's eight-year presidency, the island's businesses consistently invested NT \$2-3 billion per year in China (Mainland Affairs Council, 2009). Cross-Strait economic ties have played a pivotal role in both sides' economies, particularly Taiwan's.

For Ma and his advisers, the policies implemented by the Chen administration were viewed as unnecessary obstacles to the business activities of Taiwanese investors on the Chinese mainland. During the presidential campaign, Ma repeatedly portrayed Chen's approach to cross-Strait relations as a self-imposed "isolation policy" (*suoguo zhengce*), which was contributing to the island's deteriorating economy. As China grows to become the largest market in the world and remains Taiwan's number-one destination for foreign investment, Ma vowed to remove the economic constraints. Even before he took office in May 2008, high-ranking

officials of the Nationalist Party (Kuomintang or KMT), including the KMT honorary chairman Lien Chan, the KMT chairman Wu Poh-hsiung and Vice President-elect Vincent Siew, met with Chinese President Hu Jintao to pave the way for the resumption of cross-Strait talks between Taiwan's Straits Exchange Foundation (SEF) and China's Association for Relations Across the Taiwan Straits (ARATS), the two quasi-governmental bodies handling cross-Strait relations. The trend towards improved cross-Strait relations culminated in the accords between SEF and ARATS that realized the "three links" and an agreement on handling the food safety of Chinese products.

As a further sign of improved cross-Strait relations, Taipei's new government also proposed negotiating a CECA/ECFA with Beijing. The proposed ECFA is a Free Trade Agreement (FTA)-like accord under the framework of the World Trade Organization (WTO) with the aim of strengthening bilateral trade relations between China and Taiwan. The Ma administration points to the urgency of negotiating such agreements with China and other countries. The Association of Southeast Asian Nations (ASEAN) and China are set to form a free trade zone in 2010, known as the ASEAN+1. The government argues that Taiwanese goods would be subject to higher import duties than the ASEAN nations after such an agreement, and would therefore be less competitive, particularly in the petrochemical, electronics, textile, and machine tool sectors. The consequences of China entering into such a deal with the ASEAN nations would include massive exodus of Taiwanese businesses and a permanent loss of 114,000 jobs on the island. Speaking to the media, Ma argued that the proposed economic pact with China would be non-political in nature and that the island's sovereignty would not be undermined. Because a cross-Strait agreement with China might facilitate Taiwan's efforts to sign FTAs with other WTO members, the Ma administration believes the proposed ECFA would help avoid the marginalization of Taiwan in an increasingly competitive international community (*China Post*, February 28, 2009).

Ma's proposal has generated much concern and debate on the island. Chief among the concerns is that the proposed ECFA is likely to be similar to

**TABLE 2: Distribution of Responses on the Pace of Cross-Strait Interaction**

| Year/<br>month | Too Fast | Just Right | Too Slow | No<br>Response | N    |
|----------------|----------|------------|----------|----------------|------|
| 2007.04        | 22.5     | 34.5       | 30.2     | 12.7           | 1072 |
| 2007.08        | 21.0     | 36.1       | 28.7     | 14.2           | 1095 |
| 2008.07        | 33.6     | 40.9       | 13.5     | 11.9           | 1090 |
| 2008.08        | 29.5     | 40.6       | 17.5     | 12.4           | 1094 |
| 2008.12        | 32.8     | 43.0       | 14.6     | 9.6            | 1096 |

*Note: Row percentages.*

*Source: polling data from Election Study Center, National Chengchi University.*

**TABLE 3: Distribution of Responses on Cross-Strait Economic Exchange**

| Year/<br>month | Tightening<br>Restrictions | As Is | Loosening<br>Restrictions | No<br>Response | N    |
|----------------|----------------------------|-------|---------------------------|----------------|------|
| 2007.04        | 52.2                       | 3.5   | 30.3                      | 13.9           | 1072 |
| 2007.08        | 50.3                       | 3.6   | 32.3                      | 13.9           | 1095 |
| 2008.07        | 58.0                       | 3.1   | 26.2                      | 12.8           | 1090 |
| 2008.08        | 65.5                       | 1.9   | 20.9                      | 11.6           | 1094 |
| 2008.12        | 62.6                       | 2.8   | 23.4                      | 11.3           | 1096 |
| 2008.12        | 32.8                       | 43.0  | 14.6                      | 9.6            | 1096 |

*Note: Row percentages.*

*Source: polling data from Election Study Center, National Chengchi University.*

the Closer Economic Partnership Arrangements (CEPA) signed between Hong Kong, Macau, and China, and therefore would erode Taiwan's sovereignty. Citing the remarks by Chinese President Hu Jintao, opponents argue that the "one China" principle is Beijing's precondition for an economic pact with Taipei, meaning that the Ma administration would need to accept that Taiwan is a part of China. Signing an ECFA with Beijing would therefore necessarily surrender Taiwan's sovereignty. Cross-Strait economic relations are not merely economic in nature but have enormous implications for the island's national security. Opponents of the agreement also question

whether Beijing would necessarily allow Taipei to sign FTAs with other countries after the ECFA is signed. Because China "does all it can to stop Taiwan from signing Free Trade Agreements with other nations and regional alliances," critics contend that this argument is wishful thinking. Opponents also question the economic benefits that an ECFA with China could bring to Taiwan. With the influx of cheap Chinese labor and products, it is argued that the negative effects on Taiwanese enterprises and the livelihood of farmers would be enormous (Tsai, 2009).

Although no survey has been done specifically on the issue of the ECFA, recent public opinion

polls show that Taiwanese citizens have increasing reservations about the rapid expansion of cross-Strait relations. As Tables 2 and 3 show, between April 2007 and December 2008 the proportion of islanders who see cross-Strait interactions advancing “too fast” has increased from 23 percent to 33 percent, while the percentage of those who believe cross-Strait relations are expanding “too slow” has declined by about 15 percent. During the same period, an increasing percentage of respondents expressed a preference for tightening control of trade and investment with China, reflecting the island citizens’ concern over the implications of economic dependence on China for Taiwan’s national security. As the most recent survey data in Table 4 shows, such a concern clearly crosses partisan lines. Fifty percent of pan-Blue (the alliance of parties centered on the KMT), 79 percent of pan-Green (their rivals, centered around the DPP), and 66 percent of non-partisan respondents, prefer tighter controls on cross-Strait trade and investment. Based on this evidence, opposition to the ECFA cannot be dismissed as merely partisan in nature. That said, this does not mean that the island citizens disapprove of the Ma administration’s overall cross-Strait policies. As Tables 5 and 6 indicate, Ma’s call on “one China with different interpretations” (*yi-zhong ge-biao*), which aims to maintain the cross-Strait political *status quo* receives support from a majority of the island citizens, who also express confidence in Ma’s ability to maintain cross-Strait peace and stability.

## GO SLOW WITH TRANSPARENCY

The negative effects of the recent global financial crisis have spread rapidly since the fall of 2008. Because Taiwan is one of the countries hit hardest by the global slump, President Ma is confronted by enormous challenges as he attempts to deliver on his campaign promise of a better economy. Taipei’s new government has been betting heavily on the economic benefits from improved cross-Strait relations. However, although the long-expected “three links” were finally established, the projected economic boom has failed to materialize yet. As Ma’s approval rating plunged, his proposal of reaching a free trade accord with China has

**TABLE 4: Distributions of Responses on Cross-Strait Economic Exchange by Party ID**

|                         | Pan-Blue | Pan-Green | Non-partisan |
|-------------------------|----------|-----------|--------------|
| Tightening Restrictions | 49.9     | 78.7      | 66.4         |
| As Is                   | 3.2      | 3.9       | 2.2          |
| Loosening Restrictions  | 32.7     | 11.3      | 17.0         |
| No Response             | 9.8      | 6.1       | 14.4         |

*Note: Column percentages. Source: “Taiwan Citizens’ Views on Mainland Policy and Cross-Strait Relations,” Election Study Center, National Chengchi University, 2008.*

**TABLE 5: Taiwan Citizens’ Positions on “One China with Different Interpretations” (N=1096)**

|                         |      |
|-------------------------|------|
| Extremely Acceptable    | 13.9 |
| Acceptable              | 39.1 |
| Unacceptable            | 19.3 |
| Extremely Unacceptable  | 12.9 |
| No response /Don’t Know | 14.8 |

*Note: Column percentages.*


*Source: “Taiwan Citizens’ Views on Mainland Policy and Cross-Strait Relations,” Election Study Center, National Chengchi University, 2008.*

**TABLE 6: Taiwan Citizens’ Confidence in Ma’s Ability to maintain Cross-Strait Peace and Stability (N=1096)**

|                          |      |
|--------------------------|------|
| Extremely Confident      | 16.2 |
| Confident                | 34.8 |
| No Confidence            | 20.5 |
| Absolutely No Confidence | 20.5 |
| No response /Don’t Know  | 8.0  |

*Note: Column percentages.*

*Source: “Taiwan Citizens’ Views on Mainland Policy and Cross-Strait Relations,” (Election Study Center, National Chengchi University, 2008).*



encountered serious resistance, while Taiwanese citizens also feel that cross-Strait interactions have expanded too rapidly.

The Ma administration is correct in its attempt to forge a better political and economic relationship with China. The political thaw between the two sides of the Taiwan Strait has been welcomed by Washington and the international community. As the Chinese mainland becomes the world's largest market, it would be difficult, if not impossible, for any Taipei government to ignore the fact that China is, and probably will continue to be, the number-one venue of Taiwanese investment and Taiwan's leading trading partner. However, although Ma's KMT controls the legislative branch with an overwhelming majority and he could easily push the proposed ECFA through, it would still be politically prudent for the Ma administration to slow the pace and start effective communication with the opposition.

Transparency requires effective communication, which, unfortunately, has not been the Ma administration's forte.

Indeed, Taiwan's future relationship with China, known as "the issue of unification vs. independence" (the *tong-du* issue), is the single most important political cleavage on the island. Born in Hong Kong, for example, Ma is seen as a "Mainlander." His increasingly warm stance towards China evokes suspicions among Taiwanese whose families were already on the island when the KMT arrived and enforced violent policies to suppress dissent. Those who strongly support Taiwan's *de jure* independence will thus view his rapprochement strategy for China with suspicious eyes, fearing that he may "sell out Taiwan" (*mai-tai*) to Beijing. Should Ma decide to push through the proposed ECFA with little attention to the concerns expressed by the opposition, he is likely to

deepen the divisions of an already divided society and erode the foundations of a vibrant democracy in East Asia. His administration therefore needs to be as transparent as possible in its approach to improving ties with China. Even though he will continue to have difficulty convincing those who strongly support Taiwan's *de jure* independence, a transparent policymaking process may at least reduce some anxiety.

Transparency requires effective communication, which, unfortunately, has not been the Ma administration's forte. Although more than a year has elapsed since the idea of CECA/ECFA was first proposed during the presidential campaign, Taipei's government made no attempt to systematically explain what the accord would entail until recently, following serious questioning from its critics. Nor has the Ma administration clarified what benefits the proposed accord could bring to the island's ailing economy. The controversy over the proposed agreement with Beijing is due in part to Taipei's inability to communicate effectively with its citizens. In particular, the Ma administration needs to fully explain how the proposed accord would be different from the CEPA between China, Hong Kong, and Macau, and why an economic pact with Beijing would help Taipei to secure agreements with other neighboring countries. Beijing's refusal to renounce the use of force against Taiwan in its pursuit of unification has consistently been the main concern of the islanders. Despite the improved cross-Strait atmosphere, the most recent public opinion poll shows that more than half of Taiwan's citizens continue to see Beijing as unfriendly and threatening. A verbal assurance from Taipei officials, therefore, is not meaningful to those who express genuine concerns about Taiwan's sovereignty.

Finally, while opponents of the proposed ECFA have a legitimate concern about the possible negative effect on the island's national security, they have yet to bring forth a feasible alternative. Given the close economic ties between the two sides of the Taiwan Strait and an increasingly powerful China, a responsible opposition will need to provide a practical plan that could balance the considerations of economic rationality and national security.

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# NO CHANGE IN SIGHT: PARTY POLITICS AND THE LEGISLATIVE YUAN DURING THE GLOBAL ECONOMIC CRISIS

THOMAS J. BELLOWES

The 2008 change of government in Taiwan and the recent global recession have not significantly changed the modus operandi of the Legislative Yuan, Taiwan's parliament. The major issues today, all of which have some degree of emotional context, are those prevalent before the 2008 elections. Specifically, the major issues relate to the economy, identity, corruption, and the relationship between Taiwan and China. The issues are so intermingled that discussion of one immediately involves one or more of the others. These issues were present in various degrees prior to Ma Ying-jeou's inauguration as president on May 20, 2008. However, while it is obvious that the serious global financial and economic recession calls for prompt action by the government, the ruling party's new dominance of both the legislature and the executive has not resulted in effective governance. The Legislative Yuan has striven to remain relevant vis-à-vis the executive, and dominance of the ruling party has, if anything, hardened the main opposition party's stance, even as the latter fends off allegations of corruption. Meanwhile, the question of Taiwan's relations with China continues to loom large in Taiwanese politics. As a result of these factors, the global economic storm, while it has taken a significant toll on the Taiwanese economy, has not engendered significant change in the conduct of legislative business in Taiwan.

## POLITICAL AND ECONOMIC SETTING

Perceptions are critical in politics. Taiwan's current economic environment challenges President Ma and the Kuomintang (Chinese Nationalist Party, hereafter KMT) government to develop and to implement sound programs that will sus-

tain and increase the support and approbation of the average residents of Taiwan. A poll conducted in mid-2008 suggests many respondents still do not associate the KMT with a populist progressive image (Table 1).

The current economic setting generates considerable anxiety. *CommonWealth Magazine* in opening its 2009 State of the Nation Survey declared that Taiwan had "ended 2008 in a state of confusion and pessimism, and the prospects for 2009 in the minds of many citizens remain unclear." An overwhelming number of respondents, 85.8 percent, believed the separation between rich and poor is serious or very serious.<sup>1</sup> This wealth gap is a constant underlying issue, with polls taken two years earlier yielding similar results.

The current administration in Taipei has recently stressed integrity and conciliation as important issues. Without some modicum of success in this area, frustration and disillusionment could become a permanent component of Taiwan's political culture. A 2007 *Commonwealth* survey revealed that 50 percent of respondents thought "fighting between political parties and willingness to resort to any means necessary" was the greatest crisis facing Taiwan.<sup>2</sup> As he prepared for his presidential run, Democratic Progressive Party (DPP) candidate Frank Hsieh declared Taiwan was in chaos due to long-term squabbling between the ruling and opposition parties.<sup>3</sup> The second greatest concern was sluggish economic development. Although Taiwan's difficulty in finding economic solutions is shared worldwide, the Ma/KMT government, with its overwhelming wins in 2008, could not have anticipated the worldwide economic tsunami that began in the latter months of 2008.

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**TABLE 1. Is the KMT Party Representing the Rich and Powerful or Ordinary People?**

|  | Rich and Powerful % | Ordinary % | Both % | Neither % | Don't Know % | N    |
|--|---------------------|------------|--------|-----------|--------------|------|
| <b>Respondent Definition of Identity</b> |                     |            |        |           |              |      |
| Taiwanese Only                           | 59.2                | 17.9       | 7.5    | 2.1       | 13.2         | 1012 |
| Both Taiwanese & Chinese                 | 35.0                | 40.0       | 9.8    | 5.0       | 10.2         | 759  |
| Chinese Only                             | 35.1                | 42.7       | 6.3    | 7.1       | 8.9          | 92   |
| <b>Party Identification</b>              |                     |            |        |           |              |      |
| KMT                                      | 27.3                | 54.6       | 9.4    | 5.0       | 7.3          | 670  |
| DPP                                      | 84.5                | 5.8        | 4.3    | 0.8       | 4.6          | 530  |
| Don't Know                               | 42.4                | 18.2       | 10.3   | 3.8       | 25.6         | 659  |

Source: Election Study Center, National Chengchi University, *Taiwan's Election and Democratization Study*, June/July 2008 (TEDS 2008P, Table P2).

## THE LEGISLATIVE YUAN AS TRADING POST

Since 1992, all members of the Legislative Yuan have been elected, and the latest Freedom House Survey now identifies Taiwan as politically free.<sup>4</sup> The January 2008 elections saw the Legislative Yuan downsized from 225 to 113 members, with the Kuomintang winning 81 seats. The DPP, as the principal opposition party, won only 27 seats. The at-large seats, determined by voting for a party, can be seen as a measure of party support at the moment of an election. In 2008, the KMT won 51.23 percent of the party vote, with the DPP capturing only 36.91 percent.

The president has been chosen by popular vote since 1996, a plurality determining the winner. In the March 2008 elections Ma Ying-jeou won 58.45 percent of the vote, to defeat DPP candidate Frank Hsieh, who attained 41.55 percent, meaning that the KMT controls both the presidency and the Legislative Yuan for the first time in eight years. The KMT's return to power after eight years in oppo-

sition has resulted in the maneuvering for influence, status, and a piece of the turf that inevitably follows such political changes. Events surrounding the final passage of the annual budget bill provide an illustration of attempts by legislators to maintain their political position.

### **Budget Battles**

Despite KMT dominance of both the legislature and the executive, legislative process is hardly smooth. Events surrounding the passage of the 2009 budget, for example, show that KMT legislators, and even Speaker Wang Jin-pyng, who is a member of the KMT, are willing to allow the opposition to slow the regular legislative business. On January 13, 2009, the final day of the regular session, the Legislative Yuan adjourned without approving the budget bill, which could not pass before legislators considered the 109 amendments proposed by the opposition. Although the speaker could have postponed adjournment, making lawmakers work well into the early morning hours, he instead decided

to convene a special session to deal with the stalled budget. It took the Legislative Yuan only five hours to vote down the remaining 109 DPP motions during the subsequent January 15 session.

The necessity to approve the 2009 budget bill in a special session, held two days after the regular session, surprised many. The Executive Yuan's proposed budget was reduced by 1.1 percent, a slightly larger cut than the 0.8 percent of the 2008 budget when former DPP President Chen Shui-bian was in office. The failure to pass the budget on time, even though it was delayed only briefly, was interpreted as evidence of an unnecessary governing shortfall. An incisive editorial in the *China Times* questioned why the budgetary process was delayed when the KMT was in "complete control" of the legislature:

*The public doesn't care whether the relationship between the legislative and the executive is good or bad. They care why the ruling Kuomintang government which ostensibly has complete control remains incapable of passing an important budget and some important bills. That is why consultations between the executive and the legislative are so important.*<sup>5</sup>

The *China Times*, in the same editorial, questioned why Legislative Yuan Speaker Wang Jin-pyng held the legislative sessions far into the morning hours on several occasions to pass Chen's budgets, thus avoiding a special session, but did not do the same for Ma. With the eventual passage of the 2009 budget, the Executive Yuan was quickly forced to reallocate funds when such items as subsidies for the poor were cut. A key proposal by Ma to curb corruption by amending the Punishment of Corruption Act did not survive the procedural committee, and thus was not voted on by the entire legislature.

Ironically, criticism for Wang's move also came from inside the Legislative Yuan. Despite the extended session, the DPP caucus whip declared, incongruously, that the extended voting process demonstrated "how the KMT is using legislative process to suppress the DPP."<sup>6</sup> The budget amendments, which the DPP knew would fail, were a filibuster. While they failed in the Legislative Yuan, the proposed DPP resolutions fulfilled their pur-

pose because they demonstrated DPP power and relevance. With both the DPP and the press attacking the speaker and his party, Wang nevertheless had reasons to slow legislative business.

### ***Reasons for Legislative Intransigence***

Wang's reluctance to pass the budget promptly can be explained by the inevitable maneuvering for benefits, status, appointments and influence among representatives of the majority party that is an important variable in the political process. One expert interviewed described the legislature as a "trading post," a place to exhibit, confirm, or extend power as well as a place to penalize an affront or denial, and there are a number of reasons why KMT legislators may want to impede the legislative process.

KMT legislators do not want the Legislative Yuan to become a rubber stamp in the policy making process.

First, even though the KMT dominates both elected branches of government, most KMT legislators do not want the Legislative Yuan to become a rubber stamp in the policy making process. In fact, KMT dominance of both the legislature and the executive provides extra incentive to preserve legislative independence. Many have argued that the political relevance of the Legislative Yuan should be maintained and there should be a willingness on the part of KMT legislators to accommodate the DPP, even when confronted with stalling tactics. Speaker Wang alluded to this phenomenon when failure to pass the budget in the regular session proved, he said, that "the legislature was not controlled by a single party."<sup>7</sup>

Second, in addition to the budget, the Legislative Yuan is keen to maintain its voice on other pressing issues of the day. For example, on several occasions, Speaker Wang has declared that the Legislative Yuan must discuss, provide input, and approve any agree-

ments with China before they are signed. Achieving this goal would obviously strengthen the legislative role. Previously legislative consent for agreements with foreign countries had been *pro forma*, that is, the legislature often approved the agreements after they were signed by the executive. Several legislators are concerned about insufficient legislative participation and review of government actions, particularly concerning mainland relations. KMT representative Wu Ching-chih has questioned the fast pace of cross-strait talks, urging the government to explain clearly the positive and negative effects of these negotiations, which resulted in agreements to initiate additional regular cross-strait flights, establish a financial cooperation mechanism, and allow limited Chinese investment in Taiwan.<sup>8</sup> Wu has further declared Taiwan's economy would be doomed if only big business and not the general public benefit from these economic agreements.<sup>9</sup> It is clear that even KMT representatives are uneasy about handing over all authority to the Executive Yuan.

Third, Wang's objectives included affirming both his position and influence and the role and status of the Legislative Yuan. One observer described this as an internal power struggle, with many legislators insisting that their branch of government should have a major policy role. Some legislators believe they have not received appropriate benefits, nor had sufficient input into the process surrounding Ma's political appointments. In their view, the position of the legislature needs to be reinforced because Ma is seen as less willing to be influenced by political considerations and "more interested in getting the best person appointed." The personal motivations of legislative members were an important consideration in this regard. Speaker Wang, for example, wanted to assure that he will be ranked in first or second position on the at-large party ballot in the next Legislative Yuan election, thus assuring his return to the legislature, and avoiding an exhausting campaign in a single-member district in subsequent elections. Showing that he has power to hold up the business of the Legislative Yuan makes it all the more important that Ma cultivate him as an ally. Harold Lasswell's classic work identified poli-

tics generally as who gets what, when, and how.<sup>10</sup> These variables remain important in Taiwan's legislative system.

## DPP PERFORMANCE

Despite the weakness of its numbers in the Legislative Yuan and the economic crisis, which potentially calls for politics to take a backseat to swift action by the government, the DPP is determined to establish itself as a viable, active, relevant, and strong contender. To that end, publicity and headlines are critical. Several incidents, including a scandal involving the dual citizenship of a KMT lawmaker, and protests erupting from a visit to the Legislative Yuan by the premier, who in Taiwan is appointed by the president and is part of the Executive Yuan, illustrate this determination.

On January 9, 2009, Dianne Lee, a well-known KMT legislator, resigned from the Legislative Yuan over a dual-nationality issue. Lee became a drawn-out embarrassment to the KMT, as it gradually became clear she had not given up her U.S. citizenship as required of all persons in the Republic of China who hold political office. DPP legislators were disappointed because, with Lee's resignation, they had lost a good, sustained target to embarrass the KMT. The DPP launched repeated, high-profile attacks, demanding that she repay all salary received in her elected positions and that she be indicted for perjury. While this was something of a side issue, it often dominated the headlines and became a focus of legislative time and discussion.

Strong language against opponents is used to show willingness to stand up to "oppression" and personal and political strength, as well as to generate much desired publicity. In an effort to show moderation and to increase civility in the Legislative Yuan, Premier Liu Chao-shiuan personally visited the legislature on January 15 to thank the speaker and the lawmakers for passing the budget. However, such a meeting, characterized by conciliation and order, was not to be repeated. On February 20, the first day of the 2009 session, DPP lawmakers surrounded the premier and refused to allow him to deliver his administrative report. Five hours later, guarded by a circle of Kuomintang legislators, Liu delivered a truncated six-minute version of

his report. DPP lawmakers demanded that Liu apologize for the shrinking economy. Charges and demonstrations characterized the environment of the Legislative Yuan that day. President Ma later described the DPP actions as “vicious interference.” However, this was politics as usual in Taiwan.

## Physical confrontations... remain a staple for legislators to receive public attention.

Showboating by some representatives is a perennial event. Generally, physical action, sometimes directed against an individual colleague or a speaker, quickly becomes a media event with the perpetrators seen as demonstrating unwavering support for a rightful cause. Activism, boldness, and physical action are seen as important positive attributes by many legislators, especially by minority party members. More than one legislator told the author that publicity needs are understood by most representatives. Often, at the end of the day, the legislative protagonists can be seen smiling and shaking hands. A *China Post* editorial described the DPP actions of February 20 as a “spectacular hullabaloo and jostling,” but some Kuomintang lawmakers declared that the demonstrations were “stage-managed with their consent.” The opposition colleagues started “the noisy but harmless protest ahead of schedule,” thus prolonging the spectacle. This same editorial noted Ma probably did not know about the demonstration, and also referred to the protest as “just a matinee show.” Even the president understands the role of publicity in the Legislative Yuan, and it is therefore possible to see these types of performances as a type of legislative courtesy.

Physical confrontations are less frequent now, but remain a staple for legislators to receive public attention. Two examples which made the newspapers in written and pictorial format illustrate this point. In April 2009, a female DPP lawmaker Chiu Yi-ying slapped a KMT legislator because she said he insulted her parents.<sup>11</sup> Less than a month later,

a female DPP legislator attempted to grab the microphone from a male KMT colleague, who “held on to his microphone tightly to prevent it being snatched away.”<sup>12</sup>

Another tactic by the DPP can be described as physical obstruction. This is occasionally more effective, secures greater publicity, and makes clear to the public the pro-active commitment of the minority party. For example, a recent meeting of the Interior Committee considering accreditation of medical and Ph.D. degrees from China yielded intense discussion but no violence occurred. After the KMT legislators returned from a lunchtime recess, however, they found that the doors to the meeting room were locked from the inside and heavy furniture placed against the doors. Guards were called, but “no matter how hard they tried, the guards could not force the doors ajar.” The DPP legislative caucus whip, Ker Chien-ming, explained: “We have to oppose the amendments to the ends of our lives because this week Taiwan is being sold out to China.”<sup>13</sup>

What is more striking than the actual behavior, however, is that the parties condone it even when the public is dissatisfied with the performance of their representatives. A public opinion poll taken two months after the January 2008 Legislative elections revealed a moderate though noticeable discomfort with the Legislative Yuan. Respondents were asked how they would rate the legislative performance of the two major parties. On a scale of 0 to 10 with 0 meaning “dislike it very much,” and 10 meaning “like it very much,” 54.7 percent chose a number between 0 and 4. Approximately 15 percent responded that they did not know.<sup>14</sup>

### *The DPP and cultivation of public opposition*

Sometimes public political demonstrations can lead to violence. This was certainly true when visits to Taiwan by two Chinese officials sparked outrage stoked by the DPP, which believes that the power imbalance between Taiwan and China favors the latter in economic negotiations, and will lead to a less autonomous Taiwan and eventual unification with the mainland, to the detriment of Taiwanese democracy and national identity. The visits resulted in two violent demonstrations embarrassing the Ma government and insulting



mainland officials. It also showed the strength and political relevance of the DPP as well as its intention to win public support.

When Zhang Mingqing, vice-chair of the Association for Relations Across the Strait (ARATS) and dean of the School of Journalism at Xiamen University, visited a Confucian temple in Tainan on October 21, 2008, he was attacked by an angry crowd. Several newspapers printed reports that he had been mobbed in Tainan. Zhang was slightly injured and taken briefly to a hospital. News reports noted that a Tainan "DPP City Councilman who led the mob is alleged to have knocked Zhang down."<sup>15</sup>

The Tainan eruption was only a precursor to the visit of Chen Yulin, chairman of ARATS. There were violent clashes between police and demonstrators on the evening of November 7, 2008, when Chen attended a dinner hosted by KMT chairman Wu Poh-hsiung at the Taipei Grand Hotel. The demonstrators laid siege to the hotel for four hours. Chen and Wu could not leave the hotel until two o'clock the following morning. Demonstrators reportedly attacked police with stones and petrol bombs and had to be forcefully dispersed. The newly chosen chairwoman of the DPP, Tsai Ing-wen, maintained she led away all the supporters who had taken part in the demonstrations before the violence erupted. Some DPP members implied that anti-DPP provocateurs were the ones who initiated the violence.<sup>16</sup>

The local elections in Taiwan in December 2009 may well lead to an escalation of "taking politics to the streets" as a tactic to build public support. The DPP has designated 2009 as the year of social movements and is establishing a social movements unit in the party. One DPP official said the "organization law must be changed to prepare for constant engagement in street protests."<sup>17</sup> The appearance of strength and decisive action is an image that many individuals and groups cultivate in Taiwan's political process, and it is through these protests that the DPP hopes to foster an image of strength, despite the party's numbers in the Legislative Yuan.

### **Corruption**

A major unanswered question in Taiwanese politics is how the DPP will separate itself from Chen Shui-

bian, the party's former leader who is currently on trial for corruption, while preserving his legacy of promoting Taiwanese independence. In November 2006, Chen's wife, Wu Shu-chen, was indicted on charges of corruption, perjury, and forgery. It was alleged Wu Shu-chen swindled U.S. \$450,000 from a discretionary state affairs fund for secret diplomacy and other security matters.<sup>18</sup> Chen Shui-bian could not be indicted as president, with his term ending on May 20, 2008. Just days after his wife's indictment, Chen told prosecutors that he did not steal any money but also could not explain what had happened to the revenue in question. He vowed to step down from the presidency only if his wife were found guilty.

It did not help Chen when former president Lee Teng-hui openly blasted the DPP administration for incompetence and inefficiency. Former President Lee criticized the DPP for its corruption: "I have never seen any other country than Taiwan to have over 10 ministers jailed on charges of corruption within seven to eight years."<sup>19</sup> President Chen subsequently was indicted on December 12, 2008, for money laundering and misuse of public funds. The former first lady, her son, daughter-in-law, her brother and his wife were charged with money laundering. Seven other individuals associated with Chen were also indicted on corruption charges.<sup>20</sup>

More corrupt practices were revealed in December 2008 when the former interior minister, Yu Cheng-hsien, was charged with rigging a construction contract for an exhibition hall in 2004. By mid-December 2008, the former president, his wife, son and daughter-in-law, along with 13 others, had been indicted on corruption charges. Chen was charged with forgery, graft, and money laundering. DPP spokesman, Cheng Wentsang said, "the party must rethink its core values of integrity, diligence, and love for the land."<sup>21</sup> In January 2009, the Special Counsel accused Chen of extorting property and demanding donations forcibly through influence. In mid-January, Chen's son pleaded guilty to money laundering operations undertaken by him and his wife, and agreed to surrender the money to prosecutors or donate it to charity. One month later, two of former First-Lady Wu's close friends pleaded guilty to helping Wu



handle corrupt financial matters. Wu Shu-chen, appearing in court on February 10, 2009, pleaded guilty to forgery when claiming a New Taiwan (NT) \$18.4 million reimbursement from an “affairs of state fund and also to money laundering.” She continued to deny embezzlement charges.<sup>22</sup>

Revelations of misdeeds appear never-ending. Chen Shui-bian’s son, daughter, and son-in-law were indicted for perjury in June 2009. Shortly thereafter, former First Lady Wu Shu-jen released a statement declaring, “she had asked them to lie to prosecutors in the case alleging she misused special presidential funds.”<sup>23</sup>

The corruption issue and Chen’s stand on independence often remain intertwined. Lim Tso-shi, a former DPP legislator and a person many acknowledge as a potential grand architect of Taiwanese independence, believes that Chen Shui-bian’s personal immorality and corruption have impeded the independence movement. Juxtaposed to Lim’s position are those supporting Chen who believe maximum effort must be made to save Chen’s reputation as a national hero and son of Taiwan.<sup>24</sup> Chen’s supporters are represented by two well-known Taiwan personalities and independence proponents—Kao Chun-ming, a Presbyterian minister, and Li Hung-hsi, a law professor at Taiwan National University, a well-regarded scholar, and one of Chen’s former professors.

However, some leading figures in the DPP are endeavoring to distance themselves from former President Chen. With hardcore support for Chen between 15 and 20 percent, they need to tread cautiously. The DPP chair, Tsai Ing-wen, has urged Chen Shui-bian and his family “to squarely face their moral problems as well as the upcoming corruption trial.”<sup>25</sup> Frank Hsieh, former premier and the DPP’s 2008 presidential candidate, declared that Chen should “admit his wrongdoings and show remorse to his supporters.”<sup>26</sup> One irony is that when Chen Shui-bian ran for president in 2000, anti-corruption was an important part of the DPP platform.

Chen’s incarceration and the handling of his prosecution have led some to question the fairness of the process and charge political persecution. President Ma has maintained a studious distance from the judicial undertakings against Chen. This has helped mute charges the president and the

KMT are surreptitiously directing the prosecution of the former president. The plea bargaining by Chen’s son and wife, the guilty plea of the former president’s bookkeeper to forgery, graft, perjury, and money laundering, and the admission of some guilt by Chen’s wife undermine allegations of political persecution and Chen’s repeated declarations of innocence. Hopes of rallying DPP supporters to defend a persecuted Chen Shui-bian are less likely to be realized as time goes by.

## CONCLUSION

Volatile debates, and confrontations over independence, national identity or personal behavior issues, as well as strident political attacks have continued since President Ma assumed office. Such actions still often remain coin of the realm and make effective, responsive, and civil policy making more difficult. No country in the world has developed a set of plans that appears imminently capable of solving recession problems related to the international economic crisis. This includes Taiwan. The fact that Taiwan is a semi-presidential system means the legislature has considerable influence, and there is much media focus on the Legislative Yuan. However, at this time, its power is to delay and force compromise rather than formulate policy to deal with the current economic problems Taiwan faces.

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# CAN MA DELIVER? PRESIDENTIAL PRIORITIES, PROMISES, AND POLITICS DURING THE GLOBAL RECESSION

YU-LONG LING

Of the many promises that Kuomintang (Chinese Nationalist Party, hereafter KMT) candidate Ma Ying-jeou issued during his 2008 campaign for the presidency, his so-called “6-3-3” program attracted the most public attention. This program promised to raise the growth rate to 6 percent, expand Taiwan’s Gross Domestic Product (GDP) to U.S. \$30,000 per capita, and reduce unemployment to 3 percent. At that time, because economic conditions were stable, Ma’s campaign promises did not seem too farfetched. Unfortunately, the global economic crisis has no notion of favoritism and Taiwan has been hit hard by recent economic shifts. Now, there is no way President Ma can deliver on his election promises. Therefore, many are now asking themselves what repercussions Ma will face, in terms of how the crisis will affect the KMT.

This essay will attempt to answer this question. It will consider three fundamental areas that effect Ma’s ability to deliver. Firstly, it will examine how well the political institutions of Taiwan can handle this economic crisis, specifically in terms of Ma’s ability to keep his campaign promises under the current political arrangements. Secondly, it will review Ma’s leadership style and show how his charisma can help him navigate the turbulent economic waters. And thirdly, it will discuss the extent to which the government can actually act to alleviate the crisis. It will then consider Ma’s ability to survive the global economic storm and offer the beleaguered president some suggestions on how to enhance his political longevity.


## TAIWAN’S POLITICAL STRUCTURE

Taiwan’s political structure is unlike the government in the United States and other liberal democracies in

that it is not based on a strict balance of powers. The government of the Republic of China, the polity that came to govern Taiwan after its leaders fled the Chinese mainland in the wake of Communist revolution, was originally based on Sun Yet-Sen’s “five powers” government.<sup>1</sup> In addition to the executive, legislative and judicial branches, Sun added the examination and control branches—or *yuan*—for more power and efficiency. The philosophical base behind the five powers government was that pre-revolutionary China was a poor country in need of powerful government to provide services to its people. The examination and control *yuan* were not therefore conceived as providing further checks on governmental power. Indeed, the control *yuan* was intended as an official supervisory branch in part to ensure efficiency of government. As Sun pointed out, the power of the government is very much like the power of the locomotive engine; the greater the engine, the higher the output. With the five branches working together, government was, in the past, strong and effective.

However, due to several constitutional reforms, government structure in Taiwan has lost its original efficiency. These reforms have served to increase the power of the legislative *yuan*, and therefore, whether Ma can carry out his plan and policies depends to a great extent on his relationship with this particular branch of government. Often, when the dominant party controls the executive, the minority party controls the legislative *yuan*, so that now there are more institutional balances in Taiwanese politics. Ultimately political warfare between the parties creates political deadlock. However, Ma’s party, the KMT, currently controls the executive and legislative branch in Taiwan. Under these circumstances, therefore, Ma will have a greater chance at success in implementing the policies of his administration. While the economic

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situation presents Ma with overbearing challenges, at least he knows, to a large extent, that he can rely on the unity of his government to implement policies to address the situation more effectively.

### MA'S LEADERSHIP STYLE

But checks on government are not always constitutional, and in order to advance his policy agenda, the Taiwanese president needs to solicit the understanding of the population by communicating with them effectively. In this arena, Ma has an advantage, as it is undeniable that he possesses more than his share of charisma. He is well educated, rich in administrative experience; he has great communication skills, and he is well-liked by the people. In fact, immediately after the election, his approval ratings stood at a staggering 87 percent, a record high. Ma's image was also consistently portrayed as honest and forthright. In contrast, the opposition party leaders are portrayed as corrupt and incompetent; the poor performance of the defeated Democratic Progressive Party (DPP) only enhanced Ma's popularity further.

Since the election, Ma has acted to reassure the people by maintaining a highly visible public profile. For instance, he has conducted press conferences, delivered the State of the Union address, participated in TV interviews and even journeyed from city to city to explain the issues Taiwan faces and the solutions he has formulated to solve those problems. Ma's character and charisma notwithstanding, however, his greatest challenge will be overcoming a depressed economy, caused largely by a decrease in exports. Recent public opinion polling has already shown the decline in Ma's support rating. However, at least to some extent, decline in popularity is a normal occurrence given the economic circumstances. The frustration of the voters toward economic conditions as a whole is reflected in the way they view their president.

### THE EXTENT OF GOVERNMENT POWER

The structure of government and Ma's personality aside, what can the government realistically achieve in times of extreme global recession? The answer lies in the nature of the issues and policies. The relationship between Taiwan and China, for example,

is an issue that falls more within Ma's control than does the overall economic situation. After he took office, Ma immediately moved to reactivate the cross-Straits relations between Taiwan's semi-official Straits Exchange foundation and its mainland Chinese counterpart, the Association for Relations across the Taiwan Strait. The leaders of Taiwan and mainland China have reached half a dozen formal agreements on issues of practical importance since they resumed contact. These accomplishments constituted not only a significant breakthrough in the development of cross-Straits relations, but a major step in fulfilling Ma's promise to promote regional peace. This growing warmth between Taiwan and the mainland has been augmented by a number of friendly gestures. Under Ma, for example, Taiwan has finally accepted two pandas as gifts from China, an action which demonstrated goodwill on both sides. Interestingly, the names of these two pandas are *Toung-toung*, and *Yen-yen*, which when united, mean unification (*Toung-Yen*).

Ma now faces a cruel reality: regardless of how he acts, he now has no hope of fulfilling his election promises.

However, there are some issues, such as the economy, over which political leaders have less control. Based on the projections of international and domestic economists, there is no way that Ma can fulfill his 6-3-3 campaign promise, which stated that if Taiwan could maintain economic growth at 6 percent or more, unemployment would *decrease* and individual income would *increase*, a practical impossibility in the current economic climate. Ma was probably quite sincere when he made his campaign promises, which were based on the economic conditions and available data at the time of his campaign.

But voters now need to be realistic. There are certain issues that are within the powers of the

presidency; however, there are some that are clearly not. Ma now faces a cruel reality: regardless of how he acts, he now has no hope of fulfilling his election promises. Nevertheless, as the general public begins to panic and worry about their future, a good leader should be concerned about the people's anxiety, but should position himself as confident and active. This is a test of Ma's resilience to see an end to this crisis and help his country survive.

### CAN MA SURVIVE?

In assessing Ma's ability to weather the financial storm politically, there are many variables that need to be considered, so it is necessary to examine what Ma's administration has done to confront the challenges so far. In addition to improving relations with China, Ma has attempted to avert the worst consequences of the financial crisis. Taiwan was the first Asian country to provide a blanket guarantee of all domestic bank deposits, which will stabilize panic, and in turn, create confidence in the banking system. He has also created a stimulus package to revitalize the infrastructure and bolster employment. Ma has also demanded that employers refrain from laying off employees and also helped create new jobs and provided training to the unemployed through infrastructure projects. The Taiwanese government plans to invest New Taiwan (NT) \$3.99 trillion in the Taiwan-12 project, a major government works initiative that will create 120,000 jobs every year over its eight-year course, and encompasses infrastructure projects such as a fast and convenient transportation network throughout the entire island. The project will also see the investment of NT \$10 billion annually in IT education and development for urban and rural areas. Finally, the project contains measures to renovate and build urban and rural areas, as well as plans to help 600,000 small farm households.<sup>2</sup>

Taiwan's premier Liu Chao-shiuan delivered his administrative report at the opening of the new legislative session this year.<sup>3</sup> He announced that in the next 4 years, the government of Taiwan will focus on expanding public construction, encouraging private investment, and developing competitive enterprises. In so doing, he stated his desire to see Taiwan overcome the economic crisis. In order to boost consumer spending, the government of Taiwan allocated

NT \$3600 vouchers to each citizen. As a result, many merchants began advertising special deals to further induce consumers to spend money and improve the economy. Of course, no one completely understands how much this measure has helped the economy, and some have argued that the amount of money was too meager to provide any real financial stimulus. Nonetheless, Ma must continue to push forward to combat negative economic trends.

Ma understands well the cliché that within every crisis lies opportunity, and has demonstrated this through his crisis management skills. First, he has tried to build the confidence of the people by saying that even though Taiwan is in a crisis, they must not panic. Not long ago, he delivered a speech to lift the spirits of Taiwanese citizens and to give them hope, saying "Taiwan has ample foreign exchange reserves, low household debt and business liabilities, and highly resilient business enterprises."<sup>4</sup> In an open and capitalistic economy, competitiveness is the key to survival. In order to be competitive, society has to focus on innovation and the development of human resources capital. For this reason, Ma has emphasized to his constituents that they need to direct their attention accordingly. This shows that Ma is making attempts to not only solve the problem in the short run but also shows that he is preparing for the future.

Ma can also take some solace in the state of the opposition. While the basic factor voters consider when they cast their votes is the performance of the president and his ruling party, the performance of the opposition Democratic Progressive Party (DPP) is not hurting Ma's chances for future reelection. Due to its overwhelming defeat in the March 2008 election, the DPP is demoralized and lacks direction. This is only compounded by the current corruption trial of former DPP President Chen Shui-bian, which has tarnished the image of his entire party. At least so far, there is no real contender that has emerged as a serious rival for Ma for the next presidential election.

### SUGGESTIONS FOR SURVIVAL

At this time I would like to make a few suggestions for Ma:

1. Drawing on his considerable charisma and popular touch, he should continue to give *hope and con-*



*fidence* to the people. If he cannot get the people excited and hopeful, the country is doomed. He should also utilize his charisma to get closer to the people and keep them informed. By working in this personal manner, he will be more transparent and available to the people, further instilling a sense of hope and confidence.

2. He should focus on domestic issues such as education, law and order and a clean and effective government. These are the main issues affecting the daily life of the people. Ma will have to prioritize his domestic policies to meet the needs of the people in Taiwan.
3. He should continue to improve relations with China, which will provide more stability and in turn create a better environment to attract future investors. Nevertheless, Ma must exercise caution in his deals with the mainland, as friendly interaction with the mainland does have the potential to stir up resentment in Taiwan. He should therefore reassure the Taiwanese people that he would never take any action that would compromise their nation's sovereignty. China must also understand this message.
4. He should emphasize action over rhetoric. During the campaign, Ma was able to communicate his ideas with the voters; now that he is the president, he needs to take action. The best example of action over rhetoric is the new initiatives that China and Taiwan have accomplished together.

## CONCLUSION

It appears that Ma is in a position to consolidate all branches of government to face this unprecedented crisis. Furthermore, he is utilizing his charismatic leadership style in an attempt to reassure voters. Although not every issue can be solved by government, there is an expectation in the Taiwanese political culture that government should act towards the people like a parent toward their children. While Taiwanese citizens often blame even the occurrence of natural disasters on the government, in the face of the current crisis, they must realize that the government's ability to control the situation is

certainly limited in some respects. When the voters return to the polls in three years time, Ma's inability, in new economic times, to deliver on what he promised during the 2008 campaign may result in his downfall. It appears, however, that he is doing the best he can under unforeseen circumstances.

Ma's presidency will prove to have its great challenges. He must understand that the opposition—though demoralized and mired in scandal—will attempt to single out any mistake he makes. Ma must act quickly and diligently to prove himself as a great leader in a time of difficulty. Dealing with crisis is an inevitable part of leadership. Great leaders take advantage of crises and overcome them, laying down their legacies in the process. Leaders who are washed out by crisis will be forgotten and sometimes even condemned. Few would envy the world's current national leaders in today's international economic climate. But perhaps their motivation and inspiration can come from how those who have been able to carry their country through hard times have been appreciated and honored by future generations. It is up to Ma what legacy he will leave behind.

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3. More details about Premier Liu-Chao-shiuan's report can be seen (in Chinese) at <http://www.ey.gov.tw/mp?mp=1>.
4. Ma Ying-jeou, "New Year's Day Celebratory Message," January 1, 2009, from the Government Information Office website, available from: <http://www.gio.gov.tw/fp.asp?xItem=44972&ctNode=2462&mp=807>.





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