

## **February 1982**

# **Central Intelligence Agency, Directorate of Intelligence, 'Taiwan: New Leaders and New Policies: An Intelligence Assessment'**

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### **Summary:**

A CIA memorandum on the implications of leadership changes in Taiwan. The report profiles Sun Yun-hsuan, Sung Chang-chih, Chao Yao-tung, and Lin Yang-kang, among other leading politicians.

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# Taiwan: New Leaders and New Policies

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An Intelligence Assessment

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EA 82-10019  
February 1982

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# Taiwan: New Leaders and New Policies [Redacted]

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## **An Intelligence Assessment**

*Information available as of 25 January 1982  
has been used in the preparation of this report.*

This paper was prepared by [Redacted]  
Office of East Asian Analysis. Comments and queries  
are welcome and may be addressed to the Chief,  
Foreign Policy and National Security Affairs Branch,  
OEA, [Redacted]

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This paper was coordinated with the National  
Intelligence Officer for East Asia. [Redacted]

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Table 1

## Taiwan's New Cabinet, December 1981

Position	Name	Age	Previous Position
Premier	Sun Yun-hsuan	68	Incumbent
Vice Premier	Chiu Chuang-huan <sup>a</sup>	56	Interior Minister
Communications	Lien Chan <sup>a</sup>	55	Chairman, National Youth Commission
Defense	Sung Chang-chih	65	Chief of General Staff
Economic Affairs	Chao Yao-tung	66	President, China Steel Corporation
Education	Chu Hui-sen	70	Incumbent
Finance	Hsu Li-teh	50	Finance Commissioner, Taiwan Province
Foreign Affairs	Chu Fu-sung	66	Incumbent
Interior	Lin Yang-kang <sup>a</sup>	55	Taiwan Governor
Justice	Li Yuan-tzu	58	Incumbent
Ministers Without Portfolios	Chang Feng-hsu <sup>a</sup>	53	Incumbent
	Chou Hung-tao	65	Incumbent
	Fei Hua	69	Incumbent
	Kao Yu-shu <sup>a</sup>	68	Incumbent
	Li Kuo-ting	71	Incumbent
	Yu Kuo-hua	64	Incumbent
	Lin Chin-sheng <sup>a</sup>	65	Communications Minister
Taiwan Governor	Li Teng-hui <sup>a</sup>	58	Mayor Taipei
Taipei Mayor	Shao En-hsin <sup>a</sup>	57	Civil Affairs Commissioner, Taiwan Province
Kaohsiung Mayor	Yang Chin-tung <sup>a</sup>	58	Vice Chairman, Taipower

<sup>a</sup> Taiwanese.

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**Key Judgments**

The shakeup of the senior leadership on Taiwan in December 1981—the first government reorganization by President Chiang Ching-kuo since 1978—marks an important attempt to introduce new political blood into the bureaucracy and to deal with recent economic problems. In changing two-thirds of the Cabinet as well as the top military leadership, the Taiwan provincial, and Taipei municipal governments, Chiang has installed a younger and more aggressive group of managers (see table 1). The changes, however, do not clarify Chiang's intentions concerning his own successor but do strengthen the position of Premier Sun Yun-hsuan and only partially alleviate the problem of a military rank structure still topheavy with aged senior commanders.

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The installation of new cabinet ministers amounts to a recognition by Chiang and his advisers that the government needs a younger and more responsive image, particularly in the legislature, where some older ministers were either unable or unwilling to perform effectively. In fact, some of the new cabinet members have roots outside the bureaucracy, and their somewhat more independent political connections, combined with their youth and political skills, will probably further diminish the influence of the Kuomintang old guard in the next few years.

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The changes do not signal any significant realignment of Taiwan vis-a-vis either China or the United States. Nonetheless, some of the new ministers are reportedly unhappy with Taiwan's heavy dependence on the United States and will probably try to accelerate Taiwan's policy of trade diversification. They will also try to speed Taiwan's economic modernization, a policy that will bring Taiwan into more direct economic competition with the United States, especially in the areas of automobiles and electronics.

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**The Economic Ministries**

The most significant personnel changes were those affecting Taiwan's management of economic policy. Virtually all of Taiwan's senior economic planners and policymakers were replaced in December; at the same time, the locus for economic planning moved to the Premier's office and away from the conservative, monetarist Minister Without Portfolio Yu Kuo-hua. The fact that Chiang also replaced the Finance and the Economic Affairs Ministers emphasized his unhappiness with Taiwan's recent economic performance as well as his desire to respond to increasing complaints about the ministries from the private sector.

Taiwan remains one of Asia's economic bright spots, but, during the past two years, the island's export-driven economy has encountered a number of problems. These include:

- Two consecutive annual budget deficits after 16 years of surplus.
- Persistent double-digit inflation, slower economic growth, and a declining rate of domestic investment.
- Increased competition facing Taiwan's labor-intensive exports abroad, combined with heightened protectionism in its most important markets.

The newly named Minister of Economic Affairs—66-year-old Chao Yao-tung—will play the primary role in rejuvenating Taiwan's economy. Chao, who earned a reputation as an aggressive and innovative manager while president of the state-owned China Steel Corporation, is apparently willing to tolerate somewhat higher rates of inflation in order to restore Taiwan's high growth rates. Unlike his more conservative predecessor, he has moved quickly to lower interest rates and increase the money supply. Other steps to stimulate the economy are expected. Indeed, Chao's philosophy represents a basic generational change from the attitudes of the older leadership, which tightly controlled the economy to prevent the kind of hyperinflation of the late 1940s, which, in its view, contributed to the Kuomintang (KMT) defeat on the mainland.

Although Chao's background in the private sector—unique in Taiwan's bureaucracy—equips him well for the task, he will face problems. Chao has pledged to reorganize and revitalize Taiwan's other state-owned corporations, which in many cases are notorious for waste, corruption, inefficiency, and unprofitability. The senior positions in these companies are traditionally filled by retired government, military, and party leaders who are mainlanders. They will almost certainly resist any significant reorganization or consolidation of their fiefdoms.

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In other areas, Chao has said he wants to speed Taiwan's shift from labor-intensive to skill- and technology-intensive exports. This program, begun during the 1970s, is regarded in the same light as the official decision 20 years ago to organize an export-based economy for the island. It now has added urgency, however, because of pressure on Taiwan's position from competitors—including China—which enjoy lower labor costs. Taiwan wants to accelerate its export of high-technology goods that can compete in the Japanese, West European, and US markets, where the costs of its highly skilled work force still provide Taiwan a competitive advantage. Chao is also seeking new products for export. He has suggested, for example, that Taiwan could one day sell some 200,000 automobiles per year abroad.

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This shift should increase Taiwan's international stability, providing it a much firmer position in the international division of labor. Industrialized countries purchasing Taiwan's less expensive components for their own finished products would presumably become more concerned with Taiwan's future, and Taiwan's position as a newly industrialized nation would be significantly enhanced.

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**Other Appointments**

The appointment of the capable and popular Governor of Taiwan, Lin Yang-kang, as Interior Minister represents another significant personnel change. Lin,

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Lin Yang-kang, the new Minister of Interior, may try to use his position to enhance his popular following. [redacted]



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Premier Sun Yun-hsuan, who retains his position, now has increased power. [redacted]

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who is Taiwanese, appears to have already launched a press campaign ostensibly aimed at criticizing the police for not curbing crime on Taiwan. We believe he may actually want to control the police, who are nominally under his jurisdiction, but who in fact are commanded by the security services, and his move to focus public criticism on them is almost certainly directed at that goal. It is unclear, however, whether Chiang, who may have chosen Lin to reform the oft-troubled ministry, backs such an ambitious plan. Indeed, Lin's efforts could result in a direct conflict between the civilian leadership and the security services. [redacted]

While governor, Lin had been particularly outspoken in his criticisms of the mainlander-dominated government, and his appointment to the Interior Ministry had been viewed by some as a demotion, a punishment for refusing to play by the rules. Still, Lin—who had apparently hoped to be named Vice Premier—is an astute and well-connected politician with strong support from both native Taiwanese and younger mainlanders. Although he may eventually back down from his confrontation with the police administration, he will continue to use his position to build a powerful political base. [redacted]

Lin has undertaken other initiatives that will be popular with the Taiwanese. He has reportedly killed a bill, sponsored by the government, that would have severely restricted the activities of religious organizations on Taiwan—a law that had drawn strong popular opposition. Lin will probably also try to amend Taiwan's election laws, especially those sections limiting the speeches and campaign activities of candidates. [redacted]

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**Changes in the Military**

The retirement of Defense Minister Kao Kuei-yuan triggered the long-delayed replacement of Taiwan's top military leadership. Kao—aged and ailing—was the last graduate of the Whampoa Military Academy still on active duty. He was succeeded by 65-year-old Fleet Admiral Sung Chang-chih, the first naval officer to hold the post. [redacted]

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Chen Shou-shan, appointed to command the Taiwan Garrison General Headquarters, is the first Taiwanese ever named to a service command. He replaces Wang Ching-hsu, who had been under some criticism in his office. Even so, Wang's career did not suffer; he was promoted to director of the National Security Bureau. [redacted]

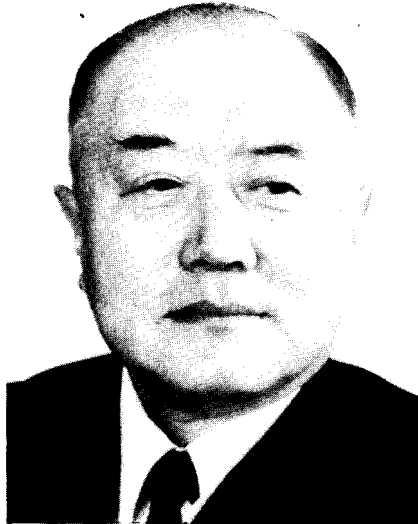
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*Sung Chang-chih is the first  
naval officer ever named  
Defense Minister.* [redacted]

Changes in the general staff also reflect the steady—albeit slow—decline in the influence of the mainland old guard. The promotion of Hao Po-tsun to be chief of the general staff ended the control of the Army by officers who were educated in the military academy prior to the Sino-Japanese war. The appointment to Army commander in chief of Chiang Chung-ling, who enrolled in the academy after the war began, completes his generation's takeover of the Army's top jobs (see table 2). If there are no further delays in regular rotations at this level, virtually no mainland-educated officers will remain on active duty within five years.

[redacted]

Despite the turnover in the military's senior ranks, the new leadership is not appreciably younger than its predecessors were at the time of their appointments. Although the installation of the new commanders has removed the roadblocks to orderly progression at the top for the time being, we believe problems could recur if Chiang again fails to replace this group at the end of their customary two-year terms. Moreover, all military appointments at these levels have yet to

include anyone from the group that was educated on Taiwan and are still a step short of the major change that will eventually occur. [redacted] 25X1

#### Implications

The Cabinet appointments reflect the recognition by Taiwan's senior leadership that it must become more responsive to an increasingly active and demanding legislature and must address complaints about the government's poor performance in handling the current economic difficulties. Because the older bureaucrats could not adjust to the new pressures—the legislature had until recently been all but moribund—they were replaced with individuals able to handle the legislators' inquiries. This change does not suggest that the ministries will in fact become accountable, but it does highlight the regime's recognition of the legislature's new vigor and the potential for political trouble as a result of the ambitions of those members who were elected in 1980. [redacted] 25X1

In the economic sphere, the new appointments seem to reinforce the position of Premier Sun Yun-hsuan as Chiang Ching-kuo's eventual successor. Several new appointees are connected to Sun, and the reduction of Yu Kuo-hua's influence in economic planning gives Sun the opportunity to establish his credentials in this crucial area. If Taiwan can reverse current trends by boosting its economic growth, the Premier will gain a major advantage. [redacted] 25X1

In the military, the choice of the relatively apolitical Sung Chang-chih as defense minister minimizes the chances that the regular military will contest civilian succession arrangements. At the same time, however, the increasing number of regular line commands held by former subordinates of Wang Sheng—widely regarded as the present and future power behind the throne—leaves open the possibility that selected units, particularly from the Taiwan garrison command, could become involved if political problems required a peacekeeping force. [redacted] 25X1

Despite the number and range of the appointments, there is no indication that Taiwan will adopt any major new diplomatic initiatives or that its relations

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Table 2

## Senior Military Commands Held by Army Officers

Position	Name	Class Number
Deputy Minister of National Defense	Chang Kuo-ying	12
Chief of the General Staff	Hao Po-tsun	12
Administrative Vice Minister of National Defense	Ku Chuan-hsin	14
Director, National Security Bureau	Wang Ching-hsu	14
Deputy Chief of the General Staff for Operations	Chen Chien-kao	14
Director, General Political Warfare Department MND	Wang Sheng	16 <sup>a</sup>
CINC Army	Chiang Chung-ling	16
Vice CINC Army	Yen Pai-chien	16
Kinmen Defense Commander	Hsu Li-nung	16
6th Army Commander	Meng Hsien-ting	?
8th Army Commander	Unknown	?
10th Army Commander	Sung Hsin-lien	16
CINC, Taiwan Garrison General Headquarters	Chen Shou-shan <sup>b</sup>	16

<sup>a</sup> Although Wang has claimed to be a member of this class, he probably was not.

<sup>b</sup> Taiwanese.

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with China or the United States will be affected significantly. There were virtually no changes in the foreign ministry, and Chiang Ching-kuo's top advisory group remains intact. To the extent that the changes in the economic sphere might create problems in US-Taiwan bilateral relations, these will most likely be mild, slow to develop, and far from insolvable. [redacted]

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