June 28, 1974

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Summary:

A CIA memorandum evaluating the domestic politics and international relations of Taiwan in 1974.

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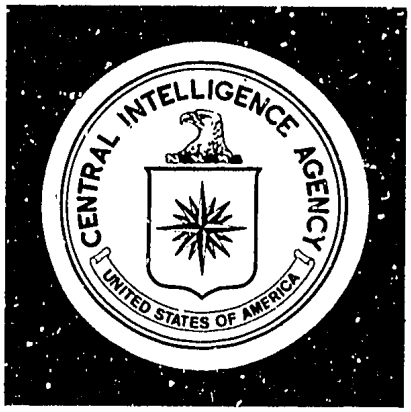

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Special Report

Nationalist China Revisited

Secret

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Chiang Ching-kuo

Nationalist China Revisited

Chiang Kai-shek

The Nationalist regime on Taiwan has profited from the island's spectacular economic development, stable political institutions, and close relationship with the US to solidify its control. International political and economic developments, however, such as the rapprochement between the US and Peking and the international oil crisis, have led some on Taiwan to question the island's prospects. Increasing political isolation, the prospect of further normalization of relations between the US and Peking, and continued buffeting of the island's economy by world economic developments will confront the Nationalist leadership with increasingly difficult problems that must be handled with limited political and economic resources.

One of the Nationalist government's best assets is the firm leadership supplied by Premier Chiang Ching-kuo. The Premier has been de facto head of the regime since his father's illness two years ago. Broadly experienced, with an extensive network of supporters throughout the party, government, and army, Chiang Ching-kuo so far has succeeded in coping with Taiwan's international isolation. Increasing concern over his economic, and some of his international policies, however, has contributed in the past few months to the first serious, albeit muted, criticism of his leadership.

Special Report

June 28, 1974

The Nationalist regime in Taiwan is counting on continued economic prosperity, stable political institutions and continued close relations with the United States to help prolong its 25-year hold on the island. These assets are offset, however, by potential weaknesses in the economy, long-range morale problems, and a widespread belief that the all-important relationship with Washington will be further eroded.

An encouraging sign of the Nationalists' prospects for political survival has been the regime's ability to weather successfully a change in leadership. Since retreating to Taiwan in 1949, the Nationalist regime had been dominated by President Chiang Kai-shek. In the summer of 1972, serious illness and the vicissitudes of age—he was 85—forced President Chiang out of active political life. He made no public appearances and received no high-level visitors between July 1972 and late March 1974, when he bade farewell to the departing US ambassador. Although he is no longer ill, he appears to be only casually interested in public affairs.

Chiang Ching-kuo

Since mid-1972, Taiwan has been under the leadership of the president's son, Premier Chiang Ching-kuo, who had been groomed by his father in a series of increasingly responsible positions. He maintains a busy schedule, his diabetes notwithstanding, and appears fully in command of political power. The Premier, for example, made all the major decisions in Taiwan's confrontation with Japan last April over Tokyo's civil air agreement with Peking.

There's more to Chiang Ching-kuo's political authority than the inheritance of his father's mantle and his constitutional powers as Premier. Chiang Kai-shek still provides a psychological buttress, but Ching-kuo's authority rests on the network of supporters built up over decades of work at the heart of Nationalist politics. This network is a major asset in a society where personal loyalties remain important.

Since becoming Premier, Chiang Ching-kuo has attempted to consolidate further his political position. As Premier, he selected, subject to his father's approval, the membership of the Executive Yuan—the national cabinet—and brought young technicians into the middle reaches of the government. They owe their status to him and have a vested interest in his continued political success. Older associates of the president are slowly being shunted aside.

To improve his government's image, Premier Chiang has pushed hard to combat corruption, not sparing those having high-level connections with his father's regime. He has tried to make the administrative apparatus more efficient and to weed out the incompetent, the no longer useful, or, in exceptional cases, the potentially hostile.

To strengthen his position in the army, the Premier has instituted a system of rotation among unit commanders and political officers, and personally approves all appointees from command down to the regimental level. The new minister of national defense, General Kao K'uei-yuan, reputedly is a Chiang Ching-kuo man.

The Premier also has his supporters planted in important Kuomingtang offices. Although the party is more a tool of power than a source, control of it gives Chiang Ching-kuo dominance over the island's only major political organization. Almost without exception, the standing committee endorses the decisions of the Premier, as they did those of his father. Chiang Ching-kuo holds a seat on the Central Standing Committee, and his close associate, Li Huan, heads the party organization department—the main lever of power in the party. The reorganization of the party central headquarters in the spring of 1972 inevitably entailed some redistribution of power within the party hierarchy—generally to Ching-kuo's advantage. The Premier also played a major behind-the-scenes role in selecting the candidates for election to the Central Standing Committee in March 1972. Chiang Ching-kuo is now second only to his generally inactive father in the official party hierarchy.

In consolidating his own position, the Premier has sought the support of the Taiwanese, in part by bringing more of them into political

life. Since the Kuomingtang retreated to the island in 1949, mainlanders have held most of the high-ranking posts in the party, the civil bureaucracy, and the military service. A Taiwanese did not reach the rank of ambassador in the foreign service until 1972. The new cabinet that accompanied Chiang Ching-kuo into office in May 1972 contained an unprecedented number of six Taiwanese, double the number in the previous cabinet. For the first time, a Taiwanese became a vice premier, while another was made governor of the province.

Some Taiwanese intellectuals and politically conscious young businessmen dismiss these moves as meaningless sop. Mainlanders still hold the most important positions in the government, security apparatus, party, and army. Those Taiwanese who have achieved high office not only occupy the less vital offices, but also have been involved with the Kuomingtang for almost all of their political lives and are carefully watched by mainlander subordinates. Some are "half-mountainmen" who were born in Taiwan but spent a great part of their lives in the mainland.

Mainlander-Taiwanese Tensions

Nevertheless, mainlander-Taiwanese animosities have become less intense. Differences between the two groups have become blurred through intermarriage and common cultural experiences. As Taipei's diplomatic isolation deepened, increasing concern about Taiwan's future provided impetus for greater cooperation. Neither group wants to come under the domination of Peking. The mainlanders are interested in maintaining their privileged political status on an independent Taiwan. The Taiwanese business community, which controls the private sector of the island's economy, is equally determined to maintain the capitalistic economic system that has made it prosperous. Even though Taiwanese appointments to national ministries are largely cosmetic, the Taiwanese do have a stake in the island's political life and are prominent in local-level politics.

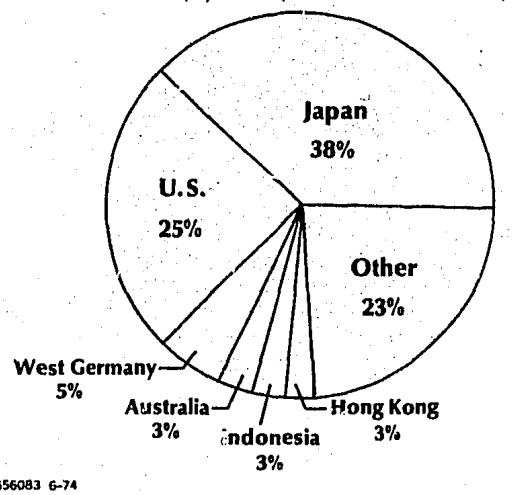
The Kuomingtang's iron grip on Taiwan's political process, reinforced by a usually efficient security organization and backed up by martial law legislation, makes organized political opposition hazardous. Most politically ambitious Taiwanese have made their peace with the party because there is no other choice. Many young Taiwanese politicians believe that time is on their side, not only because they outnumber the mainlanders, but because of Chiang Ching-kuo's need to placate the Taiwanese in order to secure political support and stability in the uncertain days ahead.

Once hopeful of making Taiwan a republic with no ties to the mainland, the Taiwan Independence Movement has become badly fragmented and is poorly led. Improved relations between the US and China and Japan's recognition of China ended the movement's hope of support from Washington and Tokyo. Visits to Peking by the movement's members reportedly have resulted only in communist admonitions that the future of Taiwan is within a united China. China is interested in the Taiwanese independence movement mainly for its potential nuisance value against the Nationalist regime.

The Economic Picture

The importance of the Taiwanese within the island's economy involves them in one of the most sensitive areas of Nationalist policy. Business support and confidence in the regime's future are important elements in maintaining stable control of the island. So far there has been no indication that Taipei's diplomatic reverses and anxiety about relations with the US have led to a lack of business confidence, even though many in Taiwan, both in and out of government, now regard US-Chinese diplomatic relations as only a matter of time. But if prosperity has helped induce political apathy useful to the regime, an economic downturn could spell trouble. Certainly, the economy is still providing a standard of living for the average citizen far surpassing that on the mainland. Some of the bloom, however, has come off the rose. Like other developing countries, Taipei has been hard hit by the sharp increases in prices of oil, basic commodities, and manufactured goods that Taiwan must import to continue its industrial

Imports to Taiwan in 1973
Total=$3,792.5 (million U.S. dollars)



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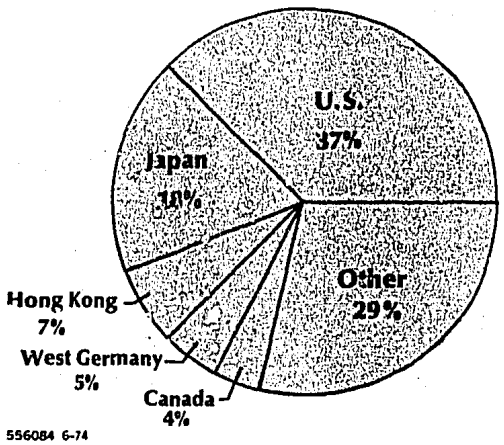
Exports from Taiwan in 1973
Total=$4,483.4 (million U.S. dollars)



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development. Nationalist policy makers were already concerned about inflation last year, even before the oil crisis, when inflation averaged 10 percent. By last fall, the prices of some items, including daily necessities, were 30 to 50 percent over those prevailing at the beginning of the year. As 1974 began, inflation showed no sign of abating; indeed, the round of crude oil price hikes that had just occurred promised to aggravate inflationary pressures.

In January 1974, the government announced sweeping economic stabilization measures, including large price increases for such basic needs as petroleum, electricity, and transportation, as well as a tight money policy. To offset the increased cost of living, a 10-percent pay raise was granted to civilian and military government personnel with a 40-percent rise to follow in July. By late May, there were some indications that inflation may have begun to ease as wholesale and consumer price indexes in April dipped from March levels. The implementation of the economic stabilization program, however, did not eliminate concern within official and business circles about Premier Chiang's ability to handle economic problems. The tight money policy threatens bankruptcy for many small and medium firms, and the Premier may be unable to resist pressures to loosen the reins. In fact, Taipei has decided to extend credits to small- and medium-sized firms to finance imports of vital raw materials.

The International Problem

Continued economic prosperity and political stability are closely bound up with problems of foreign policy. Taiwan still depends heavily on export growth, imported raw materials and industrial machinery, and continued foreign—particularly US—investment for sustained economic growth. But the series of political reverses suffered in the last four years—expulsion from the UN and its affiliated organizations, and the massive shift by other countries to recognize China—call into question the long-term international position of the island and the regime. Diplomatic representation has been reduced to 35 countries, mostly in Africa and Latin America, as the number of governments recognizing China increased from 45 in 1969 to 90 by mid-1974. The erosion is continuing. Taipei is probably correct in fearing that Malaysia's recognition of China in May will be followed by the Philippines and Thailand. In Latin America, Brazil and Venezuela are actively interested in expanding contacts with Peking.

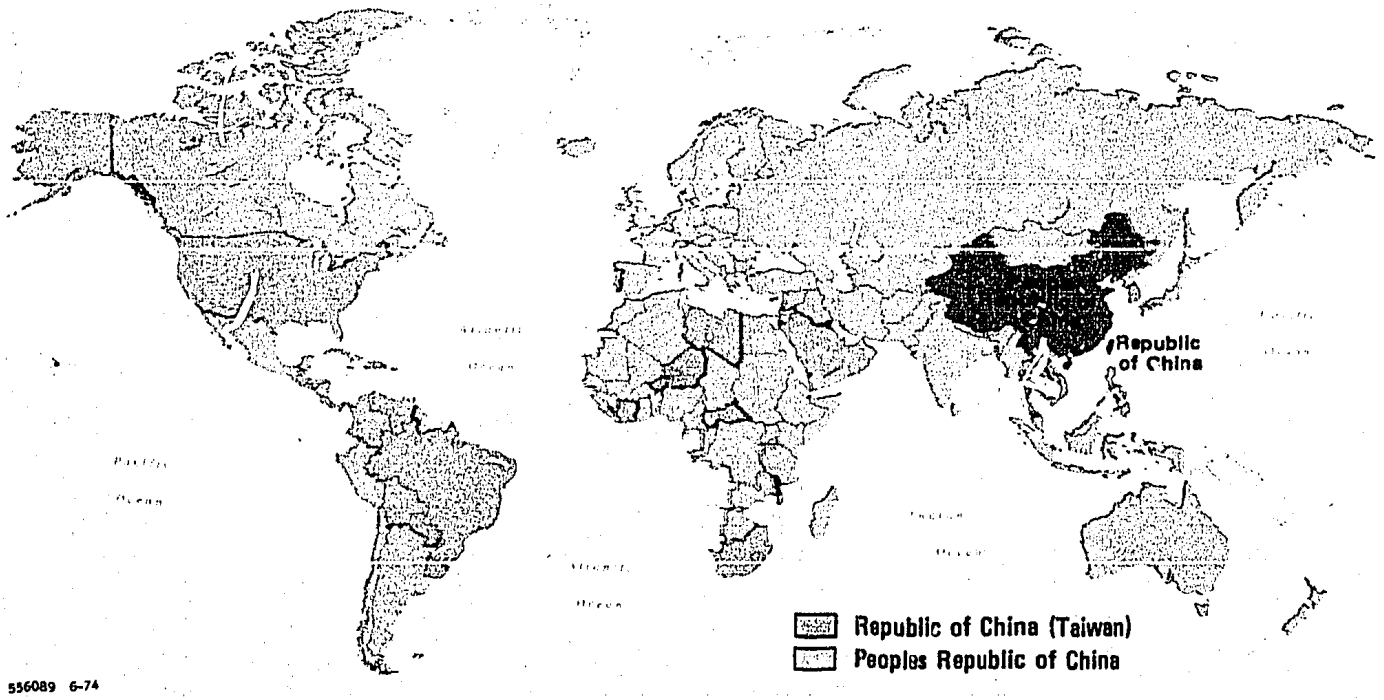
Taipei has been able to minimize the effects of growing political isolation by adopting a more flexible approach, including a de facto two-China policy. More importantly, essential economic ties have been preserved with major trading partners that have switched their diplomatic recognition to Peking.

The US Connection

Relations with the US, however, are at the heart of Taipei's concern. Premier Chiang Ching-kuo recognizes that continued close political, economic, and military ties with Washington are a major element in maintaining popular morale and continued confidence in the future of the Nationalist regime. Between the announcement in July 1971 of plans for President Nixon to visit Peking, and the arrival in May 1974 of Ambassador Unger in Taipei, the Nationalist leadership underwent a period of increasing anxiety about relations with the US. Washington's detente with Peking moved faster and was more substantial than the Nationalists expected. The recent arrival of a new US ambassador and the current ferment on the mainland have probably reduced fears of new and precipitous moves in US policy toward Peking, but many in the Nationalist leadership and in the Taiwanese business community believe that relations with Peking occupy a more prominent place in US foreign policy than does a competing concern to preserve a special relationship with Taiwan.

Taipei's immediate reaction has been to cling to ties with Washington as tightly and as long as possible, while attempting to build up a greater measure of economic and military self-sufficiency. Preservation of the US defense commitment to Taiwan, embodied in the 1954 Mutual Security Treaty, is particularly important to the Nationalists. Concurrently, the regime, while deemphasizing the "impossible dream" of a triumphant return to the mainland, steadfastly trumpets its refusal to talk with Peking. Premier Chiang has ruled out the notion of turning to the USSR to attain more room for political maneuver—although he does allow the use of incidents, such as occasional Soviet naval units transiting the Taiwan Strait, to twit Peking. At

Nations Having Diplomatic Relations With China

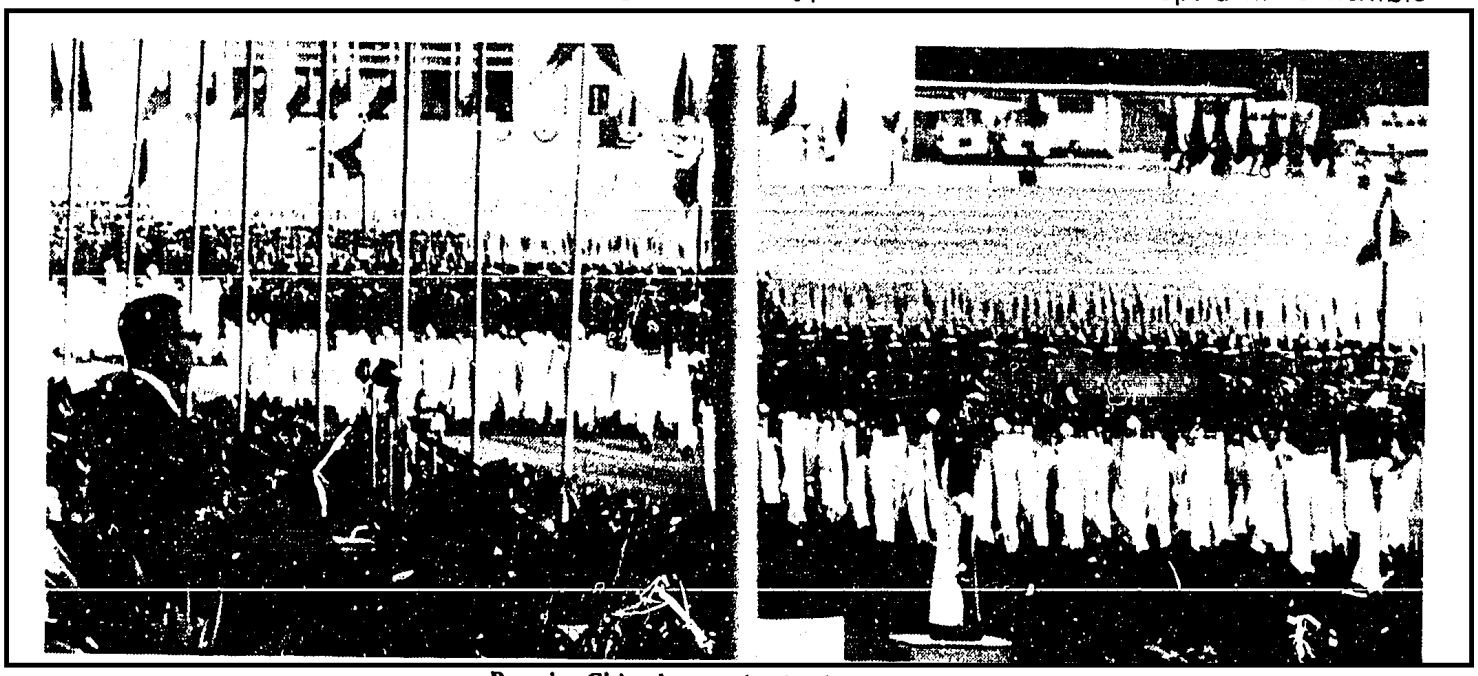


some time in the future, however, events beyond their control may force the Nationalist leaders to reconsider their absolute prohibition on talks with the mainland. Unless they feel forced to do so--and they clearly have not, even when the diplomatic tide has been running strongly against them--they cannot be expected to change their mind. The Taipei government will not easily give up its claim to be the legal ruler of all China. To do so would gravely undermine the juridical basis of mainlander rule and render more acute the question of Taiwanese access to real power.

The Japanese Factor

Taipei's all-out effort to maintain good relations with its major economic and political partner the US--is in marked contrast to relations with its second-ranking economic associate, Japan. Tokyo's switch of diplomatic recognition from Taipei to Peking in September 1972 was a severe psychological blow to the Nationalists. Economic imperatives, however, forced Taipei to maintain close business ties. Unofficial channels of political communication were arranged and, after a short period of uncertainty, economic ties regained a high level. Nevertheless, a degree of emotionalism has recently appeared in Taipei's handling of its relations with Japan that is absent, or at least suppressed, in its policy deliberations concerning the US. In part, this may be due to the supreme importance of maintaining special ties with Washington. Moreover, Chiang Ching-kuo's handling of the political confrontation with Japan over the issue of civil airline arrangements with Tokyo suggests that he miscalculated the relative power of political factions in Japan's ruling Liberal Democratic Party. Chiang's reaction to the conclusion of the Sino-Japanese air agreement in April 1974 was to terminate services by China airlines and Japan airlines to Taiwan and to close the island's airspace to all Japanese aircraft rather than accept Tokyo's conditions for continued civil air service. The Premier probably had little choice in making this move—he had publicly threatened to do just this in an attempt to build opposition to the proposed agreement in Tokyo. Nevertheless, Chiang was careful to keep Taiwan's economic relations with Japan separate from the civil air issue and probably hopes to resume air service after enough time has passed to save face.

The Premier's handling of the civil air issue is atypical of his efforts to adopt a more flexible



Premier Ching-kuo reviewing honor guard

foreign policy. Taipei warned Manila that recognition of China would damage the entire spectrum of Filipino relations with Taipei, but nevertheless is formulating plans to maintain economic, civilian, and cultural ties with the Philippines even if Manila does not heed the warning. The same policy is being applied to Malaysia.

The Honeymoon Ends

After nearly two years as de facto head of the Nationalist regime, Chiang Ching-kuo's political honeymoon may be ending. His handling of the Japanese civil air issue and his tight money policy have led to the first real, if muted, criticism of his government. So far, the Premier has earned support from foes in the Nationalist old guard, as well as from his long-time supporters and the population at large, for his successful economic policies and his handling of relations with Taiwan's one indispensable friend—the US. As Washington proceeds with further normalization of relations with Peking, and as economic problems, such as inflation and world oil prices, buffet Taipei, Chiang Ching-Kuo will face harder problems than ever before. Missteps in dealing with these problems could shake public confidence in his leadership.

His regime is not in any immediate danger. Moreover, the Premier benefits from a widespread popular belief that there is no one capable of taking his place and from the fatalistic feeling that tiny Taiwan is merely a pawn in the game of international politics. The island will probably face a succession crisis when Chiang Ching-kuo dies. There is no successor in sight, nor is the Premier grooming one. Chiang will probably be succeeded by a collective leadership, which will have to deal with the enduring problem of maintaining an independent Taiwan in a still less friendly international environment. (SECRET NO FOREIGN DISSEM)