

# **The Economic Consequences of Democratic Consolidation in Taiwan**

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Prepared for a Joint Symposium  
*Consolidating Taiwan's Democracy:  
Challenges, Opportunities, and Prospects*

Organized by

Brookings Institution, Center for Northeast Asian Policy Studies  
Center for Strategic and International Studies, Freeman Chair in China Studies  
Institute for National Policy Research  
March 22, 2006

## Introduction

The speed, quality, and sustainability of democratic consolidation have direct impact on Taiwan's economic strength. Taiwan has always sought international "face & space" and it has been remarkably successful, despite its diplomatic isolation, because of its strong economy. Taiwan has "mattered" because it has been a powerful economic player with direct relevance to and integration with the global marketplace. Significantly, the island's continued economic strength and concomitant importance to the rest of the world is being held hostage to current difficulties with democratic consolidation. Therefore, from the perspective of international business people working in Taiwan, the subject of this symposium is well timed. I congratulate the organizers and thank them for asking me, on behalf of the American Chamber of Commerce in Taipei, to provide a few economic and business dimensions to the deliberations of this august group.

By direction of its articles of association as a non-government organization – and by predilection and common sense – AmCham Taipei avoids the political arena. It is non-political and non-partisan. Nevertheless, AmCham's mission statement calls for promoting the adoption of international business standards in the areas of legislation, regulation, and enforcement. That mission commits the chamber to both cooperative and constructively critical interactions with national and local governments on business and economic issues while shying away from comment or commentary on the political "scandal of the day." In 2005, giving substance to that mission, the chamber's advocacy agenda included meeting more than 120 times with Taiwan and U.S. government officials, and another 150 times with media, VIP visitors, and local scholars and executives. In addition, 10 issues of the chamber's monthly magazine, *Taiwan Business TOPICS*, reinforced the advocacy dimension of the chamber's work with timely analysis of specific business sectors and the macro economic environment.

The government's openness to the private sector for face-to-face meetings and discussions on economic issues is nothing short of extraordinary. This willingness to interact with foreign business people extends to the highest levels of government. For instance, last month, for the eighth year in a row, the President of the Republic of China addressed the chamber's annual Hsieh Nien Fan dinner, an invitation accepted as well by more than 150 officials and elected representatives. Most of my chamber executive director counterparts in the Asia-Pacific region have considerably less access to senior members of government; they also operate in countries with considerably more restraints on their organization's freedom to critique and criticize government policy. So credit needs to be given when due. Taiwan deserves hearty praise for the success of its democratization over the span of very few years.

That said, the work of democratic consolidation is far from completed. In this paper I would like to focus on several institutional deepening issues that have direct impact on the success of Taiwan's global economic competitiveness.

## **Beyond Elections**

The government and people of the United States have long worked (oftentimes through non-government organizations) to promote the spread of democracy to nations around the world. Oftentimes, however, it appears that the bulk of the effort focuses on the achievement of free and fair elections. Victory is then declared, and the spotlight shifts to other countries. But elections are periodic events; democracy is every day. Democratic staying power comes from the day-to-day working of solid democratic institutions. Yet institution building is a slow and often uneven process, and it rarely attracts the attention it deserves.

Taiwan is rightfully proud of its election successes over the past decade or so. Not only has there been the rise of a multiparty system and a peaceful change of government, achieved without reprisals on the former ruling party (such as sweeping expropriation of assets, forced exile, imprisonment, or execution of former leaders), but the aftermath of the most recent presidential election was a significant victory for Taiwan's major democratic institutions. The election results were challenged on the streets and in the courts. Through it all, the rule of law prevailed. The police showed restraint; the courts acted reasonably; the public demonstrated for the most part within the realm of propriety; the media (though sensational) covered all angles of the dispute at tremendous length and in great detail, and the government itself continued to function smoothly. Free and fair elections are not Taiwan's problem. Yet much remains to be achieved before Taiwan can achieve what could be termed a mature democracy. Here is a sampling.

## **Efficiency & Effectiveness (Structure & Procedures)**

Since the major reorganization of the Legislative Yuan in 1992, the legislature has fought a losing battle for respect. The legacy of the so-called "old thieves," who held office from the time the KMT government moved to Taiwan in 1949, left a bad impression in the public's memory. Subsequent activity on the floor of that institution has made Taiwan (in)famous around the world for having one of the most disreputable congresses anywhere. Prime-time international TV news has not bolstered international respect for Taiwan's democratization. While the evolution of proper decorum on the floor or in committees is an essential step for public respect, there are more serious problems out of sight of the camera.

Students of the U.S. Congress realize that the committee system in the Senate and House of Representatives is the heart of the operational activity of those bodies. In Taiwan, the committee system virtually guarantees inefficiency and ineffectiveness. My colleague, *TOPICS* editor-in-chief Don Shapiro, has just published an excellent special report on the legislature in the March issue of AmCham's magazine. He sums up the difficulty succinctly: "Each LY term of three years is divided into six sessions, and it is unremarkable for a legislator to move to a different committee each session. And instead of a single chairman, in the Taiwan system there are three conveners – typically each from a different party – who take turns serving as the chair. And with each new session, a new set of conveners is chosen."

What this means, of course, is that more legislators are able to gain “face” by holding a leadership title, but the committee fails to achieve experienced and sustained leadership. The chairs generally do not stay in position long enough to gain expertise, nor do they develop the respect of their peers for knowledgeable conduct of the committee’s business. This has direct impact on quality of legislation, and that in turn has impact on the quality of the economic and investment environment. Without a seniority system, there is little incentive for junior members of the LY to build expertise in key standing committees such as Budget, Economics and Energy, Finance, and National Defense.

Adding substantially to the tendency toward superficialities in committee meetings, the press is allowed to roam freely around the committee meeting room during sessions. As on the floor of the LY, many legislators find it difficult to resist the compelling urge to grandstand in front of TV cameras. This leads to disruption and inefficiency. Moreover, on the floor and in committees, government ministers and other officials are required to attend sessions in order to suffer oftentimes abusive and humiliating ad hominem tirades during “interpellation sessions.” The system, originally designed as a means to hear first-hand from officials on important issues, has been badly skewed to serve as theater for nightly news programs. The lack of decorum is appalling, no less to those who have a sense of Chinese history and the importance of *li* or propriety to the proper functioning of society and government. That traditional legacy has faded in the harsh klieg lights of the TV cameras.

Not only do such interpellation sessions hamper the discovery and analysis of factual material germane to the subjects under consideration, they also keep senior officials from performing their jobs. AmCham often hears complaints from MNC members that a promised attendance by a government official to an opening, contract signing ceremony, or an appointment with a visiting CEO has to be rescheduled or cancelled because the official in question is being grilled at length at the LY. Both the LY and EY suffer institutional disruption as a result. Worse, the public loses respects for its legislators and for the institutions they manipulate for short-term personal benefit.

There is a ripple effect to the TV posturing on the LY floor and committees. Oftentimes AmCham representatives participate in public hearing on proposed legislation. While the system of advance notification for such meetings – and their location in more convenient venues – has improved substantially in recent years, the meetings themselves can at times reflect similar lack of organization and decorum; the loudest voice and most threatening body language win. Disrespect for decorum and rules eventually rebound on an institution’s reputation and standing in the community. Public hearings are an essential aspect of public transparency and at the core of AmCham’s advocacy on behalf of member companies. Immature development of this institution damages the willingness for continued and new investment.

Is the situation hopeless? No, but the restructuring and downsizing of the LY in the next election is not a panacea. It’s time for some “tough love. Those individuals and organizations in the United States that frequently interact with Taiwan officials need to

become more directly critical during their discussions with Taiwan legislators about the counterproductive precedents they are setting. Proper decorum establishes a tone that is friendlier to reasoned argument and compromise. Juvenile tantrums are just that – they foul the air and accomplish little. National interests should not be held hostage to grandstanding.

For the past six years, thanks to inter- and intra-party squabbling, a host of essential economic legislation stands incomplete. Meanwhile, Taiwan's competitors in the region are working feverishly to restructure their tax systems, regulatory bodies, and investment incentives – all to Taiwan's competitive disadvantage. Taiwan's people can vote directly for their legislators; investors vote with their feet. The past six years of a log-jammed LY has not built investor confidence in Taiwan's near-term future.

That message needs to be delivered by messengers besides AmCham. Foreign and domestic scholars, media, and NGOs all have a role to play in this exercise. It's time to get beyond elections and expose dysfunctional institutions. Public dissatisfaction with the ways things are done needs to be encouraged and cultivated in Taiwan. Local NGOs in particular could play a leading role in addressing these interrelated issues. In business vast amounts of time and effort are devoted to leadership development and building strong teamwork. Good government institutions need to aim toward the same goals. It will take pressure from outside – the electorate, the media, and civic organizations.

### **Transparency & Accountability**

Even if LY committees are able to reach decisions, their power is frequently overridden by another ad hoc institution that is directly contrary to the fundamental democratic principles of transparency and accountability. This is the regular process of “interparty negotiations” on bills before they are moved to the LY floor. In fact, virtually all major legislative decisions are made behind closed doors by senior party representatives. Committee decisions are routinely overridden by these negotiations. If a compromise bill is agreed upon, it typically goes straight to the LY floor for automatic passage without discussion or roll-call vote.

What is astounding to an outside observer is that the public has not been more vociferous in its rejection of this procedure. One can only think that this black box approach to legislation is so successfully veiled that the majority of the people are ignorant of what is being done in the name of the democratic process. The loss of lawmaking transparency leads directly to a loss of public trust and investor trust as well. If not corrected, this form of political subterfuge could wreak havoc on Taiwan's efforts to consolidate its democracy. It certainly undermines Vice President Annette Lu's claims that Taiwan is a worthy government model for other countries to emulate.

One of the more positive developments over the past six years or so has been the rise of more transparent and effective non-government organizations. Think tanks, for instance, tend to be somewhat more non-partisan and are also developing more sophisticated public information and advocacy programs. Legislative watch-dogs are also increasing:

The Taipei Society and the Taipei chapter of the anti-corruption group Transparency International are good examples of democratic institutions destined to counter-balance the excesses and errors of government organs. (Taiwan still needs the equivalent of the League of Women Voters.)

Here lie great opportunities for direct and indirect assistance to Taiwan's democratic consolidation. NGOs in the United States could offer training in budgeting, membership recruitment, communication and advocacy techniques, and a host of other relevant information on how to run such organizations. There is no need for local organizers to reinvent the wheel; better to observe, consult, and study local, state, and national NGOs in the United States and then adapt the structure and methods for their local circumstances. Such help would be a natural "second round" process in democratizing societies, following the usual first round of assistance in achieving free and fair elections.

NGO monitoring functions are destined to play important roles. The focus should go beyond the legislature and turn spotlights on other branches of government. In the case of the judicial branch, for instance, good research might be able to document and explain why it is that one particular court in Taipei City is the "court of choice" for counterfeiters and IP&L violators. Forced transparency is a first step toward rectification. Inviting NGO leaders to visit U.S. non-for-profits to study their operations is just the sort of step that needs to be taken. The sooner the better.

### **Professionalism & Training**

The best institutional structures are worthless without good people. Here again is an area where both government and non-government assistance to Taiwan could produce remarkable results. To briefly mention a few:

Business advocacy in the United States relies heavily on interactions with House and Senate staff. These are the points of contact and often the behind-the-scenes experts so essential to communication with elected representatives. In state and federal legislatures, these people normally have an assortment of training programs geared to integrate them quickly into the workings of the institution. In the LY – which also suffers from a shortage of long-term experienced staff, given the less than 15-year-history of the body as a democratic institution – the only training available to newcomers is in use of the computer system. In addition, the professional differentiation of functions in any given legislator's office is not well evolved. The process of professionalization could be jumpstarted by inviting more Taiwanese staffers to Washington (or to state offices) to observe how they are organized and function. These individuals could then inform and instruct their peers in Taipei. Although MOFA regularly brings U.S. staffers to Taiwan for visits, their interactions with Taiwanese peers rarely gives them a chance to talk about functional matters. A quick fix on visits in both directions is sorely needed.

Similarly, Taiwanese staffers (and their bosses) would benefit by learning more about how standing committee staff are selected, trained, and function in the U.S. Congress.

The LY does not have an office equivalent to the Congressional Research Service. The insufficient legislator support for establishing this office could be rectified by adding this as a talking point during legislator visits to the United States. The CRS has done some information sharing visits to Taiwan, but not much will happen on this front until the LY leadership, media, and public recognize the importance of good research on behalf of legislative agenda.

Other training and information sharing programs have already had positive economic consequences. With the assistance of the American Institute in Taiwan (AIT), MNC funding, and NGO help a number of productive training sessions have been carried out with the Taiwan Intellectual Property Office (TIPO). Judges, prosecutors, and other judicial officials and government bureaucrats have participated. After a slow start, acceptance of the programs has been enthusiastic. Besides the high quality of the programs, the Taiwanese became more accepting when they realized they weren't being patronized by the Americans because, in fact, U.S. judicial officials from the Supreme Court downward regularly go through training as well. Similar success has come through joint training of customs officials. AmCham has called for an expansion of such activities to include such organizations and the new FSC and NCC and other regulatory agencies. There is rich soil for cooperative institution building between the United States and Taiwan. It's time for a lot more planting.

## **Conclusion**

Given Taiwan's unique security environment, it needs to achieve good governance to ensure its economic strength. A weakened economy – resulting from nearly exclusive focus on peripheral political issues – is a way to undermine national security. The trade and investment ties with the United States, Japan, and Europe are essential counterweights to cross-Strait threats. Stymied legislation and Taiwan-only “unique regulations” have economic consequences: they reduce Taiwan's attractiveness for investment.

Americans typically view Taiwan's democratic evolution through the lens of U.S. history. But France, Italy, Germany, and Russia have had much different and more difficult routes to their forms of democracy. Some roads to democratic consolidation can lead to disintegration. The consolidation and sustainability of Taiwan's democratic achievements thus far should not be taken for granted. It is not a time to be smug about success. Failure is yet possible. In the area of institutional deepening, much remains to be achieved. Perhaps some additional means of cooperation on practical steps toward democratic consolidation will come from this symposium. Success in that endeavor will have substantial consequences not only for Taiwan's people, but also for their ability to remain a global economic power and an important trade partner with the United States. #