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# Taiwan: Recent Developments and U.S. Policy Choices

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## SUMMARY

U.S. policy concerns over Taiwan in recent years have centered on easing tensions and striking a balance between the People's Republic of China (PRC) and Taiwan. Despite extensive Taiwanese trade with, and investment in, the Chinese mainland, the two sides remain politically far apart and compete strongly for international influence. U.S. policy in this triangular U.S.-PRC-Taiwan relationship is complicated because:

— Taiwan is moving away from past advocacy of "one China" to positions favoring an official status for Taipei – as in a remark by Taiwan's former President, Lee Teng-hui, that Taiwan-China ties should be conducted on a "state-to-state" basis. Such statements have complicated the U.S. "one China" policy and appear to challenge Beijing's claim to sovereignty over the island;

— Beijing is strongly nationalistic and remains adamant about its claim to Taiwan. Also, Beijing continues to claim that it has the right to use force against Taiwan – a claim repeated again in a white paper on Taiwan which the PRC issued on February 21, 2000;

— Many in Congress favor formal efforts, including legislation, that go beyond administration policy to strengthen U.S.-Taiwan relations in ways sure to antagonize the PRC.

Meanwhile, U.S. officials in Congress and elsewhere want to enhance investment opportunities for U.S. companies and ease trade issues, notably Taiwan's large trade surplus. They also encourage political democratization, even though it may foster separatist tendencies among ethnic groups that Beijing regards as threatening to state security.

Amid considerable congressional criticism of President Clinton's treatment of the Taiwan issue during a trip to China in late June 1998, the Senate that year passed resolutions (S.Con.Res. 107, S.Con.Res. 30) in support of Taiwan on July 10; a resolution in support of Taiwan (H.Con.Res. 301) passed the House on July 20. Proposed legislation in the 106th Congress, (S. 693, the Taiwan Security Enhancement Act) focused on representational and defense issues.

Taiwan's security and potential vulnerability to the Chinese military is of special concern. The U.S. Defense Department issued a congressionally mandated report on rising military strengths on both sides of the Taiwan Strait in 1999. The report intensified arguments on whether the United States should provide ballistic missile defense systems to Taiwan despite strenuous objections from Beijing. In late April, 1999, the Clinton Administration sold to Taiwan advanced early warning radars useful against missile attacks. Taiwan continues to seek Aegis destroyers and other advanced weapons systems from the United States which could enhance its defense capabilities.

In hotly contested presidential elections on March 18, 2000, Taiwan voters elected Chen Shui-bian, a member of the pro-independence Democratic Progressive Party (DPP). Chen's victory was Beijing's most feared outcome in the elections, and raises concerns that Taiwan-PRC tensions will increase still further. U.S. options include attempting to negotiate a new arrangement to manage U.S. relations with Beijing and Taipei, or remaining flexible given competing pressures from the two capitals, while deferring a solution of the Taiwan issue.

## MOST RECENT DEVELOPMENTS

*On December 1, 2001, Taiwan held legislative elections in which the Nationalist (KMT) Party, formerly the dominant party in the legislature, lost its majority for the first time in 50 years. In the new, 225-seat legislature, the DPP will have 87 seats, the KMT 68 seats, the People First Party (PFP) 46 seats, the TSU 13 seats, and the New Party 1 seat. The remaining 10 seats go to minority or non-party candidates.*

*According to press reports, on November 16, 2001, seven U.S. shipbuilding companies attended a meeting hosted by the U.S. Navy's Naval Sea System Command to present proposals for building eight diesel submarines for Taiwan.*

## BACKGROUND AND ANALYSIS

### Background to U.S. Interests in Taiwan

U.S. involvement with the government of Taiwan (known as the Republic of China or ROC) has its roots in the World War II U.S. alliance with the Nationalist Chinese government of Chiang Kai-shek, then on mainland China. In October 1949, upon its defeat by the Chinese communist forces of Mao Zedong, Chiang's government fled to Taiwan, an island off the south China coast. While on the mainland the Chinese Communist Party established the People's Republic of China (PRC), Chiang's ROC government on Taiwan insisted that the communist government was not credible, and that Chiang's ROC administration was the only legitimate government of all China. For the next 30 years, the United States supported this claim with U.S. military protection and over $5 billion in military and economic aid, allowing Chiang and his one- party government (the Kuomintang Party, or KMT) to consolidate their position on Taiwan.

In the 1950s and 1960s, U.S. forces used Taiwan as a forward base against Sino-Soviet communism in Asia. After President Nixon's opening to Beijing in 1971-72, and the major pullback of U.S. forces in Asia under the guidelines of the "Nixon doctrine," U.S. officials viewed the mainland government more as a strategic asset against the U.S.S.R. than an adversary to be confronted in the Taiwan Strait. In 1979, the United States broke defense and other official ties with Taiwan to establish formal diplomatic relations with the PRC. The United States subsequently affirmed its security and other interests in Taiwan through the Taiwan Relations Act (TRA) and the continued supply of U.S. arms to Taiwan. But this reflected a moral commitment to a former ally rather than U.S. interest in using Taiwan's strategic position for broader policy ends.

With the thaw in the Cold War in the late 1980s and subsequent collapse of the Soviet Union, U.S. interest in the PRC as a "strategic asset" in global politics declined. China's burgeoning economy and sometimes assertive foreign policy in the 1990s revived U.S. interest in finding pragmatic ways to deal with rising Chinese power. Concurrently, the United States deepened a broad array of economic, military, social, and other contacts with Taiwan's rapidly developing economy and society, and its newly democratic political system.

Today, the United States is an important investor and trading partner for Taiwan. U.S. markets receive about 25% of Taiwan's exports, while the United States supplies a much smaller percentage of Taiwan's imports, leading to a $14.9 billion U.S. trade deficit with Taiwan in 1998. Taiwan continues to enjoy Export-Import Bank financing, Overseas Private Investment Corporation (OPIC) guarantees, most-favored-nation status, and ready access to U.S. markets. Meanwhile, many U.S. leaders want to encourage Taiwanese enterprises to invest in the United States.

## U.S.-PRC-Taiwan Relations Since 1979

On January 1, 1979, the United States switched its diplomatic recognition from Taipei to Beijing. In the U.S.-PRC joint communique announcing the change, the United States recognized the government of the PRC as the sole legal government of China and acknowledged the Chinese position that there is but one China, and Taiwan is part of China.[1] As part of de-recognition, the United States also notified Taiwan authorities of intent to terminate, effective January 1, 1980, the 1954 U.S.-ROC Mutual Defense Treaty. In a unilateral statement released on December 16, 1978, the United States declared that it "continues to have an interest in the peaceful resolution of the Taiwan issue and expects that the Taiwan issue will be settled peacefully by the Chinese themselves."

**Arms Sales to Taiwan.** Since 1979, U.S. policy toward Taiwan has been one of studied ambiguity. On the one hand, U.S. policymakers have adhered to a "one-China" policy framework – acknowledging the PRC as China's only legitimate political entity, while promising not to recognize Taiwan as an independent entity with a separate identity. On the other hand, the United States continues to sell defense weapons and equipment to Taiwan and to have other, extensive contacts with Taiwan under the auspices of the Taiwan Relations Act (TRA)[2] which created the domestic legal authority for conducting unofficial relations with Taiwan. The TRA is essentially a congressional construct, enacted by a Congress unhappy with the Carter Administration's minimal plans for how U.S. relations were to be conducted with Taiwan after official relations were severed. Of particular importance in the current environment is Section 3 of the TRA, dealing with U.S. defense commitments to Taiwan. Section 3 is non-specific about the defense articles and services the United States will provide. It merely calls for "such defense articles and services...as may be necessary," and gives Congress a role in determining what needs Taiwan may have.

Some in Congress believe that the TRA is outdated, and that Taiwan's self-defense capabilities have eroded while China has grown militarily more capable and more hostile. The conclusions of a congressionally mandated report issued by the U.S. Department of Defense (DoD) in February 1999 appear to bolster this view. The report assesses the military balance between Taiwan and China, and concludes that in light of improvements in offensive military capabilities, by the year 2005 China will have acquired the ability "to attack Taiwan with air and missile strikes which would degrade key military facilities and damage the island's

[1] The texts of the Taiwan Relations Act and the 3 U.S.-China communiques that underpin bilateral U.S.-China relations can be found in CRS Report 96-246.

[2] The TRA was signed on April 10, 1979, and enacted as P.L. 96-8.

economic infrastructure." Congressional proponents of enhanced security for Taiwan suggest that U.S. policy should be adjusted accordingly. Policymakers are also disturbed that China continues to insist publicly on its right to use force against Taiwan.

U.S. arms sales to Taiwan have often prompted strong objections from the PRC. On August 17, 1982, a U.S.- PRC joint communique addressed this point. In that communique, the PRC cited a "fundamental policy" of striving for a peaceful solution to the Taiwan question. The United States stated in the communique that it did not

> seek to carry out a long-term policy of arms sales to Taiwan, that its arms sales to Taiwan will not exceed, either in qualitative or quantitative terms, the level of those supplied in recent years since the establishment of diplomatic relations between the United States and China, and that it intends to reduce gradually its sales of arms to Taiwan.

U.S. government arms sales levels have slowly declined, but have remained over $600 million a year. Taiwan's 1992 purchase of 150 F-16 aircraft (worth $5.9 billion) represented an exception to this trend. U.S. transfers of military-related technology have allowed Taiwan to develop advanced fighter aircraft and other military equipment to defend the island. (See CRS Report RS20483, *Taiwan; Major U.S. Arms Sales Since 1990*.) On August 1, 1999, the Pentagon announced it would sell two E-2 electronic warfare aircraft to Taiwan, along with radar detection equipment, and along with $150 million in aircraft spare parts. On April 17, 2000, the Clinton Administration decided to sell Taiwan an assortment of air defense weapons, including PAVE PAWS radar (designed to monitor ballistic missiles); an upgraded model of the Maverick air-to-ground missile; and the advanced medium range air-to-air missile (or AMRAAM), with the latter to be stored in the United States unless China acquires a similar missile capability. The Administration followed a Pentagon recommendation not to sell more sophisticated and controversial weapons that Taiwan had requested, such as the Aegis battle management system, submarines, and P-3 Orion anti-submarine aircraft.

**The Taiwan Security Enhancement Act.** On February 17, 1999, the U.S. Defense Department issued a congressionally mandated report on rising military strengths on both sides of the Taiwan Strait. The report intensified arguments on whether the United States should provide ballistic missile defense systems to Taiwan despite strenuous objections from Beijing, and it reinforced the concerns of some Members that China poses more of a threat now to Taiwan than in the past, and that Taiwan's ability to defend itself has eroded over time. Consequently, in the 106th Congress, Members of both Houses introduced the Taiwan Security Enhancement Act: S. 693 (Helms) and H.R. 1838 (DeLay). These similar bills provided for enhanced U.S.-Taiwan military cooperation and the strengthening of Taiwan's security. The Clinton Administration, however, saw the legislation as unnecessarily provocative and potentially harmful to U.S. security interests. Although the House passed its version of the legislation in February 2000, the Senate never took up the bill.

**"One-China" Policy.** Apart from arms sales, Beijing criticizes other aspects of U.S. support for Taiwan, saying that such gestures reduce Taipei's interest in negotiations on reunification with the mainland. One of the most notable examples of this occurred on May 22, 1995, when President Clinton, bowing to substantial congressional pressure, changed Administration policy and decided to allow Taiwan President Lee Teng-hui to make a private visit to the United States. Beijing reacted with strong military and rhetorical pressure on Taiwan. Prior to Taiwan's March 23, 1996 elections, the United States sent two carrier battle

groups in response to PRC military exercises in the Taiwan Strait. The PRC exercises, which ended on March 25, 1996, were a vain effort to discredit Lee, who won 54% of the vote in a field of four candidates in presidential elections.

Tensions began to ease after the election. During 1997 and 1998, Taiwan officials and U.S. supporters of Taiwan were concerned with the Clinton Administration's willingness to respond to PRC pressure in strongly reaffirming the U.S. "one China" policy in ways that appeared to curb support for Taiwan's greater role in world affairs and its possible independence in the future. Some also suspected that the U.S. government was behind suggestions from delegations of prestigious Americans visiting Taiwan and the mainland in early 1998 that Taiwan should be more flexible in seeking political talks with mainland China. The Clinton Administration said the suspicions were wrong and that it had not changed its longstanding "One China" policy in ways that would negatively affect Taiwan.

The 105th and 106th Congresses were inclined to support Taiwan despite objections from Beijing or concerns by the Clinton Administration. H.R. 2386 urging consideration of U.S. support for a ballistic missile defense of Taiwan passed the House in the week after Chinese President Jiang Zemin's visit to Washington in October 1997. H.R. 1757, a foreign affairs authorization bill, passed the House and Senate in 1998 with a provision urging Taiwan's early entry into the WTO. The Taiwan provision was included in H.R. 4328 (P.L. 105-277) signed October 21, 1998. H.Con.Res. 270 urging U.S. support for Taiwan's security unanimously passed the House two weeks before President Clinton's departure for a summit in Beijing in late June 1998. H.R. 4103, the FY1999 Defense Appropriations bill, passed Congress on September 29, 1998 with a provision calling for a Department of Defense study of cross Strait military capabilities. H.Con.Res. 334 urging Taiwan's participation in the World Health Organization passed the House on October 10, 1998.

**Bush policy statement on U.S. defense of Taiwan.** On April 25, 2001, in an ABC television interview, Charles Gibson asked President Bush that "...if Taiwan were attached by China, do we have an obligation to defend the Taiwanese?" The President responded, "Yes, we do, and the Chinese must understand that." In followup, Gibson asked "With the full force of American military?" The President responded, "Whatever it took to help Taiwan defend herself." Since the United States has no defense alliance with Taiwan and has never pledged use of American military forces in the island's defense, the President's answer caused several days of considerable controversy over whether the United States had changed its policy toward Taiwan's security. State Department and White House officials, including President Bush, later reiterated U.S. support for the "one-China policy," insisted that there had been no change in U.S. policy toward Taiwan, and said that the President's April 25 statement was consistent with U.S. commitments in the Taiwan Relations Act.

**Policy Implications of Global Anti-terrorism Campaign.** Some have suggested that the September 11, 2001 terrorist attacks against the World Trade Center, the Pentagon, and in rural Pennsylvania may have implications for U.S. policy calculations about Taiwan because of the U.S. efforts to build an international coalition that includes PRC support. The PRC itself has been the target of bombings, sabotage, and other terrorist attacks, primarily thought to be committed by small groups of Muslim extremists (largely Uighurs) based in Xinjiang, in the PRC's far northwest. For years there have been unconfirmed reports that some of these activists may, in fact, be based in Afghanistan, receiving training from the Taliban. Sharing this concern, the PRC has assured Washington of its support in the anti-

terrorism effort, including intelligence-sharing. But the PRC strongly prefers that such global efforts be conducted through the auspices of the U.N. Security Council, where it has a voice, and not purely through a U.S. unilateral effort or a coalition of U.S. allies. Also, PRC officials in the past have attempted to exact policy concessions from the United States in exchange for support for U.S. initiatives. The PRC thus may attempt to condition its future support for the global anti-terrorism campaign on U.S. concessions on Taiwan. (CRS Terrorism Electronic Briefing Book, [http://www.congress.gov/brbk/html/ebter1.shtml].)

## Taiwan-Mainland Relations

**President Lee's "State-to-State" relations comment.** Relations between the PRC and Taiwan became noticeably more tense at the end of the 1990s. Heightened tensions began on July 9, 1999, when President Lee Teng-hui said that ties between Taiwan and China should be considered on a "special state-to-state" basis. Taiwan officials had been moving incrementally in this direction for some time; in 1995, for instance, President Lee emphasized that China and Taiwan were governed by "two governments," and proposed that each side enter international organizations "on an equal footing." Nevertheless, Lee's July 1999 remark was seen by many as the most direct challenge to date concerning Beijing's claim to sovereignty over Taiwan. Beijing objected strenuously to the statement, saying it proved that Lee had fundamentally changed previous policy in which Taiwan had claimed that there was only "one China," of which Taiwan was a part. China adheres to the "one-China" policy, and claims Taiwan as a "break-away" province that belongs to China. The Lee remark complicated U.S. policy toward China and Taiwan, since the "one-China" premise has been used in various formulations by American officials to describe U.S. policy concerning Taiwan.

**PRC "white papers".** On February 21, 2000, the PRC issued its second "white paper" about Taiwan, the first having been issued in August 1993. In the more recent statement, "The One-China Principle and the Taiwan Issue," PRC officials offered a mix of apparent conciliatory gestures and a new ominous-sounding assertion that if Taiwan authorities tried to indefinitely delay cross-Strait talks about Taiwan's future, then the PRC would be "forced to adopt all drastic measures possible, including the use of force." Previously, the PRC had reserved the right to use force in only two instances: if Taiwan declared independence; and if Taiwan were invaded and occupied by a foreign country. A *Washington Post* article of February 23, 2000, cited a top Pentagon official as responding to the new statement by warning the PRC of "incalculable consequences" if the PRC resorted to force against Taiwan.

On October 16, 2000, China published its third national security white paper, entitled "China's National Defense in 2000." The document listed China's national defense expenditures for 2000 at 121.29 billion renminbi – roughly U.S. $14.65 billion. In describing its view of the current international security situation, the white paper declared that there are "new negative developments in the security situation" in the region. The paper cited U.S. weapons sales to Taiwan and consideration of the Taiwan Security Enhancement Act by the 106th Congress as some of these negative developments. The paper also stated that if Taiwan were invaded or continues to refuse to negotiate on reunification with China, the Chinese government "will have no choice but to adopt all drastic measures possible, including the use of force, to safeguard China's sovereignty..."

China's harsh rhetoric on Taiwan has raised concerns in some policy circles about the prospects for military conflict in the area. The danger of military conflict first became evident during the PRC military exercises held at the time of Taiwan's presidential elections in March 1996. Following Taiwan President Lee Teng-hui's personal visit to Cornell University in the United States in June 1995, Beijing broke off high-level talks on cross-Strait relations, stridently excoriated Lee for allegedly attempting to split China and lead Taiwan toward independence, and conducted series of military exercises designed to intimidate the Taiwan people.

Following the U.S. show of force in the Taiwan area and Lee's impressive victory in the March 1996 presidential election, Beijing once again moderated its criticism of the Taiwanese leader. The PRC returned to reiterating its adherence to an ostensibly flexible stance to cross-Strait relations, and advised that a renewed PRC use of force would only come as a last resort in the face of egregious actions by Taipei and/or foreign powers designed to split Taiwan from the mainland. Chinese officials nonetheless remained suspicious and critical of Lee, stressing that resumed dialogue in cross-Strait relations and improvement in the current tense atmosphere depended on Taiwan's adherence to the "principle of one China."

Beijing has also given top priority to checking Taiwan's efforts to broaden its international standing through so-called pragmatic diplomacy. Thus, it has countered Taiwan's efforts to establish formal relations with states already maintaining official ties with Beijing, and it has pressed foreign governments to refuse to receive Taiwan leaders traveling to their countries on an ostensibly private basis. Partly as a result of PRC efforts, Taiwan now maintains official relations with less than 30 countries, mostly small states in Central America and the Caribbean, Africa, and the South Pacific. It is unable to host senior-level meetings of the Asian Pacific Economic Cooperation (APEC) forum, even though Taiwan is a member in good standing of the group, and it has been unsuccessful in gaining even observer status in such U.N. affiliated groups as the World Health Organization. Both China and Taiwan have so far dealt reasonably well with the economic consequences of the 1997-1998 Asian economic crisis. Politically, Taipei quickly used the crisis as an opportunity to broaden high-level official contacts with most Southeast Asian governments seeking outside assistance, and Beijing was unsuccessful is dissuading cash-starved Southeast Asian leaders from seeking economic advantage through talks with senior Taiwan political leaders.

Despite PRC-Taiwan sparring on political issues, cross-Strait talks were held in April 1998, and high-level discussions took place in Shanghai and Beijing during October 14-19, 1998. These talks improved the atmosphere but did little to bridge the wide gap between the negotiating positions of Beijing and Taipei. Both sides were anxious to show U.S. and world opinion that they were not being obstructionist over cross-Strait issues. Meanwhile, economic, cultural and other exchanges between Taiwan and mainland China have grown. By 1999, Taiwanese investment in the mainland had reached a reported $30 billion. Bilateral trade, heavily in Taiwan's favor, amounts to about $30 billion a year.

Over 13 million visits have taken place from Taiwan to the mainland. Over 250,000 mainland Chinese experts, entrepreneurs and others have traveled to Taiwan for consultations and exchanges. Exchanges of PRC-Taiwan scholars and experts for consultations on cross-Strait and other issues provide, in the view of some Taiwanese officials, an active "second track" for PRC-Taiwan dialogue. Recent events in cross-Strait relations have included the decision by oil companies in the PRC and Taiwan to explore jointly offshore areas for oil; the

start of flights from Taiwan to the mainland with only a short stopover in Macao or Hong Kong; and Taiwan's opening to third-country ships, and selected mainland and Taiwanese ships, to carry cargo to and from designated ports in Taiwan and on the mainland. Cross-Strait economic relations are now so important for Taiwan that Taiwan government and business leaders have been among the strongest, albeit largely silent, supporters of continued U.S. most-favored-nation (MFN—now called "normal trade relations," or NTR) tariff treatment for China. Withdrawal of MFN would have a serious negative impact on many Taiwan businesses.

**U.S. Policy Choices.** The United States remains the foreign power most closely involved in PRC-Taiwan relations. It seeks closer relations with both the PRC and Taiwan and favors the peaceful exchanges across the Taiwan Strait. Cross-Strait tensions since mid-1995 challenge U.S. interest in stability in the region and raise the possibility of U.S. involvement in a potential conflict there.

U.S. policy faces major challenges in attempting to strike a proper balance in the U.S.-PRC-Taiwan triangular relationship:

- China's growing economic, political and military power, which contribute to greater reluctance to defer to the United States, Taiwan, or others. Strong nationalistic emphasis in Chinese domestic politics and leadership uncertainty sometimes prompt PRC decision makers to adhere to politically safe nationalistic positions on key issues like Taiwan.

- Taiwan's assertiveness. Economic growth, rapidly changing social conditions, and democratization reinforce Taiwan's efforts to increase its stature in international affairs and move away from a "one China" policy, despite Beijing's objections.

Judging that the U.S. "one China" policy framework no longer works, some American experts favor U.S. negotiations with Beijing and Taipei to strike a new "strategic bargain." The alternative, in their view, is continued conflicting pressure from Beijing and Taipei and related U.S. domestic interests, leading to a passive U.S. policy that would increase confrontation and possibly military conflict.

Others judge that such negotiations would cause more trouble than they are worth, especially for what they see as a relatively weak U.S. Administration. Rather, the administration can continue to adjust its "one China" policy to accommodate pressures from Taipei and Beijing and their U.S. domestic supporters. From this perspective, not all trends in Taiwan and Beijing argue for increased confrontation; Beijing and Taipei have moderated their respective political positions recently, while economic, social, cultural and other non-governmental interchange grows markedly. If both Taipei and Beijing can be persuaded that continuation of current trends is acceptable, then U.S. policy can continue deferring a solution of the Taiwan issue into the future.

U.S. policymakers also are called on to respond to recent prominent calls from both sides of the Strait for the United States to "facilitate" or "mediate" a reduction in tensions. The governments in Beijing, Taipei, and Washington maintain that the issue of Taiwan's reunification is to be handled by people on both sides of the Strait. The United States is not

to mediate cross-Strait differences. Nevertheless, officials and nongovernment opinion leaders in both Beijing and Taipei are now forthright in urging the United States to take actions to ease cross-Strait tensions.

PRC officials want the United States to press Taiwan to avoid egregious efforts to achieve greater international recognition, and to limit arms sales to Taiwan so that Taiwanese leaders will not be able to use such U.S. support to resist PRC efforts to achieve reunification. Officials and observers in Taipei ask the United States to press Beijing to avoid intimidation, and to solidify U.S. ties with Taiwan so that Taipei can deal with the PRC on a more equitable basis.

Predictably, officials in Beijing and Taipei favor U.S. intervention that benefits their respective sides. There is little support for true mediation — that is, efforts by a neutral party to get both sides to give up some significant parts of their respective negotiating positions in order to reach a compromise solution. Any U.S. efforts to press for such a compromise could be portrayed as outside interference and redound negatively for U.S. relations with both capitals.

# Economic and Political Issues

## Economic Prospects and Concerns

Prospects for continued economic growth in Taiwan are reasonably good. The economy grew rapidly (around 10% a year) in the 1970s and 1980s. Growth declined to around 5-6% a year in the 1990s as the economy matured.

Taiwan's economy remains vulnerable to rises in oil prices, decline in the U.S. economy, and international protectionism, especially in the United States. The 1997-1998 Asian financial crisis prompted a 20% decline in the value of Taiwan's currency relative to the U.S. dollar and an increase in inflationary pressures, but on balance Taiwan's large foreign exchange reserves, little foreign debt, and continued vigorous (5-6%) growth made it attractive to investors and trading partners. Taiwan's GNP growth depends heavily on exports, and about 25% of these exports go to the United States. (Leading exports to the United States include clothing and footwear, toys, and various electronic products.)

In recent years, Taiwanese government officials have attempted to accommodate increased U.S. pressure on trade issues. They met many U.S. demands for greater market access for U.S. goods and services and responded to U.S. complaints by taking stronger measures to protect U.S. copyrights and other intellectual property rights. Taiwan in recent years has worked hard to meet U.S. and other nations' requirements for entry into the World Trade Organization (WTO); it negotiated a market access agreement with the United States in February 1998 as a prelude to WTO entry.

A different set of economic issues flows from Taiwan's large foreign exchange reserves and growing international economic power. On the one hand, this trend prompts United States and other foreign officials and business representatives to seek investment or financial support from Taiwan. On the other hand, it prompts some Americans to worry that Taipei

enterprises may use acquisitions of distressed U.S. companies to gain quick entry into important markets heretofore dominated by the United States.

**U.S. Policy Choices.** Many Americans concerned with the large U.S. trade deficit call for strong action (possibly including limitations on foreign access to U.S. markets) to improve the U.S. trade balance. Others call for strict protection of U.S. Intellectual Property Rights against infringement from Taiwan and elsewhere. They recognize that such action could negatively affect the economic prosperity and related political stability of a number of important U.S. trading partners, including Taiwan. But they judge that the United States has little choice but to take firm measures to protect its own markets and economic advancement.

Concern with American industrial competitiveness also motivates Americans who question the sale of sophisticated U.S. industries and equipment to wealthy Taiwan enterprises. They favor strict review of such sales to insure that Taiwanese investors do not reap a large competitive advantage through investment in technologically advanced U.S. companies.

An opposing view comes from U.S. supporters of the Nationalist government, U.S. supporters of the political opposition, Americans concerned with promoting greater political democracy and continued economic prosperity in Taiwan, and free trade advocates who tend to oppose measures designed to restrict foreign exporters' access to U.S. markets. They emphasize the potentially negative results in terms of hampering U.S. investment in Taiwan, Taiwanese investment in the United States, and U.S. interest in the political and social stability long associated with economic prosperity in Taiwan. They also emphasize the negative results for U.S. interests in a free international trading system that they believe would come from restrictive trade legislation or administrative actions aimed at Taiwan or others.

U.S. opinion also divides on Taiwan's entry into the WTO. Advocates in Congress and elsewhere emphasize that Taiwan has satisfied almost all economic requirements for entry, and charge that its entry is actually being held hostage to that of Beijing, which is not as far along. (Beijing insists that Taiwan cannot enter the WTO until after China has gained entry.) The contrary U.S. view holds that to push for Taiwan's entry before China's would surely anger the mainland leadership and perhaps jeopardize the current U.S. policy of engagement with China; and it would have little chance of success as other WTO members would likely bow to PRC pressure if the United States did not.

## Political Liberalization

Under the leadership of Chiang Kai-shek (who ruled the Republic of China from 1945-1975), the Nationalist Party-dominated government ruled in a sometimes harsh authoritarian fashion. It pursued policies of a strong national defense against the Communist mainland and export-oriented economic growth. It tolerated little open political dissent.

In the 1970s, the United States and most developed countries recognized the PRC and broke official ties with Taipei. Under international pressure, Taiwan lost the China seat in the U.N. and most official international bodies. These international setbacks challenged a major source of the political legitimacy of the Nationalist regime. It was harder to argue that people on Taiwan should accept and pay for an elaborate central government administration that included a majority of representatives who were elected on mainland China prior to the

Communist victory there in 1949 and the subsequent Nationalist retreat to Taiwan. Nationalist leaders, especially Chiang Kai-shek's son, Chiang Ching-kuo, emphasized other elements in support of the Nationalists' rule, noting in particular the leadership's successful supervision of Taiwan's dramatic economic progress. Chiang and his associates also were at pains to introduce to power more "Taiwanese" — 85% of the island's population whose roots go back to Taiwan prior to the influx of two million "mainlanders" associated with the Nationalist regime at the time of the Communist victory on the mainland. The vast majority of the Nationalist Party's rank and file were Taiwanese, and important Taiwanese dignitaries, including the current President, Lee Teng-hui, were raised to high positions.

A combination of international and domestic pressures accelerated the pace of political reform in the middle and late 1980s. In September 1986, a formal opposition party, the Democratic Progressive Party (DPP), was formed. President Chiang Ching-kuo ended martial law in July 1987. Following Chiang Ching- kuo's death in January 1988, the new President, Lee Teng-hui, reaffirmed a commitment to reform that would legalize opposition parties and restructure parliamentary bodies. In 1991, President Lee ended the state of civil war with the PRC and the associated "temporary provisions" that had given Nationalist leaders "emergency" powers to deal with dissent. Members of legislative bodies elected in the mainland over 40 years earlier retired. An election was held to fill all seats in a new National Assembly, and in 1992 a new legislature was elected.

In annual island-wide elections since then, the Nationalist Party incrementally lost ground to the DPP and the New China Party, founded in 1993. In the March 23, 1996 presidential elections, Lee Teng-hui won 53.9% of the vote, the DPP candidate, 21.1%, and two conservative independents, 14.9%, and 9.9%, respectively. In concurrent elections for the National Assembly's 334 seats, the Nationalists got 183 seats with 49.7% of the vote; the DPP got 99 seats with 29.9%; and the New China Party got 46 seats with 13.7%. A December 23-28, 1996, multiparty National Development Conference in Taiwan saw continued strong Taiwanese opposition to Beijing's "one country-two systems" reunification formula and agreement on government reforms, notably the downgrading of Taiwan provincial government functions. The reforms were legally passed on July 18, 1997. In Beijing, officials voiced concern that the decision to diminish the Taiwanese provincial government suggested that Taiwan was determined to highlight its status as an international actor separate from China. Meanwhile, in island-wide elections for 23 mayors and magistrates on November 29, 1997, the DPP for the first time out-polled the Nationalists in the popular vote, 43.4% to 42%. The results left DPP leaders in charge of local government for 72% of Taiwan's people, while the Nationalist leaders were in charge of only 22%.

Taiwan's legislative and municipal elections of December 5, 1998, were an important victory for the ruling Nationalist Party and calmed for a time concerns in the United States, the PRC, and Taiwan that voters might favor the opposition DPP, long associated with a party platform favoring Taiwan self-determination — anathema for Beijing. The Nationalists won a comfortable majority in the legislature, 123 out of 225 seats, with 46.4% of the vote. The DPP won 70 seats with 29.5% of the vote.

**Taiwan's Presidential Elections, 2000: Change in Government.** On March 18, 2000, Taiwan voters went to the polls for only the second time to elect a new president in a hotly contested election that was judged too close to call in the final days. The winning candidate in that election, Chen Shui-bian, is a member of the opposition DPP, the party that

had been illegal until 1986. The vote handed a stunning defeat to Chiang Kai-shek's Nationalist Party, which had had an unbroken tenure in power for 50 years. With three leading presidential candidates, Chen won with 39% of the popular vote, while an independent challenger, James Soong, ran a close second with 36.5% of the vote. The KMT candidate, sitting vice-president Lien Chan, ran a distant third with only 23% of the vote.

President Chen took office on May 20, 2000. U.S. officials have generally praised Chen for his careful political maneuvering in the first year of his administration. He has tried to maintain a balance between the more radical, pro-independence advocates in his party while trying to avoid antagonizing Beijing on the cross-strait issue. On the latter, he voiced 5 principles designed to appeal to Beijing: no declaration of independence; no change in Taiwan's formal name (Republic of China); no amendment of Taiwan's constitution with the "state-to-state" formula; no public referendum on independence; and no repeal of Taiwan's Guidelines on National Unification. Nevertheless, Chen has been limited domestically so far by his inability to gain consistent and broad support for his policy initiatives from the legislature, which still retains a substantial Nationalist Party majority.

**December 2001 Elections.** On December 1, 2001, Taiwan held legislative, mayoral, and magistrate elections. President Chen's DPP party increased its representation in the national legislature from 66 to 87 out of a total of 225 seats. The results mean that the struggling Nationalist Party has lost its majority status in the legislature for the first time in 50 years – down from 115 seats to just 68 seats in the December 2001 elections. The election results are likely to strengthen the position of President Chen, whose ability to push controversial policy measures through the legislature has been hampered until now by the divided government. Although Chen's DPP party still does not have a legislative majority, the DPP plurality means that Chen has a stronger change of crafting a political coalition that could give him effective legislative control. Other results in the legislative elections: the People First Party won 46 seats; the "Taiwan Solidarity Union" 13; and the New Party 1. The remaining 10 legislative seats were taken by minority- or non-party candidate PRC officials are likely be concerned about the legislative election results because they view the DPP as a party with ambitions for Taiwan's independence from China.

Representation between the DPP and KMT was more evenly split in the elections for county magistrates and city mayors. For the 23 magistrate seats, the KMT and the DPP each won nine posts, the PFP and independent candidates each won two posts, and the New Party won one.

**The Taiwan Solidarity Union (TSU) Party.** Dramatic developments occurred in June and July 2001 in Taiwan's political landscape. On June 16, 2001, former President Lee Teng-hui, the standard-bearer of the Nationalist Party for over 10 years, made a joint appearance with President Chen Shui-bian and appeared to urge his own followers to support Chen. Observers speculated that the joint appearance meant that Lee was forming a political alliance with Chen and the DPP. Subsequently, on July 24, 2001, former Nationalist Party members closely associated with former President Lee announced they were forming a new political party, the Taiwan Solidarity Union (TSU). This sparked heated debate in Taiwan over the implications of the new party for Taiwan's political scene. According to initial reports, the TSU ostensibly will follow policies favored and even crafted by former President Lee – such as supporting the "state-to-state" approach in cross-strait talks with the PRC, and

favoring a "go slow" policy on Taiwan's evolving economic and investment ties in the PRC.

Given Taiwan's current legislative-executive dynamic, the new party has potentially far-reaching implications for the next legislative elections in December 2001. Some have predicted that the new TSU will split the DPP's votes and effectively weaken its position in the legislature, making it even harder for President Chen to govern. But others have pointed out that former President Lee is a supporter of Chen and the DPP's positions, and that the new TSU party will be able to form a coalition with the DPP that will ensure it a governing majority. Some predict that in such a case, which would significantly boost those supporting some type of an independent political identity for Taiwan, the implications for PRC-Taiwan-U.S. political relations could be profound. The new TSU party is scheduled to be formally inaugurated at a party conference on August 12, 2001. The party's organizers say they plan to field 40 candidates in the December 2001 legislative elections.

## LEGISLATION

**P.L. 107-10 (H.R. 428)**

Taiwan Participation in the World Health Organization (WHO). Requires the Secretary of State to initiate a U.S. plan to endorse and obtain observer status for Taiwan at the annual week-long summit of the World Health Assembly in May 2001 in Geneva, Switzerland; and requires the Secretary of State to submit the plan to Congress in a written, unclassified report. Introduced on February 6, 2001, and referred to the House International Relations Committee, which marked the bill up on March 28, 2001. The House passed the bill on April 24, 2001, by a vote of 407-0. The Senate passed the bill, amended, on May 9, 2001, by unanimous consent. On May 15, 2001, the House agreed to the Senate amendment by a vote of 415-0. The President signed the bill into law on May 29, 2001.

**S. 1438 (Levin, C.)**

The Defense Authorizations Act, introduced on September 19, 2001. Section 1216(b) authorizes the sale of four U.S. Kidd class guided missile destroyers to the Taipei Economic and Cultural Representative Office (TECRO) in the United States (Taiwan's unofficial representative office in the U.S.) The destroyers authorized for sale are: KIDD (DDG 993), CALLAGHAN (DDG 994), SCOTT (DDG 995), and CHANDLER (DDG 996). The measure was taken up by the Senate on September 21, 2001. Cloture was invoked on October 2, 2001 (100-0), and the Senate passed the bill, amended, on the same day by a vote of 99-0. Conference meetings were held on October 31 and November 1, 2001.

**H.R. 1646 (Hyde)**

The Foreign Relations Authorization Act, introduced on April 27, 2001. Section 813 declares that notwithstanding any other provision of law, Taiwan shall be treated as the equivalent of a major non-NATO ally for purposes of the transfer or potential transfer of defense articles or services. Section 814 requires the President to consult with both Congress and with Taiwan armed forces, at the level of Vice-Chairman of the General Staff or higher, on Taiwan's defense needs. The House International Relations Committee marked up the bill on May 2, 2001, and reported it (amended) on May 4, 2001 (H.Rept. 107-57).

The House passed the bill on May 16, 2001, by a vote of 352-73, and the bill was sent to the Senate on May 17, 2001, and referred to the Foreign Relations Committee.

**H.R. 2739 (Brown, S.)**

To amend P.L. 107-10 to require a U.S. plan to obtain WHO observer status for Taiwan at the annual summit of the World Health Assembly in May 2002 in Geneva. Introduced on August 2, 2001, and referred to the House International Relations Committee.

## CHRONOLOGY

**12/01/01** — In national legislative elections, the DPP made a strong showing at the expense of the National Party, winning 87 legislative seats in the 225-member body to the latter's 68 seats. The Nationalist Party lost its legislative majority for the first time in 50 years.

**09/18/01** — The WTO voted to accept Taiwan's application for membership.

**07/24/01** — Supporters of Taiwan's former President, KMT member Lee Teng-hui, announced the formation of a new political party in Taiwan, the Taiwan Solidarity Union (TSU). The organizing meeting of the new party is scheduled for August 12, 2001.

**04/25/01** — In an ABC television interview, President Bush said that he would use the U.S. military – do"whatever it took to help Taiwan defend herself."

**04/24/01** — The Bush Administration announced it would sell Taiwan a new assortment of defense articles, including diesel submarines, P-3C anti-submarine aircraft, and Kidd-class destroyers.

**01/22/01** — Vincent Siew, Vice-Chairman of Taiwan's former ruling party, the Kuomintang (KMT), proposed establishing a "cross-strait common market" between Taiwan and China.

**01/02/01** — For the first time in more than 5 decades, 3 Taiwan ships left Quemoy and Matsu and later docked in the Chinese ports of Xiamen and Fuzhou.

**10/16/00** — China issued a white paper, "China's National Defense 2000," reinforcing its claim that it would use force against Taiwan if Taiwan continued to refuse to negotiate for reunification with China.

**08/17/00** — Taiwan's President Chen made a transit stop in Los Angeles. Originally invited to attend a private dinner with Members of Congress, President Chen declined, reportedly under pressure from U.S. government officials.

**05/20/00** — Chen Shui-bian was inaugurated as Taiwan's newly elected president. His inauguration speech was viewed generally as a moderate attempt to lower tensions with Beijing.

**03/24/00 —** President Lee Teng-hui resigned as head of the ruling Nationalist Party because of his party's unprecedented defeat in the presidential election.

**03/18/00** — In presidential elections in Taipei, DPP candidate Chen Shui-bian won with approximately 39% of the vote.

**02/21/00** — The PRC issued a White Paper, "The One-China Principle and the Taiwan Issue," with a mix of conciliatory gestures and a new threat that Taiwan's indefinite delay in cross-Strait talks may prompt use of force by the PRC.

**02/01/00** — The House passed H.R. 1838, the Taiwan Security Enhancement Act, by a vote of 341-70.

**11/17/99** — The ruling Kuomintang (KMT) Party expelled presidential candidate James Soong and six of his key staff.

**07/09/99** — Taiwan's President, Lee Teng-hui, said that ties between Taiwan and the PRC should be conducted on a "state-to-state" basis.

**04/19/99 —** Taiwan DPP leader Chen Shui-bian began several days of seminars and meetings in Washington, DC.

**02/17/99** — The U.S. Defense Department issued a congressionally mandated report on rising military strengths on both sides of the Taiwan Strait. The report intensified arguments on whether the United States should provide ballistic missile defense systems to Taiwan despite strenuous objections from Beijing.

**10/23/98 —** Secretary of Defense William Cohen had an unofficial meeting with Taiwan's armed forces chief of staff then visiting Washington.

**10/19/98 —** Taiwan negotiator Koo Chen-fu left Beijing after talks with Chinese party leader Jiang Zemin and other senior officials.

**01/24/98** — Elections for mayors of smaller cities, county assemblies, and city councils showed the KMT's continued dominance at the grass-roots level of Taiwanese politics. The Kuomintang won over 60% of the contested seats; the DPP about 20%.

**01/01/98** — South Africa, the most important country to maintain official ties with Taiwan, broke official relations and established formal ties with China.

**03/10/96** — The Pentagon disclosed that two U.S. carrier battle groups had been ordered to the Taiwan area.

**03/08/96** — PRC forces began holding ballistic missile exercises in two impact areas near Taiwan. The actions were condemned by Congress and the Administration.

**01/24/96** — The *New York Times* reported on a series of explicit warnings from Chinese leaders to the United States over the likelihood of military action in the Taiwan Strait.

**12/02/95** — In elections for the 164-seat Legislative Yuan, the KMT received 85 seats with 45% of the vote; the DPP, 54 seats; and the New China Party, 21 seats.

**05/22/95** — Yielding to congressional pressure, President Clinton decided to allow Taiwan's president to visit the United States the following month.

**04/08/95** — President Lee Teng-hui responded to President Jiang Zemin's eight-point proposal on cross-Strait relations with his own proposal.

**01/30/95** — China's leader Jiang Zemin issued a positive sounding eight-point proposal on Taiwanese-mainland relations.

**09/07/94** — The Clinton Administration's Taiwan policy review called for modestly increased contacts with Taiwan.

**01/29/94** — In elections for numerous local councils and other posts, the Kuomintang dominated, winning over 60% of the vote, while the DPP won about 15%.

**09/02/92** — President Bush agreed to sell 150 F-16 jet fighters to Taiwan.

**07/15/87** — Martial law ended in Taiwan.

## FOR ADDITIONAL READING

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