

# Issue Brief for Congress

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

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

### SUMMARY

Under the current Bush Administration, U.S.-China-Taiwan relations have undergone important changes. Many observers see current approach as having abandoned the long-standing U.S. policy of “strategic ambiguity” on Taiwan in favor of “strategic clarity” that places more emphasis on Taiwan’s interests and less on PRC concerns. Among other things, President Bush has publicly stated that the United States will do “whatever it takes” to help Taiwan’s defense – an unprecedented statement which no prior U.S. President has made. In April 2002, the President also approved a substantial sale of U.S. weapons to Taiwan, including Kidd-class destroyers, anti-submarine P-3 “Orion” aircraft, and diesel submarines. The White House also has been more accommodating to visits from Taiwan officials than previous U.S. Administrations, and permitted visits from Taiwan’s president in 2001 and by Taiwan’s Vice-President and Defense Minister in 2002.

The Administration’s assertive posture toward Taiwan also is in keeping with growing congressional sentiment that the United States needs to do more to assist in Taiwan’s defense needs, particularly given the PRC’s military build-up along the south China coast. Consequently, the 107<sup>th</sup> Congress pushed forward with bipartisan initiatives seeking to focus more U.S. attention on Taiwan and raise its international stature. On April 9, 2002, a bipartisan coalition of House Members formed the Congressional Taiwan Caucus, the stated purpose of which is to focus increased

policy attention on Taiwan. The 107<sup>th</sup> Congress also considered and acted upon legislation that increasingly sought to expand the margins of U.S.-Taiwan ties.

These apparent U.S. policy shifts have come at a time of complexity and unpredictability in Taiwan’s political environment. Since 2000, the long-ruling Nationalist Party (KMT) has been handed stunning defeats, first losing the presidency to opposition Democratic Progressive Party (DPP) candidate Chen Shui-bian, then losing its majority in the legislature in 2001. The legislative election results in particular mean that there is now no political party in Taiwan with an absolute majority, a result leading some analysts to conclude that Taiwan will remain politically paralyzed for the foreseeable future.

The misfortunes of the KMT and the fluidity of Taiwan’s political scene have longer-term policy implications for the PRC and for U.S.-PRC-Taiwan relations. The KMT has been the island’s most outspoken defender of the “one-China” policy and opponent of independence for Taiwan, while the DPP has long been associated with a pro-independence platform. The new prominence of the DPP in Taiwan’s political life has meant that cross-strait talks between the PRC and Taiwan are likely to remain stalled at the official level despite extensive Taiwanese trade with, and investment in, the Chinese mainland. This issue brief will be updated as developments warrant.

## **MOST RECENT DEVELOPMENTS**

On February 15, 2004, Taiwan news accounts announced that KMT leader Lien Chan and PFP leader James Soong would combine forces in a single presidential ticket to challenge current President Chen Shui-bian, leader of the DPP party, in the March 2004 presidential election. If the KMT/PFP alliance holds together, it will pose a formidable electoral challenge to the minority DPP government.

On January 26, 2003, a chartered Taiwan flight landed in the PRC for the first time since 1949 in the first of 16 such flights planned through February 9, 2003. The flights were arranged to ferry passengers to Taiwan for the Chinese New Year.

In mayoral elections on December 7, 2002, KMT favorite Ma Ying-jeou handily won re-election as mayor of Taipei, while DPP candidate Frank Hsieh was re-elected mayor of Kaohsiung.

On September 4, 2002, a delegation of KMT and PFP legislators from Taiwan began a visit to the United States with the goal of increasing inter-parliamentary exchanges. The delegation met with U.S. Members of Congress in Washington D.C. before leaving for meetings in New York.

## **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 in Beijing was not credible, and that the administration on Taiwan 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's one-party government (the Nationalist Party, or KMT) to consolidate its position on Taiwan.

In the 1950s and 1960s, U.S. forces used Taiwan as a forward base against Sino-Soviet communism in Asia. But 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 came to view Beijing more as a strategic asset against the Soviet Union than an adversary to be confronted in the Taiwan Strait. 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.<sup>1</sup> As part of de-recognition, the United States also notified Taiwan authorities that effective January 1, 1980, it would terminate the 1954 U.S.-ROC Mutual Defense Treaty. This move prompted extensive congressional debate at the time over the President's authority to unilaterally dissolve a defense treaty without prior consultation with Congress.

In a statement released 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." Subsequently, the United States affirmed its security and other interests in Taiwan through the Taiwan Relations Act (TRA) and the continued supply of U.S. arms to Taiwan. The TRA (enacted as P.L. 96-8 in April 1979) which still governs U.S. relations with Taiwan, was essentially a congressional construct, enacted by a Congress unhappy with the Carter Administration's failure to develop more detailed plans for how U.S. relations were to be conducted with Taiwan after official relations were severed.

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. The PRC's burgeoning economy and sometimes assertive foreign policy in the 1990s revived U.S. interest in finding pragmatic and effective ways to deal with rising Chinese power. At the same time, Taiwan's political system had undergone dramatic changes, including a transition to democratic political pluralism. The combination of these developments led to subtle changes in U.S.-Taiwan ties, including deepening economic, military, social, and other contacts.

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 \$15.25 billion U.S. trade deficit with Taiwan in 2001. 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.

## Issues in U.S.-PRC-Taiwan Relations

**U.S. Defense Commitments to Taiwan.** U.S. arms sales to Taiwan are part of a decades-long U.S. policy approach which came to be called "strategic ambiguity" and which tried continually to balance two competing policy objectives. On the one hand, U.S. policymakers recognized Beijing as the legitimate government of all China and promised PRC leaders that the United States would not recognize Taiwan as an independent state. On the other hand, the United States had extensive contacts with Taiwan under the auspices of the TRA, an Act which also mandated the continued U.S. sale of defense weapons and equipment to Taiwan. The nature of U.S. defense commitments and arms sales to Taiwan is defined in Section 3 of the TRA. Section 3 is non-specific about the defense articles and

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

services the United States may provide Taiwan. 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. Although PRC officials were satisfied with the U.S. position that it would not recognize Taiwan independence, they objected strenuously to continued U.S. arms sales to Taiwan. On August 17, 1982, a U.S.-PRC joint communique addressed this point. In that communique, the PRC cited it had a “fundamental policy” of striving for a peaceful solution to the Taiwan question, while Washington stated that the U.S. 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.

**Policy Changes in the George W. Bush Administration.** In recent years, the fundamentals of U.S.-China-Taiwan relations appear to be changing. Many observers see the current Bush Administration as having abandoned the long-standing U.S. policy of “strategic ambiguity” on Taiwan in favor of policy clarity that places more emphasis on Taiwan’s interests and less on PRC concerns. On April 25, 2001, for instance, in an ABC television interview, President Bush responded to a question about what the United States would do if Taiwan were attacked by saying that the United States would do “Whatever it took to help Taiwan defend herself.” Since Section 3 of the TRA only addresses arms sales and not the use of American military forces in the island’s defense, the President’s answer caused considerable controversy over whether the United States had changed its policy toward Taiwan’s security or was preparing to change its position on Taiwan independence. Although State Department and White House officials, including President Bush, later insisted that the President’s statement was consistent with U.S. commitments in the TRA and that there had been no change in U.S. policy, subsequent statements and actions by Bush Administration officials have been judged to be more solicitous and supportive of Taiwan than those of previous U.S. Administrations.

In addition to his statement, in April 2002 President Bush also approved the second-largest U.S. weapons sale package to Taiwan, surpassed only by President Bush senior’s 1992 sale of 150 F-16s, valued at \$5.9 billion. The 2002 weapons sale included four Kidd-class destroyers, 12 anti-submarine P-3 “Orion” aircraft, and eight diesel submarines. Since the United States has built only nuclear submarines since the 1950s, discussions have been underway on plans either to acquire the diesel subs from a third country or to permit U.S. companies to build the subs especially for Taiwan. Among the U.S. companies reported to be interested are three owned by Northrop Grumman, three owned by General Dynamics, and Lockheed Martin. The White House decided not to sell Taiwan the more sophisticated Aegis battle management system and Arleigh Burke class destroyers.

The Bush Administration’s newly assertive posture toward Taiwan’s defense needs also is in keeping with growing sentiment among some Members of Congress that the TRA is outdated and that Taiwan’s self-defense capabilities have eroded while the PRC has grown militarily more capable and more hostile. These conclusions appear to have been supported by a congressionally mandated report, issued by the Pentagon in February 1999, that assessed the military balance in the Taiwan Strait. The report concluded 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 economic infrastructure." Congressional proponents of enhanced security for Taiwan have argued that China's military build-up along its southern coast is inconsistent with its 1982 pledge to strive for a "peaceful resolution" to the issue of Taiwan. Therefore, they say, U.S. policy should be adjusted accordingly.

**U.S. Policy Statements and the "One-China" Policy.** In addition to criticizing U.S. arms sales, Beijing routinely criticizes other aspects of U.S. support for Taiwan, saying that such actions reduce Taipei's interest in negotiations on reunification with the mainland. The PRC regularly refers to these actions as violations of the "one-China policy," in which, over the years and in various guises, the United States has "acknowledged" that Chinese on both sides of the Taiwan Strait hold that there is only one China and that Taiwan is part of it. In addition to the TRA, U.S. policy positions on Taiwan are encapsulated in three Sino-U.S. communiqués signed in 1972, 1979, and 1982. Relevant policy statements from these communiqués are:

**The "Shanghai Communiqué" of 1972:** The United States acknowledges that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The United States Government does not challenge that position.

**The U.S.-PRC Joint Communiqué on Establishment of Diplomatic Relations, 1979:** The United States of America recognizes the Government of the People's Republic of China as the sole legal Government of China. Within this context, the people of the United States will maintain cultural, commercial, and other unofficial relations with the people of Taiwan....The Government of the United States of America acknowledges the Chinese position that there is but one China and Taiwan is part of China.

**The U.S.-China Joint Communiqué on Arms Sales to Taiwan, 1982:** The United States Government attaches great importance to its relations with China, and reiterates that it has no intention of infringing on Chinese sovereignty and territorial integrity, or interfering in China's internal affairs, or pursuing a policy of "two Chinas" or "one China, one Taiwan."

The Clinton Administration in 1994 conducted a comprehensive review of U.S. policy toward Taiwan. In testimony before the Senate Foreign Relations Committee about the policy review, however, Assistant Secretary of State Winston Lord said that while the review had resulted in "a series of changes," the fundamental framework of U.S. Taiwan policy remained unchanged.

**The "Reagan Interpretation" of the 1982 Communiqué.** In discussing U.S. intentions to gradually reduce its arms sales to Taiwan, the 1982 Communiqué refers several times to the PRC's policy of "striving for a peaceful reunification" with Taiwan. In an interview with Charles Stuart Kennedy on October 30, 1998 (part of the Foreign Affairs Oral History Project being conducted by the Association for Diplomatic Studies and Training), former U.S. Ambassador to China James Lilley provided information about President Reagan's interpretation of the 1982 communiqué. According to Lilley, President Reagan viewed the 1982 communiqué as specifically linking the reduction of U.S. arms to Taiwan with China's peaceful resolution of the Taiwan question. If the PRC became belligerent or built up a power projection capability in the Strait which threatened Taiwan, President

Reagan considered that this would be a violation of the 1982 communique and that the United States would be free to increase its arms sales to Taiwan.

**U.S. Visits by Taiwan Officials.** In the absence of official U.S. ties with Taiwan, PRC officials argue that no high-level officials of the Taiwan government should be received in the United States. Mindful of PRC sensitivities, U.S. officials for years were unwilling to issue visas to senior Taiwan officials for U.S. visits. This changed on May 22, 1995, when President Clinton, bowing to substantial congressional pressure, decided to allow Taiwan President Lee Teng-hui to make a visit to the United States, but in his capacity as a private citizen, not as an official representing Taiwan. Beijing reacted strongly, holding several live-fire missile exercises in the Taiwan Strait after the Lee visit and prior to the March 1996 presidential elections in Taiwan, where Lee was running for re-election. In response to the PRC military exercises, the United States sent two carrier battle groups to the region of the Taiwan Strait. The PRC exercises, which ended on March 25, 1996, failed to discredit Lee, who won 54% of the vote in a field of four candidates in presidential elections.

In contrast to previous Administrations, the George W. Bush Administration has been more accommodating in granting visits to senior Taiwan officials. In June 2000, Taiwan's new President, Chen Shui-bian, was allowed a transit stop in New York City and Houston on his way to Latin America. Taiwan's Vice-President, Annette Lu, was accorded a similar transit stop in New York in early January 2002. More recently, from March 9-12, 2002, U.S. officials permitted Taiwan's Defense Minister, Tang Yao-ming, to attend a defense conference in Florida. While here, Minister Tang met with U.S. Deputy Secretary of Defense Paul Wolfowitz and U.S. Assistant Secretary of State James Kelly. The PRC protested. In June 2002, KMT party chairman Lien Chan attended a dinner at the White House in conjunction with his visit to Washington D.C. to attend an International Democratic Union (IDU) party leadership meeting.

Despite these warmer relations with Taiwan, Bush Administration officials appear willing to place some limits to the relationship. In a speech on August 3, 2002, for instance, President Chen Shui-bian declared that Taiwan and China were two separate countries, and he endorsed the passage of legislation that would allow a national referendum on Taiwan's sovereignty. Reportedly, American officials had were caught by surprise by the President's remarks, which were quite controversial in that they suggested a separate sovereign status for Taiwan. The week following the remarks, the Chair of Taiwan's Mainland Affairs Council, Dr. Tsai Ing-wen, made what many saw as an "emergency visit" to hold talks with U.S. officials in Washington D.C. The widespread view was that Dr. Tsai's visit was necessary to repair any damage to the relationship from President Chen's earlier remarks.

**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 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. Although the PRC has assured Washington of its support in the anti-terrorism effort, PRC officials in the past have attempted to exact policy concessions from the United States in exchange for support for U.S. initiatives. Some expect that the PRC thus may attempt to condition its future support for the global anti-terrorism campaign on U.S. concessions on Taiwan.

On April 9, 2002, 83 Members of the House, including 45 Republicans, 37 Democrats, and one Independent, announced the formation of a Congressional Taiwan Caucus.

## Political Liberalization in Taiwan

### Background

Under the leadership of Chiang Kai-shek, (who ruled the Republic of China from 1945-1975), the KMT-dominated government that fled wholesale to Taiwan ruled in a sometimes harsh authoritarian fashion. Considering itself still at war, it retained those legislative and executive officials that had served in the mainland, and it tolerated little open political dissent. It pursued policies of a strong national defense against the Communist mainland and export-oriented economic growth. But widespread international recognition of the PRC in the 1970s challenged a major source of the political legitimacy of the KMT regime on Taiwan. 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 30 years before. KMT leaders, particularly Chiang Kai-shek's son, Chiang Ching-kuo (CCK), began to institute political reforms. They emphasized other elements in support of KMT rule, noting in particular the leadership's successful supervision of Taiwan's dramatic economic progress. CCK and his associates also included in the government more "Taiwanese" — the 85% of the island's population whose roots go back to Taiwan prior to the influx of two million "mainlanders." Important Taiwanese dignitaries, including future President Lee Teng-hui, were elevated within the Party.

A combination of international and domestic pressures accelerated the pace of political reform in the 1980s. In September 1986, opponents of KMT political dominance finally overcame years of the Party's objections and formed an opposition party, the Democratic Progressive Party (DPP). President Chiang ended martial law in July 1987, and following his death in January 1988, the new President, Lee Teng-hui, reaffirmed commitments to political reform. In 1991, President Lee declared an end to the state of civil war with the PRC and the associated "temporary provisions" that had given KMT 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 seats in a new National Assembly, and in 1992 a new legislature was elected.

In subsequent annual island-wide elections, the KMT 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%.

**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, 14-year old DPP Party. The vote was a stunning defeat for the KMT and its 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. In spite of this success at the executive level, the legislature remained dominated by the KMT. Thus, President Chen was limited domestically by his inability to gain consistent and broad support for his policy initiatives from the legislature, leading to bitterness and a near paralysis in Taiwan's political system.

## Legislative Changes in December 2001

On December 1, 2001, Taiwan held mayoral, magistrate, and national legislative elections which many thought offered a crucial opportunity to improve the DPP's ability to govern. Although the results in elections for county magistrates and city mayors were evenly split between the KMT and the DPP (each won nine posts), elections for the 225-member national legislature handed a stunning and unprecedented defeat to the KMT – giving it just 68 seats instead of its former 115 seats. While the struggling KMT lost its majority status in – and, many thought, its control of – the legislature for the first time in 50 years, President Chen's DPP party increased its representation from 66 to 87. Other seats were won by the People First Party (46 seats); the "Taiwan Solidarity Union" (13); and the New Party (1); and various minority or non-party candidates (10). As a result, when the new legislature convened in February 2002, no single party had an absolute majority. Control of the legislature instead would go to those parties able to form an effective majority coalition. (See CRS Report RS21093, *Taiwan's December 2001 Elections*.)

Many observers thought that the new DPP legislative plurality would strengthen the position of President Chen by allowing him to craft a political coalition that could give him effective legislative control. In addition to the likely support of independents, the natural ally was the Taiwan Solidarity Union (TSU), a new party formed on July 24, 2001, by former KMT members closely associated with former President Lee Teng-hui. The TSU promised it would follow policies crafted by Lee and would operate as a coalition bloc with the DPP, ostensibly to help President Chen "govern more effectively." While this still would leave the DPP just shy of a controlling legislative bloc, DPP political strategists early in 2002 were counting on the defection of a handful of disgruntled KMT legislators to the DPP camp and political isolation of the remaining KMT legislators, which would break the stalemate and give effective legislative control to Chen and the DPP.

Nevertheless, the actions of the new legislature in its initial months did not turn out as expected. The rash of KMT defections has not occurred. Instead, the KMT has been able to exert party discipline on its 68 elected members. Nor are the KMT members politically isolated. Instead, they have been able to overcome political and ideological differences with the People First Party (PFP) and form a coalition with the PFP's 46 elected members that has shown remarkable solidarity and has blocked DPP/TSU initiatives. Finally, the TSU has proven an unreliable coalition partner for the DPP. Instead of supporting President Chen's moderate agenda, TSU members have pushed policy proposals that are especially provocative to Beijing, and on occasion they have threatened to withhold their support unless Chen and the DPP made policy concessions to TSU views. Judging from KMT-leader Lien Chan's comments during his visit to the United States in June 2002, KMT political strategists have decided to portray DPP/TSU policies as a dangerous road for the Taiwan people from which only a return to KMT rule can save them. Developments in 2002 suggest

that unless circumstances change, Chen will not be able to count on the new legislature's support for his policy initiatives after all, and political stalemate and infighting will continue to characterize Taiwan's political scene. Moreover, events in 2002 suggest that the KMT may yet be able to resurrect itself from near-death to regain political power, and that the campaign for Taiwan's next presidential election in 2004 is already well underway.

## Taiwan-Mainland Relations

Beginning with Taiwan's relaxation of restrictions on travel to the mainland in 1987, succeeding Taiwan governments have incrementally eased long-standing restrictions on contacts with the PRC. In Taiwan, cross-strait policies are under the purview of the Mainland Affairs Council (MAC), a government body, while cross-strait talks are handled by the Straits Exchange Foundation (SEF), a private organization authorized by the government to handle these exchanges. Corresponding bodies in the PRC are the government's Taiwan Affairs Office, while cross-strait talks are handled by the Association for Relations Across the Taiwan Strait (ARATS). Despite substantial and growing economic ties, the two sides have not held official talks since October 14-19, 1998, in Shanghai and Beijing. These talks improved the atmosphere but did little to bridge the wide gap between the negotiating positions of Beijing and Taipei. Further progress on official cross-strait talks have remained frozen since 1999, when then-President Lee Teng-hui declared that such talks should be conducted on an equal, "state to state" basis, which Beijing took as a statement of Taiwan sovereignty.

**Official Developments During the Chen Administration.** Although Beijing has adamantly opposed the DPP and its pro-independence statements, during the Chen Administration both the PRC and Taiwan governments have made selected overtures and statements that some have interpreted as suggestive of movement in PRC-Taiwan relations. In January 2001, Taiwan launched what it called the "three mini links" – for the first time permitting direct transport, commerce, and postal exchanges between two outlying Taiwan islands and the south of China. (Further expansion of the "mini links" was announced in June 2002.) In October 2001, Taiwan officials announced they would simplify visa application procedures for professionals from the PRC, making it easier for them to come live and work in Taiwan. In November 2001, President Chen gave a speech in Taiwan urging the PRC government to drop its opposition to negotiating with his administration. In May 2002, President Chen announced he would send a DPP delegation to Beijing to establish contacts between the DPP and the Chinese Communist Party.

In what some suggest is a significant softening of PRC policy, on January 24, 2002, PRC Vice-Premier Qian Qichen described pro-independence advocates in the DPP as only an "extremely small number" in the Party, and he invited DPP members to visit the mainland under a "suitable status." This is a notable departure from previous PRC policy, which was not to meet or negotiate with DPP members. Among other things, the PRC also will allow two Taiwan banks – Chang Hwa Bank and United World Chinese Commercial Bank – to open representative offices on the mainland. More interestingly, in an interview with Russia's ITAR-TASS news agency on March 14, 2002, the deputy director of the PRC's Taiwan Affairs Office, Zhou Mingwei, suggested that the PRC may be willing to accept the simultaneous representation of both Beijing and Taipei in the United Nations, provided that Taiwan acknowledges the "one-China" principle.

Despite these positive signs, tensions remain. Taiwan's domestic political scene ensures that various opportunists will be able to continue to use cross-strait relations as a tool for political leverage and advancement. On January 15, 2002, for instance, Taiwan authorities announced they would add the words "Issued in Taiwan" to Taiwan passports to avoid confusion between the PRC and Taiwan. A seemingly innocuous change, the decision appeals to Taiwan nationalists and irritates Beijing, which responded by saying that the move demonstrated Taiwan was "inching toward independence." Taiwan's relationship with the United States also remains both a source of tension and an opportunity for political maneuvering in Taiwan. For instance, the PRC vigorously protested the U.S. decision in March 2002 to allow Taiwan's defense chief, Tang Yao-ming, to visit the United States for meetings with senior U.S. diplomatic and military officials. This was the first visit of a Taiwan defense minister to the United States since the mid-1960s. PRC officials continue to insist that official contacts between Taiwan's government officials and those of any other country are inappropriate. Meanwhile, KMT leader Lien Chan used the occasion of his June 2002 U.S. visit to advance the KMT's political ambitions and chastise current Taiwan leaders for contributing to what he called the "Taiwanization" of the island.

**Private-Sector Exchanges.** Meanwhile, although Taiwan's leaders still adhere publicly to the official policy of the "three noes" – no contact, no negotiation, and no compromise with the PRC – unofficial Taiwan-PRC contacts and economic ties have grown increasingly robust in the past decade. 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. Other 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.

**PRC "White Papers" On Taiwan.** 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 paper, "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

106<sup>th</sup> Congress as some of these negative developments. The paper also stated that if Taiwan were invaded or continued 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 periodically 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 a series of military exercises designed to convey a warning to the Taiwan people.

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 in dissuading cash-starved Southeast Asian leaders from seeking economic advantage through talks with senior Taiwan political leaders.

## **Economic and Trade Issues**

Taiwan’s 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. In the past two years however, the Taiwan economy has experienced a serious slowdown. Second-quarter GDP for 2001 contracted by 2.35% – Taiwan’s first economic contraction in 26 years. Exports were down 13.6% in the first seven months of 2001, while the unemployment rate hovered at around 5%. Experts blame the economic difficulties on the global economic downturn, reduced U.S. demand for Taiwan’s information technology exports, and the sizeable transfer of the island’s manufacturing base to the PRC; in the first half of 2001, for instance, Taiwan’s investment in the PRC grew by 24% over the previous year. This trend is likely to accelerate beginning in 2002, when Taiwan authorities will lift a ban that limited Taiwanese investment in the PRC to \$50 million per project, and will abolish the need to obtain approval for investment projects below \$20 million.

The United States is Taiwan’s largest trading partner, while Taiwan is the 7<sup>th</sup> largest U.S. trading partner. In the year 2000, total U.S.-Taiwan trade was approximately \$65 billion, with a Taiwan surplus of approximately \$16 billion. Taiwan’s chief 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's World Trade Organization (WTO) Accession.** After an application process lasting 12 years, Taiwan officially joined the WTO on January 1, 2002 as "the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu" or, less formally, "Chinese Taipei." In keeping with the PRC's wishes, Taiwan was not admitted to the organization until after the PRC's accession, which occurred on December 12, 2001, after a 15-year application process. As a result of its WTO membership, Taiwan will have to reduce tariffs and open a number of market sectors to foreign investment, thus setting the stage for new opportunities for U.S. businesses. In addition, mutual membership in the WTO is likely to have a significant impact on PRC-Taiwan economic and trade relations. To be in compliance with their WTO obligations, both Beijing and Taipei will have to reduce long-standing bilateral trade restrictions, setting the stage for direct trade links between the two governments.

## U.S. Policy Implications

Always an important factor in Taiwan politics, the U.S. policy position on Taiwan and China appears to be undergoing some changes. Mid-way through its first term, the George W. Bush Administration is seen to be making good on its early promises to broaden the focus of American policy in Asia, concentrating more on Japan and other U.S. allies and de-emphasizing U.S.-PRC relations. This new attitude is nowhere as apparent as in the President's actions regarding Taiwan, which differ markedly from those of his predecessors. The Bush Administration is pursuing a policy that appears more heavily weighted toward Taiwan than at any time since U.S. normalization of relations with the PRC. Beginning with the President's authorization in 2001 of a major sale of defense articles and services – the largest U.S. sale to Taiwan in the past decade – President Bush also appeared in a TV interview saying that the United States would do "whatever it takes" regarding Taiwan's defense, a sentiment that was reaffirmed in a statement made by Deputy Secretary of Defense Paul Wolfowitz in March 2002.

In addition, the Bush Administration's actions surrounding the decision to allow President Chen Shui-bian to make a transit stop-over in the United States differed markedly from the precedents set by earlier White House occupants. While earlier U.S. Administrations either were unwilling or were forced by congressional pressure to permit Taiwan officials to make stop-overs in the United States, by comparison, Bush Administration officials have been remarkably accommodating. Not only was the Taiwan President's 2001 transit stop permitted, but Chen spent several days in the United States; visited both New York (previously off-limits) and Houston; attended public functions and meetings with local elected officials; and met with nearly two-dozen Members of Congress – all actions encouraged by the Bush Administration. Taiwan's Vice-President, Annette Lu, was accorded a similar transit stop in New York in early January 2002. More recently, from March 9 -12, 2002, U.S. officials permitted Taiwan's Defense Minister, Tang Yiao-ming,

to attend a defense conference in Florida. While there, Minister Tang met with U.S. Deputy Secretary of Defense Paul Wolfowitz and U.S. Assistant Secretary of State James Kelly.

**Congressional Role.** It has been a tradition over the past decade that pressure to field a more sympathetic U.S. policy toward Taiwan has come most pointedly from congressional sources. Members of Congress who believe that the Taiwan Relations Act (TRA) is outdated pushed the Clinton White House to be more assertive in arms sales to Taiwan and to take other steps to enhance Taiwan's security. Initially, with the election of the Bush Administration and its promise of a more sympathetic policy toward Taiwan, it appeared that pressure from Congress would be reduced. Nevertheless, bipartisan policy initiatives continued in the 107<sup>th</sup> Congress. On April 9, 2002, Reps. Dana Rohrabacher (R), Robert Wexler (D), Steve Chabot (R), and Sherrod Brown (D) announced the formation of a Congressional Taiwan Caucus comprised of over 80 House Members, the purpose of which is to focus increased policy attention on Taiwan's situation. The 108<sup>th</sup> Congress also is actively considering measures seeking to reinforce or expand on U.S.-Taiwan ties. (See Legislation section below.)

The more assertive U.S. role and the fluctuating and opportunistic Taiwan political scene raise the stakes for U.S.-China-Taiwan relations. A few observers have suggested that some Members of Congress now may seek legislatively to put the brakes on more assertive White House actions that they feel could raise cross-strait tensions. In addition, some in Congress may assert that the current complexity of the Taiwan political environment argues for U.S. caution. On the other hand, the full Republican majority in the 108<sup>th</sup> Congress may seek to support even more fully Bush Administration policy priorities on Taiwan, although in the past U.S. actions in support of Taiwan have attracted support from both sides of the aisle. In the near term, however, it appears that both U.S. and Taiwan actors will continue efforts to push the United States into ever greater activism on behalf of Taiwan.

## **LEGISLATION**

### **H.Con.Res. 98 (Ramstad)**

Expressing the sense of Congress that the United States should enter into negotiations with Taiwan for a free trade agreement. Introduced on March 18, 2003, the measure was referred to the House Ways and Means Committee.

### **H.Con.Res. 117 (Wexler)**

Expressing the sense of Congress that the United States should reaffirm its commitment to the Taiwan Relations Act as the foundation of U.S. relations with Taiwan. Introduced on March 25, 2003, and referred to House International Relations Committee.

### **H.R. 441 (Brown, S.)/S. 243 (Allen)**

A bill to amend P.L. 107-10 to authorize a U.S. plan to endorse and obtain observer status for Taiwan in the World Health Organization (WHO) at the annual summit of the World Health Assembly (WHA) in Geneva in May 2003. The bill was introduced on January 29, 2003, and referred to the House Committee on International Relations, which held mark-up on March 5, 2003. The House considered the bill under the suspension

calendar on March 11, 2003, passing it by a vote of 414-0. The measure is now pending before the Senate Foreign Relations Committee.

## **CHRONOLOGY**

- 02/15/03** — Taiwan news accounts announced that KMT leader Lien Chan and PFP leader James Soong would combine forces in a single presidential ticket to challenge current President Chen Shui-bian, leader of the DPP party, in the March 2004 presidential election.
  
- 01/26/03** — A chartered Taiwan flight landed in the PRC for the first time since 1949 in the first of 16 such flights planned through February 9, 2003. The flights were arranged to ferry passengers to Taiwan for the Chinese New Year.
  
- 12/07/02** — In mayoral elections, KMT favorite Ma Ying-jeou handily won re-election as mayor of Taipei, while DPP candidate Frank Hsieh was re-elected mayor of Kaohsiung.
  
- 09/04/02** — A delegation of KMT and PFP legislators from Taiwan began a visit to the United States with the goal of increasing inter-parliamentary exchanges.
  
- 08/03/02** — Taiwan's President, Chen Shui-bian, referred in a speech to Taiwan and China being two different countries, and called for a national referendum on Taiwan's status. China charged that the statement was a violation of the "one-China" policy.
  
- 06/24/02** — A delegation of Taiwan military officials met in Washington with U.S. defense officials to discuss security cooperation and Taiwan's defense needs.
  
- 04/09/02** — U.S. Members of Congress announced the formation of a Congressional Taiwan Caucus, with over 80 Members.
  
- 03/12/02** — Taiwan's Defense Minister, Tang Yiao-ming, left the United States after a three-day defense conference that included meetings with U.S. Deputy Secretary of Defense Paul Wolfowitz and U.S. Assistant Secretary of State James Kelly.
  
- 01/01/02** — Taiwan enters the WTO.
  
- 12/01/01** — In national legislative elections, the DPP won 87 legislative seats in the 225-member body to the KMT's 68 seats.
  
- 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).

- 04/25/01** — In an ABC television interview, President Bush said that he would use the U.S. military to do “whatever it takes” to help Taiwan defend herself.
- 04/24/01** — The Bush Administration announced it would sell Taiwan defense articles, including diesel submarines, P-3C anti-submarine aircraft, and Kidd-class destroyers.
- 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.
- 08/17/00** — Taiwan’s President Chen made a transit stop in Los Angeles. Invited to dine with Members of Congress, Chen declined 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 seen generally as a moderate attempt to lower tensions with Beijing.
- 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.
- 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.
- 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.
- 05/22/95** — Yielding to congressional pressure, President Clinton decided to allow Taiwan's president to visit the United States the following month.

## **FOR ADDITIONAL READING**

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