

CRS Issue Brief for Congress

Received through the CRS Web

Taiwan: Recent Developments and U.S. Policy Choices

Updated March 17, 2005

Kerry B. Dumbaugh
Foreign Affairs, Defense, and Trade Division

CONTENTS

SUMMARY

MOST RECENT DEVELOPMENTS

BACKGROUND AND ANALYSIS

U.S. Interests in Taiwan

Basis for U.S. Defense Commitments to Taiwan

Key Current Issues in Taiwan

PRC Anti-Secession Law

Political Liberalization

End of KMT Dominance — 2000-2001

2004 Election Cycles

March 20th Presidential Election and Referendum

December 11th Legislative Elections

New Political Trends

Growing Political Polarization

Reassessing “One China”

Taiwan-Mainland Relations

Cross-Strait Developments in the Chen Administration

Private-Sector Exchanges

Economic and Trade Issues

Taiwan’s World Trade Organization (WTO) Accession

SARS, Avian Flu, and WHO Observer Status

Policy Trends in the George W. Bush Administration

Initial Tilt Toward Taiwan

Toward a Taiwan/PRC Balance

Problems over Arms Purchases

Implications for U.S. Policy

LEGISLATION

CHRONOLOGY

FOR ADDITIONAL READING

Taiwan: Recent Developments and U.S. Policy Choices

SUMMARY

Under the Bush Administration, U.S.-China-Taiwan relations have undergone a number of changes. Initially, the new Administration seemed to abandon the long-standing U.S. policy of “strategic ambiguity” on Taiwan in favor of “strategic clarity” that placed more emphasis on Taiwan’s interests and less on PRC concerns. Among other things, President Bush publicly stated that the United States would do “whatever it takes” to help Taiwan’s defense — a position more supportive of Taiwan than had been articulated by previous U.S. presidents. In April 2001, 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 was more accommodating to visits from Taiwan officials than previous U.S. Administrations, and permitted visits from Taiwan’s president in 2001 and 2003, and from Taiwan’s vice president and defense minister in 2002.

The Administration’s initially assertive posture was in keeping with growing congressional sentiment that greater U.S. support was needed for Taiwan’s defense needs, particularly given the PRC’s military build-up in southern China. Members undertook a number of bipartisan initiatives to focus more U.S. attention on Taiwan and raise its international stature. These included House establishment of the Congressional Taiwan Caucus in 2002, and Senate establishment of the Senate Taiwan Caucus in 2003.

But President Bush’s first term has been a time of increasing complexity and unpredictability in Taiwan’s political environment. Since 2000, the long-ruling Nationalist Party (KMT) has been handed a series of stunning defeats, most recently losing the presidential

election of March 20, 2004, to incumbent Democratic Progressive Party (DPP) candidate Chen Shui-bian by a razor-thin margin. Chen has been able to seize the political initiative by disavowing the concepts long embraced by his KMT opponents: that there is “one China,” that Taiwan is a part of it, and that Chinese history and culture are Taiwan’s heritage. Instead, Chen has emphasized a “new Taiwan identity” and has said publicly that Taiwan already “is an independent, sovereign country” — a “status quo” that he promises to maintain. Legislative elections held on December 11, 2004, however, suggest that Taiwan’s electorate appeared to reject the more strident aspects of the DPP’s election strategy, instead returning a slim KMT majority to the legislature. As in Chen’s first term, it appears that continued opposition control of the legislature could lead to policy gridlock, with the legislature amending or blocking DPP policy initiatives.

Political trends in Taiwan have raised anxieties about its future and the implications for U.S. policy. Some are concerned that a continued emphasis on “Taiwan identity” may lead to ethnic polarization and conflict. Others are concerned about the implications that these trends have for a possible declaration of Taiwan independence, which Beijing has vowed to “pay any price” to prevent. In recent months, political developments in Taiwan appear to be causing the Bush Administration to dial back its earlier enthusiasm for supporting Taiwan. U.S. officials now appear to be balancing criticisms of the PRC military buildup opposite Taiwan with periodic cautions and warnings to the effect that U.S. support for Taiwan is not unconditional, but has limits. This issue brief tracking the situation in Taiwan will be updated as events warrant.



MOST RECENT DEVELOPMENTS

March 17, 2005 — Taiwan's cabinet approved a \$15.5 billion reduced special defense budget to purchase weapons from the United States. The original budget of \$18.2 billion had been criticized as too high by opposition legislators.

March 16, 2005 — The House of Representatives passed H.Con.Res. 98, a measure expressing Congress' "grave concern" about China's passage of the anti-secession law. The measure passed by a vote of 424-4.

March 14, 2005 — China's NPC enacted an anti-secession law aimed at reining in Taiwan's independence advocates. U.S. officials called the law "unhelpful."

December 27, 2004 — The PRC published a white paper, "China's National Defense in 2004," calling Taiwan's independence advocates the "biggest immediate threat to China's sovereignty and territorial integrity."

December 11, 2004 — The opposition KMT party made gains in Taiwan's legislative elections, slightly increasing its majority over the DPP. The KMT coalition will now hold at least 114 seats in the new 225-member legislature, with the DPP holding 101. The KMT victory was considered a sharp voter rebuke to DPP President Chen Shui-bian's less moderate policies.

October 25, 2004 — In Beijing, U.S. Secretary of State Colin Powell said Taiwan was not a sovereign state and that the United States supported Taiwan's peaceful reunification with China. Critics charged the Secretary's statement violated long-standing U.S. policy, which has avoided taking a U.S. position on the desirability of reunification.

BACKGROUND AND ANALYSIS

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 on mainland China. But while the allied victory over Japan and Germany meant the end of conflict for much of the world, it did not mean the end of conflict in China. For the Chinese government, it meant the resumption of a civil war against rebelling Chinese communist forces led by Mao Zedong. By October 1949, Mao's forces had pushed the Nationalist Army off the mainland, and the remnants of Chiang's government fled to Taiwan, an island off the south China coast. While on the mainland, the Chinese Communist Party declared victory and established the People's Republic of China (PRC); Chiang's ROC government on Taiwan insisted that the communist government in Beijing was not credible, that the ROC government was the only legitimate government of all China, and that ROC forces would regroup on Taiwan and one day retake the mainland. 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 communiqué 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. (See CRS Report 96-246, *Taiwan: Texts of the Taiwan Relations Act, the U.S. - China Communiqués, and the 'Six Assurances.'*) 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, with U.S. markets receiving about 25% of Taiwan's exports. 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.

Basis for U.S. Defense Commitments to Taiwan

U.S. arms sales to Taiwan began as part of the U.S. policy approach of "strategic ambiguity" 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 Washington 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 that also mandated the continued U.S. sale of defense weapons and equipment to Taiwan. Although it is a common American view that the TRA clearly mandates the United States to defend Taiwan in case of attack, that is not the case. Section 2(a) of the TRA states that any use of intimidation or force to settle the Taiwan question will be “of grave concern to the United States” and further states that U.S. policy is to “maintain the capacity of the United States to resist...coercion” in addressing the Taiwan issue. The nature of U.S. defense commitments and arms sales to Taiwan is defined in Section 3 of the TRA, and it is notably nonspecific about U.S. defense commitments. Section 3 merely calls for the United States to sell to Taiwan “such defense articles and services...as may be necessary to enable Taiwan to maintain a sufficient self-defense capability” and gives Congress a role in determining what needs Taiwan may have. Although satisfied with the U.S. position on Taiwan independence after normalization, the PRC objected strenuously to continued U.S. arms sales to Taiwan. On August 17, 1982, a U.S.-PRC joint communiqué addressed this point. In that communiqué, the PRC maintained 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.

Although “strategic ambiguity” toward Taiwan remained the basis of U.S. policy throughout the rest of the 20th century, several controversies late in the century raised questions about the nature of U.S. commitments. The Administration of President George H.W. Bush in 1992 approved the sale of 150 F-16 aircraft to Taiwan, a decision that PRC officials charged was clearly beyond the limits suggested by the arms sale communiqué of 1982. During the PRC’s aggressive live-fire missile exercises off the Taiwan coast in 1995-1996, the Administration of President William Clinton responded by sending two U.S. carrier battle groups to the area. And in April 2001, the current Administration of President George W. Bush approved the second-largest U.S. weapons sale package to Taiwan, including four Kidd-class destroyers, twelve anti-submarine P-3 “Orion” aircraft, and eight diesel submarines.

Key Current Issues in Taiwan

PRC Anti-Secession Law

On March 14, 2005, the PRC’s National People’s Congress (NPC) officially adopted a ten-article “anti-secession law” aimed at reining in Taiwan independence advocates. Even before its contents were known, American observers and U.S. officials termed the initiative counterproductive, particularly given improvements in a range of Taiwan-China contacts since December 2004. Many fear that the anti-secession law could significantly raise tensions across the Taiwan strait and increase the possibility of conflict. Critics also fear the law could be used to harass independence advocates in Taiwan by, for example, labeling them “criminals” and demanding their extradition from third countries. While much of the new law speaks of conciliatory measures — such as encouraging cross-strait economic and cultural exchanges and resumption of direct trade, air, and mail links — Article 8 of the new

law specifically authorizes the use of “non-peaceful means” to reunify Taiwan with China. According to Article 8:

In the event that the “Taiwan independence” secessionist forces should act under any name or by any means to cause the fact of Taiwan’s secession from China, or that major incidents entailing Taiwan’s secession from China should occur, or that possibilities for a peaceful reunification should be completely exhausted, the state shall employ non-peaceful means and other necessary measures to protect China’s sovereignty and territorial integrity.

Taiwan authorities denounced the enactment of the law, saying that for the moment they would suspend further talks with Beijing on holding direct-charter cargo and holiday passenger flights between the two sides. On March 16, 2005, President Chen made his first public statement about the law, saying it would have a “severe impact” on cross-strait relations. Chen called for “a million people” to march on March 26, 2005, in protest to the law.

Political Liberalization

Under the strongly authoritarian rule of the KMT, Taiwan’s political decisions from 1949 to 1979 were predictable, closely aligned with U.S. interests, and dependent largely on U.S. support. But several decades of political reforms have made Taiwan politics today both more democratic and more nationalistic — and hence have complicated matters for U.S. policymakers. The KMT first permitted opposition parties in 1986, allowing the birth of the current ruling party, the Democratic Progressive Party, or DPP. The government also ended martial law (in 1987), and opened government positions to native “Taiwanese” — the 85% of the island’s population who predated the influx of the two million “mainlanders” fleeing communist forces. Members of Taiwan’s legislature, elected on mainland China over 40 years earlier, were asked to retire and were replaced by a new elected legislature in 1992. In 1996, Taiwan held its first direct election for president, which was won by KMT leader Lee Teng-hui, himself a native Taiwanese. During his presidency, Lee increasingly distanced himself from his party’s traditional position — a position on which U.S. policy was based — holding that there was only “one China” and that Taiwan was part of it. Ultimately, entrenched corruption within the KMT and ideological differences over the direction President Lee was taking caused a deep political fracture within the party which abruptly ended its political dominance. The primary beneficiary of this KMT fracture was the DPP, a party strongly associated with support for Taiwan independence.

End of KMT Dominance — 2000-2001. The uninterrupted KMT dynasty on Taiwan finally was broken on March 18, 2000, when DPP candidate Chen Shui-bian won the presidency with only 39% of the popular vote. The victory, a stunning defeat for the KMT and its unbroken 50-year tenure, was facilitated by the fracture that split Chen’s opposition vote between two “KMT” candidates: KMT sitting vice-president Lien Chan (who came in a distant third), and former senior KMT official James Soong, who ran as an independent. Eighteen months later, in December 2001, legislative elections dealt the struggling KMT a second unprecedented blow, cutting its 115 seats in the 225-member body to only 68, while increasing President Chen’s DPP party seats from 66 to 87. Still, the former ruling KMT managed to remain part of an effective though slender legislative majority by cobbling together a working coalition from its own remnants: the remaining 68

KMT members and the 46 elected members of the newly formed People First Party (PFP), headed by James Soong. Since early 2002, the KMT/PFP legislative coalition has been able to block or modify most of President Chen's and the DPP's legislative initiatives, leading to significant political gridlock. With this legislative-executive split in government, political stalemate and infighting has continued to characterize Taiwan's political scene.

2004 Election Cycles

March 20th Presidential Election and Referendum. In a real sense, Taiwan's 2000 presidential election was replayed in the March 20, 2004 presidential election. DPP candidate and incumbent Chen Shui-bian ran for a second term, while his two opponents in the 2000 election — KMT head Lien Chan and PFP head James Soong — joined forces this time on a single ticket to oppose him. After a highly contentious campaign in a race judged too close to call by its end, the incumbent was certified the winner by an extremely slender margin and under three unusual last-minute circumstances. The day before the elections, while campaigning in an open-roofed car in his hometown of Tainan, President Chen and his running mate, Annette Lu, were shot and slightly wounded by one or more unknown assailants. As a result of the shooting, President Chen invoked a national security protocol, placing 200,000 military and police personnel on emergency duty status. Finally, after the polls closed, Taiwan's Central Election Commission declared that 337,297 of the votes cast on March 20 were invalid, reportedly due to uncertainties about whether polling places had followed consistent standards in vote-counting. Out of a reported total of 13.25 million votes cast, the DPP ticket won by only 29,518 votes.

Along with the presidential elections, Taiwan also held a controversial and precedent-setting referendum on March 20, 2004, posing two questions to the electorate: whether Taiwan should acquire more advanced anti-missile weapons if the PRC refused to withdraw the missiles it has deployed opposite Taiwan; and whether the Taiwan government should engage in negotiations with the PRC concerning a "peace and stability" framework for cross-strait interactions. The PRC has adamantly opposed the idea of a Taiwan referendum, believing it could set a precedent for holding an islandwide vote on Taiwan independence. Some observers, then, were concerned that passage of the March 20 measures would trigger PRC retaliation. But the referendum failed when only about 40% of the Taiwan electorate participated in the vote, a rate insufficient to meet the 50% requirement for passage under Taiwan law. As the referendum had been a Chen Shui-bian initiative, its failure to pass was regarded as a defeat for the DPP government and a public rejection of government actions that could threaten the political status quo across the Taiwan Strait.

Vote Recount and Other Challenges. The KMT immediately challenged the March 20, 2004 election results as suspicious and unfair and called for a recount, saying that the DPP victory had been "achieved under layer upon layer of suspicion."¹ The KMT objected strongly to the high number of ballots judged invalid and also voiced suspicion about whether the shooting attempt on Chen was real or staged. Finally, the KMT raised questions about President Chen's state of emergency declaration, which it claimed prevented the 200,000 mobilized military and police officers — presumed KMT supporters — from

¹ Quote attributed to KMT candidate Lien Chan, in Keith Bradsher and Joseph Kahn, "Taiwan Leader Wins re-election; Tally Is Disputed," *New York Times*, Mar. 21, 2004.

getting to the polls to vote. Tensions grew for several weeks in the aftermath of the elections, with opponents of outcome holding several large protests and rallies, some of which were marred by violence.

On April 12, 2004, both parties finally agreed to details surrounding an islandwide recount, which began on May 10 and ended on May 18, 2004, having uncovered 40,000 disputed ballots. Some news accounts reported that 23,000 of the disputed ballots were votes for Mr. Chen and 16,000 were votes for the opposition, which if true would make it very unlikely that Chen's victory will be overturned.² But in a press conference in Taipei, a KMT spokesman said that the recount had "all but erased" Chen's slender margin, and that the party was hopeful that it would upset the incumbent.³ On November 4, 2004, the High Court ruled against the KMT petition to nullify the election result and rejected the KMT claim that the assassination attempt had distorted the election result. On December 30, 2004, the High Court rejected a second KMT lawsuit to nullify the election; KMT operatives have said they will appeal. (For further details about the election and its aftermath, see CRS Report RS21770, *Taiwan in 2004: Elections, Referenda, and Other Democratic Challenges*.)

December 11th Legislative Elections. Coming off their recent presidential and local election victories, DPP and TSU leaders projected that in legislative elections on December 11, 2004, their parties would make substantial gains that would give them unprecedented legislative control and allow them to pursue policies anathema to Beijing. Gaining legislative control, said Chen at a campaign rally, would allow him to "build Taiwan into a normal, complete, progressive, beautiful and great country."⁴ But in what was clearly a shock to DPP/TSU party leaders, the opposition KMT not only retained legislative control, but increased its margin slightly over the DPP. When Taiwan's Legislative Yuan is seated in February 2005, then, the opposition KMT coalition will have 114 members and the DPP coalition 101 members, with the remaining 10 seats in the 225-member body held by independents. DPP moderates blamed the loss on President Chen's "radically pro-independent" campaign rhetoric, and in a bow to this criticism, Chen resigned as DPP party chairman on December 15, 2004.⁵ Observers of Taiwan's political scene suggest that the electoral rebuke by voters will force Chen to move to a more centrist position for his second and final presidential term. Some have also suggested that the continuation of divided government in Taiwan will mean continued policy gridlock and political infighting.

New Political Trends

The constraints that may now be on the DPP as a result of its December 11, 2004 legislative defeat may affect several recent political trends in Taiwan that many observers have found growing cause for concern. These trends, should they continue, could further

² "Taiwan Vote Recount Ends," *BBC News, World Edition*, May 18, 2004.

³ Statement of KMT secretary-general Lin Feng-cheng, "KMT Hopeful for Upsetting President Chen's Reelection," *KMT-International Center*, May 18, 2004.

⁴ Jason Dean, "Taiwan Vote Is All About China — Results May Bolster Chen's Push for Island's Separate Identity," *Asian Wall St. Journal*, Dec. 7, 2004.

⁵ Katherine Hille, "Taiwan's President Promises to End Political Infighting," *Financial Times*, Dec. 15, 2004.

complicate an already difficult U.S. policy problem and could increase the danger of conflict in the Taiwan Strait during the next few years.

Growing Political Polarization. Many observers of Taiwan's political scene have been particularly concerned about what they see as the growing polarization of the Taiwan polity between "mainlanders" — those PRC natives who came to Taiwan fleeing Mao's communist forces in 1949 — and the "native Taiwanese" whose habitation of the island predates the mainlander arrival. In recent years, the ruling DPP/TSU coalition often has been able to seize the political initiative by emphasizing that Taiwan is in the process of achieving a "new Taiwan identity" with "new core values" that are very different from those of the past. The DPP further accelerated this trend during the 2004 presidential election campaign, when "Love Taiwan" became one of the party's principle campaign slogans. The inference many took away with them from this slogan was that if you embraced the "Republic of China" (Taiwan's formal name), espoused a "one-China policy," or favored "engagement" with the PRC — all traditional KMT platforms — then you did not love Taiwan. Some mainlanders and KMT members saw the slogan as an attempt to raise questions about their political legitimacy, and many saw it as a potentially dangerous provocation to China that could end in military conflict. International observers, and at least one member of the DPP itself, counseled DPP officials to drop the "Love Taiwan" campaign to avoid creating divisiveness or further inflaming islander-mainlander tensions.⁶ Some have interpreted the DPP defeat in legislative elections as a firm rejection of these tactics. They believe that the DPP will need to pursue a less inflammatory approach if it is to regain public support.

Reassessing "One China". Observers are also concerned about what appears to be the rapid fading away of the "one-China" policy in Taiwan — the premise that there is only one China and that both mainland China and Taiwan are part of it.⁷ For 50 years, the governments of Taiwan and the PRC have embraced this symbolic political framework, and U.S. policymakers for decades have made reference to it in documents and statements. In 1999, president Lee Teng-hui, then head of a united KMT party, proposed a "two-state" framework for holding cross-strait negotiations. This proposal helped fracture the KMT party, raised Beijing's ire, and ended cross-strait dialogue. But the "one China" formulation appeared to unravel during the 2004 presidential and legislative campaigns.

President Chen Shui-bian began to depart significantly from precedent late in 2003 by referring openly and frequently to a sovereign Taiwan. In a February 2004 interview with *Time* magazine, Chen said "Taiwan is an independent, sovereign country" that "must reject the 'one-China' claim." Days before the December 2004 legislative elections, Chen continued with this theme by pledging to remove "China" and substitute "Taiwan" in the official names of Taiwan's state-owned enterprises, embassies, and representative offices overseas. But while this tack appeared to give the DPP political momentum in the March presidential election — to the extent that the KMT felt compelled to back away somewhat from its own embrace of "one China" — it did not have the same effect in the December legislative election. Some believe that the DPP's December 2004 legislative defeat suggests

⁶ One DPP lawmaker, Shen Fu-hsiung, suggested to the party's central decision-making body that it drop the "Love Taiwan" campaign. "Shen Draws Heat from DPP over 'Love Taiwan' Criticism," *China Post*, Apr. 19, 2004.

⁷ Richard Halloran, "'One China' Principle Is All but Dead," *Japan Times*, Apr. 7, 2004.

that Chen miscalculated the extent of public willingness to reject the one-China formula and risk confrontation with Beijing.

Taiwan-Mainland Relations

Since Taiwan relaxed restrictions on travel to the mainland in 1987, succeeding governments incrementally have 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. Further progress stalled in 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.

Cross-Strait Developments in the Chen Administration. Although Beijing has adamantly opposed the DPP and its pro-independence statements, early in Chen's first term both the PRC and Taiwan governments made selected overtures and statements that some interpreted as positive signs 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. In October 2001, Taiwan officials announced they would simplify visa application procedures for professionals from the PRC, making it easier for them to reside 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.

The PRC also appeared to soften its position. 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" — a change in the PRC's policy of not meeting with DPP members. 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. Even so, the PRC continued to increase its missile build-up along the south China coast opposite Taiwan, now deploying close to 500 missiles.

In the lead-up to and aftermath of the March 2004 Taiwan presidential elections, cross-strait tensions increased. On September 1, 2003, for instance, Taiwan authorities added the words "Issued in Taiwan" to Taiwan passports, reportedly to avoid confusion between the PRC and Taiwan. A seemingly innocuous change, the decision appealed to Taiwan nationalists and irritated Beijing, which responded by saying that the move demonstrated Taiwan was "inching toward independence." In December 2003, as the Taiwan referendum debate heated up, PRC officials publicly warned Taiwan that further moves toward

independence could result in a PRC military response. But as has happened in the past, tensions appear to have eased in the election's aftermath. On January 29, 2005, for instance, Taiwan and the PRC launched the first non-stop direct charter flights flown in 55 years between the two adversaries. While temporary (the flights were scheduled only to reunite families and friends during the weeks surrounding the Lunar New Year holiday on February 9, 2005), the direct-flight breakthrough suggests that further momentum might be possible. With the PRC's enactment of the anti-secession law, Taiwan officials now have put a hold on further direct-flight talks.

Private-Sector Exchanges. Meanwhile, 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.

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. During the first years of the 21st century, however, the Taiwan economy experienced a serious slowdown. GDP growth for 2001 contracted by 2.2% — 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 blamed these 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.

Even with the official restrictions that Taiwan continues to maintain on investment and trade with mainland China, Taiwan businesses are increasingly invested across the strait, although the exact figures remain unclear. Taiwan-China trade has also increased dramatically over the past decade, so that China (along with Hong Kong) now has surpassed the United States as Taiwan's most important trading partner. According to one report, statistics show Taiwan's total bilateral trade with the PRC rose to \$61.64 billion in 2004 — a 33.1% increase over 2003.⁸

This increasing economic interconnectedness with the PRC has put special pressure on Taiwan's DPP government to further accommodate the Taiwan business community by easing restrictions on direct travel and investment to the PRC. But such accommodations are

⁸ According to the Foreign Board of Trade, cited by Agence-France Presse in *Taiwan News* online, March 3, 2005, [<http://www.etaiwannews.com>]. See also CRS Report RL31749, *Foreign Direct Investment in China*, by Dick Nanto and Radha Sinha.

worrisome to the DPP's pro-independence political base in Taiwan, who believe that further economic ties to the mainland will erode Taiwan's autonomy and lead to a "hollowing out" of Taiwan's industrial base.⁹ Thus, each Taiwan decision on economic links with the PRC represents an uneasy political compromise.

Taiwan's World Trade Organization (WTO) Accession. After a 12-year application process, Taiwan 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 on December 12, 2001, following 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.

SARS, Avian Flu, and WHO Observer Status

Taiwan did not escape the outbreak of new viruses that have swept Asia since 2002. By late May 2003, Taiwan reported 585 probable cases of Severe Acute Respiratory Syndrome, or SARS — which first surfaced in southern China in November 2002 — placing it behind China and Hong Kong for the greatest number of cases. Taiwan also was affected by avian flu outbreaks in 2004, although apparently with a less virulent strain than that ravaging bird populations and causing some human fatalities throughout Asia.

Because Taiwan is not a member of WHO (the World Health Organization), the SARS and avian flu outbreaks have had broader political ramifications for Taiwan's international position and for China-Taiwan relations. The PRC has objected strenuously to any WHO representation by Taiwan, claiming that as Taiwan is part of China, it can access WHO's services through the PRC government. Even as the SARS crisis was underway, PRC leaders continued vigorously to block any international effort to give Taiwan unofficial "observer" status in the WHO.¹⁰ PRC authorities did consent to a WHO team visit to Taiwan to investigate SARS early in May 2003, and Taiwan scientists attended a two-day WHO SARS conference in Kuala Lumpur on June 17-18, 2003. But generally, the PRC has insisted that any Taiwan health official wishing to take advantage of WHO's medical expertise should do so only as part of a PRC delegation.

Taiwan authorities, in a view supported by many Members of the U.S. Congress, have argued that the rapid spread and consequences of emerging communicable diseases

⁹ For instance, there are reportedly 300,000 Taiwan citizens now living and working in Shanghai.

¹⁰ On May 14, 2003, WHO began a ten-day meeting of its General Assembly in Geneva, at which the United States was prepared to support Taiwan's bid — its seventh such attempt — to gain WHO observer status. Because of PRC opposition, WHO member countries elected not to place the matter of Taiwan's participation on the meeting's agenda.

demonstrates why it is essential for Taiwan to be allowed access to WHO's experts and information-sharing capabilities. Some Taiwan authorities also have alleged that Beijing's obfuscation and cover-up early in the health crisis contributed to the rapid spread of SARS and increased its harmful consequences in Taiwan.

Policy Trends in the George W. Bush Administration

When it first assumed office, the Bush Administration articulated policies in Asia that were more supportive of Taiwan and less solicitous of engagement with China than those of previous U.S. Administrations. More recently, however, Administration officials are seen to be placing caveats on U.S. support for Taiwan while at the same time fielding a more cordial policy toward the PRC.

Initial Tilt Toward Taiwan. Many observers concluded in 2001 that the newly elected George W. Bush had abandoned the long-standing U.S. policy of "strategic ambiguity" in favor of "strategic clarity" that placed a clearer emphasis on Taiwan's interests and showed less concern for PRC views. In addition to approving a major arms sales package for Taiwan, in an ABC television interview on April 25, 2001, President Bush responded to a question about what Washington 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 Taiwan Relations Act (TRA) addresses only 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 in the following months continued to appear more supportive of Taiwan than those of previous U.S. Administrations.

The Bush Administration's support for Taiwan was in keeping with growing sentiment in Congress in the late 1990s that the TRA was outdated and that Taiwan's self-defense capabilities had eroded while the PRC had grown militarily more capable and more hostile to its smaller neighbor. These conclusions were supported by a congressionally mandated annual report, first issued by the Pentagon in February 1999, assessing the military balance in the Taiwan Strait. The 1999 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."

In addition to differences over security issues, the Administration also differed from its predecessors in how it handled requests for U.S. visits by senior Taiwan officials. Whereas earlier U.S. Administrations were either unwilling or forced by congressional pressure to allow Taiwan officials to come to the United States, the Bush Administration was more accommodating. The White House approved a transit stop for new Taiwan President Chen Shui-bian in 2001 during which he visited both New York (previously off-limits) and Houston, attended public functions and meetings, and met with nearly two-dozen Members of Congress. Similar U.S. visits were approved for Taiwan's Vice-President, Annette Lu,

(in early January 2002), and for Taiwan's Defense Minister, Tang Yao-ming (March 2002), who attended a defense conference in Florida and while there met with U.S. Deputy Secretary of Defense Paul Wolfowitz and U.S. Assistant Secretary of State James Kelly. In late October 2003, the Bush Administration accommodated President Chen with a higher-profile transit visit to New York City — a visit that received wide press coverage in Taiwan.

Toward a Taiwan/PRC Balance. Since assuming office, however, the Bush Administration has been reshaping its own policy articulations concerning both Taiwan and the PRC. Administration officials now see smooth U.S.-PRC relations as an important tool in cooperating against terrorism and maintaining stability on the Korean peninsula. As articulated by Vice President Cheney during his visit to Shanghai in April 2004, the White House judges that “the areas of agreement [between the United States and the PRC] are far greater than those areas where we disagree...”¹¹ By the same token, during Taiwan's presidential and legislative campaigns in 2004, the Administration continued to balance criticisms of the PRC military buildup opposite Taiwan with periodic cautions and warnings to the Taiwan government, indicating that U.S. support for Taiwan is not unconditional.¹²

Problems over Arms Purchases. New difficulties also have arisen in recent years in the U.S.-Taiwan arms sales relationship. Despite the Bush Administration's stated support for enhanced military cooperation with Taiwan and the U.S. decision in 2001 to approve a major weapons sale package, no arms sales agreements have gone forward for several years. (The first to do so surfaced on March 30, 2004, when the Pentagon notified Congress of its intent to sell Taiwan long-range early warning radar systems worth \$1.7 billion.) Taiwan's apparent inability to take advantage of proffered U.S. military support has become something of an irritant in Taiwan-U.S. relations. In 2002, U.S. officials began to voice concerns over what they described as weaknesses in Taiwan's self-defense and a lagging pace to Taiwan's arms purchases. According to one DOD report, Taiwan's self-defense deficiencies include an “opaque military policymaking system; a ground force-centric orientation; and a conservative military leadership culture.” (The full text of the 2003 DOD report can be found at [<http://www.defenselink.mil/pubs/20030730chinaex.pdf>].) Some U.S. analysts attribute the lack of progress on arms purchases to Taiwan's depressed economy, which has reduced the funds available for defense spending. Others cite Taiwan's domestic political environment, in which opposition Taiwan lawmakers have questioned both the overall military budget and the details of specific weapons purchases, including their cost, effectiveness, delivery dates, compatibility with Taiwan's military, and whether Taiwan companies can benefit or participate.

Implications for U.S. Policy

For much of the past twenty-five years, Taiwan and PRC officials generally maintained that the United States should remain uninvolved in issues concerning Taiwan's political

¹¹ From the Q & A session with Vice President Cheney following his speech at Fudan University in Shanghai, broadcast by Beijing CCTV in English, found in *FBIS*, April 15, 2004.

¹² “There are limitations with respect to what the United States will support as Taiwan considers possible changes to its constitution.” Testimony of Assistant Secretary of State James A. Kelly before the House International Relations Committee, April 21, 2004.

status. Since mid-2003, that appears to be changing, and U.S. officials have been under subtle but increasing pressure from both governments to become directly involved in some aspects of the issue. PRC officials late in 2003 began quietly urging the United States to pressure Chen Shui-bian into shelving his referendum plans. In 2004, they have pressed U.S. officials to avoid sending the “wrong signals” to Taiwan — defined as those encouraging independence aspirations. Members of the Taiwan government have begun suggesting to U.S. officials that the Taiwan Relations Act needs to be strengthened or re-evaluated. Chiou I-jen, a key advisor to President Chen, made a low-profile visit to Washington in late April reportedly to seek U.S. support for Chen’s constitutional reform plans.

Taiwan’s supporters within the U.S. Congress also continue to press for more favorable U.S. treatment of Taiwan and for Taiwan’s inclusion in some capacity in international organizations like the World Health Organization. Congressional policy initiatives have included the formation of the Congressional Taiwan Caucus on April 9, 2002, and the formation of the Senate Taiwan Caucus on September 17, 2003. Both of these bodies have strongly bipartisan memberships. The 108th Congress also is actively considering legislative measures seeking to reinforce or expand on U.S.-Taiwan ties. (See **Legislation** below.)

Faced with these competing pressures and with continuing transformations in both the PRC and Taiwan systems, U.S. officials may be facing new and more difficult policy choices concerning Taiwan in the next few years. In addition to raising the risks of political and economic instability, growing political polarization in Taiwan could erode the quality of U.S.-Taiwan contacts and create fractures and divisiveness within the sizeable U.S. Chinese-American community. Pressure from multiple sources could continue to build for U.S. officials to take any number of actions: to reassess all the fundamentals of U.S. China/Taiwan policy in light of changing circumstances; to reinforce American democratic values by providing greater support for Taiwan and possibly support for Taiwan independence; or to abandon Taiwan in favor of the geopolitical demands and benefits of close U.S.-China relations. U.S. officials could face increasing pressure to abandon the traditional “noninvolvement” U.S. approach and instead adopt a mediating role in the cross-strait relationship. Finally, any policy developments that affect Taiwan have direct consequences for U.S.-China relations and could involve crucial decisions among U.S. officials about the extent of U.S. support for Taiwan’s security. In the coming two years, it appears that actors from across the political spectrum — including governments, interest groups, political parties, and individuals — will continue efforts to push the United States into greater commitments and clarity on various questions involving Taiwan.

LEGISLATION

108th Congress

P.L. 108-235 (S. 2092/H.R. 4019) A bill to authorize a U.S. plan to endorse observer status for Taiwan in the World Health Organization (WHO) at the annual summit of the World Health Assembly (WHA) in Geneva every year, and also to submit annually by April 1 a report to Congress describing that year’s plan. As originally introduced, both House and Senate versions authorized such a plan for the pending WHA annual meeting in 2004. Congress had overwhelmingly enacted similar bills in past years — such as P.L. 108-28,

requiring such a plan for the 2003 annual WHA meeting. But the measure as passed makes this authorization a permanent one. The House International Relations Committee (HIRC) marked up the measure on March 31, 2003, and the House passed the measure, amended, on April 21, 2004 (416-0). H.R. 4019 was then referred to the Senate. On April 29, 2004, the Senate Foreign Relations Committee (SFRC) ordered S. 2092 reported with an amendment reflecting the House action. The Senate passed the amended S. 2092 by unanimous consent on May 6, 2004. On May 20, 2004, the House considered and passed the Senate-passed measure by unanimous consent. The act was cleared for the White House on May 20, 2004, and it became P.L. 108-235 on June 14, 2004.

109th Congress

H.Con.Res. 76 (Miller)

Expressing the sense of Congress that the United States should strongly oppose China's anti-secession law with respect to Taiwan. Introduced on February 17, 2005, and referred to the House Committee on International Relations.

H.Con.Res. 98 (Hyde)

Expressing the "grave concern" of Congress about China's passage of an anti-secession law aimed at Taiwan. Introduced March 15, 2005. The measure passed on March 16, 2005, by a vote of 424-4.

CHRONOLOGY

- 03/14/05** — The National People's Congress (NPC) enacted an anti-secession law aimed at Taiwan and authorizing "non-peaceful" means to resolve the Taiwan question.
- 02/24/05** — In their first meeting in five years, Taiwan's President Chen and PFP opposition leader James Soong agreed to relax restrictions on business ties with China and to cooperate to improve cross-strait ties. It was reported that Chen also intimated he was open to discussions of eventual reunification if Beijing showed "goodwill."
- 01/02/05** — Taiwan's chief negotiator with the PRC, Koo Chen-fu, died at age 87. The last official cross-strait talks in which Koo participated were in 1993.
- 12/27/04** — The PRC published a white paper, "China's National Defense in 2004," calling Taiwan's independence advocates the "biggest immediate threat to China's sovereignty and territorial integrity."
- 12/17/04** — PRC officials announced they would include an "anti-secession" law, aimed at Taiwan, in the March 2005 agenda of the National People's Congress.
- 12/15/04** — President Chen resigned as chairman of the DPP, bowing to criticism that his policies had caused the DPP's defeat in legislative elections.

- 12/11/04** — Legislative elections gave the opposition KMT 114 seats, the DPP 101 seats, and independents 10, assuring continued KMT legislative control.
- 10/25/04** — Speaking in Beijing, Secretary of State Colin Powell said that Taiwan was not a sovereign country and that the United States supported Taiwan's peaceful reunification with mainland China.
- 05/20/04** — Congress passed legislation making permanent a requirement that the United States annually seek and obtain observer status for Taiwan at the annual Geneva meeting for the World Health Organization.
- 04/15/04** — In response to a question about Taiwan during a speech at the PRC's Fudan University, Vice President Cheney stated, "We oppose unilateral efforts on either side to try to alter the current set of circumstances..."
- 04/11/04** — Taiwan named Mark Chen Tan-sun, a former independence activist and former president of the World Federation of Taiwanese Associations, to replace Eugene Chien as Foreign Minister.
- 04/07/04** — Theresa Shaheen, director of the American Institute in Taiwan (the unofficial office managing U.S. relations with Taiwan) resigned unexpectedly amid speculation that she was considered to be too sympathetic to Taiwan.
- 03/20/04** — Chen Shui-bian was re-elected as Taiwan's president by 29,518 votes out of 13.25 million cast. The KMT opposition challenged the results.
- 03/19/04** — Taiwan's president, Chen Shui-bian, and his running mate, Annette Lu, were shot and slightly wounded while campaigning in Tainan, Chen's home town.
- 12/17/03** — A PRC spokesman stated that the PRC "must make preparations to resolutely crush Taiwan independence" plots.
- 12/09/03** — In the company of PRC Premier Wen Jiabao, President Bush publicly warned "the leader of Taiwan" not to take provocative political actions.

FOR ADDITIONAL READING

CRS Report RS21770: *Taiwan in 2004: Elections, Referenda, and Other Democratic Challenges*, by Kerry Dumbaugh.

CRS Report RL30957. *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley Kan.

CRS Report 96-246. *Taiwan: Texts of the Taiwan Relations Act and the China Communiqués*, by Kerry Dumbaugh.