

# CRS Issue Brief for Congress

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

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

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

### SUMMARY

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

First, Taiwan is moving away from its past advocacy of "one China" to positions favoring an official international status for Taipei. These trends have been reinforced by the results of legislative elections on December 1, 2001, in which the Nationalist Party lost its governing majority for the first time in its 50-year rule. The largest party in the legislature now is the Democratic Progressive Party (DPP), a party long associated with advocating independence for Taiwan. Such a position challenges Beijing's claim to sovereignty over the island.

Second, Beijing is strongly nationalistic and remains adamant about its claim to Taiwan. Also, Beijing continues to claim that it has the right to use force against Taiwan – a claim to which the United States objects.

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

Meanwhile, U.S. officials in Congress and elsewhere want to enhance investment opportunities for U.S. companies and ease trade

issues, notably Taiwan's large trade surplus. They also encourage political democratization, even though it may foster separatist tendencies among ethnic groups that Beijing regards as threatening to state security.

Taiwan's security and potential vulnerability to the Chinese military is of special concern. The U.S. Defense Department issued a congressionally mandated report on rising military strengths on both sides of the Taiwan Strait in 1999. The report intensified arguments on whether the United States should provide ballistic missile defense systems to Taiwan despite strenuous objections from Beijing. In April 2001, President George W. Bush approved the sale of four Kidd-class destroyers, 12 anti-submarine P-3 "Orion" aircraft, and eight diesel submarines to Taiwan. Taiwan continues to seek Aegis destroyers and other advanced weapons systems from the United States which could enhance its defense capabilities.

Since 2000, Taiwan's political landscape has changed dramatically. Beginning with the March 18, 2000, presidential election and continuing through December 2001 legislative elections, the formerly ruling Nationalist Party has been defeated by opposition parties, notably the DPP party. Success of the DPP and other opposition parties is probably Beijing's most feared outcome in the elections, and raises concerns that Taiwan-PRC tensions will increase still further. U.S. options include attempting to negotiate a new arrangement to manage U.S. relations with Beijing and Taipei, or remaining flexible given competing pressures from the two capitals, while deferring a solution of the Taiwan issue.

## MOST RECENT DEVELOPMENTS

*On March 12, 2002, Taiwan's Defense Minister, Tang Yao-ming, left the United States after attending a defense conference in Florida. While here, Minister Tang also met with senior U.S. diplomatic and defense officials, including Deputy Secretary of Defense Paul Wolfowitz and Deputy Assistant Secretary of State James Kelly. PRC officials protested.*

*According to a Reuters report of January 15, 2002, the U.S. Navy will present Taiwan with several plans for building 8 diesel-powered submarines in the next two months. Along with approving other weapons systems, President Bush approved the sale of diesel submarines (which the United States has not built since the 1950s) in April 2001.*

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

## 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 Kuomintang 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, therefore, 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 of intent to terminate, effective January 1, 1980, 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 unilateral statement released on December 16, 1978, the United States declared that it "continues to have an interest in the peaceful resolution of the Taiwan issue and expects that the Taiwan issue will be settled peacefully by the Chinese themselves." 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, which still governs U.S. relations with Taiwan, was essentially a congressional construct, enacted by a Congress unhappy with the Carter Administration's minimal plans for how U.S. relations were to be conducted with Taiwan after official relations were severed.<sup>2</sup>

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 \$14.9 billion U.S. trade deficit with Taiwan in 1998. Taiwan continues to enjoy Export-Import Bank financing, Overseas Private Investment Corporation (OPIC) guarantees, most-favored-nation status, and ready access to U.S. markets. Meanwhile, many U.S. leaders want to encourage Taiwanese enterprises to invest in the United States.

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

**Arms Sales to Taiwan.** Continuing U.S. arms sales to Taiwan are part of a decades-long U.S. policy approach that often was termed one of "strategic ambiguity." On the one hand, U.S. policymakers had promised not to recognize Taiwan as an independent entity with an identity separate from the PRC's. On the other hand, the United States continued to sell defense weapons and equipment to Taiwan and to have other, extensive contacts with Taiwan under the auspices of the TRA, which still governs unofficial U.S. relations with Taiwan. Of particular importance in the current environment is the nature of U.S. defense commitments and arms sales to Taiwan, contained in Section 3 of the TRA. Section 3 is non-specific about

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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.

<sup>2</sup> The TRA was signed on April 10, 1979, and enacted as P.L. 96-8.

the defense articles and 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.

Some in Congress believe that the TRA is outdated and that Taiwan’s self-defense capabilities have eroded while China has grown militarily more capable and more hostile. As evidence, they cite the conclusions of a congressionally mandated report assessing the military balance in the Taiwan Strait, which was issued by the U.S. Department of Defense (DoD) in February 1999. The report concludes that in light of improvements in offensive military capabilities, by the year 2005 China will have acquired the ability “to attack Taiwan with air and missile strikes which would degrade key military facilities and damage the island’s economic infrastructure.” Congressional proponents of enhanced security for Taiwan suggest that U.S. policy should be adjusted accordingly. Policymakers also remain disturbed that China continues to insist publicly on its right to use force against Taiwan.

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

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

Since the 1982 communique, U.S. government arms sales to Taiwan have remained at over \$600 million a year, with two exceptions: President George H. W. Bush’s approval in September 1992 for sale of 150 F-16 aircraft to Taiwan (the largest such sale, at \$5.9 billion); and President George W. Bush’s approval in April 2001 for sale of four Kidd-class destroyers, 12 anti-submarine P-3 “Orion” aircraft, and eight diesel submarines. (Previously, Taiwan authorities also had sought to acquire the P-3 Orion aircraft and diesel submarines from the Clinton Administration. The White House turned down these requests based on a recommendation from the Pentagon.) Given that the United States has only built nuclear submarines since the 1950s, discussions have been underway since April 2001 on plans either to acquire the diesel subs from the current inventories of Germany or the Netherlands (both of which have refused), or to permit U.S. companies to build the subs especially for Taiwan. On January 15, 2002, the *Reuters* news service reported that the U.S. Navy hoped to present three or four plans to the Taiwan government for building the submarines within several months. 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.

Past U.S. transfers of military-related technology have allowed Taiwan to develop more advanced air defense and other military capabilities. On August 1, 1999, for example, the Pentagon announced it would sell two E-2 electronic warfare aircraft to Taiwan, along with radar detection equipment and \$150 million in aircraft spare parts. On April 17, 2000, the Clinton Administration decided to sell Taiwan an assortment of air defense weapons,

including PAVE PAWS radar (designed to monitor ballistic missiles); an upgraded model of the Maverick air-to-ground missile; and the advanced medium range air-to-air missile (or AMRAAM), with the latter to be stored in the United States unless China acquires a similar missile capability.

**U.S. Policy Statements and the “One-China” Policy.** In addition to 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. communiques signed in 1972, 1979, and 1982. Relevant policy statements from these communiques are:

**The “Shanghai Communique” 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 Communique 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 Communique 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.”

In addition to the existing three communiques, 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, Assistant Secretary of State Winston Lord said that the review had resulted in “a series of changes,” but that the fundamental framework of the policy remained unchanged. Periodically, the notion of crafting a fourth communique concerning Taiwan has been put forward – as in a January 2, 2002 *Washington Post* op ed piece by Richard Holbrooke, former U.S. Ambassador to the United Nations. The U.S. government has not been receptive to such proposals.

**President Clinton’s 1998 “Three Noes” Statement.** Taiwan officials and U.S. supporters of Taiwan often saw the Clinton Administration as too willing to respond to PRC pressure to reaffirm the U.S. “one China” policy in ways that appeared to curb support for Taiwan. These concerns were heightened during a summit visit to the PRC in June 1998. During the visit, President Clinton made a controversial statement about Taiwan that some interpreted as being a change in U.S. policy. The statement was made in response to a question during a discussion in Shanghai on June 30, 1998. According to a White House transcript, the President said:

I had a chance to reiterate our Taiwan policy, which is that we don't support independence for Taiwan, or two Chinas, or one Taiwan-one China. And we don't believe that Taiwan should be a member in any organization for which statehood is a requirement. So I think we have a consistent policy.

Although Clinton Administration officials insisted the President's remarks were fully consistent with U.S. policy, some American observers maintained that the Clinton Shanghai statement was a distinct change from original U.S. policy statements in the three U.S.-China communiques of 1972, 1979, and 1982, and in the Taiwan Relations Act. In response to the President's statement, then, both the House and Senate in the 105<sup>th</sup> Congress passed resolutions (H.Con.Res. 301 and S.Con.Res. 107) reaffirming U.S. policy toward Taiwan.

***President Bush's 2001 Policy Statement on U.S. Defense of Taiwan.*** In contrast to the case with the Clinton Administration, many observers see the George W. Bush Administration as being less willing to pursue policies that may negatively affect Taiwan. On April 25, 2001, for instance, in an ABC television interview, Charles Gibson asked President Bush that "...if Taiwan were attacked by China, do we have an obligation to defend the Taiwanese?" The President responded, "Yes, we do, and the Chinese must understand that." In followup, Gibson asked whether this meant using the full force of the American military. The President responded, "Whatever it took to help Taiwan defend herself." Since the United States has no defense alliance with Taiwan and has never pledged use of American military forces in the island's defense, the President's answer caused considerable controversy again over whether the United States had changed its policy toward Taiwan's security or was moving away from its "one-China" statements. State Department and White House officials, including President Bush, later reiterated U.S. support for the "one-China policy," insisted that there had been no change in U.S. policy toward Taiwan, and said that the President's April 25 statement was consistent with U.S. commitments in the Taiwan Relations Act.

***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 on this issue, U.S. officials for years remained unwilling to issue visas to senior Taiwan officials for U.S. visits. This changed dramatically 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 limited 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.

**Policy Implications of Global Anti-Terrorism Campaign.** Some have suggested that the September 11, 2001 terrorist attacks against the World Trade Center and the Pentagon, as well as the foiled attempt resulting in a crash 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. The PRC itself has been the target of bombings, sabotage, and other terrorist attacks, primarily thought to be committed by small groups of Muslim extremists (largely Uighurs) based in Xinjiang, in the PRC's far northwest. For years there have been unconfirmed reports that some of these activists may, in fact, be based in Afghanistan, receiving training from the Taliban. Sharing this concern, the PRC has assured Washington of its support in the anti-terrorism effort, including intelligence-sharing. But the PRC strongly prefers that such global efforts be conducted through the auspices of the U.N. Security Council, where it has a voice, and not purely through a U.S. unilateral effort or a coalition of U.S. allies. Also, PRC officials in the past have attempted to exact policy concessions from the United States in exchange for support for U.S. initiatives. The PRC thus may attempt to condition its future support for the global anti-terrorism campaign on U.S. concessions on Taiwan.

## Political Liberalization

Under the leadership of Chiang Kai-shek (who ruled the Republic of China from 1945-1975), the Nationalist Party-dominated government that had fled wholesale to Taiwan ruled in a sometimes harsh authoritarian fashion. Considering itself still technically at war, it retained in position 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 Nationalist 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 prior to the Communist victory there in 1949. Nationalist leaders, particularly Chiang Kai-shek's son, Chiang Ching-kuo, began to institute political reforms. They emphasized other elements in support of Nationalist rule, noting in particular the leadership's successful supervision of Taiwan's dramatic economic progress. Chiang and his associates also were at pains to introduce to power more "Taiwanese" — the 85% of the island's population whose roots go back to Taiwan prior to the influx of two million "mainlanders" fleeing the Communist victory on mainland China. Important Taiwanese dignitaries, including the future President, Lee Teng-hui, were raised to high positions within the Party.

A combination of international and domestic pressures accelerated the pace of political reform in the middle and late 1980s. In September 1986, opponents of KMT political dominance finally overcame years of Nationalist Party objections and formed an opposition party, the Democratic Progressive Party (DPP). President Chiang Ching-kuo ended martial law in July 1987. Following Chiang Ching-kuo's death in January 1988, the new President, Lee Teng-hui, reaffirmed a commitment to reform that would legalize opposition parties and restructure parliamentary bodies. In 1991, President Lee ended the state of civil war with the

PRC and the associated “temporary provisions” that had given Nationalist leaders “emergency” powers to deal with dissent. Members of legislative bodies elected in the mainland over 40 years earlier retired. An election was held to fill all seats in a new National Assembly, and in 1992 a new legislature was elected.

In subsequent annual island-wide elections, the Nationalist Party incrementally lost ground to the DPP and the New China Party, founded in 1993. In the March 23, 1996 presidential elections, Lee Teng-hui won 53.9% of the vote, the DPP candidate, 21.1%, and two conservative independents, 14.9%, and 9.9%, respectively. In concurrent elections for the National Assembly’s 334 seats, the Nationalists got 183 seats with 49.7% of the vote; the DPP got 99 seats with 29.9%; and the New China Party got 46 seats with 13.7%.

Along with these political developments, Taiwan officials appeared ready to launch a public dialogue about Taiwan’s future and the nature of Taiwan’s relations with the mainland. A December 23-28, 1996, multiparty National Development Conference in Taiwan saw continued strong Taiwanese opposition to Beijing’s “one country-two systems” reunification formula and agreement on government reforms, notably the downgrading of Taiwan provincial government functions. The reforms passed on July 18, 1997. In Beijing, officials voiced concern that the decision to diminish the Taiwanese provincial government suggested that Taiwan was determined to highlight its status as an international actor separate from China.

**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 handed a stunning defeat to the Nationalist Party’s 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 the early months of President Chen’s tenure in office beginning May 20, 2000, U.S. officials generally praised him for his careful political maneuvering. He appeared to try to maintain a balance between the more radical, pro-independence advocates in his party while trying to avoid antagonizing Beijing on the cross-strait issue. Nevertheless, he was limited domestically by his inability to gain consistent and broad support for his policy initiatives from the legislature, which still retained a substantial Nationalist Party majority. That changed in the December 2001 legislative elections.

**The Taiwan Solidarity Union (TSU) Party.** Dramatic developments occurred in June and July 2001 in Taiwan’s political landscape. On June 16, 2001, former President Lee Teng-hui, the standard-bearer of the Nationalist Party for over 10 years, made a joint appearance with President Chen Shui-bian and appeared to urge his own followers to support Chen. Observers speculated that the joint appearance meant that Lee was forming a political alliance with Chen and the DPP. Subsequently, on July 24, 2001, former Nationalist Party members closely associated with former President Lee announced they were forming a new political party, the Taiwan Solidarity Union (TSU). This sparked heated debate in Taiwan over the implications of the new party for Taiwan’s political scene, particularly for the

looming December 2001 elections for Taiwan's Nationalist-dominated legislature. According to early reports, the TSU will follow policies favored and even crafted by former President Lee. In addition, it is expected that the new TSU party will continue to operate as a coalition with the DPP, further strengthening the position of the DPP in the legislature. But, given former President Lee's reputation and political skills, some have suggested that Lee himself may be gaining more power and influence within the DPP/TSU coalition than many initially expected. Observers will be watching closely in the coming months to gauge how President Chen responds to the TSU and to Lee's influence.

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

Representation between the DPP and KMT was more evenly split in the elections for county magistrates and city mayors. For the 23 magistrate seats, the KMT and the DPP each won nine posts, the PFP and independent candidates each won two posts, and the New Party won one. (See CRS Report RS21093, *Taiwan's December 2001 Elections*.)

## 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.

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. Official cross-strait talks, however, have remained frozen since 1999, when then-President Lee Teng-hui made his “state-to-state” relations comments.

**President Lee’s “State-to-State” Relations Comments.** In a radio interview given on July 9, 1999, President Lee Teng-hui said that ties between Taiwan and the PRC should be considered on a “special state-to-state” basis. Taiwan officials had been moving incrementally in this direction for some time; in 1995, for instance, President Lee emphasized that China and Taiwan were governed by “two governments,” and proposed that each side enter international organizations “on an equal footing.” Nevertheless, Lee’s July 1999 remark was seen by many as the most direct challenge to date concerning Beijing’s claim to sovereignty over Taiwan. Beijing objected strenuously to the statement, saying it proved that Lee had fundamentally changed previous policy in which Taiwan had claimed that there was only “one China,” of which Taiwan was a part.

**Developments During the Chen Administration.** In recent months, both the PRC and Taiwan governments have made selected overtures that suggest there may be movement possible in PRC-Taiwan relations. 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 what many are interpreting as 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. 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. Beijing responded by saying that the move demonstrated Taiwan was “inching toward independence.” Taiwan’s relationship with the United States also remains a source of tension. For example, 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.

**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-Straits relations, stridently excoriated Lee for allegedly attempting to split China and lead Taiwan toward independence, and conducted a series of military exercises designed to intimidate 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 fewer 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

The United States remains the foreign power most closely involved in PRC-Taiwan relations. It seeks closer relations with both the PRC and Taiwan and favors the peaceful exchanges across the Taiwan Strait. Yet U.S. policy faces major challenges from both Beijing and Taipei in attempting to strike a proper political balance in the U.S.- PRC-Taiwan triangular relationship:

- **The PRC.** China's growing economic, political and military power means it is less likely to want to defer to the United States, Taiwan, or other

governments. Strong nationalistic emphasis in PRC domestic politics, along with impending senior leadership changes later in 2002, may prompt PRC decision makers to adhere to politically safe nationalistic positions on key issues like Taiwan. Moreover, U.S. policymakers interested in keeping the PRC's support for the global anti-terrorism campaign may be confronted with efforts by Beijing to condition that support on concessions on Taiwan.

- **Taiwan.** Despite its small size, Taiwan is a more important trading partner for the United States than is the PRC, making U.S. economic stakes in the island high. Taiwan's increasing assertiveness, rapidly changing social conditions, and democratization place additional pressure on American policymakers to support Taiwan's international stature.

Judging that the U.S. "one China" policy framework no longer works, some American experts favor U.S. negotiations with Beijing and Taipei to strike a new "strategic bargain." The alternative, in their view, is continued conflicting pressure from Beijing and Taipei and related U.S. domestic interests, leading to a passive U.S. policy that would increase confrontation and possibly military conflict. Others judge that such negotiations would cause more trouble than they are worth. They believe the Administration should continue to adjust its "one China" policy to accommodate pressures from Taipei and Beijing and their U.S. domestic supporters.

U.S. policymakers also are called on to respond to recent prominent calls from both sides of the Strait for the United States to "facilitate" or "mediate" a reduction in tensions. The governments in Beijing, Taipei, and Washington maintain that the issue of Taiwan's reunification is to be handled by people on both sides of the Strait. The United States is not to mediate cross-Strait differences. Nevertheless, officials and nongovernment opinion leaders in both Beijing and Taipei are now forthright in urging the United States to take positive actions to ease cross-Strait tensions.

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

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

In the economic arena, many Americans remain concerned with the large U.S. trade deficit with Taiwan. They call for strong action to improve the U.S. trade balance. Others call for strict protection of U.S. Intellectual Property Rights and enforcement of U.S. laws against unfair trade practices. They recognize that such action could negatively affect the economic prosperity and related political stability of a number of important U.S. trading

partners, including Taiwan. But they judge that the United States has little choice but to take firm measures to protect its own markets and economic advancement. Concern with American industrial competitiveness also motivates Americans who question the sale of sophisticated U.S. industries and equipment to wealthy Taiwan enterprises. They favor strict review of such sales to ensure that Taiwanese investors do not reap a large competitive advantage through investment in technologically advanced U.S. companies. But Taiwan's unique status means that economic issues are often interpreted in a political context. U.S. supporters of Taiwan tend to emphasize the potentially negative political results that may come from restrictive trade legislation or administrative actions aimed at Taiwan.

## LEGISLATION

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

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

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

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

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

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



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

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

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

## CHRONOLOGY

- 03/12/02** — Taiwan's Defense Minister, Tang Yao-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 made a strong showing at the expense of the National Party, winning 87 legislative seats in the 225-member body to the latter's 68 seats. The Nationalist Party lost its legislative majority for the first time in 50 years.
- 09/18/01** — The WTO voted to accept Taiwan's application for membership.
- 07/24/01** — Supporters of Taiwan's former President, KMT member Lee Teng-hui, announced the formation of a new political party in Taiwan, the Taiwan Solidarity Union (TSU). The organizing meeting of the new party is scheduled for August 12, 2001.
- 04/25/01** — In an ABC television interview, President Bush said that he would use the U.S. military – do "whatever it took to help Taiwan defend herself."
- 04/24/01** — The Bush Administration announced it would sell Taiwan a new assortment of defense articles, including diesel submarines, P-3C anti-submarine aircraft, and Kidd-class destroyers.
- 01/22/01** — Vincent Siew, Vice-Chairman of Taiwan's former ruling party, the Kuomintang (KMT), proposed establishing a "cross-strait common market" between Taiwan and China.
- 01/02/01** — For the first time in more than 5 decades, 3 Taiwan ships left Quemoy and Matsu and later docked in the Chinese ports of Xiamen and Fuzhou.
- 10/16/00** — China issued a white paper, "China's National Defense 2000," reinforcing its claim that it would use force against Taiwan if Taiwan continued to refuse to negotiate for reunification with China.

- 08/17/00** — Taiwan's President Chen made a transit stop in Los Angeles. Originally invited to attend a private dinner with Members of Congress, President Chen declined, reportedly under pressure from U.S. government officials.
- 05/20/00** — Chen Shui-bian was inaugurated as Taiwan's newly elected president. His inauguration speech was viewed generally as a moderate attempt to lower tensions with Beijing.
- 03/24/00** — President Lee Teng-hui resigned as head of the ruling Nationalist Party because of his party's unprecedented defeat in the presidential election.
- 03/18/00** — In presidential elections in Taipei, DPP candidate Chen Shui-bian won with approximately 39% of the vote.
- 02/21/00** — The PRC issued a White Paper, "The One-China Principle and the Taiwan Issue," with a mix of conciliatory gestures and a new threat that Taiwan's indefinite delay in cross-Straits talks may prompt use of force by the PRC.
- 02/01/00** — The House passed H.R. 1838, the Taiwan Security Enhancement Act, by a vote of 341-70.
- 11/17/99** — The ruling Kuomintang (KMT) Party expelled presidential candidate James Soong and six of his key staff.
- 07/09/99** — Taiwan's President, Lee Teng-hui, said that ties between Taiwan and the PRC should be conducted on a "state-to-state" basis.
- 04/19/99** — Taiwan DPP leader Chen Shui-bian began several days of seminars and meetings in Washington, DC.
- 02/17/99** — The U.S. Defense Department issued a congressionally mandated report on rising military strengths on both sides of the Taiwan Strait. The report intensified arguments on whether the United States should provide ballistic missile defense systems to Taiwan despite strenuous objections from Beijing.
- 10/23/98** — Secretary of Defense William Cohen had an unofficial meeting with Taiwan's armed forces chief of staff then visiting Washington.
- 10/19/98** — Taiwan negotiator Koo Chen-fu left Beijing after talks with Chinese party leader Jiang Zemin and other senior officials.
- 01/24/98** — Elections for mayors of smaller cities, county assemblies, and city councils showed the KMT's continued dominance at the grass-roots level of Taiwanese politics. The Kuomintang won over 60% of the contested seats; the DPP about 20%.
- 01/01/98** — South Africa, the most important country to maintain official ties with Taiwan, broke off official relations and established formal ties with China.

- 03/10/96** — The Pentagon disclosed that two U.S. carrier battle groups had been ordered to the Taiwan area.
- 03/08/96** — PRC forces began holding ballistic missile exercises in two impact areas near Taiwan. The actions were condemned by Congress and the Administration.
- 01/24/96** — The *New York Times* reported on a series of explicit warnings from Chinese leaders to the United States over the likelihood of military action in the Taiwan Strait.
- 12/02/95** — In elections for the 164-seat Legislative Yuan, the KMT received 85 seats with 45% of the vote; the DPP, 54 seats; and the New China Party, 21 seats.
- 05/22/95** — Yielding to congressional pressure, President Clinton decided to allow Taiwan's president to visit the United States the following month.
- 04/08/95** — President Lee Teng-hui responded to President Jiang Zemin's eight-point proposal on cross-Strait relations with his own proposal.
- 01/30/95** — China's leader Jiang Zemin issued a positive sounding eight-point proposal on Taiwanese-mainland relations.
- 09/07/94** — The Clinton Administration's Taiwan policy review called for modestly increased contacts with Taiwan.
- 01/29/94** — In elections for numerous local councils and other posts, the Kuomintang dominated, winning over 60% of the vote, while the DPP won about 15%.
- 09/02/92** — President George H.W. Bush agreed to sell 150 F-16 jet fighters to Taiwan.
- 07/15/87** — Martial law ended in Taiwan.

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