

# CRS Issue Brief for Congress

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

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

### SUMMARY

Under the 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

February 28, 2006 — Taiwan president Chen Shui-bian announced he would be “ceasing” the operations of the National Unification Council and Guidelines for National Unification with China. The softer language was regarded as a compromise from his earlier January 29 formulation in response to strong U.S. concerns.

January 29, 2006 — In a Lunar New Year’s Day speech, Taiwan president Chen Shui-bian proposed scrapping the National Unification Council and unification guidelines and seeking U.N. membership under the name “Taiwan.” The U.S. State Department later sharply criticized Chen’s New Year’s Day statement as “an effort to change the status quo.”

January 23, 2006 — Taiwan’s cabinet resigned. New appointees appear more hardline and committed to president Chen’s policies than their predecessors. Mark Chen (outgoing Foreign Minister) will head the Presidential Office; James Huang (former deputy foreign minister) will become Foreign Minister; Su Tseng-chang will replace Prime Minister Frank Hsieh, who submitted his resignation on January 17.

January 9, 2006 — The *Financial Times (Asia)* reported that Ma Ying-jeou, KMT chairman, said he would use the KMT’s legislative majority to force President Chen to establish direct cross-strait transport links — first removing statutory impediments to such a move, and then holding a referendum if the President did not open direct links.

January 1, 2006 — In his New Year’s Day address, Taiwan president Chen Shui-bian announced that strengthening the island’s separate identity would be his top priority for the remainder of his term, along with adoption of a new constitution for Taiwan. The statement was seen as a conservative turn in Chen’s agenda.

## BACKGROUND AND ANALYSIS

Once a U.S. World War II ally, the Republic of China (ROC) government on Taiwan (an island also claimed by the People’s Republic of China (PRC)) remains a key U.S. foreign policy issue. Official U.S. relations with Taiwan became a necessary casualty of the 1979 American decision to establish diplomatic relations with the communist PRC government as the sole legitimate government of all China. Since then, absent diplomatic relations, the United States still has maintained economic and security relations with Taiwan, including the sale of defensive military weapons and services.<sup>1</sup> But continuing political transformations in both the PRC and Taiwan since 1979 mean that U.S. policymakers are facing more difficult policy choices in U.S. relations with each government.

This report focuses on current developments in Taiwan, analyzing how those developments are affecting choices the United States makes about its policy toward Taiwan

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<sup>1</sup> U.S. weapons sales to Taiwan are governed by Section 2 and Section 3(b) of the Taiwan Relations Act, P.L. 96-8: 22 U.S.C., Chapter 48, Sections 3301-3316.

specifically and toward the PRC more broadly. Other CRS reports provide more details about the myriad historical complexities of Taiwan's current situation in U.S. policy, such as: historical background about how the ROC on Taiwan went from a U.S. ally to a government with no diplomatic U.S. relations, including the fundamentals governing U.S. policy toward Taiwan today (CRS Report RS22388); and the subtle and complicated permutations of the "one-China" policy over three decades and its role in U.S. policy (CRS Report RL30341).

## Taiwan's Political Liberalization

Ironically, one of the key challenges for U.S. Taiwan policy has become Taiwan's own political liberalization and democratization since 1979. Under the strongly authoritarian rule (and martial law) of the long-ruling KMT, Taiwan's political decisions from 1949 to 1979 were predictable, closely aligned with U.S. interests, and clearly dependent on U.S. support. But several decades of political reform and democratic development have made Taiwan politics today both more pluralistic and more unpredictable.

**Political Pluralization.** Taiwan's political liberalization began in the mid-1980s, when the KMT first permitted formation of opposition parties (1986), including the Democratic Progressive Party (DPP), a party whose platform advocated Taiwan independence from China. The KMT government also ended martial law (in 1987), and for the first time 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 in the 1980s, elected on mainland China over 40 years earlier, were asked to retire, and a new, streamlined legislature was elected in 1992. In 1996, Taiwan held its first direct presidential election, which was won by KMT leader Lee Teng-hui, himself a native Taiwanese. During his presidency, Lee increasingly distanced himself from his party's long-standing position that there was only "one China" and that Taiwan was part of it. This posed complications for one of the fundamental tenets on which U.S. relations with the PRC were based — the statement that "The United States acknowledges that all Chinese on either side of the Taiwan Strait maintain that there is but one China and that Taiwan is a part of China."<sup>2</sup>

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 was a stunning defeat for the KMT and its unbroken 50-year tenure in power. By the narrowest of margins, President Chen was elected to a second (and final) term in March 2004, winning by only 29,518 votes out of a reported 13.25 million votes cast. The KMT fall from its former political dominance was compounded in two subsequent legislative elections in December 2001 and December 2004, when the struggling party saw its majority

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<sup>2</sup> This particular quote is from the 1972 Shanghai Communique issued at the conclusion of President Richard Nixon's landmark trip to China. A somewhat vaguer formulation — "The [United States] acknowledges the Chinese position that there is but one China and Taiwan is part of China." — was part of the 1979 communique normalizing U.S. relations with the PRC.

of 115 seats in the 225-member Legislative Yuan (LY) cut drastically — to just 79 seats today as a result of the December 2004 election.<sup>3</sup>

**Split Government, Competing Ideologies.** With Chen Shui-bian and the DPP's "Pan-Green" coalition in control of the presidency since 2000, the KMT nevertheless has managed to retain the barest control of Taiwan's legislature by cobbling together a working "Pan-Blue" coalition of 113 from its own remnants: 79 KMT members and 34 members of a new faction that broke from the main KMT party, the People First Party (PFP).<sup>4</sup> Since the two opposing coalitions have different political ideologies and roughly equal political strength, this split government has created significant gridlock in Taiwan's political arena since 2000 and thus difficult political realities for U.S. policymakers.

The membership of the DPP-led "Pan-Green" coalition, to which incumbent president Chen Shui-bian belongs, is largely native Taiwanese and is closely identified with advocating Taiwan independence — an eventuality which Beijing has stated it will "bear any cost" to prevent. Chen, himself a native Taiwanese, has had to perform a continuing balancing act between the radical base of his party — avid independence advocates — and the more cautious in the Taiwan electorate who may wish for independence but who believe that antagonizing the PRC is not in Taiwan's interests. Chen and his advisors have attempted to finesse this contradiction by proclaiming a "new Taiwan identity" and emphasizing maintenance of the "status quo" — which they define as Taiwan's de-facto sovereignty and statehood. While this strategy has met with certain success, these DPP political nuances have created problems on several fronts. Strong pro-independence activists believe they do not go far enough. Beijing claims they go too far and are close to an outright declaration of independence, while Bush Administration officials are increasingly concerned over the complications that the more assertive components of Chen's strategy create for U.S. policy toward China and Taiwan.<sup>5</sup>

On the other side of Taiwan's political spectrum is the KMT's opposition "Pan-Blue Coalition." The KMT historically is a party of mainlanders that fled to Taiwan from China in 1949. It is politically conservative and strongly anti-communist. Although it is credited with engineering Taiwan's vibrant economic growth and transformation during its 50-year rule on the island, the KMT's inability to offer a clear and creative vision for Taiwan's future in the 21<sup>st</sup> century ultimately made it vulnerable to the DPP political challenge in the 2000

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<sup>3</sup> Elections for Taiwan's Legislative Yuan (LY) are held every three years. The next LY elections are scheduled for December 2007.

<sup>4</sup> The "Pan-Green" is the popular name of the DPP's political union with a like-minded minority party, the Taiwan Solidarity Union (TSU), which itself emerged from the December 2004 LY elections with 12 seats. The two "color" coalitions were so named because of their respective party colors.

<sup>5</sup> In September 2005, for example, at the U.S.-Taiwan Business Council-Defense Industry Conference 2005, Edward Ross, Director of the U.S. Defense Department's Defense Security Cooperation Agency, strongly criticized Taiwan's politicization of security issues, saying it was reasonable to question why the United States should invest in Taiwan's self-defense if Taiwan itself were not willing to invest in it.

election.<sup>6</sup> Since then, the KMT has portrayed itself as a more responsible steward than the DPP for Taiwan's future. It criticizes the DPP's posture toward Beijing as unnecessarily confrontational and promises to replace it with a policy of engagement. Many KMT members have criticized the DPP's "new Taiwan identity" emphasis as an attempt to question KMT political legitimacy and as a dangerous provocation to ethnic divisions. The party also gets political mileage out of portraying Chen as insufficiently attentive to the needs of Taiwan's business community — as in the economic disadvantages Taiwan business interests continue to face due to Taiwan's restrictions on contacts with mainland China.

This legislative-executive split in Taiwan's government has created unique political problems. U.S. policymakers generally have found these political processes difficult to oppose because they are democratic but also, for the same reason, difficult to rely on for support of U.S. interests. Domestically, the relatively even strength of the Taiwan two coalitions has resulted in years of effective political gridlock. The KMT/PFP legislative coalition since 2002 has been able to block or modify most of the DPP's policy initiatives, while President Chen has proven adept at counter-offensive in the public debate by offering controversial initiatives affecting Taiwan's political status. In the most recent of these re-balancing acts, on December 3, 2005, the opposition KMT party won an impressive victory in local city mayor and county magistrate elections, winning a total of 14 out of 23 constituencies while the ruling DPP won only six.<sup>7</sup> These results were seen as a negative mid-term referendum on the policies of Taiwan's President Chen Shui-bian, whose popularity in December 2005 was reported to have fallen to 21%.<sup>8</sup> KMT supporters interpreted this result as a "no-confidence" vote for the DPP and a boost to KMT fortunes in coming presidential elections scheduled for 2008. President Chen appears to have countered this momentum with controversial pronouncements since January 2006 about abolishing or amending important symbols to the "one-China" policy and PRC-Taiwan reunification, such as the National Unification Council, unification guidelines, and Taiwan's constitution.

## **Key Current Issues in Taiwan**

### **"Abolishing" Unification Council and Guidelines**

A new controversy has arisen in Taiwan as a result of President Chen's announcement of his decision on February 27, 2006, that Taiwan's National Unification Council (NUC) will "cease operations" and the Guidelines on National Reunification (GNR) will "cease to apply." The NUC and GNR are two initiatives strongly identified with the former KMT government. President Chen first mentioned he was considering scrapping the NUC/GNR on January 29, 2006. That statement appeared to surprise U.S. officials, who responded by publicly reiterating the U.S. "one-China" policy, secretly sending a special envoy delegation to Taiwan to express concerns, and reportedly privately criticizing the decision to Taiwan

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<sup>6</sup> The traditional KMT policy held that there was only one China, that Taiwan was part of China, and that one day Taiwan would re-take the mainland and China would be reunified.

<sup>7</sup> Five city mayor seats and 18 county magistrate seats were contested in the Dec. elections.

<sup>8</sup> *United Daily News*, Dec. 4, 2005.

officials.<sup>9</sup> The softer formulation of the language in Chen's February 27, 2006 decision is regarded as a compromise to strong U.S. concern over the cross-strait implications of "abolishing" both entities — a decision that at least one PRC scholar opined could result in a "non-peaceful" response by Beijing.<sup>10</sup>

Long non-functional (the NUC last met in 1999), the NUC and GNR have political significance largely as symbols of Taiwan's commitment to eventual cross-strait unification. One of four institutions under the direct authority of Taiwan's president, the NUC was established in 1990 under a KMT government by executive order of Taiwan President Lee Teng-hui, then head of the KMT. On February 23, 1991, the NUC adopted a set of Guidelines for National Unification which reaffirmed Taiwan's status as part of China and laid out the process by which unification with China should be achieved. Although prospects for implementing the guidelines seemed remote (among other things, the initial phase requires the PRC to implement "both democracy and the rule of law" before consultations on unification can begin), the "unification" focus of the guidelines appealed to KMT conservatives and reaffirmed the KMT's long-standing "one-China" policy.<sup>11</sup> When Chen Shui-bian became the first pro-independence DPP party candidate elected as Taiwan's president in 2000, he pledged five things "as long as the CPP regime has no intention to use military force against Taiwan." Among these was the pledge that the abolishment of the National Reunification Council and Guidelines "will not be an issue."<sup>12</sup>

President Chen's NUC decision has sparked controversy and policy conflicts in Taiwan. A senior Taiwan official in charge of cross-strait policy initially sought to soften the edges of Chen's January 2006 statement by saying that any decision was still a long way off.<sup>13</sup> But President Chen toughened his rhetoric in ensuing weeks, reportedly telling a visiting U.S. congressman that the NUC and its guidelines were "an absurd product of an absurd era" that should be abolished, and his party's Central Standing Committee voted on February 22, 2006, to endorse the NUC's abolishment.<sup>14</sup> Chen reportedly made his final decision at a

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<sup>9</sup> In a January 20, 2006 press briefing, Deputy State Department spokesman Adam Ereli responded to a question on the statement with "we certainly weren't expecting it, we weren't consulted about it, so I'd say it was a surprise." On February 14, 2006, a White House National Security Council official, Dennis Wilder, reportedly with State Department Taiwan official Clifford Hart, secretly visited Taiwan to express U.S. concern and was reportedly told that the decision could not be changed. Reuters, "Taiwan's pro-independence Chen Snubs U.S.: Paper," February 22, 2006.

<sup>10</sup> Chang, S.C., "PRC scholar warns of 'non-peaceful response' to Chen's NUC game," *Central News Agency*, February 23, 2006.

<sup>11</sup> For the full text of the guidelines, see [<http://cns.miis.edu/straittalk/Appendix%2059.htm>]

<sup>12</sup> President Chen Shui-bian's Inaugural Speech (2000), May 20, 2000. For the full text, see [<http://cns.miis.edu/straittalk/Appendix%20119.htm>]

<sup>13</sup> Joseph Wu, Chairman of the Mainland Affairs Council, at a February 2, 2006 news conference. Magnier, Mark and Tsai Ting-I, "Taiwan official seeks to recast Chen's stance," *LA Times*, February 3, 2006.

<sup>14</sup> Dickie, Mure and Hille, Kathrin, Taiwan's president labels unification body 'absurd'," *Financial Times*, Asia, February 23, 2006, p. 2.



special meeting of Taiwan's National Security Council on February 27, 2006.<sup>15</sup> Critics maintain that the decision is a dangerous and unnecessary provocation to Beijing, that it violates President Chen's 2000 inaugural pledge of not seeking to abolish the NUC, and that it unilaterally changes the "status quo" in the Taiwan Strait. Supporters of the President's statement assert that Beijing's increasing missile deployments opposite Taiwan and its adoption of an "Anti-Secession Law" (see below) violate the "no use of force" condition under which Chen's original pledge was made. These PRC moves, Chen's supporters say, have already changed the status quo in the Strait.

## **PRC Anti-Secession Law**

President Chen and his supporters have linked the decision to abolish the NUC/NGU to the PRC's adoption, on March 14, 2005, of a ten-article "anti-secession law" aimed at reining in Taiwan independence advocates.<sup>16</sup> While much of the new PRC 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 anti-secession 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.

American observers and U.S. officials termed the PRC anti-secession law counterproductive, particularly given improvements in a range of Taiwan-China contacts since December 2004. Many saw the anti-secession law as a clear signal of China's potential rising military threat to Taiwan and feared it could significantly raise tensions across the Taiwan strait. Critics also feared the law could be used to harass independence advocates in Taiwan by, for example, labeling them "criminals" and demanding their extradition from third party countries. For their part, Taiwan authorities denounced the enactment of the law and temporarily suspended 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's 2006 decision to abolish the NUC and its guidelines appears to be the first policy decision he has specifically linked to the 2005 PRC anti-secession law.

## **U.S. Arms Sales to Taiwan and Taiwan Defense Budget**

Taiwan's inability so far to take full advantage of a substantial U.S. military support package approved for sale in 2001 has become an increasing irritant in Taiwan-U.S. relations. To date, political infighting has blocked legislative consideration of the arms

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<sup>15</sup> Chang, S.C. "President decides to cease NUC's operation," *Central News Agency*, February 27, 2006.

<sup>16</sup> The measure was adopted by the PRC's National People's Congress.

procurement budget for purchasing much of the U.S. arms package.<sup>17</sup> In particular, members of the opposition coalition (the KMT/PFP “Pan-Blue”) in Taiwan’s Legislative Yuan (LY) have lodged objections over: the multi-billion (U.S.) dollar cost of the package (which the Taiwan government has pared back on several occasions in an effort to win support); whether the types of weapons in the package meet Taiwan’s defense needs; the compatibility of the proposed purchases with Taiwan’s military; and whether Taiwan companies can benefit or participate. In addition, some members in the “Pan-Blue” opposition object to Taipei’s decision to keep submitting the procurement budget as a free-standing “special defense” budget rather than as part of Taiwan’s overall annual defense budget. Commenting on the stalemate on October 20, 2005, Taiwan’s President Chen Shui-bian said that the LY’s continued boycott of the special defense budget was jeopardizing Taiwan’s future.

Multiplying problems over arms sales have the potential to impose longer-term damage to the unique character of unofficial U.S.-Taiwan relations. In 2002, U.S. officials began voicing concerns over what they described as weaknesses in Taiwan’s self-defense and a lagging pace to Taiwan’s arms purchases. According to a DOD report, Taiwan’s self-defense deficiencies include an “opaque military policymaking system; a ground force-centric orientation; and a conservative military leadership culture.”<sup>18</sup> As the defense budget stalemate in Taiwan has continued, some U.S. officials have begun to question Taiwan’s level of commitment to its own defense, implying that perhaps U.S. policy should be reassessed accordingly.<sup>19</sup> Criticism also has come from the Taiwan side, as Taiwan officials periodically have accused the U.S. Navy of deliberately trying to subvert progress on the 2001 diesel-electric submarine sale by over-inflation of estimated construction costs and onerous funding requirements.<sup>20</sup>

## Opposition Party Visits to China

In addition to the anti-secession law, PRC officials also have sought to increase pressure on the Chen government by inviting Taiwan opposition leaders to visit China and meet with PRC President Hu Jintao in Beijing. Both Taiwan’s Nationalist Party (KMT) chairman Lien Chan and People First Party (PFP) chairman James Soong accepted these invitations, making eight-day visits to China in April and May 2005. While some view the visits as a positive development for Taiwan-PRC relations, others see them as Beijing’s effort to exploit

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<sup>17</sup> In 2003, Taiwan’s legislature did approve \$800 million for the purchase of the four Kidd-class destroyers. On December 8, 2005, the first two of these (now designated Keelung class) arrived at the Suao naval base in northeastern Taiwan after having been refurbished in South Carolina, reportedly by a Taiwanese work crew. The two destroyers were commissioned in a December 17, 2005 ceremony in Keelung. *Taipei Times*, December 19, 2005, p. 3.

<sup>18</sup> The text of the 2003 DOD report is at [<http://www.defenselink.mil/pubs/20030730chinaex.pdf>].

<sup>19</sup> In a 2005 speech to the U.S.-Taiwan Business Council-Defense Industry Conference 2005, Ed Ross, Director of DOD’s Defense Security Cooperation Agency, strongly criticized Taiwan’s foot-dragging on passage of the defense budget, saying it was reasonable in such a situation to question the level of U.S. commitment to Taiwan’s self-defense.

<sup>20</sup> Minnick, Wendell, “Taiwan claims U.S. Navy is sabotaging SSK plans,” in *Jane’s Defence Weekly*, February 15, 2005.

Taiwan's internal political divisions and further isolate President Chen.<sup>21</sup> Some critics — in Taiwan and elsewhere — accused Lien and Soong of helping the PRC to more successfully “sell” to the world its claim that the intentions of its March 2005 anti-secession law are peaceful.<sup>22</sup> At least half a dozen more Taiwan political groups have undertaken unofficial visits to China since the Lien-Soong visits, and on August 16, 2005, KMT Chairman Lien Chan further announced the formal start of grass-roots exchanges between KMT and CCP officials from six different locations on each side, with Taiwan party officials from Keelung, Hsinchu, Taichung, Changhua, Tainan, and Kaohsiung; and CCP party officials from Shenzhen, Xiamen, Suzhou, Qingdao, Ningbo, and Fuzhou. U.S. officials have warned Beijing against using the party-to-party visits to drive a wedge between Taiwan's political parties, and have stressed that Beijing should be talking to President Chen and the elected Taiwan government.

## Taiwan-Mainland Relations

Despite new cross-strait tensions in 2006, succeeding Taiwan governments since 1987 incrementally have eased long-standing restrictions on travel to and 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,

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<sup>21</sup> “It's classic divide-and-conquer strategy: Assemble the most allies possible and isolate your enemy.” Jean-Philippe Beja, senior fellow at the Center for International Studies and Research in Paris. Cited in Magnier, Mark and Tsai Ting-I, “China Tries New Tactic with Taiwan,” *Los Angeles Times*, Apr. 29, 2005, p. A-3.

<sup>22</sup> According to Shen Dingli, a PRC foreign policy expert at Shanghai's Fudan University, “These invitations for Taiwanese to visit help China regain the international high ground in cross-strait matters. And it deflects international focus from the anti-secession law.” *Ibid.*, *Los Angeles Times*, Apr. 29, 2005.

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 put a temporary hold on further direct-flight talks. The suspension was later lifted, and on November 18, 2005, Taiwan and the PRC reached agreement to offer cross-strait flights for the Lunar New Year from January 20-February 13, 2006.

**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 21<sup>st</sup> 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.<sup>23</sup>

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 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.<sup>24</sup> 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.

## Avian Flu, SARS, and WHO Observer Status

Taiwan has not escaped the outbreak of new viruses that have swept Asia since 2002. By late May 2003, Taiwan had 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 has been affected by avian flu outbreaks since 2004, although apparently with a less virulent strain

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<sup>23</sup> 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.

<sup>24</sup> For instance, there are reportedly 300,000 Taiwan citizens now living and working in Shanghai.

than that ravaging bird populations and causing some human fatalities throughout other parts of Asia.

Because Taiwan is not a member of WHO (the World Health Organization), the avian flu outbreaks had broader political ramifications for Taiwan's international position and for China-Taiwan relations. The PRC objects 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,<sup>25</sup> although PRC authorities did consent to a WHO team visit to Taiwan to investigate early in May 2003. Taiwan authorities, in a view supported by many Members of the U.S. Congress, have used the SARS and avian flu crises to press their argument that the rapid spread and consequences of emerging communicable diseases demonstrate why WHO observer status is essential for Taiwan. But Taiwan again failed to gain observer status when 33 countries objected to considering the issue on May 16, 2005, at the annual meeting of the World Health Assembly (WHA), WHO's decision-making body.

## 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. But since then, although U.S.-PRC relations have remained remarkably smooth, other factors — the PRC's anti-secession law, Taiwan's internal political divisions, and what is viewed as President Chen's more assertive and divisive push for separate Taiwan status — have posed growing problems for this U.S. policy approach. In the face of these complications, Bush Administration officials at times are thought to be trying to rein in Chen and seem to be placing more public caveats on U.S. support for Taiwan.

**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

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<sup>25</sup> 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.

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..."<sup>26</sup> 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.<sup>27</sup>

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<sup>26</sup> 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*, Apr. 15, 2004.

<sup>27</sup> "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, Apr. 21, 2004.

## Implications for U.S. Policy

For much of the past 25 years, Taiwan and PRC officials generally maintained that the United States should remain uninvolved in issues concerning Taiwan's political status. 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 cross-strait ties. PRC officials late in 2003 began quietly urging the United States to pressure Chen Shui-bian into shelving plans for an island-wide referendum. In 2004, they 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 and have sought U.S. support for Chen's constitutional reform plans. In the month between Chen Shui-bian's January 2006 statement that he would consider "abolishing" the National Unification Council and his February 2006 announcement that the NUC would "cease" its operations, several rounds of meetings and talks between U.S. and Taiwan officials were credited with the subtle but politically important rhetorical change.

Taiwan's supporters within the U.S. Congress 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. Congress also continues to consider 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 are likely to face mounting pressure to adopt a more pro-active 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

**P.L. 109-102 (H.R. 3057).** Appropriations for Foreign Operations, Export Financing, and related programs for FY2006. The House version provided presidential authority for NATO allies, major non-NATO allies, and Taiwan to waive the prohibition of Economic Support Funds for signatories to the International Criminal Court who do not have exempting agreements with the United States. Introduced in House June 24, 2005 (H.Rept. 109-152). House passed the bill, amended, by a vote of 393-32 on June 28, 2005. Referred to the Senate Committee on Appropriations on June 29, 2005 and ordered reported, amended, on June 30, 2005 (S.Rept. 109-96). The Senate passed the bill, amended, on July 20, 2005 (98-1), and asked for a conference. Conference Report H.Rept. 109-265 was filed on November 2, 2005, including the Taiwan provisions above. The House adopted it on November 4, 2005 (358-39) and the Senate on November 10, 2005 (91-0). The bill became Public Law 109-102 on November 14, 2005.

**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.

**H.Con.Res. 219 (Andrews, R.).** Expressing Congress's grave concern over China's continued deployment of ballistic missiles opposite Taiwan. The bill also expresses Congress's sense that the President should: seek from China a renunciation of the use of force against Taiwan; abolish all restrictions on high-level military visits to Taiwan; authorize the sale of the Aegis system to Taiwan. The bill was introduced on July 27, 2005, and referred to the House International Relations Committee.

### **H.R. 1815 (Hunter) (P.L. 109-163)**

Authorizing appropriations for the Department of Defense for FY2006. Introduced April 26, 2005. H.Rept. 109-89. The final Act was the result of a conference. Sec. 535 provides incentives to cadets and midshipmen to study key languages, including Chinese; Sec. 1211 prohibits the Secretary of Defense from procuring any goods or services from a "Communist Chinese military company," except on a waiver for national security reasons; Sec.1234 states the sense of Congress that the White House should "quickly" present to Congress a comprehensive strategy to deal with China's economic, diplomatic, and military rise, including specific mention of what areas such a strategy should address. In conference, the House receded on several key measures in its bill: on a measure to mandate "at least" one class field study trip annually to both Taiwan and the People's Republic of China (PRC) by military education classes of the National Defense University; on a measure to require regular senior U.S. military exchanges with Taiwan military officials; and on a measure to prohibit the Secretary of Defense from procuring goods or services from any foreign person who knowingly sells to the PRC items on the U.S. munitions list. **House action:** After Committee and Subcommittee mark-ups, reported (amended) by the House Armed Services Committee on May 20, 2005. Referred to the House on May 25, 2005, and passed by a vote of 390-39. Referred to the Senate Armed Services Committee on June 6, 2005. **Senate**

**action:** On November 15, 2005, the Committee was discharged, the Senate considered the bill under unanimous consent, and the Senate passed the bill after incorporating the language of S. 1042. **Conference action:** Conferees filed a conference report on December 12, 2005 (H.Rept. 109-360), and the House passed it on December 19, 2005 (374-41). The Senate agreed to the Report by voice vote on December 21, 2005, and the President signed the bill into law on January 1, 2006, with a clarifying statement ([<http://www.whitehouse.gov/news/releases/2006/01/20060106-12.html>]).

## CHRONOLOGY

- 02/27/06** — Chen Shui-bian announced his decision that the NUC would “cease operations” and the NGU would “cease to apply.”
- 01/23/06** — Taiwan’s cabinet resigned, including Premier Frank Hsieh, who submitted his resignation on January 17 after the DPP’s December electoral defeat.
- 01/01/06** — In his New Year’s Day address, Taiwan president Chen Shui-bian announced that strengthening the island’s separate identity would be his top priority for the remainder of his term, along with devising a new constitution for Taiwan.
- 12/08/05** — The first two (out of four) U.S. Kidd-class destroyers sold to Taiwan arrived at Suao Naval base in northeast Taiwan. The destroyers were delivered to the Taiwan navy on October 29<sup>th</sup> from a Charleston, South Carolina, shipyard.
- 12/03/05** — The DPP was soundly defeated in Taiwan’s local elections for city mayors and county magistrates, retaining only 6 out of 23 constituencies, while the opposition KMT won 14.
- 10/20/05** — Speaking in Washington DC during a two-week U.S. trip, former Taiwan President Lee Teng-hui called on the international community to recognize Taiwan as an independent country.
- 09/25/05** — Thousands of Taiwan citizens marched through Taipei to protest the legislature’s delay in passing the “special arms budget” to purchase American weapons. Estimates of participants ranged from 15,000-50,000.
- 09/20/05** — Edward Ross, a senior Pentagon official, said it was reasonable to question whether the United States should continue to provide for Taiwan’s self-defense “if Taiwan is not willing to properly invest in its own self-defense.”
- 08/18/05** — China and Russia began an eight-day joint military exercise off the Shandong Peninsula — their largest joint military exercise in modern history, involving nearly 10,000 troops.
- 08/17/05** — Taiwan’s army and navy conducted joint military exercises designed to counter a PRC amphibious invasion and blockade.

- 08/16/05** — KMT Chairman Lien Chan announced the formal start of grass-roots exchanges between the KMT and the CCP.
- 06/29/05** — Taiwan's Cabinet approved a number of revisions to the proposed November 2003 Referendum Law, making it easier for citizens to initiate referenda.
- 06/07/05** — By a vote of 248-23, Taiwan's antiquated National Assembly approved constitutional changes, including a change calling for future constitutional amendments to be decided by an island-wide referendum.
- 05/16/05** — At the annual meeting for the World Health Organization (WHO), 33 countries objected to considering the issue of Taiwan's observer status.
- 03/14/05** — The National People's Congress (NPC) enacted an anti-secession law authorizing "non-peaceful" means to resolve the Taiwan question.

## FOR ADDITIONAL READING

CRS Report RS22388, *Taiwan's Political Status: Historical Background and Ongoing Implications*, by Kerry Dumbaugh.

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