

CRS Report for Congress

Taiwan: Recent Developments and U.S. Policy Choices

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Summary

Early in its tenure, the George W. Bush 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 in 2001 that the United States would do “whatever it takes” to help Taiwan’s defense and approved, in April 2001, 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. This 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, including establishing a House Congressional Taiwan Caucus in 2002 and Senate Taiwan Caucus in 2003.

Since then, U.S.-Taiwan relations have undergone important changes, sparked in part by the increasing complexity and unpredictability of Taiwan’s democratic political environment. The once-ruling Nationalist Party (KMT) has been handed a series of stunning defeats, in a series of elections losing both the presidency and its legislative majority to the Democratic Progressive Party (DPP). Taiwan’s President, Chen Shui-bian, has disavowed key concepts long embraced by his KMT opponents — the “status quo” that there is only one China and Taiwan is part of it — and instead has adopted the more provocative position that Taiwan already “is an independent, sovereign country,” a “status quo” he promises to maintain. But many in the electorate have appeared wary of the more strident and confrontational aspects of President Chen’s political positions. This, combined with a series of recent corruption scandals involving Chen administration officials and the president’s family members, has led to record-low approval ratings for President Chen and a growing political outcry against him. These political trends have raised anxieties about the prospects for a future political and constitutional crisis in Taiwan that could further complicate U.S. policy.

In response to Taiwan’s political developments, the Bush Administration appears to have dialed back its earlier public enthusiasm for supporting Taiwan initiatives. While still pursuing a closer U.S. relationship with 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 report replaces CRS Issue Brief IB98034, *Taiwan: Recent Developments and U.S. Policy Choices*, by Kerry Dumbaugh. This report will be updated as events warrant.

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Taiwan: Recent Developments and U.S. Policy Choices

Most Recent Developments

January 17, 2007 — The PRC's Taiwan Affairs Office announced that Taiwan-China trade had increased 18.2% in 2006 to top \$100 billion.

January 16, 2007 — Taiwan and China announced agreement to provide 96 cross-strait passenger charter flights during the Lunar New Year holiday period of February 13-26.

January 8, 2007 — Taiwan President Chen Shui-bian left Taiwan for Nicaragua to attend President Ortega's inauguration. The United States granted him transit stops in San Francisco on the front end and Los Angeles on the back end. Mexico did not allow his plane to overfly Mexican air space.

October 3, 2006 — According to a *Reuters* report, the United States temporarily blocked the sale of 66 F-16C/D fighter jets to Taiwan after the Taiwan legislature's repeated failure to pass a defense budget to purchase a 2001 U.S. weapons sales package.

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.¹ 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 specifically and toward the PRC more broadly. Other CRS reports provide

¹ 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.

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, *Taiwan’s Political Status: Historical Background and Ongoing Implications*, by Kerry Dumbaugh); and the subtle and complicated permutations of the “one-China” policy over three decades and its role in U.S. policy (CRS Report RL30341, *China/Taiwan: Evolution of the “One China” Policy — Key Statements from Washington, Beijing, and Taipei*, by Shirley A. Kan).

Background to 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.”²

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

² 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.

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 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.³

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).⁴ 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 performed a continuing and uneven 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. For a while, Chen and his advisors 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 met with a certain amount of success, the political nuances ultimately have satisfied neither Chen's "deep Green" political base nor the more moderate in the Taiwan polity. Bush Administration officials have grown increasingly concerned over the complications that the more assertive components of Chen's strategy create for U.S. policy toward China and Taiwan.⁵

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

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

⁴ 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.

⁵ 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.

clear and creative vision for Taiwan's future in the 21st century ultimately made it vulnerable to the DPP political challenge in the 2000 election.⁶ 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/PPF 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 country magistrate elections, winning a total of 14 out of 23 constituencies while the ruling DPP won only six.⁷ 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%.⁸ 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

Corruption Scandals

In recent months, the Chen administration has suffered grievous damage from allegations of corruption by President Chen's family members (including unproven allegations against his wife, Wu Shu-chen) and by government officials close to the president. The most damaging of these to date began in early May 2006, when the Taipei district prosecutor's office started investigating allegations that President

⁶ 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.

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

⁸ *United Daily News*, Dec. 4, 2005.

Chen's son-in-law, Chao Chien-min, had profited in an insider trading scheme involving the Taiwan Development Corporation. Chao was arrested on May 24, 2006. The following day, the Vice Chairman of the National Science Council was taken into custody on suspicion of a profiteering scandal involving the award of a contract to reduce vibrations from a new high-speed railway line in Taiwan County. The scandals have helped worsen Chen's abysmally low approval rating, put at 16% in one survey on May 19, 2006.⁹ In an effort to save his presidency, Chen on June 1, 2006, delegated authority for "day-to-day control" of the government to Premier Su Tseng-chang and has accepted the resignations of a number of his key advisors. Taiwan's opposition parties, however, are calling for Chen's resignation, and on June 27, 2006, held a vote on a recall initiative in the legislature. Chen survived that recall effort (it failed to get the 2/3 majority needed to pass), plus a second and a third in October and November 2006.¹⁰

"Abolishing" Unification Council and Guidelines

An earlier controversy arose in Taiwan as a result of President Chen's announcement of his decision on February 27, 2006, that Taiwan's National Unification Council (NUC) would "cease operations" and the Guidelines on National Reunification (GNR) would "cease to apply." The NUC and GNR are two initiatives strongly identified with the former KMT government. President Chen first mentioned he was considering abolishing 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 officials.¹¹ U.S. officials regarded the NUC announcement as a violation of one of five pledges to maintain the status quo that President Chen made in 2000.¹²

⁹ This result was obtained in a survey by Shih Hsin University. According to two separate polls conducted by the Chinese language daily the *China Times* and by Taipei's *United Daily News* in late June 2006, Chen's approval rating hovered in a 19%-22% range.

¹⁰ Y. F. Low, "Legislature set to vote on second motion to recall president October 13," *Central News Agency English News*, September 29, 2006.

¹¹ 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.

¹² President Chen Shui-bian's Inaugural Speech (2000), May 20, 2000. For the full text, see [<http://cns.miis.edu/straittalk/Appendix%20119.htm>]. The so-called "five noes" pledge is the following: "Therefore, as long as the CCP regime has no intention to use military force against Taiwan, I pledge that during my term in office, I will not declare independence, I will not change the national title, I will not push forth the inclusion of the so-called "state-to-state" description in the Constitution, and I will not promote a referendum to change the status quo in regards to the question of independence or unification. Furthermore, the abolition of the National Reunification Council or the National Reunification Guidelines

(continued...)

President Chen's NUC statement sparked controversy and policy conflicts in Taiwan and irritation in the United States. 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.¹³ 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. The DPP's Central Standing Committee voted on February 22, 2006, to endorse the NUC's abolishment.¹⁴ Chen reportedly made his final decision that the NUC and GNR should "cease" at a special meeting of Taiwan's National Security Council on February 27, 2006.¹⁵ The softer formulation of the language in Chen's February 27, 2006 decision was 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 said could result in a "non-peaceful" response by Beijing.¹⁶ When some press accounts surrounding the announcement quoted some Taiwan officials as saying there was no difference between the NUC being "abolished" and its "ceasing to function," the State Department issued a rare written statement (March 2, 2006) saying it expected the Taiwan authorities to "unambiguously" and publicly clarify that the NUC had *not* been abolished but that it continued to exist, and that Chen Shui-bian reaffirmed his assurances to maintain the status quo. These assurances were not given until June 8, 2006, when President Chen issued them publicly to Raymond Burghardt, the chairman of the de facto U.S. office for Taiwan, the American Institute in Taiwan (AIT).

Critics maintained that the NUC decision was a dangerous and unnecessary provocation to Beijing, that it violated President Chen's 2000 inaugural pledge of not seeking to abolish the NUC, and that it unilaterally changed the "status quo" in the Taiwan Strait. Supporters of the President's statement asserted that Beijing's increasing missile deployments opposite Taiwan and its adoption of an "Anti-Secession Law" (see below) violated the "no use of force" condition under which Chen's original pledge was made. These PRC moves, Chen's supporters said, had already changed the status quo in the Strait.

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

¹² (...continued)
will not be an issue."

¹³ 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.

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

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

¹⁶ Chang, S.C., "PRC scholar warns of 'non-peaceful response' to Chen's NUC game," *Central News Agency*, February 23, 2006.

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.¹⁷

PRC Anti-Secession Law

President Chen and his supporters 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.¹⁸ 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

¹⁷ For the full text of the guidelines, see [<http://cns.miis.edu/straittalk/Appendix%2059.htm>]

¹⁸ The measure was adopted by the PRC's National People's Congress.

consideration of the arms procurement budget for purchasing much of the U.S. arms package.¹⁹ 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.²⁰ 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.”²¹ 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.²² 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.²³

¹⁹ 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.

²⁰ “Security through procurement? The debate over Taiwan’s defense spending,” Carnegie Endowment for International Peace, October 27, 2005.

²¹ The text of the 2003 DOD report is at [<http://www.defenselink.mil/pubs/20030730chinaex.pdf>].

²² 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.

²³ Minnick, Wendell, “Taiwan claims U.S. Navy is sabotaging SSK plans,” in *Jane’s Defence Weekly*, February 15, 2005.

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 Taiwan's internal political divisions and further isolate President Chen.²⁴ 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.²⁵ 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

Succeeding Taiwan governments since 1987 incrementally have eased long-standing restrictions on contacts with the PRC. The most significant of these decisions occurred on June 14, 2006, when Taiwan and China simultaneously announced that they had reached agreement to allow up to 168 direct annual round-trip charter passenger flights between China and Taiwan, shared evenly between mainland and Taiwan airlines, during four public holidays and for other special occasions.²⁶ On January 16, 2007, both governments announced agreement to allow 96 cross-strait passenger charter flights during the Lunar New Year holiday from February 13-26, 2007.

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

²⁴ “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.

²⁵ 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.

²⁶ The four holidays are: Lunar New Year, Tomb Sweeping Day, the Dragon Boat Festival, and the Mid-Autumn Festival.

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, both the PRC and Taiwan governments have made selected overtures and statements in recent years that some interpret 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 urged the PRC to drop its opposition to negotiating with his administration. In May 2002, President Chen announced he would send a DPP delegation to Beijing to establish contacts between the DPP and the Chinese Communist Party.

The PRC also has softened 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. 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 has continued its missile build-up along the south China coast opposite Taiwan, now deploying about 800 missiles.

On January 29, 2005, Taiwan and the PRC launched the first non-stop (although temporary — only during the weeks surrounding the Lunar New Year holiday on February 9, 2005) direct charter flights flown in 55 years between the two adversaries. With the PRC's enactment of the anti-secession law in March 2005, Taiwan officials put a temporary hold on further direct-flight talks. On November 18, 2005, this suspension was lifted, and Taiwan and the PRC reached agreement to offer cross-strait flights for the Lunar New Year from January 20-February 13, 2007.

Private-Sector Exchanges. Meanwhile, unofficial Taiwan-PRC contacts and economic ties have grown increasingly robust in the past decade. Over 13 million visits have taken place from Taiwan to the mainland. Over 250,000 mainland Chinese experts, entrepreneurs, and others have traveled to Taiwan for consultations and exchanges. Exchanges of PRC-Taiwan scholars and experts for consultations on cross-strait and other issues provide, in the view of some Taiwanese officials, an active "second track" for PRC-Taiwan dialogue. Other events in cross-strait relations

have included the decision by oil companies in the PRC and Taiwan to explore jointly offshore areas for oil; the start of flights from Taiwan to the mainland with only a short stopover in Macao or Hong Kong; and Taiwan's opening to third-country ships, and selected mainland and Taiwanese ships, to carry cargo to and from designated ports in Taiwan and on the mainland.

Economic and Trade Issues

Taiwan's economy grew rapidly (around 10% a year) in the 1970s and 1980s. Growth declined to around 5-6% a year in the 1990s as the economy matured. During the first years of the 21st century, however, the Taiwan economy experienced a serious slowdown. GDP growth for 2001 contracted by 2.2% — Taiwan's first economic contraction in 26 years. Exports were down 13.6% in the first seven months of 2001, while the unemployment rate hovered at around 5%. Experts blamed these economic difficulties on the global economic downturn, reduced U.S. demand for Taiwan's information technology exports, and the sizeable transfer of the island's manufacturing base to the PRC.

Even with the official restrictions that Taiwan continues to maintain on investment and trade with mainland China, Taiwan businesses are increasingly invested across the strait, although the exact figures remain unclear. Taiwan-China trade has also increased dramatically over the past decade, so that China (along with Hong Kong) now has surpassed the United States as Taiwan's most important trading partner. According to one report, statistics show Taiwan's total bilateral trade with the PRC rose to \$61.64 billion in 2004 — a 33.1% increase over 2003.²⁷

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.²⁸ 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

²⁷ 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.

²⁸ For instance, there are reportedly about 300,000 Taiwan citizens now living and working in Shanghai.

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 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 in poultry since 2004, although apparently with a less virulent strain 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, 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 WHO countries objected to considering the issue on May 22, 2006, 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 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...”²⁹

Taiwan’s unpredictable and volatile political environment has posed special challenges for this White House balancing act. During Taiwan’s presidential and legislative campaigns in 2004, the Administration continued to balance criticisms of the PRC military buildup opposite Taiwan with periodic warnings to the Taiwan government to avoid provocative actions and cautions that U.S. support for Taiwan is not unconditional.³⁰ Administration officials are thought to have been particularly miffed by the National Unification Council controversy in the spring of 2006, which caught U.S. officials by surprise and raised new concerns for the White House about the credibility of the Chen administration. The uncharacteristically pointed language in the State Department’s written March 2, 2006 statement directed at Taiwan appears to validate this view.³¹

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 reevaluated and have sought U.S. support for Chen’s constitutional reform plans. In the month between Chen Shui-

²⁹ 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.

³⁰ “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.

³¹ The March 2 statement reads: “We have seen reports that senior Taiwan officials have said, with respect to the National Unification Council, that there is no distinction between ‘abolish’ and ‘ceasing activity’ and that the effect of Taiwan’s action earlier this week was to abolish the Council. We have been informed, however, that the reports misquoted Taiwan officials. We expect the Taiwan authorities publicly to correct the record and unambiguously affirm that the February 27 announcement did not abolish the National Unification Council, did not change the status quo, and that the assurances remain in effect. Our understanding from the authorities in Taiwan was that the action Taiwan took on February 27 was deliberately designed not to change the status quo, as Chen Shui-bian made clear in his 7-point statement. Abrogating an assurance would be changing the status quo, and that would be contrary to that understanding. We believe the maintenance of Taiwan’s assurances is critical to preservation of the status quo. Our firm policy is that there should be no unilateral change in the status quo, as we have said many times.”

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.

Faced with 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.

Chronology

- 01/17/07** — The PRC's Taiwan Affairs Office announced that Taiwan-China trade had increased 18.2% in 2006 to top \$100 billion.
- 01/16/07** — Taiwan and China announced agreement to provide 96 cross-strait passenger charter flights during the Lunar New Year holiday period of February 13-26.
- 01/08/07** — Taiwan President Chen Shui-bian left Taiwan for Nicaragua to attend President Ortega's inauguration. The United States granted him transit stops in San Francisco on the front end and Los Angeles on the back end.

- 10/03/06** — According to a *Reuters* report, the United States temporarily blocked the sale of 66 F-16C/D fighter jets to Taiwan after the Taiwan legislature's repeated failure to pass a defense budget to purchase a 2001 U.S. weapons sales package.
- 06/28/06** — The House agreed by voice vote to the Tancredo Amendment to H.R. 5672, prohibiting funds from being used to enforce long-standing guidelines on U.S. official relations with Taiwan.
- 06/27/06** — An insufficient 2/3 majority having voted in the affirmative, Taiwan's legislature rejected a recall petition for President Chen Shui-bian.
- 06/08/06** — The State Department issued a press statement expressing U.S. pleasure at President Chen Shui-bian's "public reaffirmation" on June 8 of his promises to the United States to make no changes in the status quo and to exclude any sovereignty measures in a revision of Taiwan's constitution. The statement said the United States "attaches profound importance" to the pledges.
- 06/07/06** — Raymond Burghardt, chairman of the American Institute in Taiwan (AIT), arrived in Taiwan for discussions concerning Taiwan's political situation.
- 03/22/06** — In a 10-day U.S. visit, KMT chairman and Mayor of Taipei City Ma Ying-jeou visited Washington, unveiling his "five do's" proposal for improving cross-strait ties.
- 03/02/06** — State Department spokesman Adam Ereli issued a written statement saying that the United States expected the Taiwan authorities to unambiguously and publicly clarify that the NUC had not been abolished, the status quo had been maintained, and that Chen Shui-bian's assurances were still in force.
- 02/27/06** — Chen Shui-bian announced his decision that the NUC would "cease operations" and the NGU would "cease to apply."
- 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 29th 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.
- 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.
- 06/07/05** — By a vote of 248-23, Taiwan’s antiquated National Assembly approved constitutional changes, including a measure permitting some future changes to be decided by an island-wide referendum.
- 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 RL33684, *Taiwan-U.S. Political Relations: New Strains and Changes*, by Kerry Dumbaugh.

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