

CRS Report for Congress

Taiwan: Overall Developments and Policy Issues in the 109th Congress

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Summary

U.S. officials saw relations with Taiwan as especially troubled during the 109th Congress in 2005-2006, beset by the increasing complexity and unpredictability of Taiwan's democratic political environment as well as by PRC actions underscoring Beijing's assertion that it had the right to use force to prevent Taiwan independence. In his second term that began in 2004, Taiwan's President, Democratic Progressive Party (DPP) member Chen Shui-bian, increasingly flouted commitments made to U.S. officials and disavowed key concepts long embraced by his Nationalist Party (KMT) opponents — the “status quo” that there is only one China and Taiwan is part of it — and instead adopted the more provocative position that Taiwan's “status quo” is that it already is an independent, sovereign country.

Two developments concerning Taiwan were particularly nettlesome to U.S. policymakers in 2005-2006. The first was Beijing's enactment on March 14, 2005, of a ten-article “anti-secession law” aimed at reining in Taiwan independence advocates. While much of the law spoke 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 authorized the use of “non-peaceful means” to reunify Taiwan with China. U.S. officials termed the PRC anti-secession law counterproductive, particularly given improvements in a range of Taiwan-China contacts since December 2004.

The second irritant was President Chen's decision early in 2006 to scrap two defunct but politically important symbols: the National Unification Council (NUC) and the Guidelines on National Reunification (GNR). Chen's original statement to this effect, made on January 29, 2006, was a surprise to U.S. officials, who responded by publicly reiterating the U.S. “one-China” policy and by exerting behind-the-scenes pressure in Taiwan to forestall the action. But President Chen toughened his rhetoric in ensuing weeks and 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. Chen linked this decision specifically to the PRC's anti-secession law targeting Taiwan.

In response to these two events and to other political developments in Taiwan (notably a series of corruption scandals involving Chen administration officials and the president's family members, leading to plummeting political support), the Bush Administration appeared to dial back its original public enthusiasm for supporting Taiwan initiatives. While still pursuing a closer U.S. relationship with Taiwan, U.S. officials and some Members of Congress spent 2005-2006 balancing criticisms of the PRC military buildup opposite Taiwan with periodic cautions and warnings to the effect that U.S. support for Taiwan was not unconditional, but had limits. This report will no longer be updated.

Contents

Introduction	1
Key Issues During the 109 th Congress	1
PRC Anti-Secession Law	1
Abolishing the National Unification Council and Guidelines	2
U.S. Expectations for Clarification	3
History of the NUC	3
Decision-making Process and Motivations	4
Criticism and Other Reactions	5
Disappearance of the “No Force” Pre-condition	6
“Constitutional Re-engineering”	7
New Electoral Rules	7
State-Run Enterprise Name Changes	8
Taiwan Corruption Scandals	8
Economic and Trade Relations	9
Taiwan-U.S. Trade and Investment	9
U.S. Arms Sales to Taiwan and Taiwan Defense Budget	9
Taiwan-Mainland Relations	11
Increased Contacts	11
Private Sector Exchanges	11
Opposition Party (KMT) Visits to China	12
Policy Trends in 2005-2006	12
Taiwan Provocations	13
Increasing Pressure for U.S. Involvement	13
Legislation	14
Appendix: Chronology of Key Developments 2005-2006	17

Taiwan: Overall Developments and Policy Issues in the 109th Congress

Introduction

Taiwan-U.S. relations during the 109th Congress in 2005-2006 continued to be plagued by a number of factors, including: mistrust between the Bush and Chen Administrations; adoption of an “Anti-Secession Law” by the People’s Republic of China (PRC) aimed at Taiwan; growing PRC missile deployments opposite the Taiwan coast; actions by President Chen Shui-bian’s administration that were increasingly provocative to the PRC; corruption scandals involving senior Taiwan administration officials; a decline in the extent to which Taiwan appeared willing to fulfill U.S. expectations about its own self-defense; and the sheer volatility in Taiwan’s domestic political environment. These and other issues posed challenges to U.S. policy and Members of Congress. For additional information on U.S.-Taiwan relations, see CRS Report RL33684, *Underlying Strains in Taiwan-U.S. Political Relations*; and CRS Report RL30957, *Taiwan: Major U.S. Arms Sales Since 1990*.

Key Issues During the 109th Congress

PRC Anti-Secession Law

Early during the 109th Congress, on March 14, 2005, the PRC adopted a ten-article “anti-secession law” aimed at reining in Taiwan independence advocates.¹ While much of the PRC law adopted then 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’s “anti-secession law” counterproductive, particularly given improvements in a range of Taiwan-China

¹ The measure was adopted by the PRC’s National People’s Congress. For the full text, see [<http://www.china.org.cn/english/20051h/122724.htm>].

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. Chen's 2006 decision to abolish the NUC and its guidelines was the first policy decision he specifically linked to the 2005 PRC anti-secession law.

Abolishing the National Unification Council and Guidelines

Many observers saw Taiwan President Chen Shui-bian as having shifted his policy stance beginning in 2006 in favor of more active pro-independence positions that were aggravating to Beijing and problematic for U.S. policy. One key such controversy during the 109th Congress came as a result of President Chen's announcement on February 27, 2006, that Taiwan's National Unification Council (NUC) would "cease operations" and the Guidelines on National Unification ("the Guidelines") would "cease to apply."

President Chen first mentioned he was considering scrapping the NUC and the Guidelines on January 29, 2006. That statement was a surprise to U.S. officials, who responded by publicly reiterating the U.S. "one-China" policy.² 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.³ 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.⁴ 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, 2006.⁵

In the weeks following President Chen's initial statement, there were widespread press reports, which remained officially unconfirmed, that the White House had quietly sent at least two and perhaps four special envoys to Taiwan to

² The United States officially reiterated its policy in a press statement on January 30, 2006, listed at [<http://www.state.gov/r/pa/prs/ps/2006/60047.htm>].

³ 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.

⁴ Dickie, Mure and Hille, Kathrin, Taiwan's president labels unification body 'absurd'," *Financial Times*, Asia, February 23, 2006, p. 2.

⁵ Chang, S.C. "President decides to cease NUC's operation," *Central News Agency*, February 27, 2006.

express grave U.S. concerns and to seek to head off the NUC decision.⁶ While this effort reportedly proved unsuccessful, the softer formulation of the language in Chen's February 27, 2006 announcement — that the NUC and GNU would “cease” functioning — was seen as a compromise worked out with Washington to assuage 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.⁷ According to one Taiwan news report, the compromise language was reached on February 25, 2006, after “several weeks” of negotiations between Washington and Taipei.⁸

U.S. Expectations for Clarification. In the days after President Chen announced the “compromise” position on the NUC, Taiwan news accounts and a story by the Voice of America (later corrected) reported that some key Taiwan officials were maintaining that there was no difference between “cease to function” and “abolish.” Reacting to the press accounts, U.S. officials issued a highly unusual written statement on March 2, 2006, stating “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 [and] did not change the status quo....”⁹ According to a State Department official, the March 2 statement, along with an earlier January 30 statement, represent the “coordinated, fully cleared viewpoints” of the United States on the NUC decision.¹⁰ President Chen did not provide these assurances until June 8, 2006, when he issued them publicly to Raymond Burghardt, the chairman of the de facto U.S. office for Taiwan, the American Institute in Taiwan (AIT).

History of the NUC. Long non-functional (the NUC last met in 1999), the NUC and GNU had 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 (meaning the Republic of China, not the PRC) and laid out the process by which unification with China should be achieved. Although prospects for implementing the guidelines

⁶ Reports have named the two as National Security Council Asia specialist Dennis Wilder and State Department Taiwan officer Clifford Hart. Tkacik, John, “Chen lets off steam,” *Wall St. Journal Asia*, March 1, 2006, p. 13.

⁷ Chang, S.C., “PRC scholar warns of ‘non-peaceful response’ to Chen's NUC game,” *Central News Agency*, Taipei, February 23, 2006.

⁸ Cody, Edward and Faiola, Anthony, “Chen plans debate on Taiwan charter,” *Washington Post*, p. A13, March 14, 2006. After his January 29th statement, President Chen asked Taiwan's National Security Council (NSC) to study the proposal and report to him on the political and legal ramifications by February 27, 2006. The NSC proposed that the NUC should cease to function.

⁹ The statement was released by Deputy Spokesman Adam Ereli on March 2, 2006. Full text can be found at [<http://www.state.gov/r/pa/prs/ps/2006/62488.htm>]

¹⁰ Author's conversation with a State Department Taiwan expert, March 10, 2006.

seemed remote (among other things, the initial phase required 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.¹¹ When Chen Shui-bian became the first pro-independence DPP party candidate elected as Taiwan’s president in 2000, he pledged five things, including that the abolishment of the National Unification Council and Guidelines “will not be an issue.”

Decision-making Process and Motivations. It is not certain whether the NUC decision grew out of a quiet, deliberative decision-making process within a close group in the DPP “pan-green” coalition or whether it was born wholly intact on January 29, 2006, when President Chen made his original reference to scrapping the advisory body. What is clear is that Chen’s January 2006 statement appeared to catch most observers by surprise, including high-ranking members of the DPP. The United States officially stated that it had not been informed or consulted prior to Chen’s statement.¹² Taiwan’s Premier Su Tseng-chang, addressing the Legislative Yuan (LY) about the NUC decision, told Taiwan lawmakers that he had known nothing about the president’s plans to scrap the NUC before Chen’s public proposal to do so over the Chinese New Year.¹³ Vice President Annette Lu publicly denied any involvement in the NUC decision-making process.¹⁴

In another development suggesting that the NUC statement was largely a Chen initiative, Taiwan officials and other observers initially offered multiple and somewhat inconsistent arguments in response to the Chen announcement. On February 1, 2006, Foreign Minister Huang Chih-fang described Chen’s January announcement as a response to a recent LY resolution demanding the dissolution of all ad-hoc commissions with no legal basis.¹⁵ DPP Chairman Yu Shyi-kun reportedly argued that “The abolition [of the NUC] serves to help maintain the cross-strait status quo.”¹⁶ (The DPP’s Central Standing Committee voted on February 22, 2006, to endorse the NUC’s abolishment.¹⁷)

Likewise, President Chen’s motivations for the NUC decision were the subject of much speculation. Some argued they were primarily driven by domestic political

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

¹² In a January 30, 2006 press briefing, Deputy State Department spokesman Adam Ereli responded to a question on the statement with, “we certainly weren’t expecting it and we weren’t consulted about it. So I’d say it was a surprise.”

¹³ The Premier reportedly made that comment on March 6, 2006 in response to a question by Legislator Su Chi. “Opposition says Taiwan has ‘puppet Cabinet,’” *The China Post*, March 7, 2006.

¹⁴ Ko Shu-ling, “NUC like something rotten in the fridge: Lu,” *Taipei Times*, March 9, 2006.

¹⁵ Wu, Sofia, “Chen’s speech has nothing to do with status quo change: Minister,” *Central News Agency English News*, February 1, 2006.

¹⁶ “DPP resolves to call for abolition of NUC,” *China Post*, February 23, 2006.

¹⁷ Dickie, Mure and Hille, Kathrin, Taiwan’s president labels unification body ‘absurd,’” *Financial Times*, Asia, February 23, 2006, p. 2.

concerns, pointing out that both Chen's and the DPP's popularity ratings had sunk to dismal levels in 2005 while opposition KMT chairman Ma Ying-jeou's had soared. The NUC decision, according to this view, undermined the KMT politically and enhanced Chen's own stature with the DPP's radical base.¹⁸ Others claimed that the NUC decision was just another demonstration of President Chen's propensity for "calibrated provocation" on issues involving the PRC and Taiwan's political status.¹⁹ Whatever the motivations, the NUC decision appeared to serve multiple purposes: it reminded both the PRC and the United States that Taiwan is an independent actor with its own policy agenda; by redefining the public political debate, it distracted attention from the DPP's poor showing in local December 2005 elections; and it put the KMT on the political defensive.

Criticism and Other Reactions. Members of the "pan-blue" KMT opposition coalition denounced the NUC decision as an unnecessary provocation to Beijing and a strain on U.S.-Taiwan relations. KMT head and potential presidential candidate Ma Ying-jeou accused Chen of ignoring important economic and social problems in his focus on sovereignty issues.²⁰ The KMT initiated the first of several recall petitions for President Chen for a vote in the Legislative Yuan, while the People First Party (PFP) announced it would appeal to the Council of Justices to impeach the president. The KMT also held a mass parade on March 12, 2006, to protest the NUC decision.

Not surprisingly, PRC officials warned President Chen not to abolish the NUC and strongly criticized his ultimate decision to cease its operations, saying it was "a dangerous step toward the path of Taiwan independence."²¹ By many accounts, though, PRC reaction to the NUC decision was muted when compared to Beijing's previous reactions to provocative developments in Taiwan. In a statement on February 26, 2006, for instance, the PRC's Taiwan Affairs Office repeated the warnings against moving toward independence that it had made in a 2004 statement criticizing Chen Shui-bian's re-election, but it avoided repeating the earlier statement's threat to "crush [moves toward independence] at any cost."²² According to some accounts, PRC officials appeared to be counting on U.S. pressure to mitigate President Chen's actions. In response to a U.S. reaffirmation of the "one-China" policy, for instance, a Foreign Ministry spokesman on February 28, 2006, urged the United States to "take practical actions" to oppose independence initiatives in Taiwan

¹⁸ "This is the situation in Taiwan..." *The China Post*, March 8, 2006.

¹⁹ "A calibrated provocation: Taiwan and China," *The Economist*, March 4, 2006

²⁰ Han Nai-kuo, "KMT head urges president to focus on improving people's livelihood," *Central News Agency English*, March 5, 2006.

²¹ In FBIS OSC Analysis: "PRC condemns Chen's scuttling of NUC, looks to U.S. for support," CPF20060301329001, February 28, 2006, citing a *Xinhua* reference to a statement by President Hu Jintao on February 28, 2006.

²² FBIS "PRC warns Chen on plan to abolish NUC," CPF20060227515022, February 27, 2006.

and to “refrain from sending the wrong signals to Taiwan independence separatist forces.”²³

Other critics of the NUC decision maintained that “ceasing operations” of the NUC violated President Chen’s 2000 inaugural pledge and was a dangerous and unnecessary provocation to Beijing that unilaterally changed the “status quo” in the Taiwan Strait. But the decision’s supporters asserted that Beijing’s increasing missile deployments opposite Taiwan and its adoption of an “Anti-Secession Law” in 2005 (see below) violated the “no use of force” condition under which Chen’s original pledge of 2000 was made. The NUC decision re-energized the “deep greens” in Taiwan — those who strongly favor independence — who began calling for the establishment of an “Anti-Annexation Commission” and who staged a series of mass parades under the theme “Defending Democracy and Opposing Annexation.”²⁴

U.S. policymakers repeatedly affirmed their belief that the NUC had not been abolished, merely frozen.²⁵ But some U.S. policymakers wondered about the prospects for other unexpected Taiwan policy initiatives, particular further moves away from the “five noes” pledge. Some suggested, as did Senator John Warner at a hearing of the Senate Armed Services Committee, that “if conflict were precipitated [in the Taiwan Strait] by just inappropriate and wrongful politics generated by the Taiwanese elected officials, I’m not entirely sure that this nation would come full force to their rescue if they created that problem.”²⁶ According to U.S. officials, the central issue for American policy throughout the NUC remained the credibility of the Taiwan government’s past and repeated promises, sometimes referred to as the “five no’s” or the “four no’s and one without,” to abstain from changes to the “status quo.”²⁷

Disappearance of the “No Force” Pre-condition. In the wake of the NUC decision, Taiwan officials began emphasizing what they termed the “pre-condition” (if Beijing did not intend to use military force against Taiwan) that accompanied Chen’s 2000 “five no’s” pledge. President Chen himself, in an

²³ FBIS op. cit., February 28, 2006.

²⁴ Taiwan Solidarity Union (TSU) legislator Tseng Tsahn-deng called on President Chen to form the commission in a press conference at the Legislative Yuan on March 8, 2006, saying that “the president’s decision to cause the National Unification Council to cease to function doesn’t go far enough.” Shi Hsiu-chuan and Jewel Huang, “TSU asks Chen to form ‘Anti-Annexation Commission,’” *Taipei Times*, March 9, 2006.

²⁵ Former Deputy Secretary of State Richard Armitage echoed these U.S. sentiments after a March 2006 trip to Taiwan, saying that in the U.S. view the NUC could “re-function again” if necessary. “U.S. thinks NUC not abolished,” *The China Post* English, March 10, 2006.

²⁶ From the Senator’s statement at a hearing of the Senate Armed Services Committee on March 7, 2006, in response to a comment by Admiral William J. Fallon, USN Commander U.S. Pacific Command, that the United States was “trying to walk a thin line” on the Taiwan issue.

²⁷ Author’s conversation on March 6, 2006, with an official of the U.S. Department of State.

interview with a Japanese newspaper, reportedly said that the “pre-condition” for the “five no’s” already had disappeared: “China legislated the Anti-Secession Law last year to lay the legal groundwork for an armed invasion of Taiwan. In the past six years, China’s intention to launch an armed attack has become very clear.”²⁸ Others in Taiwan echoed this sentiment more strongly, saying that “Now that one of the ‘five no’s’ has disappeared, so do the remaining four.”²⁹ This argument raised difficult challenges for U.S. policymakers who repeatedly emphasized the U.S. expectation that the status quo be maintained and that Chen abide by his pledges.

“Constitutional Re-engineering.” Another potential implication of the NUC decision in 2005-2006 concerned constitutional reform — one of six reform priorities President Chen had advanced for the remainder of his term. The issue was particularly sensitive as constitutional reform offered a number of opportunities for changing the status quo, including: enshrining the “state-to-state” formula and making changes to the official name of the Republic of China (violating two of President Chen’s remaining “four no’s”); changing Taiwan’s official borders and flag; and adopting a new constitution for a “Republic of Taiwan.”

Although President Chen and other Taiwan officials reiterated that constitutional reform would follow specified procedures and would not make changes to the political status quo,³⁰ other Taiwan officials suggested more radical changes might be possible — such as deleting reference to “unification” in the constitution; adding a section forbidding changes to Taiwan sovereignty, including forbidding PRC “annexation”; and permitting a referendum on Taiwan independence or unification (another of President Chen’s “five no’s” pledges).³¹ On March 13, 2006, President Chen told the *Washington Post* that in constitutional reform, “we should adopt an open attitude regarding these sensitive issues of whether to change the national moniker, national territory, or national flag.”³²

New Electoral Rules

In 2005, Taiwan adopted new electoral rules for its legislature, adopted under an amendment to Taiwan’s constitution. The new rules, scheduled to go into effect for legislative elections in January 2008, halved the size of the legislature to 113 members from its former size of 225 and increased the term of office from three

²⁸ Interview conducted by Kiichiro Wakayama for Tokyo *Yomiuri Shimbun*, published March 4, 2006. Translation gist in FBIS, JPP 20060306026001.

²⁹ Quote by Huang Chao-tan, president of the Taiwan Independence Alliance, Opposition lawmakers decided to freeze an arms purchase from the United States...” *The China Post*, March 2, 2006.

³⁰ On March 5, 2006, Vice Premier Tsai Ing-wen stated that President Chen would not violate his ‘five no’ promises, including not declaring independence and not changing Taiwan’s name. Wu, Sofia, “China’s offer to contact die-hard pan-greens helpful,” *Central News Agency*, March 5, 2006.

³¹ DPP Legislator Wang Hsin-nan made the proposals in a meeting on drafting a new constitution.

³² Transcript of *Washington Post* interview on March 13, 2006.

years to four. The new rules also instituted a new single-member district system employing two ballots for voters, similar to systems used in Germany and Japan: one to be cast for a candidate and one to be cast for a political party. The new system was thought to favor larger, well-organized parties and to put smaller parties and fringe elements at a disadvantage.

State-Run Enterprise Name Changes

In another provocative move, in August-September 2006, Taiwan's Premier disclosed that the government would be changing the name of Taipei's Chiang Kai-shek International Airport to the "Taiwan Taoyuan International Airport" as a result of a proposal put forward by the Ministry of Transportation and Communications.³³ After that, the government continued a quiet and intermittent campaign to replace references to "China" with "Taiwan" on Taiwan's postage stamps and in the names of Taiwan's state-run entities — such as China Shipbuilding Corporation (changed to CSBC Corp., Taiwan) and Chinese Petroleum Corporation (to "CPC Corp., Taiwan). The campaign, called the "rectification campaign," was criticized by both the KMT opposition party and by former President Lee Teng-hui of the pro-independence Taiwan Solidarity Union (TSU) party as well as by U.S. officials.

Taiwan Corruption Scandals

In 2006, the administration of President Chen Shui-bian suffered grievous damage from allegations of corruption by President Chen's family members (including allegations against his wife, Wu Shu-chen) and by government officials close to the president. The most damaging of these began in early May 2006, when the Taipei district prosecutor's office started investigating allegations that President Chen's son-in-law, Chao Chien-ming, 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 helped worsen Chen's abysmally low approval rating, put at 16% in one survey on May 19, 2006.³⁴ 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 accepted the resignations of a number of his key advisors. Taiwan's opposition parties, however, called 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 of 147 votes needed to pass), as well as a second on October 13, 2006 (receiving 116 votes) and a third on November 24, 2006 (which received 118 votes).

³³ Premier Su Tseng-chang, in "Taiwan pushes for renaming of Chiang Kai-shek Airport," *Asia Pulse*, September 1, 2006.

³⁴ 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.

Economic and Trade Relations

Taiwan-U.S. Trade and Investment. Taiwan was the United States' ninth-largest overall trading partner, with two-way trade in 2006 valued at \$62 billion, and the sixth-largest destination for U.S. agricultural exports, about \$2.5 billion annually. In addition to agricultural goods, Taiwan's U.S. imports included industrial raw materials and machinery and equipment; its exports to the United States were largely electronics and consumer goods. Once Taiwan's largest trading partner, the United States was surpassed by China and Japan and is now Taiwan's third-largest trading partner, supplying 11% of Taiwan's imports and absorbing 14% of its exports. The U.S. trade deficit with Taiwan increased by 19% from 2005-2006, reaching \$15.2 billion in 2006.³⁵

Special 301 Watch List. Taiwan has struggled for years with serious problems protecting intellectual property rights (IPR). As a result, during the 109th Congress in 2005-2006 Taiwan remained on the U.S. "Special 301 Watch List" pursuant to provisions of the Trade Act of 1974. The U.S. Trade Representative (USTR), however, determined that the Taiwan government continued to make progress in improving its IPR regime in 2005-2006. In particular, Taiwan amended its pharmaceutical law in 2005 to provide protection against unfair commercial use of test data that pharmaceutical companies submitted for market approval, and it increased raids and seizures against producers of counterfeit goods.

Free Trade Agreement (FTA). As it had in past years, Taiwan continued to seek a Free Trade Agreement (FTA) with the United States during 2005-2006, arguing that its status as a major trading partner of the United States justified an FTA on economic grounds. President Chen and other Taiwan officials also made the case that Taiwan needed an FTA with the United States to counteract China's growing economic dominance. U.S. officials cited a number of obstacles to an FTA with Taiwan over the near term — not only trade matters, such as Taiwan's poor record on intellectual property rights (IPR), but also complicated political issues involving both Taiwan's and U.S. relations with the PRC. Taiwan's FTA aspirations had supporters in the 109th Congress, several of whom introduced measures regarding an FTA for Taiwan.³⁶

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

Taiwan's inability to take full advantage of a substantial U.S. military support package approved for sale in 2001 became an increasing irritant in Taiwan-U.S.

³⁵ According to the American Institute in Taiwan (AIT) in 2008, [<http://www.ait.org.tw/en/economics/>]

³⁶ H.Con.Res. 342, (Rep. Andrews), introduced on February 15, 2006; H.Con.Res. 346 (Rep. Ramstad), introduced on February 16, 2006; December 18, 2007; and S.Con.Res. 84 (Sen. Kyl), introduced on March 28, 2006, all expressed congressional support for the opening of FTA negotiations with Taiwan.

relations during the 109th Congress.³⁷ Political infighting blocked legislative consideration of the arms procurement budget for purchasing much of the U.S. arms package.³⁸ In particular, members of the opposition “Pan Blue” coalition in Taiwan’s Legislative Yuan lodged objections over: the multi-billion (U.S.) dollar cost of the package (which the Taiwan government had pared back on several occasions in an effort to win support); whether the types of weapons in the package met Taiwan’s defense needs; the compatibility of the proposed purchases with Taiwan’s military; and whether Taiwan companies could benefit or participate. In addition, some members in the “Pan-Blue” opposition objected 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 Legislative Yuan’s continued boycott of the special defense budget was jeopardizing Taiwan’s future.³⁹

As early as 2002, U.S. officials had begun 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 to the 109th Congress, the balance of military power in the Taiwan Strait was steadily tipping further in the direction of PRC superiority.⁴⁰ As the defense budget stalemate in Taiwan continued, some U.S. officials and Members of Congress began to question Taiwan’s level of commitment to its own defense, implying that perhaps U.S. policy should be reassessed accordingly.⁴¹ U.S. military experts in 2005-2006 reportedly grew more concerned about the prospect of conflict scenarios in the Taiwan Strait that unfold faster than the United States’ ability to respond — scenarios that place further importance on the

³⁷ For further information, see CRS Report RL30957, *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley Kan.

³⁸ 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.

³⁹ For a more complete discussion, see CRS Report RL30957, *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley Kan.

⁴⁰ For text of the 2005 DOD report, see [<http://www.defenselink.mil/news/Jul2005/d20050719china.pdf>].

⁴¹ 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. “Perhaps because America has moved with speed to meet the new [PRC military] challenge, many of Taiwan’s friends in the United States regret that Taipei has failed to respond in kind.” Statement by Clifford Hart, Jr., Director, Office of Taiwan Coordination, Department of State, in remarks to the U.S.-Taiwan Business Council Defense Industry Conference, September 12, 2006.

preparedness of Taiwan's own military forces.⁴² Members of the 109th Congress acted on their own concerns, in several instances writing letters to Taiwan officials urging an end to the impasse on the special defense budget or an increase in Taiwan's regular defense spending. Criticism also came from the Taiwan side, as Taiwan officials periodically 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.⁴³

Taiwan-Mainland Relations

Increased Contacts. Succeeding Taiwan governments since 1987 incrementally have eased long-standing restrictions on contacts with the PRC. Several significant such decisions during the 109th Congress involved establishment of direct charter flights between the PRC and Taiwan. 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, 2006. On June 14, 2006, 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.⁴⁴ The flights began with the 2006 Mid-Autumn Festival.

Private Sector Exchanges. Meanwhile, unofficial Taiwan-PRC contacts and economic ties continued to grow during the 109th Congress. Even with the official restrictions maintained on investment and trade with mainland China, Taiwan businesses were increasingly invested across the strait, although the exact figures remained unclear. Taiwan-China trade also increased dramatically during this period, so that China (along with Hong Kong) came to surpass the United States as Taiwan's most important trading partner. According to Taiwan's Bureau of Foreign Trade, Taiwan's total bilateral trade with the PRC reached \$64.44 billion from January — September 2006, accounting for 20.4% of Taiwan's total foreign trade.⁴⁵

This increasing economic interconnectedness with the PRC put special pressure on Taiwan's DPP government in 2005-2006 to further accommodate the Taiwan

⁴² Interview with former U.S. Government official, July 5, 2006.

⁴³ Minnick, Wendell, "Taiwan claims U.S. Navy is sabotaging SSK plans," in *Jane's Defence Weekly*, February 15, 2005.

⁴⁴ The four holidays are: Lunar New Year, Tomb Sweeping Day, the Dragon Boat Festival, and the Mid-Autumn Festival.

⁴⁵ 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.

business community by easing restrictions on direct travel and investment to the PRC. But such accommodations remained worrisome to the DPP's pro-independence political base in Taiwan, who believed that further economic ties to the mainland would erode Taiwan's autonomy and lead to a "hollowing out" of Taiwan's industrial base.⁴⁶ Thus, each Taiwan decision on economic links with the PRC in 2005-2006 represented an uneasy political compromise.

Opposition Party (KMT) Visits to China. In addition to adopting the anti-secession law, PRC officials during the 109th Congress 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 viewed the visits as a positive development for Taiwan-PRC relations, others saw them as Beijing's effort to exploit Taiwan's internal political divisions and further isolate President Chen.⁴⁷ Some critics — in Taiwan and elsewhere — accused Lien and Soong of helping the PRC more successfully to "sell" to the world its claim that the intentions of its March 2005 anti-secession law were peaceful.⁴⁸

At least half a dozen more Taiwan political groups undertook unofficial visits to China after 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 warned Beijing against using the party-to-party visits to drive a wedge between Taiwan's political parties, and stressed that Beijing should be talking to President Chen and the elected Taiwan government.

Policy Trends in 2005-2006

When it first assumed office in 2001, 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 remained remarkably smooth, other factors — the PRC's anti-secession law, Taiwan's internal political divisions, and what was viewed

⁴⁶ For instance, there are reportedly about 300,000 Taiwan citizens now living and working in Shanghai.

⁴⁷ "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*, April 29, 2005, p. A-3.

⁴⁸ 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*, April 29, 2005.

as President Chen's more assertive and divisive push for separate Taiwan status — began to pose growing problems for this U.S. policy approach.

Taiwan Provocations. Faced with competing pressures and with continuing transformations in both the PRC and Taiwan systems, Bush Administration officials in 2005-2006 at times appeared to be trying to rein in President Chen and seemed to place more public caveats on U.S. support for Taiwan. Administration officials were seen as 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.⁴⁹

During this period, U.S. officials and Members of Congress faced increasing pressure to take any number of actions. These pressures included: to reassess 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.

Increasing Pressure for U.S. Involvement. For the most part, Taiwan and PRC officials long have maintained that the United States should remain uninvolved in issues concerning Taiwan's political status. But prior to and during the 109th Congress, U.S. officials came under subtle but increasing pressure from both governments to become directly involved in 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 began suggesting to U.S. officials that the Taiwan Relations Act needed to be strengthened or reevaluated, and 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.

⁴⁹ 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."

Taiwan's supporters within the U.S. Congress continued 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 included efforts to raise the level of U.S.-Taiwan military engagement and to reinforce or expand on U.S.-Taiwan ties. The House passage of the Tancredo Amendment on June 28, 2006 (see **Legislation** below) was a strong signal that sentiment in the 109th Congress appeared to be leaning toward more direct and less secretive U.S.-Taiwan interactions.

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 (ESF) 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), including a provision to provide ESF funds to Taiwan for the purposes of furthering political and legal reform. The Senate asked for a conference. Conference Report H.Rept. 109-265 was filed on November 2, 2005, including the two Taiwan provisions in the House version and the Taiwan provision in the Senate version. The House adopted the Conference Report on November 4, 2005 (358-39) and the Senate on November 10, 2005 (91-0). The bill became P.L. 109-102 on November 14, 2005.

P.L. 109-163 (H.R. 1815). 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 (H.Rept. 109-89). 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 6, 2006, with a clarifying statement (<http://www.whitehouse.gov/news/releases/2006/01/20060106-12.html>).

P.L. 109-364 (H.R. 5122 — Hunter). National Defense Authorization Act for FY2007. Conference Report H.Rept. 109-702 was filed on September 29, 2006. The House passed the Conference Report on September 29, 2006 (398-23), and the Senate by unanimous consent on September 30, 2006. The bill was presented to the President for signature on October 5, 2006, and became P.L. 109-364 on October 17, 2006. As enacted, the Conference Report contained none of the measures on Taiwan that the House passed in its version of the bill. These were: requirements that the National Defense University (NDU) include visits to both the PRC and Taiwan as part of the course of military study; that senior military officer and official exchanges be held with Taiwan; and that the United States not procure goods or services from any foreign entity who knowingly sells to the PRC items on the U.S. munitions list. Section 1221 of the House bill required the United States to submit to Taiwan plans for design and construction for diesel electric submarines, subject to the provisions of the Arms Export Control Act (22 U.S.C. 2751 et seq.) and any other export control law of the United States.

The House version of the bill was introduced on April 6, 2006. The House Armed Services Committee reported its version (60-1) on May 5, 2006 (H.Rept. 109-452), and the House passed the bill (amended), including the Taiwan measures, on May 11, 2006 (396-31). It was later passed on May 11, 2006, by a vote of 396-31. The Senate bill (S. 2766) contained no Taiwan provisions. On June 22, 2006, the Senate struck all after the enacting clause and substituted the language of S. 2766, passing that measure by unanimous consent, necessitating a Conference.

H.R. 5672 (Wolf). Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2007. The House Appropriations Committee reported an original measure on June 22, 2006 (H.Rept. 109-520). On June 28, 2006, the House passed the Tancredo amendment (H.Amdt. 1124) to prohibit the State Department from spending funds to enforce long-standing “guidelines” for official U.S.-Taiwan relations. (Among other things, the 1979 guidelines prohibit U.S. Executive Branch officials from meeting with Taiwan officials in U.S. federal buildings or from corresponding directly with Taiwan officials unless through the American Institute in Taiwan (AIT).) The House passed the final measure, amended, on June 29, 2006 (393-23), and the bill was referred to the Senate. The Senate Appropriations Committee marked up the measure on July 13, 2006 (S.Rept. 109-280), and the measure was placed on the Senate calendar. There was no further action.

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; and to the Subcommittee on Asia and the Pacific on March 17, 2005.

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, and was referred to the Senate Foreign Relations Committee. There was no further action.

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.

Appendix: Chronology of Key Developments 2005-2006

- 11/24/06** — President Chen survived a third vote in the Legislative Yuan (which received only 118 votes) to recall him.
- 11/16/06** — The PRC and Taiwan delegates to APEC clashed after the PRC delegate said only “sovereign countries” had the right to sign free trade pacts.
- 11/16/06** — The PRC said it would consider setting up a business association at the national level for Taiwan businessmen operating in the mainland.
- 11/15/06** — Mayor Ma Ying-jeou apologized after prosecutors revealed irregularities in his office’s handling of the special mayoral allowance. Ma called the irregularities “administrative defects.”
- 11/03/06** — Prosecutors in Taiwan indicted Wu Shu-jen, wife of President Chen Shui-bian, and three close aides on charges of embezzlement, forgery, and perjury. The President himself was described as a “perpetrator,” with the implication that he would be indicted when he left office. Sitting Presidents are immune from prosecution.
- 10/25/06** — Speaking at The Heritage Foundation, Secretary of State Condoleezza Rice responded to a question by reiterating the U.S. “one-China” policy, saying that under the Taiwan Relations Act, the United States is obligated “to help Taiwan defend itself.”
- 10/24/06** — Taiwan’s opposition-controlled legislature again blocked a military weapons procurement budget.
- 10/13/06** — Taiwan President Chen Shui-bian survived a second legislative attempt to recall him. The recall motion received 116 of the 147 votes needed for the required two-thirds majority for passage.
- 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.
- 09/29/06** — Taiwan-PRC direct cross-strait flights began for the Mid-Autumn Festival.
- 06/28/06** — The House agreed by voice vote to the Tancredo Amendment (H.Amdt. 1124) to H.R. 5672 to prohibit funds from being used to enforce long-standing “Guidelines on [U.S.] Relations with Taiwan.”

- 06/27/06** — An insufficient 2/3 majority having voted in the affirmative, Taiwan's legislature rejected the first recall petition for President Chen Shui-bian.
- 06/20/06** — Chen Shui-bian gave a two-hour television speech defending himself against the opposition's charges of corruption and malfeasance.
- 06/18/06** — According to a *China Times* opinion poll, 53% of respondents believed President Chen should step down.
- 06/18/06** — The Taiwan Society, a new pro-independence organization in Taiwan, announced its official establishment.
- 06/16/06** — Taiwan and Nicaragua signed a Free Trade Agreement in Taipei.
- 06/14/06** — Taiwan and China announced simultaneously that they had reached agreement to allow up to 168 direct round-trip charter passenger flights between China and Taiwan, shared evenly between mainland and Taiwan airlines, during four public holidays: Lunar New Year, Tomb Sweeping Day, the Dragon Boat Festival, and the Mid-Autumn Festival. In Beijing, China's General Administration of Civil Aviation said the two sides had agreed "on the framework of chartered flights for festivals and special cases."
- 06/13/06** — Taiwan's Legislative Yuan voted to hold a special legislative session through late June to consider a recall motion for President Chen over corruption allegations involving his family and his key advisors. The opposition plans to hold a vote on the petition on June 27th, which must pass by a 2/3 vote and then be subjected to a public referendum. It also voted (113-96) to have a special screening committee to begin hearings on whether Chen should be recalled.
- 06/10/06** — Demonstrations were held in Taiwan for the second consecutive weekend calling for the resignation of 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.
- 03/24/06** — The *Taipei Times* reported that the six "non-institutional bodies" that the LY ruled should be dissolved (in January 2006) are: the Science and Technology Advisory Committee; the preparatory group for the national human rights memorial museum; the Gender Mainstreaming

Advisory Panel; the Constitutional Re-engineering Office; the Youth Corps; and the Human Rights Advisory Committee. (President Chen cited this LY decision when he announced the cessation of the NUC.)

- 03/23/06** — President Chen reiterated (in his online newsletter) that Taiwan should be able to join the United Nations using the name “Taiwan.”
- 03/22/06** — **Ma Ying-jeou visit.** Taipei Mayor Ma Ying-jeou arrived in Washington, DC, and addressed a luncheon meeting hosted by Heritage and AEI. The following day, he addressed a morning meeting of CSIS and Brookings, a luncheon meeting hosted by the U.S.-Taiwan Business Council, and a later meeting at the National Press Club. He unveiled his “five ‘do’s’” (or “five yesses”) proposal, including: (1) resume interrupted cross-strait talks on the basis of the “‘92 consensus,” (2) a negotiated 30-50 year peace treaty with the PRC, (3) facilitation and acceleration of economic exchanges, including direct air links, etc., (4) a “modus vivendi” on Taiwan’s participation in the international community, both bilaterally and multilaterally, based on pragmatism, and (5) acceleration of cross-strait cultural and educational exchanges. (Mentioned PRC degrees being obtained by 5,000 Taiwan students are not being recognized by current Taiwan government.) During his trip, Ma reportedly also met with Deputy Secretary of State Bob Zoellick; Assistant Secretary of East Asia Chris Hill; Deputy National Security Advisor Jack Crouch; and NSC China specialist Dennis Wilder. (He reportedly also met with Barbara Schrage; David Dean; David Laux; Nat Bellocchi; and David Brown.)
- 03/22/06** — The Taiwan government announced a new regulatory framework of approval, on a case-by-case basis, for large investments involving “sensitive technology” in China; also, an effort to force Taiwan businesses to disclose their interests, and the leaving in place of a 40% cap (on a company’s net worth) on PRC investments.
- 03/19/06** — Taiwan’s pan-blue opposition staged a protest (“Voicing your indignation at A- Bian”) for the second anniversary of the March 19, 2004 assassination attempt of President Chen and Vice President Lu. After criticizing Chen’s NUC decision before the crowd (“He’s told the U.S. side one thing, the Taiwanese people another”), KMT Chairman Ma Ying-jeou left for a ten-day U.S. visit.
- 03/18/06** — Taiwan’s ruling pan-green coalition staged a protest (“Defending democracy and opposing annexation”) protesting China’s Anti-Secession law and military threats.
- 03/17/06** — Ma Ying-jeou said the KMT had reached consensus on a “reasonable purchase” of U.S. arms, but did not pass the package in the wake of Chen’s NUC decision because it did not want to appear to endorse the decision.

- 03/13/06** — KMT candidate Chiang Yi-hsiung won a legislative by-election in Chiayi City, a stronghold of the DPP. The election results mean that the KMT will be tied with the DPP as the largest party in the LY, each with 88 seats. (The PFP controls 24 seats.) Counting independence legislator Lee Ao, the KMT/PFP coalition will control 113 out of the 223 LY seats.
- 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 been abolished, the status quo maintained, and that the Chen Shui-bian assurances were still in force.
- 02/27/06** — President Chen Shui-bian announced officially that the NUC and GNR had “ceased to function” and “ceased to apply.”
- 02/08/06** — China denounced Chen Shui-bian as a “troublemaker and saboteur” for his remarks on the Unification Council.
- 02/05/06** — Taiwan Minister of Foreign Affairs James Huang rebutted a report that the United States was angry at Taiwan for President Chen Shui-bian’s New Year’s Day proposal to scrap the National Unification Council and unification guidelines.
- 02/04/06** — Japan’s foreign minister, Taro Aso, attributed Taiwan’s high educational levels to Japan’s occupation of the island before World War II.
- 02/01/06** — The U.S. State Department sharply criticized Chen’s New Year’s Day statement as “an effort to change the status quo.”
- 01/31/06** — In a New Year’s Day speech, Taiwan president Chen Shui-bian proposed scrapping the National Unification Council and unification guidelines and seek U.N. membership under the name “Taiwan.”
- 01/29/06** — President Chen Shui-bian said it was time to scrap Taiwan’s National Unification Council and its unification guidelines — a statement Beijing condemned him for.
- 01/27/06** — According to the *China Post*, Taiwan received an official U.S. letter asking it to approve the appointment of Stephen Young as new AIT director to replace Doug Paal.
- 01/26/06** — President Chen Shui-bian called on the DPP to “uphold the core value of ‘Taiwan identity’” in preparing for a second “Economic Development Advisory Conference.”
- 01/25/06** — Taiwan AIT Director Doug Paul left Taiwan after 3½ years in his position. Deputy Director David Keegan will serve as acting AIT director until a replacement is chosen.

- 01/23/06** — Taiwan's cabinet resigned, with new appointees (scheduled to be sworn in January 25) apparently closer to president Chen's policies than their predecessors. Mark Chen (outgoing Foreign Minister), will head the Presidential Office; James Huang (Deputy Foreign Minister) will become Foreign Minister; Su Tseng-chang will replace Prime Minister Frank Hsieh, who resigned earlier in the month.
- 01/23/06** — Taiwan's Central News Agency reported that New Tide, a moderate faction of the DPP, had conducted a study concluding there is a high likelihood of miscalculation in cross-strait relations.
- 01/17/06** — According to the *LA Times*, Taiwan Premier Frank Hsieh submitted his resignation after the DPP's ignominious electoral defeat.
- 01/15/06** — A close intimate of President Chen Shui-bian (Yu Shyi-kun) won an absolute majority as new DPP chairman.
- 01/09/06** — 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.
- 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.
- 12/15/05** — After first announcing she would step down, Taiwan Vice President Annette Lu reversed course and announced she would stay on as acting chair of the DPP.
- 12/15/05** — Taiwan's Vice Minister for National Defense, Huo Shou-yeh, announced Taiwan would be building an airfield on one of the larger Spratley islands.
- 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.
- 11/25/05** — The PRC announced that six mainland airlines would run special Lunar New Year cross-strait charter flights: Air China, China East Airlines, China Southern Airlines, Shanghai Airlines, Hainan Airlines, and Xiamen Airlines.

- 11/18/05** — Taiwan and the PRC reached agreement to offer cross-strait flights for the Lunar New Year from January 20-February 13, 2006.
- 10/26/05** — The United States notified Congress that it had approved for sale to Taiwan 10 AIM-9M Sidewinder missiles and 5 AIM-7M Sparrow missiles, worth as much as \$280 million, both systems manufactured by Raytheon. The sale also reportedly included logistics support for F-16 aircraft and continuation of a pilot training program.
- 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.”
- 09/08/05** — According to a report in *Bloomberg* cited by TSR, the PRC’s China Development Bank agreed to offer 30 billion yuan (\$3.7 billion) in loans to Taiwan companies wanting to invest in China.
- 09/07/05** — Ma Ying-jeou (KMT) and James Soong (PFP), Taiwan’s two main opposition party leaders, announced they would jointly oppose the \$NT340 special defense budget to purchase American weapons.
- 09/06/05** — Taiwan held a high-profile navy drill to test the capabilities of its Dutch-built Sword Dragon-class submarine.
- 08/28/05** — *The Taipei Times* reported that regular high-level U.S.-Taiwan military talks — called the “Monterey Talks” for their California location — would be postponed this year from their scheduled dates of September 13 and 14 until later in September. According to the report, U.S. officials said the postponement is because U.S. officials don’t want to be distracted by President Hu Jintao’s mid-September visit.
- 08/24/05** — Taiwan withdrew from legislative consideration a special budget for purchasing U.S. weapons. Reportedly, the special budget is being slashed from \$480 NT to around \$370 million in order to garner more support from opposition lawmakers.
- 08/24/05** — China announced that tuition for Taiwan students at PRC universities will be slashed by more than half; beginning next month, tuition for Taiwan students will be the same as tuition for mainland students.

- 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. The exchanges involve Taiwan party officials from: Keelung, Hsinchu, Taichung, Changhua, Tainan, and Kaohsiung; and CCP officials from: Shenzhen, Xiamen, Suzhou, Qingdao, Ningbo, and Fuzhou.
- Beijing urged for cross-strait talks to establish cross-Strait charter passenger and cargo flights based on the “Macao model.”
- 08/15/05** — The inaugural ceremony in Taiwan for the “Democratic Pacific Union,” a quasi-governmental body comprised of political and civil leaders from 26 countries, including: the United States, Canada, Australia, New Zealand, Mexico, Honduras, Guatemala, El Salvador, Costa Rica, Nicaragua, Panama, Peru, Chile, Russia, Japan, South Korea, the Philippines, Malaysia, Indonesia, East Timor, Marshal Islands, Solomon Islands, Tuvalu, Kiribati, Palau, and Taiwan. Taiwan was the prime mover behind the group’s formation, and VP Annette Lu was elected as the body’s first chairman. The DPU’s core values are: democracy, peace, and prosperity.
- 08/12/05** — Taiwan’s LY voted 108-100 against holding a special legislative session to consider priority bills, including the special arms-procurement package. Four of the NPSU’s eight legislative members voted, all for the losing DPP position.
- An *AFP* report said that Taiwan has begun deploying indigenous cruise missiles around the island on mobile launchers. The report later was denounced by a Ministry of National Defense spokesperson.
- 08/11/05** — According to *AP*, 13 of Taiwan’s allies filed a request in the U.N. to appoint a U.N. envoy or task force to try to mediate China-Taiwan tensions.
- 06/29/05** — Taiwan’s Cabinet approved a number of revisions to the Referendum Law approved by the Legislative Yuan in November 2003. The changes would lower thresholds for citizen initiatives and passage of non-territory related referenda, making passage of referenda easier.
- 06/24/05** — In an interview, Mr. Kong Jaw-sheng, Chairman of Taiwan’s Financial Supervisory Commission, said that Taiwan will allow PRC banks to open representative offices in Taiwan for the first time in 56 years, since the end of overt civil war hostilities.

- 06/19/05** — *The China Post* reported that a group of Taiwan farmers will visit China within a week to discuss more mainland access for Taiwan fruits.
- 06/17/05** — According to *Agence France Presse*, Taiwan's Supreme Court rejected the KMT/PFP lawsuit to overturn the result of the March 2004 presidential election. A second lawsuit to nullify the entire election is still pending.
- 06/17/05** — Press reports said that Taiwan president Chen Shui-bian will reveal an unprecedented National Security Report to Taiwan in the summer of 2005.
- 06/13/05** — The *Washington Post* reported that a peasant revolt had occurred in Huawi township on April 10, 2005, near Hangzhou. Farmers and peasants who were protesting the building of an industrial park on their land beat back a police effort to halt their efforts.
- Taiwan's Premier, Frank Hsieh, announced that Taiwan was announcing three initiatives to improve cross-strait contacts: authorizing Taipei Airlines Association (TAA) to negotiate direct charter cargo flights; exporting agricultural products to China; and allowing PRC nationals to sightsee in Taiwan.
- 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.
- 05/14/04** — The DPP won the largest block of seats in elections for Taiwan's 300-member National Assembly, charged with considering proposed constitutional amendments.
- 05/05/05** — PFP Chairman James Soong departed for a week-long visit to China.
- 04/26/05** — U.S. Assistant Secretary of State Christopher Hill arrived in China to discuss ways to re-start the Six Party Talks involving North Korea's nuclear program. He reportedly asked Beijing to cut off oil shipments to North Korea, which the Chinese declined.
- 04/26/05** — KMT Chairman Lien Chan departed for an eight-day "peace journey" to China. In addition to visiting Xi'an, Shanghai, and Nanjing, Lien will give a talk at Beijing University and meet with PRC President Hu Jintao on April 29. It is the first time the leaders of the CCP and KMT will have met since World War II.
- 04/18/05** — Taiwan's PFP leader James Soong accepted an invitation from PRC President Hu Jintao to visit Beijing before Taiwan's May 14, 2005 National Assembly elections. The Taiwan government urged Soong to meet with President Chen Shui-bian before departing for China.

- 04/16/05** — President Chen Shui-bian warned KMT chairman Lien Chan not to enter into any agreements with China during his landmark impending visit there without prior consultation with and authorization by the Taiwan government.
- 03/30/05** — A 34-member Nationalist Party delegation from Taiwan arrived in Beijing. The delegation visit was criticized by President Chen as “unimaginable” under current tense circumstances.
- 03/17/05** — Taiwan’s cabinet approved a reduced version of the special defense budget to purchase weapons from the United States. The original budget of \$18.2 billion had been criticized as too high by opposition legislators. The budget the cabinet passed was pared to \$15.5 billion, partly reduced by Taiwan’s decision not to build part of the diesel submarines in Taiwan.
- 03/16/05** — The House of Representatives passed H.Con.Res. 98, a measure expressing Congress’ “grave concern” about China’s passage of the anti-secession law. The measure passed by a vote of 424-4.
- 03/14/05** — The National People’s Congress (NPC) enacted an anti-secession law authorizing “non-peaceful” means to resolve the Taiwan question.
- 03/04/05** — In a panel discussion with CPPCC members representing Taiwan, Hu Jintao proposed a four-point guideline for China in pursuing cross-strait relations: never stop adhering to the “one-China” principle; never give up efforts to seek peaceful reunification; always place hope on the Taiwan people; and never compromise in opposing Taiwan independence activities.
- 02/24/05** — Taiwan’s President Chen and PFP opposition leader James Soong agreed to relax restrictions on business ties with China and to cooperate to improve cross-strait ties. It was their first meeting in five years. Chen also intimated he was open to discussions of eventual reunification with China if Beijing showed “goodwill.”
- 02/20/05** — China’s official news media, the *Xinhua* News Agency, issued a statement denouncing the joint U.S.-Japan statement on February 19. China’s statement said that it “resolutely opposes the United States and Japan in issuing any bilateral document concerning China’s Taiwan, which meddles in the internal affairs of China, and hurts China’s sovereignty.”
- 02/19/05** — The United States and Japan issued a joint statement describing mutual security concerns and announcing a new joint security agreement. Among other issues, the statement listed a peaceful resolution of Taiwan’s situation as a mutual security concern — the first time Japan had placed itself on record in this way on the Taiwan issue.

- 02/10/05** — The *Financial Times* reported that Taiwan President Chen Shui-bian had invited James Soong to chair the Straits Exchange Foundation, which handles cross-strait relations and contacts.
- 02/02/05** — According to *Agence France Presse*, Taiwan President Chen Shui-bian extended an invitation to PRC negotiator Wang Daohan to visit Taiwan and reopen talks.
- 02/02/05** — Members of the House signed a bipartisan letter to Secretary of State Condoleezza Rice asking her to end the State Department's foot-dragging over transmitting congressional notifications for an \$28.2 billion arms sales to Taiwan. The letter was drafted by Representative Rob Simmons and signed by Representatives Roskoe G. Bartlett, Madeleine Z. Bordallo, Jeb Bradley, Lane Evans, Trent Franks, John N. Hostettler, and Christopher H. Smith.
- 02/01/05** — Two PRC officials arrived in Taiwan to attend the funeral of Koo Chen-fu, Taiwan's chief cross-strait negotiator, who died on January 3, 2005, at age 85. The officials were Sun Yafu, deputy director of the PRC's official Taiwan Affairs Office, and Li Yafei, secretary general of the semi-official Association for Relations Across the Taiwan Strait.
- 01/29/05** — For the first time since 1949, Taiwan and China launched direct cross-strait charter flights for the Chinese New Year holiday. The United States issued a statement welcoming the flights.
- 01/28/05** — In what appeared to be a softening of the PRC position, the #4 in the PRC leadership hierarchy, Jia Qinglin, gave a speech commemorating the 10th anniversary (on January 30) of Jiang Zemin's Eight Points for reunifying with Taiwan. Jia said that Beijing was willing to negotiate on cross-strait ties with any person on the Taiwan side, "regardless of his past rhetoric and actions." Some saw the remarks as a reference to Taiwan president Chen Shui-bian. Skeptics, however, pointed out that affirmation of the "one-China" policy remained a pre-condition cited by Jia.
- 01/27/05** — Taiwan formally ended diplomatic ties with Grenada after the Caribbean island established formal ties with the PRC on January 20, 2005. The move reduces to 25 those countries with formal relations with Taiwan.
- 01/20/05** — Grenada's Minister of Foreign Affairs, Elvin Nimrod, signed a joint communique with PRC Foreign Minister Li Zhaoxing to resume diplomatic ties. (A Taiwan Foreign Ministry spokesman said that Taiwan would consider dual recognition from Grenada that would establish relations with both the PRC and Taiwan.)
- 01/08/05** — A press report quoted the caucus head of Taiwan's People First Party (PFP) — now in a coalition with the opposition Nationalist Party

(KMT) — as saying that a coalition with the ruling Democratic Progressive Party (DPP) would be possible if the DPP abandoned its pro-independence platform. It had been expected that early in 2005 the PFP and would merge with the KMT.

- 01/05/05** — Press accounts reported that Taipei Mayor Ma Ying-jeou, a KMT moderate said to oppose Chen Shui-bian's push for Taiwan independence, was denied a Hong Kong visa. Hong Kong University had invited Mr. Ma to attend a conference. The refusal was criticized by U.S. officials as "not a constructive decision."

- 01/04/05** — Chen Yunlin, who heads China's cabinet-level Taiwan Affairs Office, began a U.S. visit to discuss China's proposed anti-secession law. While in Washington, Chen met with Deputy Secretary of State Richard Armitage, new National Security Advisor Stephen Hadley, and U.S. Asian affairs official Michael Green.

- 01/02/05** — China's *Xinhua* news agency reported that China was receptive to discussing with Taiwan the allowing of direct flights between the two sides over the Chinese New Year in February 2005.

- 01/02/05** — Former Taiwan President Lee Teng-hui returned from a six-day trip to Japan, a trip that brought strong protests from the PRC. Japan's decision to grant Lee a visa was regarded as a policy change and evidence of its recently more assertive stance toward Beijing.

- 01/01/05** — Koo Chen-fu, Taiwan's chief negotiator with China on cross-strait talks, died of cancer at age 87.

- 01/01/05** — In his New Year's Day address, Taiwan President Chen Shui-bian criticized China's announcement that the National People's Congress would consider an "anti-secession" law aimed at Taiwan. Chen warned that such a law posed a great threat to regional stability and peace.