

CRS Issue Brief for Congress

Received through the CRS Web

Taiwan: Recent Developments and U.S. Policy Choices

Updated September 24, 2003

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CONTENTS

SUMMARY

MOST RECENT DEVELOPMENTS

BACKGROUND AND ANALYSIS

U.S. Interests in Taiwan

Issues in U.S.-PRC-Taiwan Relations

Taiwan, SARS, and WHO Observer Status

U.S. Defense Commitments to Taiwan

Policy Developments in the George W. Bush Administration

U.S. Policy Statements and the “One-China” Policy

U.S. Visits by Taiwan Officials

Policy Implications of Global Anti-Terrorism Campaign

Political Liberalization in Taiwan

Background

Taiwan’s Presidential Elections, 2000: Change in Government

Legislative Changes in December 2001

Presidential, Legislative Elections in 2004

Referendum

Taiwan-Mainland Relations

Official Developments During the Chen Administration

Private-Sector Exchanges

Economic and Trade Issues

Taiwan’s World Trade Organization (WTO) Accession

U.S. Policy Implications

Congressional Role

LEGISLATION

CHRONOLOGY

FOR ADDITIONAL READING

CRS Reports

Taiwan: Recent Developments and U.S. Policy Choices

SUMMARY

Under the current Bush Administration, U.S.-China-Taiwan relations have undergone important changes. Many observers see current approach as having abandoned the long-standing U.S. policy of “strategic ambiguity” on Taiwan in favor of “strategic clarity” that places more emphasis on Taiwan’s interests and less on PRC concerns. Among other things, President Bush has publicly stated that the United States will do “whatever it takes” to help Taiwan’s defense — an unprecedented statement which no prior U.S. President has made. In April 2001, the President also approved a substantial sale of U.S. weapons to Taiwan, including Kidd-class destroyers, anti-submarine P-3 “Orion” aircraft, and diesel submarines. The White House also has been more accommodating to visits from Taiwan officials than previous U.S. Administrations, and permitted visits from Taiwan’s president in 2001 and by Taiwan’s Vice-President and Defense Minister in 2002.

The Administration’s assertive posture toward Taiwan also is in keeping with growing congressional sentiment that the United States needs to do more to assist in Taiwan’s defense needs, particularly given the PRC’s military build-up along the south China coast. Consequently, the 107th Congress pushed forward with bipartisan initiatives seeking to focus more U.S. attention on Taiwan and raise its international stature. On April 9, 2002, a bipartisan coalition of House Members formed the Congressional Taiwan Caucus, the stated purpose of which is to focus increased

policy attention on Taiwan. The 107th Congress also considered and acted upon legislation that increasingly sought to expand the margins of U.S.-Taiwan ties.

These apparent U.S. policy shifts have come at a time of complexity and unpredictability in Taiwan’s political environment. Since 2000, the long-ruling Nationalist Party (KMT) has been handed stunning defeats, first losing the presidency to opposition Democratic Progressive Party (DPP) candidate Chen Shui-bian, then losing its majority in the legislature in 2001. The legislative election results in particular mean that there is now no political party in Taiwan with an absolute majority, a result leading some analysts to conclude that Taiwan will remain politically paralyzed for the foreseeable future.

The misfortunes of the KMT and the fluidity of Taiwan’s political scene have longer-term policy implications for the PRC and for U.S.-PRC-Taiwan relations. The KMT has been the island’s most outspoken defender of the “one-China” policy and opponent of independence for Taiwan, while the DPP has long been associated with a pro-independence platform. The new prominence of the DPP in Taiwan’s political life has meant that cross-strait talks between the PRC and Taiwan are likely to remain stalled at the official level despite extensive Taiwanese trade with, and investment in, the Chinese mainland. This issue brief will be updated as developments warrant.

MOST RECENT DEVELOPMENTS

On August 27, 2003, a Taiwan news report stated that the ruling Democratic Progressive Party (DPP) would launch a signature drive in early September 2003 to gather public support for holding an island-wide “three-in-one” referendum on key policy issues in 2004. The opposition Nationalist Party (KMT) announced it would launch its own signature drive at the same time to gather public support for protesting rising unemployment, school tuitions, and health insurance premiums.

On August 15, 2003, Taiwan’s Mainland Affairs Council (MAC) issued the results of a year-long study on cross-strait ties entitled “Assessment of the Impact of Direct Cross-Strait Transportation.”

On July 15, 2003, the U.S. Centers for Disease Control lifted its SARS-related travel advisory for Taiwan. On July 5, 2003, the World Health Organization lifted the travel advisory it had issued on May 8, 2003, for Taiwan.

BACKGROUND AND ANALYSIS

U.S. Interests in Taiwan

U.S. involvement with the government of Taiwan (known as the Republic of China or ROC) has its roots in the World War II U.S. alliance with the Nationalist Chinese government of Chiang Kai-shek, then on mainland China. In October 1949, upon its defeat by the Chinese communist forces of Mao Zedong, Chiang’s government fled to Taiwan, an island off the south China coast. While on the mainland the Chinese Communist Party established the People’s Republic of China (PRC), Chiang’s ROC government on Taiwan insisted that the communist government in Beijing was not credible, and that the administration on Taiwan was the only legitimate government of all China. For the next 30 years, the United States supported this claim with U.S. military protection and over \$5 billion in military and economic aid, allowing Chiang’s one-party government (the Nationalist Party, or KMT) to consolidate its position on Taiwan.

In the 1950s and 1960s, U.S. forces used Taiwan as a forward base against Sino-Soviet communism in Asia. But after President Nixon’s opening to Beijing in 1971-72, and the major pullback of U.S. forces in Asia under the guidelines of the “Nixon doctrine,” U.S. officials came to view Beijing more as a strategic asset against the Soviet Union than an adversary to be confronted in the Taiwan Strait. On January 1, 1979, the United States switched its diplomatic recognition from Taipei to Beijing. In the U.S.-PRC joint communique announcing the change, the United States recognized the government of the PRC as the sole legal government of China and acknowledged the Chinese position that there is but one China, and Taiwan is part of China.¹ As part of de-recognition, the United States

¹ The texts of the Taiwan Relations Act and the 3 U.S.-China communiques that underpin bilateral (continued...)

also notified Taiwan authorities that effective January 1, 1980, it would terminate the 1954 U.S.-ROC Mutual Defense Treaty. This move prompted extensive congressional debate at the time over the President's authority to unilaterally dissolve a defense treaty without prior consultation with Congress.

In a statement released December 16, 1978, the United States declared that it "continues to have an interest in the peaceful resolution of the Taiwan issue and expects that the Taiwan issue will be settled peacefully by the Chinese themselves." Subsequently, the United States affirmed its security and other interests in Taiwan through the Taiwan Relations Act (TRA) and the continued supply of U.S. arms to Taiwan. The TRA (enacted as P.L. 96-8 in April 1979) which still governs U.S. relations with Taiwan, was essentially a congressional construct, enacted by a Congress unhappy with the Carter Administration's failure to develop more detailed plans for how U.S. relations were to be conducted with Taiwan after official relations were severed.

With the thaw in the Cold War in the late 1980s and subsequent collapse of the Soviet Union, U.S. interest in the PRC as a "strategic asset" in global politics declined. The PRC's burgeoning economy and sometimes assertive foreign policy in the 1990s revived U.S. interest in finding pragmatic and effective ways to deal with rising Chinese power. At the same time, Taiwan's political system had undergone dramatic changes, including a transition to democratic political pluralism. The combination of these developments led to subtle changes in U.S.-Taiwan ties, including deepening economic, military, social, and other contacts.

Today, the United States is an important investor and trading partner for Taiwan. U.S. markets receive about 25% of Taiwan's exports, while the United States supplies a much smaller percentage of Taiwan's imports, leading to a \$15.25 billion U.S. trade deficit with Taiwan in 2001. Taiwan continues to enjoy Export-Import Bank financing, Overseas Private Investment Corporation (OPIC) guarantees, most-favored-nation status, and ready access to U.S. markets. Meanwhile, many U.S. leaders want to encourage Taiwanese enterprises to invest in the United States.

Issues in U.S.-PRC-Taiwan Relations

Taiwan, SARS, and WHO Observer Status. Taiwan did not escape the outbreak of the new virus — Severe Acute Respiratory Syndrome, or SARS — which first surfaced in China's Guangdong Province in November 2002. By late May 2003, Taiwan reported having 585 probable cases of SARS, placing it in third place behind China and Hong Kong for the greatest number of cases. In an attempt to contain the outbreak of the disease, Taiwan authorities adopted a number of aggressive measures: among other things, authorities sealed off hospitals containing SARS patients, imposed quarantines, accepted the resignations of some senior-level government health officials, and suspended issuing new visas for visitors from SARS-affected countries, including China, Hong Kong, Singapore, and Canada.

¹ (...continued)

U.S.-China-Taiwan relations can be found in CRS Report 96-246.

Because Taiwan is not a member of the WHO (the World Health Organization), which has been in the forefront of the global fight against SARS, the disease's outbreak in Taiwan also had broader political ramifications for Taiwan's international position and for China-Taiwan relations. The PRC has objected strenuously to any WHO representation by Taiwan, claiming that as Taiwan is part of China, it can access WHO's services through the PRC government. Even as the SARS crisis was underway, PRC leaders continued vigorously to block any international effort to give Taiwan unofficial "observer" status in the WHO.² PRC authorities did consent to a WHO team visit to Taiwan to investigate SARS early in May 2003, and the PRC raised no objections when Taiwan scientists were invited to attend a two-day WHO SARS conference in Kuala Lumpur on June 17-18, 2003. But generally, the PRC has insisted that any Taiwan health official wishing to take advantage of WHO's medical expertise should do so only as part of a PRC delegation.

Taiwan authorities, in a view supported by many Members of the U.S. Congress, argued that the rapid spread and consequences of a new disease like SARS demonstrates why it is essential for Taiwan to be allowed access to WHO's experts and information-sharing capabilities. Some Taiwan authorities also have alleged that Beijing's obfuscation and cover-up early in the health crisis contributed to the rapid spread of SARS and increased its harmful consequences in Taiwan. On July 5, 2003, WHO removed Taiwan from the list of countries where SARS was spreading.

U.S. Defense Commitments to Taiwan. U.S. arms sales to Taiwan are part of a decades-long U.S. policy approach which came to be called "strategic ambiguity" and which tried continually to balance two competing policy objectives. On the one hand, U.S. policymakers recognized Beijing as the legitimate government of all China and promised PRC leaders that the United States would not recognize Taiwan as an independent state. On the other hand, the United States had extensive contacts with Taiwan under the auspices of the TRA, an Act which also mandated the continued U.S. sale of defense weapons and equipment to Taiwan. The nature of U.S. defense commitments and arms sales to Taiwan is defined in Section 3 of the TRA. Section 3 is non-specific about the defense articles and services the United States may provide Taiwan. It merely calls for "such defense articles and services...as may be necessary," and gives Congress a role in determining what needs Taiwan may have. Although PRC officials were satisfied with the U.S. position that it would not recognize Taiwan independence, they objected strenuously to continued U.S. arms sales to Taiwan. On August 17, 1982, a U.S.-PRC joint communique addressed this point. In that communique, the PRC cited it had a "fundamental policy" of striving for a peaceful solution to the Taiwan question, while Washington stated that the U.S. did not:

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

² On May 14, 2003, WHO began a ten-day meeting of its General Assembly in Geneva, at which the United States was prepared to support Taiwan's bid — its seventh such attempt — to gain WHO observer status. Because of PRC opposition, WHO member countries elected not to place the matter of Taiwan's participation on the meeting's agenda.

Policy Developments in the George W. Bush Administration. Many observers see the current Bush Administration as having abandoned the long-standing U.S. policy of “strategic ambiguity” on Taiwan in favor of policy clarity that places more emphasis on Taiwan’s interests and less on PRC concerns. On April 25, 2001, for instance, in an ABC television interview, President Bush responded to a question about what the United States 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 TRA only addresses 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 have been judged to be more solicitous and supportive of Taiwan than those of previous U.S. Administrations.

In addition to his statement, in April 2001 President Bush also approved the second-largest U.S. weapons sale package to Taiwan, surpassed only by President Bush senior’s 1992 sale of 150 F-16s, valued at \$5.9 billion. The 2001 weapons sale included four Kidd-class destroyers, 12 anti-submarine P-3 “Orion” aircraft, and eight diesel submarines. Since the United States has built only nuclear submarines since the 1950s, discussions have been underway on plans either to acquire the diesel subs from a third country or to permit U.S. companies to build the subs especially for Taiwan. Among the U.S. companies reported to be interested are three owned by Northrop Grumman, three owned by General Dynamics, and Lockheed Martin. The White House decided not to sell Taiwan the more sophisticated Aegis battle management system and Arleigh Burke class destroyers.

The Bush Administration’s newly assertive posture toward Taiwan’s defense needs also is in keeping with growing sentiment in Congress that the TRA is outdated and that Taiwan’s self-defense capabilities have eroded while the PRC has grown militarily more capable and more hostile. These conclusions appear to have been supported by a congressionally mandated annual report, first issued by the Pentagon in February 1999, that assessed 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.”

With this as the historical background, there appear to be new difficulties in the U.S.-Taiwan arms sales relationship. Pentagon officials in the Bush Administration have begun to express increasing concerns over what they see as weaknesses in Taiwan’s self-defense and a lagging pace to Taiwan’s arms purchases. According to the most recent DOD report, Taiwan’s deficiencies include an “opaque military policymaking system; a ground force-centric orientation; and a conservative military leadership culture.” (The full text of the new 2003 report can be found at [<http://www.defenselink.mil/pubs/20030730chinaex.pdf>].) Some U.S. analysts attribute the problems to Taiwan’s flagging economy, which has had a notable affect on funds available for defense spending. According to one account, Taiwan’s defense spending has shrunk from 24.3% of total government spending 10 years ago to 16.6% of government spending in 2003, a time-frame which saw sizeable increases in PRC military spending. Other observers cite Taiwan’s evolving domestic political environment

as another factor influencing decisions on defense. Members of Taiwan's Legislative Yuan, in which the ruling DPP party does not have a majority, have raised questions not only on the overall military budget but on the details of specific arms purchases, including their cost, their effectiveness, their delivery dates, their supplier, the military's ability to use them, and whether Taiwan companies can benefit or participate in some way.

U.S. Policy Statements and the "One-China" Policy. In addition to criticizing U.S. arms sales, Beijing routinely criticizes other aspects of U.S. support for Taiwan, saying that such actions reduce Taipei's interest in negotiations on reunification with the mainland. The PRC regularly refers to these actions as violations of the "one-China policy," in which, over the years and in various guises, the United States has "acknowledged" that Chinese on both sides of the Taiwan Strait hold that there is only one China and that Taiwan is part of it. In addition to the TRA, U.S. policy positions on Taiwan are encapsulated in three Sino-U.S. communiqués: the Shanghai Communiqué (1972); the U.S.-PRC Joint Communiqué on Establishment of Diplomatic Relations (1979); and The U.S.-China Joint Communiqué on Arms Sales to Taiwan (1982). Despite the shift in emphasis in the Bush Administration in 2001 and a comprehensive review of U.S. policy toward Taiwan by the Clinton Administration in 1994, State Department and White House officials continue to maintain that there has been no change in U.S. policy. On February 16, 2003, for instance, Deputy Assistant Secretary of State for East Asian Affairs, Randall Schriver, told a Taiwan-U.S. defense industry conference in Texas that "Our policy [toward Taiwan] has been consistent for more than 20 years...It has not changed. It will not change." (See CRS Report 96-246, *Taiwan: Texts of the Taiwan Relations Act, the U.S. - China Communiqués, and the 'Six Assurances.'*)

U.S. Visits by Taiwan Officials. In the absence of official U.S. ties with Taiwan, PRC officials argue that no high-level officials of the Taiwan government should be received in the United States. Mindful of PRC sensitivities, U.S. officials for years were unwilling to issue visas to senior Taiwan officials for U.S. visits. This changed on May 22, 1995, when President Clinton, bowing to substantial congressional pressure, decided to allow Taiwan President Lee Teng-hui to make a visit to the United States, but in his capacity as a private citizen, not as an official representing Taiwan. Beijing reacted strongly, holding several live-fire missile exercises in the Taiwan Strait after the Lee visit and prior to the March 1996 presidential elections in Taiwan, where Lee was running for re-election. In response to the PRC military exercises, the United States sent two carrier battle groups to the region of the Taiwan Strait. The PRC exercises, which ended on March 25, 1996, failed to discredit Lee, who won 54% of the vote in a field of four candidates in presidential elections.

In contrast to previous Administrations, the George W. Bush Administration has been more accommodating in granting visits to senior Taiwan officials. In June 2000, Taiwan's new President, Chen Shui-bian, was allowed a transit stop in New York City and Houston on his way to Latin America. Taiwan's Vice-President, Annette Lu, was accorded a similar transit stop in New York in early January 2002. More recently, from March 9-12, 2002, U.S. officials permitted Taiwan's Defense Minister, Tang Yao-ming, to attend a defense conference in Florida. While here, Minister Tang met with U.S. Deputy Secretary of Defense Paul Wolfowitz and U.S. Assistant Secretary of State James Kelly. The PRC protested. In June 2002, KMT party chairman Lien Chan attended a dinner at the White House in conjunction with his visit to Washington D.C. to attend an International Democratic Union (IDU) party leadership meeting. Vice President Annette Lu made a visit to the United States

in August 2003, among other things visiting Microsoft in Seattle, and President Chen has stated that he is planning to make a transit stop in the United States before the end of 2003.

Policy Implications of Global Anti-Terrorism Campaign. Some have suggested that the September 11, 2001 terrorist attacks against the United States and the subsequent U.S. anti-terrorism campaign may have implications for U.S. policy calculations about Taiwan because of the U.S. efforts to build an international coalition including PRC support. Although the PRC has assured Washington of its support in the anti-terrorism effort, PRC officials in the past have attempted to exact policy concessions from the United States in exchange for support for U.S. initiatives. Some expected that the PRC thus may attempt to condition its future support for the global anti-terrorism campaign on U.S. concessions on Taiwan. The question of “linking” concessions on Taiwan with PRC cooperation resurfaced in press reports again in August-September 2003 with respect to Beijing’s role in facilitating multilateral talks involving North Korea’s nuclear weapons program.

Political Liberalization in Taiwan

Background

Under the leadership of Chiang Kai-shek, (who ruled the Republic of China from 1945-1975), the KMT-dominated government that fled wholesale to Taiwan ruled in a sometimes harsh authoritarian fashion. Considering itself still at war, it retained those legislative and executive officials that had served in the mainland, and it tolerated little open political dissent. It pursued policies of a strong national defense against the Communist mainland and export-oriented economic growth. But widespread international recognition of the PRC in the 1970s challenged a major source of the political legitimacy of the KMT regime on Taiwan. It was harder to argue that people on Taiwan should accept and pay for an elaborate central government administration that included a majority of representatives who were elected on mainland China 30 years before. KMT leaders, particularly Chiang Kai-shek’s son, Chiang Ching-kuo (CCK), began to institute political reforms. They emphasized other elements in support of KMT rule, noting in particular the leadership’s successful supervision of Taiwan’s dramatic economic progress. CCK and his associates also included in the government more “Taiwanese” — the 85% of the island’s population whose roots go back to Taiwan prior to the influx of two million “mainlanders.” Important Taiwanese dignitaries, including future President Lee Teng-hui, were elevated within the Party.

A combination of international and domestic pressures accelerated the pace of political reform in the 1980s. In September 1986, opponents of KMT political dominance finally overcame years of the Party’s objections and formed an opposition party, the Democratic Progressive Party (DPP). President Chiang ended martial law in July 1987, and following his death in January 1988, the new President, Lee Teng-hui, reaffirmed commitments to political reform. In 1991, President Lee declared an end to the state of civil war with the PRC and the associated “temporary provisions” that had given KMT leaders “emergency” powers to deal with dissent. Members of legislative bodies elected in the mainland over 40 years earlier retired. An election was held to fill seats in a new National Assembly, and in 1992 a new legislature was elected.

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

Taiwan's Presidential Elections, 2000: Change in Government. On March 18, 2000, Taiwan voters went to the polls for only the second time to elect a new president in a hotly contested election that was judged too close to call in the final days. The winning candidate in that election, Chen Shui-bian, is a member of the opposition, 14-year old DPP Party. The vote was a stunning defeat for the KMT and its unbroken tenure in power for 50 years. With three leading presidential candidates, Chen won with 39% of the popular vote, while an independent challenger, James Soong, ran a close second with 36.5% of the vote. The KMT candidate, sitting vice-president Lien Chan, ran a distant third with only 23% of the vote. In spite of this success at the executive level, the legislature remained dominated by the KMT. Thus, President Chen was limited domestically by his inability to gain consistent and broad support for his policy initiatives from the legislature, leading to bitterness and a near paralysis in Taiwan's political system.

Legislative Changes in December 2001. On December 1, 2001, Taiwan held mayoral, magistrate, and national legislative elections which many thought offered a crucial opportunity to improve the DPP's ability to govern. Although the results in elections for county magistrates and city mayors were evenly split between the KMT and the DPP (each won nine posts), elections for the 225-member national legislature handed a stunning and unprecedented defeat to the KMT — giving it just 68 seats instead of its former 115 seats. While the struggling KMT lost its majority status in — and, many thought, its control of — the legislature for the first time in 50 years, President Chen's DPP party increased its representation from 66 to 87. Other seats were won by the People First Party (46 seats); the "Taiwan Solidarity Union" (13); and the New Party (1); and various minority or non-party candidates (10). As a result, when the new legislature convened in February 2002, no single party had an absolute majority. Control of the legislature instead would go to those parties able to form an effective majority coalition. (See CRS Report RS21093, *Taiwan's December 2001 Elections*.)

Many observers thought that the new DPP legislative plurality would strengthen the position of President Chen by allowing him to craft a political coalition that could give him effective legislative control. In addition to the likely support of independents, the natural ally was the Taiwan Solidarity Union (TSU), a new party formed on July 24, 2001, by former KMT members closely associated with former President Lee Teng-hui. The TSU promised it would follow policies crafted by Lee and would operate as a coalition bloc with the DPP, ostensibly to help President Chen "govern more effectively." While this still would leave the DPP just shy of a controlling legislative bloc, DPP political strategists early in 2002 were counting on the defection of a handful of disgruntled KMT legislators to the DPP camp and political isolation of the remaining KMT legislators, which would break the stalemate and give effective legislative control to Chen and the DPP.

But to date, the KMT has been able to exert party discipline on its elected members. Moreover, the KMT appears to have come to terms with its political and ideological

differences with the People First Party (PFP) and has formed a coalition with the PFP's 46 elected members that has shown remarkable solidarity and has blocked DPP/TSU initiatives. Finally, the TSU has proven an unreliable coalition partner for the DPP. Instead of supporting President Chen's moderate agenda, TSU members have pushed policy proposals that are especially provocative to Beijing, and on occasion they have threatened to withhold their support unless Chen and the DPP made policy concessions to TSU views. Judging from KMT-leader Lien Chan's comments during his visit to the United States in June 2002, KMT political strategists have decided to portray DPP/TSU policies as a dangerous road for the Taiwan people from which only a return to KMT rule can save them. With this split in government, political stalemate and infighting has continued to characterize Taiwan's political scene.

Presidential, Legislative Elections in 2004

With both presidential and legislative elections scheduled in 2004, many observers believe the coming year could pose a potentially crucial political challenge for Taiwan and for U.S.-Taiwan-PRC relations. Presidential elections are scheduled for March 20, 2004, and Taiwan's current President, Chen Shui-bian, will be running for a second term, very possibly with a running mate other than current Vice President Annette Lu. Reelection of President Chen would be interpreted by many as a sign that public sentiment in favor of Taiwan independence is entrenched and perhaps increasing, and likely would increase Chen's already strong confidence that his administration is moving in the right direction.

In April 2003, however, it was officially announced that KMT leader Lien Chan and PFP leader James Soong would probably combine forces on a single presidential ticket for the 2004 election. Under the KMT/PFP agreement, PFP leader James Soong will run as the vice-presidential candidate, thus giving up the chance to capitalize on his strong showing in the 2000 election as the #2 vote-getter for the office of president, while KMT member Lien Chan will head the ticket, despite his disappointing showing in a distant third place for president in the 2000 elections. Supporters of the joint KMT/PFP ticket believe they have good prospects in March against President Chen, who many feel was able to win in 2000 with only a plurality of the vote because his opposition was divided between the KMT and PFP. Many would interpret a KMT/PFP victory as a sign of greater public caution, as a wish to step back from statements and actions that may antagonize the PRC and raise the tension level across the strait.

After the presidential elections in March, Taiwan's political parties are likely to spend the rest of the year consumed by an all-out effort to assure an effective majority for themselves in the Legislative Yuan. If President Chen wins his reelection bid in March, gaining an effective DPP majority in the legislature will assure a legislative support for President Chen's programs that he so far has lacked. A KMT/PFP victory in March would make it an even greater priority to maintain or increase the alliance's current thin legislative majority.

Referendum

Another issue in Taiwan that gained new attention in July 2003 is the possibility of holding public referenda — never before done in Taiwan — on any of a series of issues. Beijing has long opposed any public referendum in Taiwan because of the prospects that

such island-wide votes could be held on the question of Taiwan independence. The matter of a public referendum has been given new momentum now because of supportive comments from President Chen Shui-bian, who has publicly pushed for a referendum to be held. On July 15, 2003, for instance, President Chen was quoted as saying that Taiwan's first referendum will be more significant than a presidential election. The Chen Administration appears committed to holding what is being called a "three-in-one" referendum on three issues: legislative reform, resumption of building a controversial Fourth Nuclear Power Plant, and the desirability of Taiwan's joining the WHO. In response to PRC objections, President Chen has stated that Taiwan will not hold a referendum on the question of independence.

Although the U.S. government has been strongly supportive of Taiwan's democratization, U.S. officials are perceived to have concerns about the prospects for referenda. To date, the U.S. government has not officially objected to the holding of a referendum in Taiwan, but U.S. concerns have been expressed in other ways. For instance, during a State Department press briefing on June 23, 2003, when Deputy Spokesman Philip T. Reeker was asked if the United States opposed any form of referendum in Taiwan, he responded, "We have continued to urge Taiwan on a regular basis, as well as the People's Republic of China, to refrain from actions or statements that increase tension across the straits or make dialogue more difficult to achieve."

Taiwan-Mainland Relations

Beginning with Taiwan's relaxation of restrictions on travel to the mainland in 1987, succeeding Taiwan governments have incrementally eased long-standing restrictions on contacts with the PRC. In Taiwan, cross-strait policies are under the purview of the Mainland Affairs Council (MAC), a government body, while cross-strait talks are handled by the Straits Exchange Foundation (SEF), a private organization authorized by the government to handle these exchanges. Corresponding bodies in the PRC are the government's Taiwan Affairs Office, while cross-strait talks are handled by the Association for Relations Across the Taiwan Strait (ARATS). Despite substantial and growing economic ties, the two sides have not held official talks since October 14-19, 1998, in Shanghai and Beijing. 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.

Official Developments During the Chen Administration. Although Beijing has adamantly opposed the DPP and its pro-independence statements, during the Chen Administration both the PRC and Taiwan governments have made selected overtures and statements that some have interpreted as suggestive of movement 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. (Further expansion of the "mini links" was announced in June 2002.) In October 2001, Taiwan officials announced they would simplify visa application procedures for professionals from the PRC, making it easier for them to come live and work in Taiwan. In November 2001, President Chen gave a speech in Taiwan urging the PRC government to drop its opposition to negotiating with his administration. In

May 2002, President Chen announced he would send a DPP delegation to Beijing to establish contacts between the DPP and the Chinese Communist Party.

In what some suggest is a significant softening of PRC policy, on January 24, 2002, PRC Vice-Premier Qian Qichen described pro-independence advocates in the DPP as only an “extremely small number” in the Party, and he invited DPP members to visit the mainland under a “suitable status.” This is a departure from previous PRC policy, which was not to meet or negotiate with DPP members. More interestingly, in an interview with Russia’s ITAR-TASS news agency on March 14, 2002, the deputy director of the PRC’s Taiwan Affairs Office, Zhou Mingwei, suggested that the PRC may be willing to accept the simultaneous representation of both Beijing and Taipei in the United Nations, provided that Taiwan acknowledges the “one-China” principle.

Despite these positive signs, tensions remain. Taiwan’s domestic political scene ensures that various opportunists will be able to continue to use cross-strait relations as a tool for political leverage and advancement. On September 1, 2003, for instance, Taiwan authorities added the words “Issued in Taiwan” to Taiwan passports, reportedly to avoid confusion between the PRC and Taiwan. A seemingly innocuous change, the decision appeals to Taiwan nationalists and irritates Beijing, which responded by saying that the move demonstrated Taiwan was “inching toward independence.”

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. In the last few years, however, the Taiwan economy has 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 blame 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; in the first half of 2001, for instance, Taiwan’s investment in the PRC grew by 24% over the previous year. Despite the SARS crisis of 2003, which will affect Taiwan’s economy both directly and indirectly for the year, the economy has improved since the low point of 2001, with GDP growth at 3.5% in 2002 and projected at between 2.2-3.0% for 2003. Still, but these are nowhere as stellar as the high growth rates of the 1990s. Further, economic performance over the next twelve months

could be influenced by political imperatives associated with the presidential and legislative elections in 2004.

The United States is Taiwan's largest trading partner, while Taiwan is the 7th largest U.S. trading partner. In the year 2000, total U.S.-Taiwan trade was approximately \$65 billion, with a Taiwan surplus of approximately \$16 billion. Taiwan's chief exports to the United States include clothing and footwear, toys, and various electronic products. In recent years, Taiwanese government officials have attempted to accommodate increased U.S. pressure on trade issues. They met many U.S. demands for greater market access for U.S. goods and services and responded to U.S. complaints by taking stronger measures to protect U.S. copyrights and other intellectual property rights.

Taiwan's World Trade Organization (WTO) Accession. After an application process lasting 12 years, Taiwan officially joined the WTO on January 1, 2002 as "the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu" or, less formally, "Chinese Taipei." In keeping with the PRC's wishes, Taiwan was not admitted to the organization until after the PRC's accession, which occurred on December 12, 2001, after a 15-year application process. As a result of its WTO membership, Taiwan will have to reduce tariffs and open a number of market sectors to foreign investment, thus setting the stage for new opportunities for U.S. businesses. In addition, mutual membership in the WTO is likely to have a significant impact on PRC-Taiwan economic and trade relations. To be in compliance with their WTO obligations, both Beijing and Taipei will have to reduce long-standing bilateral trade restrictions, setting the stage for direct trade links between the two governments.

U.S. Policy Implications

Always an important factor in Taiwan politics, the U.S. policy position on Taiwan and China appears to be undergoing some changes. Mid-way through its first term, the George W. Bush Administration is seen to be making good on its early promises to broaden the focus of American policy in Asia, concentrating more on Japan and other U.S. allies and de-emphasizing U.S.-PRC relations. This new attitude is nowhere as apparent as in the President's actions regarding Taiwan, which differ markedly from those of his predecessors. The Bush Administration is pursuing a policy that appears more heavily weighted toward Taiwan than at any time since U.S. normalization of relations with the PRC. Beginning with the President's authorization in 2001 of a major sale of defense articles and services — the largest U.S. sale to Taiwan in the past decade — President Bush also appeared in a TV interview saying that the United States would do "whatever it takes" regarding Taiwan's defense, a sentiment that was reaffirmed in a statement made by Deputy Secretary of Defense Paul Wolfowitz in March 2002.

In addition, the Bush Administration's actions surrounding the decision to allow President Chen Shui-bian to make a transit stop-over in the United States differed markedly from the precedents set by earlier White House occupants. While earlier U.S. Administrations either were unwilling or were forced by congressional pressure to permit Taiwan officials to make stop-overs in the United States, by comparison, Bush Administration officials have been remarkably accommodating. Not only was the Taiwan President's 2001 transit stop permitted, but Chen spent several days in the United States;

visited both New York (previously off-limits) and Houston; attended public functions and meetings with local elected officials; and met with nearly two-dozen Members of Congress — all actions encouraged by the Bush Administration. Taiwan's Vice-President, Annette Lu, was accorded a similar transit stop in New York in early January 2002. More recently, from March 9 -12, 2002, U.S. officials permitted Taiwan's Defense Minister, Tang Yiao-ming, to attend a defense conference in Florida. While there, Minister Tang met with U.S. Deputy Secretary of Defense Paul Wolfowitz and U.S. Assistant Secretary of State James Kelly.

Congressional Role. It has been a tradition over the past decade that pressure to field a more sympathetic U.S. policy toward Taiwan has come most pointedly from congressional sources. Members of Congress who believe that the Taiwan Relations Act (TRA) is outdated pushed the Clinton White House to be more assertive in arms sales to Taiwan and to take other steps to enhance Taiwan's security. Initially, with the election of the Bush Administration and its promise of a more sympathetic policy toward Taiwan, it appeared that pressure from Congress would be reduced. Nevertheless, bipartisan policy initiatives continued in the 107th Congress. On April 9, 2002, Representatives Dana Rohrabacher (R), Robert Wexler (D), Steve Chabot (R), and Sherrod Brown (D) announced the formation of a Congressional Taiwan Caucus comprised of over 80 House Members, the purpose of which is to focus increased policy attention on Taiwan's situation. The 108th Congress also is actively considering measures seeking to reinforce or expand on U.S.-Taiwan ties. (See Legislation section below.)

The more assertive U.S. role and the fluctuating and opportunistic Taiwan political scene raise the stakes for U.S.-China-Taiwan relations. A few observers have suggested that some Members of Congress now may seek legislatively to put the brakes on more assertive White House actions that they feel could raise cross-strait tensions. In addition, some in Congress may assert that the current complexity of the Taiwan political environment argues for U.S. caution. On the other hand, the full Republican majority in the 108th Congress may seek to support even more fully Bush Administration policy priorities on Taiwan, although in the past U.S. actions in support of Taiwan have attracted support from both sides of the aisle. In the near term, however, it appears that both U.S. and Taiwan actors will continue efforts to push the United States into ever greater activism on behalf of Taiwan.

LEGISLATION

P.L. 108-28 (H.R. 441/S. 243)

A bill to amend P.L. 107-10 to authorize a U.S. plan to endorse and obtain observer status for Taiwan in the World Health Organization (WHO) at the annual summit of the World Health Assembly (WHA) in Geneva in May 2003. The bill was introduced on January 29, 2003, and referred to the House Committee on International Relations, which held mark-up on March 5, 2003. The House considered the bill under the suspension calendar on March 11, 2003, passing it by a vote of 414-0. On April 9, 2003, the Senate Committee on Foreign Relations favorably reported S. 243, which the Senate passed by unanimous consent on May 1, 2003. That bill was sent to the House International Relations Committee, which was discharged on May 14, 2003 on a motion by Representative

Rohrabacher. The House passed the measure on May 14, 2003, and the bill was presented to the President for signature on May 21, 2003. The President signed the bill into law on May 29, 2004, and it became P.L. 108-28. Prior to this, on May 18, 2003, the United States announced it would back Taiwan's bid for observer status at the WHO Geneva meeting.

H.Con.Res. 98 (Ramstad)

Expressing the sense of Congress that the United States should enter into negotiations with Taiwan for a free trade agreement. Introduced on March 18, 2003, the measure was referred to the House Ways and Means Committee.

H.Con.Res. 117 (Wexler)

Expressing the sense of Congress that the United States should reaffirm its commitment to the Taiwan Relations Act as the foundation of U.S. relations with Taiwan. Introduced on March 25, 2003, and referred to House International Relations Committee.

H.Con.Res. 242 (Andrews)

Expressing the sense of Congress that the United States should continue to express grave concern to Chinese officials about the PRC's increasing missile deployments opposite Taiwan. Introduced June 26, 2003. Referred to House International Relations Committee.

CHRONOLOGY

- 08/15/03** — The Mainland Affairs Council released its report, "Assessment of the Impact of Direct Cross-Strait Transportation." The text can be found at the website [<http://www.mac.gov.tw/english/english/macnews/dlink.htm>].
- 07/15/03** — The U.S. Centers for Disease Control lifted its SARS-related travel advisory for Taiwan.
- 07/05/03** — The WHO lifted the travel advisory it had issued on May 8, 2003, for Taiwan.
- 05/26/03** — Taiwan's Ministry of Health announced only 15 new SARS cases. The announcement followed by one day the resignation of Taipei city's health commissioner, Ms. Chiu Shu-ti. Ms. Chiu was the second Taiwan official in May to resign under heavy criticism because of the SARS outbreak.
- 05/08/03** — The WHO extended its SARS-related travel advisories to include Taiwan.
- 04/27/03** — Taiwan announced its first SARS death. Government officials also announced they were temporarily stopping issuing visas to visitors from SARS-infected places, including China, Hong Kong, Singapore, and Canada.
- 02/15/03** — Taiwan news accounts announced that KMT leader Lien Chan and PFP leader James Soong would combine forces in a single presidential ticket to challenge current President Chen Shui-bian, leader of the DPP party, in the March 2004 presidential election.

- 01/26/03** — For the Chinese New Year, a chartered Taiwan flight landed in the PRC for the first time since 1949 in the first of 16 such flights planned through February 9, 2003.
- 12/07/02** — In mayoral elections, KMT favorite Ma Ying-jeou handily won re-election as mayor of Taipei, while DPP candidate Frank Hsieh was re-elected mayor of Kaohsiung.
- 09/04/02** — A delegation of KMT and PFP legislators from Taiwan began a visit to the United States with the goal of increasing inter-parliamentary exchanges.
- 08/03/02** — Taiwan's President, Chen Shui-bian, referred in a speech to Taiwan and China being two different countries, and called for a national referendum on Taiwan's status.
- 06/24/02** — A delegation of Taiwan military officials met in Washington with U.S. defense officials to discuss security cooperation and Taiwan's defense needs.
- 04/09/02** — U.S. Members of Congress announced the formation of a Congressional Taiwan Caucus, with over 80 Members.
- 03/12/02** — Taiwan's Defense Minister, Tang Yiao-ming, left the United States after a three-day defense conference including meetings with Deputy Secretary of Defense Paul Wolfowitz and Assistant Secretary of State James Kelly.
- 01/01/02** — Taiwan enters the WTO.
- 12/01/01** — In national legislative elections, the DPP won 87 legislative seats in the 225-member body to the KMT's 68 seats.
- 07/24/01** — Supporters of the former President, KMT member Lee Teng-hui, announced the formation of a new political party, the Taiwan Solidarity Union (TSU).
- 04/25/01** — In an ABC television interview, President Bush said that he would use the U.S. military to do "whatever it takes" to help Taiwan defend herself.
- 04/24/01** — The Bush Administration announced it would sell Taiwan defense articles, including diesel submarines, P-3C anti-submarine aircraft, and Kidd-class destroyers.
- 01/02/01** — For the first time in more than 5 decades, 3 Taiwan ships left Quemoy and Matsu and later docked in the Chinese ports of Xiamen and Fuzhou.
- 08/17/00** — Taiwan's President Chen made a transit stop in Los Angeles. Invited to dine with Members of Congress, Chen declined under pressure from Clinton Administration officials.
- 05/20/00** — Chen Shui-bian was inaugurated as Taiwan's newly elected president.

- 03/18/00** — In presidential elections in Taipei, DPP candidate Chen Shui-bian won with approximately 39% of the vote.
- 02/21/00** — The PRC issued a White Paper, “The One-China Principle and the Taiwan Issue,” with a mix of conciliatory gestures and a new threat that Taiwan’s indefinite delay in cross-Strait talks may prompt use of force by the PRC.
- 02/01/00** — The House passed H.R. 1838, the Taiwan Security Enhancement Act, by a vote of 341-70.
- 11/17/99** — The ruling Kuomintang (KMT) Party expelled presidential candidate James Soong and six of his key staff.
- 07/09/99** — Taiwan’s President, Lee Teng-hui, said that ties between Taiwan and the PRC should be conducted on a “state-to-state” basis.
- 04/19/99** — Taiwan DPP leader Chen Shui-bian began several days of seminars and meetings in Washington, DC.
- 02/17/99** — The U.S. Defense Department issued a congressionally mandated report on rising military strengths on both sides of the Taiwan Strait.
- 10/23/98** — Secretary of Defense William Cohen had an unofficial meeting with Taiwan’s armed forces chief of staff then visiting Washington.
- 10/19/98** — Taiwan negotiator Koo Chen-fu left Beijing after talks with Chinese party leader Jiang Zemin and other senior officials.
- 03/10/96** — The Pentagon disclosed that two U.S. carrier battle groups had been ordered to the Taiwan area.
- 03/08/96** — PRC forces began holding ballistic missile exercises in two impact areas near Taiwan. The actions were condemned by Congress and the Administration.
- 05/22/95** — Yielding to congressional pressure, President Clinton decided to allow Taiwan’s president to visit the United States the following month.

FOR ADDITIONAL READING

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