

**CHAPTER 4**  
**CHINA IN ASIA**  
**SECTION 1: TAIWAN**

“The Commission shall investigate and report on—

“REGIONAL ECONOMIC AND SECURITY IMPACTS—The triangular economic and security relationship among the United States, [Taiwan], and the People’s Republic of China (including the military modernization and force deployments of the People’s Republic of China aimed at [Taiwan]), the national budget of the People’s Republic of China, and the fiscal strength of the People’s Republic of China in relation to internal instability in the People’s Republic of China and the likelihood of the externalization of problems arising from such internal instability.”

In August 2007 a Commission delegation traveled to Taiwan to review important issues and developments in the United States’ economic and security relationship with the island, the status of Taiwan’s relationship with the People’s Republic of China, and whether U.S. commitments to Taiwan under the 1979 Taiwan Relations Act (TRA) are being upheld. During the trip, Commissioners visited both Taipei and Kaohsiung where they had conversations with senior representatives of Taiwan’s governing authority, academicians and policy experts, officials of the American Institute in Taiwan, American businessmen working in Taiwan, and others about U.S.-Taiwan bilateral relations, Taiwan’s economic and trade relationship with the United States and the PRC, Taiwan’s self-defense capabilities, and political developments on the island. In some cases, this Commission report will not attribute statements to individuals at their request to protect their anonymity.

**Why Taiwan is Important to the United States**

The island of Taiwan is home to more than 23 million people from a variety of ethnic and religious backgrounds. Over the last several decades, the island has transformed itself from an agrarian economy ruled by a single party to a full-fledged, vigorous democracy with world-class industry and a burgeoning high-tech sector. Living standards, political enfranchisement, and opportunities for Taiwan’s people have grown significantly, as has the island’s relationship with the United States.

Taiwan's young democracy has been lauded as a successful democratic system.<sup>1</sup> Following the end of martial law in 1991, the island conducted its first Presidential election in 1996. Four years later, in 2000, Taiwan experienced its first peaceful transfer of Presidential power. Policymakers and academics often cite Taiwan's success in establishing a functioning democratic governmental system as demonstrating that Chinese culture and democracy are compatible.

Protection of human rights, adherence to rule of law, and freedom of expression also have grown substantially on the island over the last several decades. Freedom House, a nongovernmental organization that evaluates the degree of freedom accorded to the citizens of all nations, labels Taiwan as a free society.<sup>2</sup> In a recent U.S. Department of State report on human rights, Taiwan received high marks for privacy rights, freedom of speech and the press, freedom of religion, freedom to assemble, and Internet freedom.<sup>3</sup> In those areas where the report identified deficiencies, including high levels of violence towards women, child abuse, and human trafficking,<sup>4</sup> Taiwan's political leaders have made commitments to make further progress.<sup>5</sup>

Taiwan's importance to the United States as an economic partner has grown significantly over the last twenty years. Between 1986 and 2006, bilateral trade between Taiwan and the United States has increased in total value more than ten-fold (in dollars unadjusted for inflation), from US\$5.5 billion to US\$61.2 billion,<sup>6</sup> and Taiwan currently stands as the United States' eighth largest trading partner.<sup>7</sup> (It ranked sixth in 1986.<sup>8</sup>) Taiwan's importance as a producer of high technology products is well known. The Institute for International Economics reports that Taiwan's "IT sector is a source of strength both to Taiwan itself and to consumers of IT products in the United States."<sup>9</sup>

Underpinning the U.S. relationship with Taiwan is the Taiwan Relations Act (TRA). When the United States established official diplomatic relations with the People's Republic of China in 1979, the TRA was enacted to redefine the U.S. relationship with Taiwan after American derecognition. The TRA also describes U.S. security commitments to the island and requires the United States "to provide Taiwan with arms of a defensive character" and "to maintain the capacity of the United States to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of the people of Taiwan."<sup>10</sup>

The United States has an interest in maintaining peace and stability in the Taiwan Strait. According to a speech given by Deputy Assistant Secretary of State Thomas Christensen on September 11, 2007, "As a Pacific power with global interests and obligations, the United States has a natural interest in peace throughout Asia. Because the Taiwan Strait is a potential flashpoint for conflict, the area demands [the United States'] constant attention."<sup>11</sup> Successive U.S. Presidents also have affirmed America's interest in Taiwan.

American allies in the region often monitor this relationship to gauge U.S. attitudes on East Asian security. Indeed, one knowledgeable source referred to Taiwan as a "canary in the coal mine." The U.S.-Taiwan relationship, and the way in which the United

States addresses it, are of particular importance to Japan—which sees the possibility of future strategic competition or even an adversarial relationship with China, and which views its alliance with the United States as being vital to Japanese interests in many of the same ways that Taiwan’s relationship with the United States is vital to Taiwan’s survival as a self-governing democracy. In 2005 Japan joined the United States in issuing a statement<sup>12</sup> that Taiwan and the Taiwan Strait are a “common security concern” for both nations and that easing tensions across the Strait is a “common strategic objective.”

Taiwan is situated roughly 100 miles from the coast of China’s Fujian province, 200 miles north of the Philippines, and 300 miles southwest of Okinawa. Because of its location, some PRC military strategists have suggested it would be of value to the PRC in extending its “defensive” perimeter and improving its ability to influence regional sea lines of communication.<sup>13</sup> According to one PLA military science text:

*If Taiwan should be alienated from the mainland, not only [would] our natural maritime defense system lose its depth, opening a sea gateway to outside forces, but also a large area of water territory and rich resources of ocean resources [sic] would fall into the hands of others. . . . [O]ur line of foreign trade and transportation which is vital to China’s opening up and economic development will be exposed to the surveillance and threats of separatists and enemy forces, and China will forever be locked to the west of the first chain of islands in the West Pacific.<sup>14</sup>*

### **Taiwan Political Situation**

Taiwan as a political entity is formally known as the Republic of China (ROC), and traces its roots back to the fall of China’s Qing Dynasty in 1911. The government of the ROC ruled all of China until 1949 when, after several key defeats by Communist forces under Mao Zedong during the Chinese Civil War, the ROC ruling party, the Kuomintang (KMT), and its military commander and political leader Chiang Kai-shek retreated to Taiwan and established a government in exile. For the next several decades Chiang and the KMT governed Taiwan. Early in the KMT’s rule, the ROC government responded with force to an uprising among the local population, known as the “228 Incident,” which killed thousands of native Taiwanese. While the ROC’s rule on Taiwan became less violent over time, the single-party government continued martial law. The legacy of this period is still evident today in political rifts between elements of Taiwan’s society.

After martial law ended in 1991 and political reforms were instituted throughout the 1990’s, democracy took root in Taiwan. Its first Presidential elections took place in 1996 and the KMT’s candidate was elected, but four years later, in 2000, a member of the opposition Democratic Progressive Party (DPP), former Taipei mayor Chen Shui-bian, was elected President. His election ended fifty years of KMT power in Taiwan, and was hailed as a significant milestone in Taiwan’s democratization.

President Chen had campaigned on a platform of declaring Taiwan's independence from mainland China. However, during his first term as President, he distanced himself from that pledge in order to lower cross-Strait tensions. This change was reflected in his "Four No's Plus One"<sup>15</sup> statement issued at his inauguration. Eighteen months after President Chen's election, the KMT lost direct control of Taiwan's legislature, the Legislative Yuan (LY), although the party managed to retain a slim majority by "cobbling together a working coalition from its own remnants."<sup>16</sup> This coalition of the KMT and former KMT factions, known as the Pan-Blue Coalition, has since maintained control of Taiwan's LY. The legislative-executive split has produced "political stalemate and infighting [that have] continued to characterize Taiwan's political scene."<sup>17</sup>

President Chen was reelected narrowly in 2004, and his second term has been considerably more contentious than his first. Taiwan's LY has experienced near-constant deadlock regarding major issues since 2004, and a series of scandals have hit President Chen's family.<sup>18</sup> Furthermore, President Chen has seemingly backed away from his "Four No's Plus One" pledge; in 2005 he "ceased the functioning of"<sup>19</sup> the National Unification Council and Guidelines that the "Four No's" pronouncement said would never be eliminated. President Chen also is planning an island-wide referendum on applying for United Nations membership under the name "Taiwan," a move Beijing asserts violates both its "One China Principle" and a vow President Chen made not to change the island's formal title. Numerous times the U.S. government has concluded it is necessary to distance itself from President Chen's statements or stated objectives, and on occasion has directly criticized his stances or comments pertaining to independence.

Two major elections will take place in Taiwan in 2008. In January, members of the Legislative Yuan will be elected, and in March 2008, Taiwan voters will elect a new President. The LY elections will usher in an extension of the terms of legislators from three to four years, which will bring the LY's electoral cycle in sync with Taiwan's Presidential election cycle; shift the LY to single-member districts; and reduce by half the number of seats—from 225 to 113.

Taiwan's Presidential elections are scheduled in March 2008. As has been true for all Presidential contests in Taiwan in recent years, the major issues for this election to date have been Taiwan's political status and its relationship with the PRC. The DPP historically has favored independence, while the KMT has been more accepting of Chinese concerns. It is widely agreed that no candidate will win the election without the support of centrist voters who typically embrace the status quo of *de facto* Taiwan independence. Issues like constitutional reform, strengthening Taiwan's economy, and fighting corruption also are playing a part in the campaign.

The DPP has nominated former Kaohsiung mayor Frank Hsieh as its candidate for President. Mr. Hsieh is perceived as slightly more moderate than President Chen on cross-Strait issues, particularly on trade and investment links, although he is supporting President Chen's contentious referendum on applying for U.N. membership under the name "Taiwan."<sup>20</sup> His platform includes continued efforts to modernize Taiwan's military and a willingness to appropriate the necessary funds to do so.<sup>21</sup> Mr. Hsieh also has

promised to improve Taiwan's relationship with the United States. He recently visited Washington to meet with Administration officials and Members of Congress on a trip he entitled "the trip of love and trust."<sup>22</sup>

The KMT has nominated former Taipei mayor Ma Ying-jeou as its candidate. Mr. Ma is campaigning on a different approach to cross-Strait relations. At a meeting with the Commission's delegation in August 2007, he denounced President Chen's U.N. referendum and promised to improve Taiwan's relationship with the PRC. Mr. Ma said that he hopes to negotiate a "peace agreement" with Beijing and wants to deepen economic integration with the PRC, perhaps even forming a common market.<sup>23</sup> Mr. Ma's approach to the cross-Strait relationship causes some to question his level of commitment to further strengthening Taiwan's military. Mr. Ma responds that a better relationship with the PRC will result in a reduced need for military forces and investments in them. He also insists that any agreement with the PRC would be predicated on Beijing removing its missiles targeting Taiwan from across the Taiwan Strait.<sup>24</sup>

The outcome of the coming elections will have a major impact on U.S. policies in the region. The U.S. government officially is neutral in the 2008 elections, and sees it as fortunate that both Presidential candidates have taken more moderate stances on cross-Strait issues than President Chen, which could help cool tensions between Taipei and Beijing.

## **Status of Cross-Strait Relations**

### ***Political relations***

For decades Taipei and Beijing have been at odds over conflicting claims to sovereignty. China's "One China Principle" declares that Beijing is the legitimate authority for all China, including the island of Taiwan. The United States chose to acknowledge Beijing's perspective in the 1979 U.S.-China Joint Communiqué, but did not say it agreed with that perspective. For itself, the U.S. government has taken no position on Taiwan's sovereignty. Neither major political party in Taiwan accepts the "One China Principle" as stated by the PRC.

Since its political liberalization, Taiwan's people have reassessed the nature of their national character and their relationship to the PRC. While Taiwan has derived much of its culture from mainland China, its people increasingly see themselves as no longer strictly "Chinese" and instead have begun to embrace a national identity that is independent of the mainland.<sup>25</sup> This change of views has been encouraged by the DPP. Many Taiwan residents, however, recognize the risk of antagonizing the PRC on an issue that greatly matters to it, and with respect to which its leadership effectively has painted itself into a corner, leaving it little choice but to respond with armed force if Taiwan pursues the issue of independence.<sup>26</sup> For this reason, the majority of Taiwan residents prefer for their government not to push the matter too far, but instead to continue to enjoy *de facto* independence.

From the Chinese perspective, Taiwan historically has been, and remains, intrinsically a part of China. Beijing argues that it is Tai-

wan's legitimate sovereign and readily cites a multitude of international documents it says support this assertion.<sup>27</sup> China's Propaganda Department frequently uses Taiwan to externalize domestic problems and distract Chinese citizens from focusing on salient issues at home.<sup>28</sup>

No high-level meetings between PRC and Taiwan officials have been held since 1992, when they met in Hong Kong to discuss the nature of their conflicting claims to sovereignty—which is seen as a high point in cross-Strait relations. Since that time, China has demanded that Taiwan acknowledge what Beijing calls the “1992 Consensus” regarding the PRC's “One China Principle” as a precondition for further negotiations, and Taiwan has refused.<sup>29</sup> While there have been no high-level meetings in over a decade, some peripheral progress in China's and Taiwan's bilateral relationship has been achieved. For example, postal, transportation, and economic links across the Strait have been established and then expanded and enhanced. Recently, Beijing and Taipei agreed to permit direct annual charter flights across the Strait.

In March 2005 Beijing enacted the Anti-Secession Law that typifies the way China has dealt with Taiwan. The law codified Beijing's longtime threat to use “non-peaceful means” to regain control of Taiwan in the event Taiwan declares independence, or Beijing concludes that all possibility of peaceful unification is lost.<sup>30</sup> The law met with international criticism and fueled massive protests in Taipei. Beijing had hoped to strongly warn Taiwan's leadership not to further distance Taiwan from PRC claims to the island, but instead the action catalyzed support among Taiwan's people for many of the policies it had aimed to deter.

PRC actions like the Anti-Secession Law fuel responses from Taipei. President Chen recently has sought U.N. membership under the name Taiwan, and currently is advocating a referendum in Taiwan to assess the population's wishes on that matter—despite the U.N.'s rejection of Taiwan's prior requests for membership. China, to date, has refrained from significantly worsening the situation by threatening the island with force, and instead has voiced concern to the United States and asked for it to intercede with the Chen government to persuade it to halt this effort. In September 2007 Deputy Assistant Secretary of State Christensen characterized the referendum as a “needlessly provocative action” and said the United States “opposes such an initiative strongly.”<sup>31</sup> Thus far, President Chen has been unresponsive to U.S. concerns.

It is important for concerned observers of the PRC-Taiwan dialogue to understand that the rhetorical intensity in recent months can be better understood in the context of the political situation in both locations. In October 2007 the PRC held its 17<sup>th</sup> Party Congress. In the lead-up to Party Congresses, China's leadership traditionally has made strong statements on the Taiwan issue, and taken related actions intended to rally support around the CCP and to stimulate nationalism. For example, China's President Hu Jintao recently promoted several PLA generals who have been responsible for China's Taiwan military contingencies. As noted above, Taiwan will conduct both Presidential and Legislative Yuan elections early in 2008, and its politicians traditionally have made

aggressive statements about Taiwan's status as Presidential and legislative elections draw nearer.

### ***Economic relations***

While the political relationship between Taiwan and the PRC has been tense for the past 50 years, businesses in both places have acted in ways that increasingly have tied the two economies to each other. It is estimated that one million Taiwan citizens live and work in China.<sup>32</sup> For the last several decades entrepreneurs from Taiwan steadily have invested large sums of money in the PRC. While Taiwan has laws to regulate the volume and composition of these investments, Taiwan businesspeople are circumventing these rules by investing through intermediaries situated outside the legal reach of Taiwan's control (such as in the Cayman and Virgin Islands). Most knowledgeable experts estimate that Taiwan has somewhere between US\$150 billion and US\$250 billion<sup>33</sup> invested across the Strait (as a point of comparison, the United States has invested only US\$48 billion in China), a number well above the officially approved limit of US\$58 billion.<sup>34</sup> China is estimated to be dependent on Taiwan for as much as one-tenth its total FDI,<sup>35</sup> making Taiwan China's largest investor.<sup>36</sup> Such investments create and nurture very strong links by establishing a heavy degree of economic interdependence between Taiwan and the PRC. Some believe these ties may serve as a stabilizing force across the Strait, with both sides understanding that the blow to the standard of living and the social upheaval resulting from an armed conflict would be very costly. The economic links have brought with them peripheral improvements in relations, or at least pressures to make real efforts to achieve such improvements, such as establishing regular direct cross-Strait flights. KMT Presidential candidate Ma has gone so far as to propose establishing a common market with the PRC if he is elected in March.<sup>37</sup>

### **Taiwan's Security**

#### ***Military preparedness and deterrence***

Over the last several decades the balance of military power across the Taiwan Strait has shifted significantly in the PRC's favor. Taiwan's defense spending has declined steadily as a percentage of Taiwan's GDP over the last decade, while a surge in China's People's Liberation Army (PLA) expenditures and capabilities—particularly those directly associated with Taiwan—have outpaced the island's defensive abilities.<sup>38</sup> The reality is that Taiwan simply is incapable of winning an arms race with China. Because of this, Taiwan has concentrated its defense efforts and investments on capabilities designed to hold off the PLA until U.S. and possibly other allied forces can arrive to help halt an attack and repel an invasion. Ultimately, Taiwan's entire defense strategy is rooted in U.S. military intervention.

Then-Secretary General of Taiwan's National Security Council Mark Chen described recent trends in cross-Strait military asymmetries when he met in August 2007 with the Commission delegation to Taiwan. "In 2000 the PLA had 200 ballistic missiles

pointed at Taiwan from across the Strait; today they have over 1000.”<sup>39</sup> He acknowledged that Taiwan is incapable of effectively countering China’s surge in capabilities and resources. Taiwan’s Defense Minister, Lee Tian-yu, reinforced Secretary General Chen’s remarks, saying that in every war game Taiwan has conducted, it has lost to the PLA when it has fought alone. Regardless of this, Minister Lee declared that “Taiwan still has teeth and will certainly fight until the end—we will damage them severely.”<sup>40</sup>

Critics of Taiwan’s defense efforts typically cite a general decline in the percentage of Taiwan’s GDP it has allocated to the island’s defense budget (that stands at 2.85 percent of GDP).<sup>41</sup> President Chen has vowed to increase that budget to three percent of GDP before leaving office, and the Legislative Yuan recently approved an increase to US\$9.21 billion, a 20.8 percent increase from the previous year.<sup>42</sup>

While its level of defense expenditures is one indication of the seriousness with which Taiwan approaches the challenge of defending itself, close observers do not believe expenditures alone reliably and accurately convey the full picture. Taiwan has made significant strides to enhance its defense capabilities in recent years by investing in a variety of weapon systems produced both domestically and abroad, including indigenously-produced CM-32 “Cloud Leopard” armored personal carriers and KH-6 fast attack missile boats, and a variety of sophisticated electronics equipment it has purchased from the United States. Taiwan also has modernized the structure of its military by creating a non-commissioned officer corps, augmenting its early warning radar systems, expanding its ballistic missile defense capabilities, and enhancing contingency training for its forces.

The United States is mindful of the reality that Taiwan cannot long survive an attack or invasion by the PRC without intervention by U.S. and possibly other allied forces. Any success in defeating PRC aggression against Taiwan will be greatly aided by the degree to which Taiwan and the forces of other nations that intervene on its behalf are able to coordinate and share the tasks of such an effort. For this reason, the United States has urged Taiwan to enhance its ability to conduct joint operations with allied forces, and Taiwan has made significant progress toward this goal. U.S. forces have been advising Taiwan military planners on how to conduct joint operations and have sent observers to Taiwan’s Han Kuang military exercises for the last several years.

Reflecting considerations that have guided its own defense policy and procurements, the United States has urged Taiwan to increase its use of, and integrate in its doctrine, enhanced command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR)<sup>43</sup> abilities, so that its forces can be utilized most efficiently, effectively, and quickly against an adversary. Taiwan has taken significant steps to employ these force multipliers.

**Taiwan's Net-Centric Warfare Capabilities  
and the Po-Sheng Project**

With U.S. government assistance and approval for the involvement of U.S. defense contractors, Taiwan has been engaged in a major project to modernize its command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) warfare capabilities. During the visit of a Commission delegation to Taiwan in August 2007, Taiwan's Ministry of National Defense briefed the delegation on these efforts and demonstrated some of its new C4ISR capabilities. A major example is the multibillion U.S. dollar modernization project known as "Po-Sheng" or "Broad Victory," which has significantly advanced Taiwan's C4ISR capabilities, and therefore has enhanced the reach and lethality of its defensive forces. It is designed to enable Taiwan to reduce its losses in a conflict, slow the advancement and effect of PLA forces, and extend the amount of time available for the United States and other allies to decide whether to join Taiwan in a coordinated defense and, if so, for their forces to arrive and engage. The program is still underway and further improvements are expected to be realized.

The key controversy in Taiwan's defense spending is associated with an arms package offered to Taiwan in 2001 with Bush Administration approval. The original package, valued at US\$18 billion, was composed of eight diesel-electric submarines, 12 P-3C Orion anti-submarine warfare (ASW) aircraft, and a Patriot Advanced Capability 3 (PAC-3) surface-to-air missile system. This proposal became a political football between the DPP presidency and the KMT-led Legislative Yuan. After the LY Procedural Committee rejected previous proposals more than 100 times, a compromise was reached in June 2007 that allocates funding to purchase the P-3C aircraft, upgrade a number of older PAC-2 missiles and their equipment, and conduct a feasibility study for the submarine package. The LY also approved initial funding for the procurement of additional F-16 fighters from the United States; however, the Bush Administration to date has not approved this request.<sup>44</sup>

Another controversy regarding Taiwan's defensive capability is the question of whether the island should develop its own counterstrike capabilities. Currently, Taiwan has only a limited ability to counterattack targets on China's mainland in the event of PRC aggression. Some within Taiwan's defense establishment believe Taiwan can significantly challenge Beijing's willingness to use force against the island by developing powerful conventional counterstrike abilities targeted on significant PRC military, economic, and population centers.<sup>45</sup> The United States has opposed such measures, arguing that deployment of long-range missiles capable of striking targets on the mainland would not contribute to the island's ability to deter China; likely would provide only limited operational benefits; and could further complicate the already daunting escalation-control problems that would face the United States and others in the event of a cross-Strait conflict.<sup>46</sup> Proponents of the counterstrike missiles respond that the system

would be cheaper and more effective than purchasing expensive defensive weapon systems like the PAC-3 to blanket the island and shield it from PLA missile strikes.

### ***Container Security Initiative in Taiwan***

While Taiwan does not face serious threats from acts of international terrorism, it is committed to keeping the island from becoming a springboard for such activities, according to Mr. Kuo Lin-wu, the Director of Taiwan's Counterterrorism Office, with whom Commissioners met in Taipei.<sup>47</sup> Taiwan, therefore, is cooperating with the United States on a variety of initiatives to secure the international shipping system from acts of terrorism. It currently is participating in the U.S. Container Security Initiative (CSI) intended to scrutinize the contents of all shipping containers destined for the United States before they reach U.S. ports; it has agreed to participate in the Megaports Initiative that will screen shipments for nuclear and other radiological materials; and it has expressed interest in joining the Proliferation Security Initiative (PSI) the United States established to coordinate international efforts to interdict suspected shipments of WMD, WMD components, and equipment that could be used to manufacture WMD.

#### **Port Security in Taiwan: Kaohsiung Harbor**

While in Taiwan in August 2007, the Commission delegation visited the island's largest port facility which is in Kaohsiung—Taiwan's second most populous city located near the southern end of the western side of the island. The Port of Kaohsiung is one of the world's largest and busiest ports, handling 57 percent of Taiwan's international trade volume and more than 73 percent of the island's container traffic.<sup>48</sup> The facility receives the majority of Taiwan's petrochemical imports (which are refined locally), and contains a major Free Trade Zone (FTZ).<sup>49</sup> Because of the export-oriented nature of Taiwan's economy, the port is of vital importance to the island.

Due to the high levels of trade between the United States and East Asia, the Port of Kaohsiung is important to the United States as well. Because the harbor's deep waters can be used by the largest container ships—which are able to move goods efficiently across the Pacific—cargo from other ports in the region that lack Kaohsiung's facilities and deep waters often is transshipped through Kaohsiung, where it is moved from smaller ships onto larger trans-ocean ships. The facility is a major hub for ocean-going freight between North America and East Asia.

Ships leaving this harbor dock at ports in Vancouver, Seattle, San Francisco, Oakland, Los Angeles, Long Beach, San Diego, Boston, New York, Baltimore, and New Orleans. U.S. Customs and Border Protection of the Department of Homeland Security reports that the harbor handled 369,500 direct shipments and 716,000 transshipments to the United States in the year 2006.<sup>50</sup>

### **Port Security in Taiwan: Kaohsiung Harbor—Continued**

Due to the high volume of shipments leaving Kaohsiung destined for the United States, the United States has sought Taiwan's cooperation on a variety of port and shipping security programs. Under the U.S. Customs and Border Protection's Container Security Initiative, the paperwork for all container shipments bound for the United States is examined. All Bills of Lading are checked, suspect containers are x-rayed, and some containers are physically inspected.<sup>51</sup> The port also has agreed to participate in the U.S. Megaports initiative. Twenty-five radiation detectors are being installed throughout the port facility to monitor shipments for dangerous nuclear and radiological cargo. Personnel at the Kaohsiung office of the American Institute in Taiwan commended Taiwan authorities for their help and responsiveness, saying that no other port in the world has been more cooperative.<sup>52</sup>

### ***Diplomatic efforts***

Taiwan's democratization has brought with it the classic "guns versus butter" argument. According to Ms. Elizabeth Hague, who was a China research analyst at the RAND Corporation, politicians in Taiwan, especially those affiliated with the KMT, have argued that more money should be spent on social welfare programs rather than given to the military.<sup>53</sup> The realization that it cannot spend limitless sums on its military is one reason Taiwan has placed great emphasis on maintaining "soft power" through preserving the commitment and support of its allies, and by trying to prevent erosion in the number of nations that recognize it diplomatically.

Taiwan currently counts 24 nations that diplomatically recognize the Republic of China, rather than the People's Republic of China, as the legitimate sovereign of greater China. Recently, Taiwan's Foreign Minister James Huang explained that diplomatic allies not only afford Taiwan a degree of national pride, but also strengthen Taiwan's position in any negotiation with the PRC because they enable Taipei to deal with Beijing on an equal footing.<sup>54</sup> The PRC has gone to great efforts, using large packages of various kinds of aid and other inducements, to persuade those nations that recognize the Republic of China to switch their recognition. Taiwan believes its only realistic response is to make counteroffers. To date, Taiwan's "dollar diplomacy" has prevented the PRC from vanquishing Taiwan in this competition, but the PRC slowly is winning what has become a war of attrition by utilizing an array of inducements with which Taiwan simply is unable to compete.

Taiwan and the PRC also have been engaged in a series of diplomatic skirmishes, with Taiwan working to increase its acceptance and participation in international organizations, and the PRC working just as assiduously to deny membership and participation in such organizations to Taiwan. A member of the United Nations until its seat was taken by the PRC in 1971, Taiwan since that time has applied for membership 15 times and has been denied on each occasion. China works actively to oppose Taiwan's inclusion.<sup>55</sup>

Taiwan also has been denied membership in the World Health Organization (WHO) for similar reasons.

Taiwan is working on another front to maintain a place in the international system and prevent the PRC from isolating it. Taiwan's leaders have been advocating the establishment of Free Trade Agreements (FTA) with nations with which it has strong economic relations, notably including the United States. Not surprisingly, Beijing objects, and is working to dissuade nations from entering into such agreements with Taiwan.<sup>56</sup> Taiwan believes such an agreement with the United States would benefit both parties economically and encourage other nations to brave Beijing's objections to establish comparable arrangements with Taiwan. Taiwan fervently believes this would have very significant salutary economic and diplomatic effects.

The Bush Administration thus far has not been enthusiastic about the prospect of a U.S.-Taiwan FTA. Ambassador Karan Bhatia, Deputy U.S. Trade Representative, has said that achieving such an agreement will be difficult not only because Trade Promotion Authority (TPA)<sup>57</sup> has expired, but also because Taiwan still must correct a number of economic problems in several fields that would make such an agreement unworkable for the United States, such as "intellectual property rights, pharmaceutical pricing regulations, government procurement, agricultural trade, and telecoms sector regulations."<sup>58</sup> The Administration also believes that such an FTA would complicate relations with China. While few individual U.S. businesses have openly supported establishing an FTA with Taiwan, both the American Chamber of Commerce in Taipei and the U.S.-Taiwan Business Council have expressed support for the proposal.<sup>59</sup>

### Conclusions

- Taiwan's 2008 Presidential and legislative elections raise a number of significant issues in cross-Strait and U.S.-Taiwan relations.
- Tensions between Taiwan and China have created an emotionally-charged stand-off that risks armed conflict if not carefully managed by both sides. Such a conflict could involve the United States.
- Economic links between Taiwan and China have grown significantly over the last several decades. Currently, it is estimated that Taiwan businesses have between US\$150 billion and US\$250 billion invested in the PRC, accounting for one-tenth of China's total foreign direct investment and making Taiwan China's largest investor. Some think these economic links act as a stabilizing force, while others are concerned that they strengthen China's military-industrial complex to the potential detriment of Taiwan.
- Although Taiwan's defense spending has declined as a percentage of GDP, it has continued to enhance its self-defense capabilities in meaningful ways. The United States has been encouraging Taiwan to enhance its ability to engage in joint and combined operations, and to expand and improve its C4ISR abilities,

naval operations, and missile defense. Taiwan has made notable progress in some of these areas.

- Partisan politics in Taiwan have prevented the achievement of a consensus concerning which steps it needs to take and what weapon systems it needs to acquire to give it optimum defensive capability. This weakens its ability to deter Chinese aggression.
- Taiwan desires to establish a Free Trade Agreement (FTA) with the United States. It sees such an agreement as offering not only economic benefits but also diplomatic leverage it believes will be crucial to preventing the PRC from further isolating the island. For a number of reasons, the Administration has indicated it currently is unable to move forward on an FTA with Taiwan.