PART 1: TAIWAN

The Significance of Taiwan to the United States

After two decades of political reform, Taiwan has emerged as one of the most open societies in Asia, with a free press, regular democratic elections, and highly contentious public debates over the island's future course. Such shared democratic values give Taiwan a natural affinity with the United States. Taiwan also remains an important economic partner of the United States, ranking as the eleventh-largest U.S. trading partner for the first seven months of 2008.[132] During this same period, Taiwan exported goods worth $21.29 billion to the United States. It imported goods from the United States worth $16.79 billion during this period,[133] which equates to approximately $730 of U.S. goods per capita, as compared to approximately $33 per capita for mainland China.[134] The presence in the United States of large Taiwan-American communities, and the large number of U.S. citizens with ancestry in Taiwan, also contribute to extensive familial and cultural linkages between the United States and Taiwan. During the course of a visit to Taiwan by members of the Commission in August 2008, Taiwan's President Ma Ying-jeou and his senior officials repeatedly and forcefully expressed their desire to improve relations with the United States following the relatively strained U.S.-Taiwan ties seen in recent years under former President Chen Shui-bian.

Although the United States withdrew diplomatic recognition from the government of Taiwan when it recognized the People's Republic of China (PRC) in January 1979, the United States has formally expressed an interest in both the security of Taiwan and in a peaceful resolution of Taiwan's status. The Taiwan Relations Act (TRA), which took effect on the same date that U.S. diplomatic recognition was shifted to the PRC, expresses the interest of the United States in promoting commercial and cultural relations with Taiwan. The TRA states that "It is the policy of the United States . . . 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 on Taiwan." The TRA also commits the United States to "provide Taiwan with arms of a defensive character" and declares that "any effort to determine the future of Taiwan by other than peaceful means" shall be a matter of "grave concern" to the United States.[135]

In October 2007, the U.S. House of Representatives passed a resolution intended to officially reiterate Congressional commitment to the provisions of the original TRA. The resolution states that "it shall continue to be the policy of the United States, consistent with the [TRA], to make available to Taiwan such defensive articles and services as may be necessary for Taiwan to maintain a sufficient

self-defense capability" and that "the United States should determine the nature and quantity of such defense articles and services 'based solely' upon the legitimate defense needs of Taiwan."[136]

The Commission believes that the United States has an important interest in ensuring the survival of a democratic government in Taiwan, which it has encouraged over the course of several decades.

Taiwan's Unresolved International Status

Taiwan's international status remains unresolved. Although the Taiwan authorities continue to operate under the formal name of the Republic of China (ROC), they have abandoned claims to govern the Chinese mainland. During the visit to Taiwan in August 2008 by a Commission delegation, Su Chi, the current secretary general of Taiwan's National Security Council, described Taiwan's circumstance as unique, with no clear precedent in international law or diplomatic practice.[137]

The People's Republic of China asserts claims to be the rightful government of all of China, including Taiwan and its off-lying islands. The government of the PRC also has declared its intent to unify Taiwan with the mainland under the authority of the PRC. In 2005, the PRC codified its policy toward unification with Taiwan in a law that states, "Both the mainland and Taiwan belong to one China. China's sovereignty and territorial integrity brook no division." The PRC law also explicitly threatens the use of military force if Taiwan seeks de jure independence from the mainland:

> *Taiwan is part of China. The state shall never allow the 'Taiwan independence' secessionist forces to make Taiwan secede from China under any name or by any means. . . . 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 re-unification should be completely exhausted, the state shall employ non-peaceful means and other necessary measures to protect China's sovereignty and territorial integrity.*[138]

The history of U.S. diplomatic positions regarding Taiwan and its relationship with mainland China has been a complex one. The U.S. government has carefully avoided making explicit commitments to the governing authorities on either side of the Taiwan Strait. Maintaining a carefully noncommittal position has provided flexibility to U.S. officials in dealing with the three-way relationship between the United States, the PRC, and Taiwan. The status quo vis-à-vis the United States, the PRC, and Taiwan that has existed since 1979 has allowed Taiwan to continue operating as a de facto sovereign polity, albeit one that does not enjoy de jure U.S. recognition as an independent, sovereign state.

Continuing an established tradition of U.S. administrations of both parties, the George W. Bush Administration has emphasized that it opposes efforts by either the PRC or Taiwan to change this existing status quo unilaterally, whether in the form of coercive

PRC pressure directed against Taiwan or in moves by Taiwan toward de jure independence.[139] As stated on the State Department's country information Web page for China:

> *The United States does not support Taiwan independence and opposes unilateral steps, by either side, to change the status quo. At the same time, the United States has made it clear that cross-strait differences should be resolved peacefully and in a manner acceptable to people on both sides of the Strait.*[140]

The U.S. government's positions spelled out in various documents have been further bolstered by more specific statements from senior U.S. officials that have criticized steps by either the mainland or Taiwan viewed by the U.S. government as provocative. Examples of such statements include April 2005 criticisms of China's "Anti-Secession Law" presented to Congress by then-Deputy Assistant Secretary of State for East Asian and Pacific Affairs Randall Schriver,[141] and the September 2007 statement made by then-Deputy Assistant Secretary of State for East Asian and Pacific Affairs Thomas Christensen that criticized Taiwan's plans to hold a public referendum on seeking United Nations (UN) membership under the name "Taiwan."[142]

Taiwan's Desire for "International Space"

Although the ROC retained extensive international recognition as the legitimate government of all of China for many years following its relocation to Taiwan in 1949, in recent years a steady stream of nations has switched diplomatic recognition to the PRC. Maintaining diplomatic relations with as many states as possible has been a matter of principle for Taiwan's government and one in which that government has made a substantial investment of financial resources and diplomatic effort. Currently, 23 states maintain official diplomatic relations with Taiwan as the Republic of China, most of them smaller nations in Africa, Latin America, and the South Pacific. In recent years, the government of the PRC has offered aid packages and other inducements to encourage nations recognizing the ROC to switch recognition to the PRC, producing in some cases a "bidding war" for diplomatic recognition. In one of the most prominent recent cases, in June 2007 Costa Rica switched diplomatic recognition from the ROC to the PRC, reportedly in exchange for a package of incentives including $130 million in aid and the purchase of $300 million in government bonds.[143] (A more detailed discussion of China's inducements to Costa Rica in exchange for the transfer of diplomatic recognition is provided in chap. 1, sec. 2, of this Report, "China's Capital Investment Vehicles and Implications for the U.S. Economy and National Security.")

Alongside its efforts to lure away the diplomatic partners of the ROC, the PRC also has taken a hard line with respect to blocking Taiwan from membership or participation in international organizations. This includes institutions oriented entirely toward international public health and safety issues, such as the World Health Organization (WHO) and its administrative forum, the World Health Assembly (WHA). Perhaps the clearest example of the negative impact that can result from this sort of isolation came during

the Severe Acute Respiratory Syndrome (SARS) epidemic of 2002–2003, when Taiwan's exclusion from the WHO prevented Taiwan's health officials from effectively coordinating their efforts and sharing information with representatives of that body.[144]

The United States has expressed strong support for Taiwan's membership in international organizations in which statehood is not a prerequisite, such as the World Trade Organization and the Asia-Pacific Economic Cooperation (APEC) Forum, and, when membership is not possible, for meaningful participation in activities of international organizations such as UN specialized agencies, specifically including observer status in the WHO/WHA.[145] The European Union also has voiced support for Taiwan's participation in "specialized multilateral fora."[146]

In a meeting with Commissioners visiting Taiwan in August 2008, President Ma emphasized the importance he attaches to efforts to gain membership or participation in such multilateral organizations and activities, which he referenced as seeking increased "international space" for Taiwan. He expressed a willingness to be flexible regarding the names under which Taiwan would participate in such organizations—as exemplified by the participation of Taiwan athletes in the Beijing Olympics under the name "Chinese Taipei"—in order to avoid diplomatic clashes with the PRC.

President Ma also identified the improvement of relations with the mainland as a priority of his administration and expressed hope that warming ties with Beijing could bring about a "diplomatic truce" in which the two sides would step back from aggressive attempts to peel away diplomatic partners from the other. President Ma and officials of his administration characterized their efforts to take a more conciliatory approach to Beijing as yielding mixed results. There have been positive steps, such as the resumption of talks between Beijing and the newly elected Taiwan leadership, and China's lifting of restrictions on nonstop commercial flights from China to Taiwan.[147] On the other hand, Chinese leaders thus far have remained unresponsive to Taiwan's requests that China stop pressuring other countries and international organizations to avoid contacts with Taiwan.[148] In August 2008, the PRC rejected a proposal submitted by some of Taiwan's diplomatic partners that called for participation by Taiwan in UN specialized agencies. A PRC Foreign Ministry spokeman stated that the proposal "infringes upon China's sovereignty and territorial integrity and intervenes in China's domestic affairs . . . the Chinese government and people firmly reject it."[149]

There is a strong interest throughout Asia in maintaining the cross-Strait status quo and avoiding armed conflict between the People's Republic of China and Taiwan. When a Commission delegation visited the Republic of Korea and Japan in August 2008, both Korean and Japanese officials and academics voiced concern about the effects that a serious crisis in the Taiwan Strait could have for the diplomatic, economic, and security environment throughout the rest of East Asia as well as for the course of future relations between their country and China. These interlocutors expressed the strong hope that Taiwan and the PRC both would refrain from any activity that would produce open conflict and that the United States would apply its influence and leadership toward

this end.[150] (Additional information on this issue can be found in both part 2: "Japan's Relationship with China," and part 3: "The Republic of Korea's Relationship with China," of this sec. 2 of chap. 4.)

Political Changes in Taiwan Over the Past Year

The year 2008 has been one of significant political change in Taiwan, with major alterations in the political makeup of both the legislative and executive branches of Taiwan's government. In January, elections were held for Taiwan's legislative body, the Legislative Yuan (LY), and in March, Taiwan elected a new president. Together, these elections dramatically rearranged the political landscape in Taiwan.

The LY elections in January notably changed the composition of that institution. In order to reform a body that many viewed as too large and unwieldy, Taiwan legislators and representatives of the two main rival political coalitions—the "Pan-Blue" Coalition, in which the Kuomintang (KMT) Party is the major partner, and the "Pan-Green" Coalition, in which the Democratic Progressive Party (DPP) is the major partner—had worked out an agreement to hold new elections for a reformed LY, with the number of seats reduced from 225 to 113. The Pan-Blue Coalition won 81 of the seats, with 27 going to the Pan-Green Coalition, and the remaining five seats going to smaller parties or independent legislators.[151] As described by Ambassador Harvey Feldman, a retired senior State Department official with extensive experience in Taiwan, the results were "close to a total wipe-out for the DPP." Ambassador Feldman noted that the KMT's candidates had even performed well in areas of southern Taiwan that were traditional DPP strongholds.[152] Pan-Blue's control of Taiwan's government was strengthened further when Taiwan's presidential election in March was won decisively by KMT candidate Ma, a former mayor of Taipei who campaigned on a platform of improving relations with mainland China and of following pragmatic policies focused on Taiwan's economy.

On the same day as Taiwan's presidential election, two rival referenda initiatives appeared on the ballot regarding efforts by Taiwan to achieve representation at the United Nations. The first referendum, supported by former President Chen and the DPP, called for Taiwan to seek status as a new member state of the United Nations under the name "Taiwan."[153] This initiative had been criticized by the U.S. government as an effort unilaterally to change the status quo between Taiwan and the PRC and had been even more fiercely condemned by the government of the PRC, which identified it as a move toward Taiwan independence.[154] A rival referendum, supported by the KMT, asked voters, "Do you approve of applying to return to the United Nations and to join other international organizations under the name 'Republic of China' or 'Taiwan,' or other name that is conducive to success and preserves our nation's dignity?"[155] However, the KMT urged its supporters to boycott the first referendum and did not campaign on behalf of its own referendum. In the end, both referenda failed, because neither gathered the necessary participation of 50 percent of Taiwan's eligible voters that is a prerequisite for referendum approval.

Debates on Economic and National Security Policy in Taiwan

During their August 2008 visit to Taiwan, Commissioners met with Taiwan government officials, DPP representatives, and representatives of the American Institute in Taiwan to discuss the new policies on economics, national security, and relations with mainland China that are being pursued by Taiwan's new government. President Ma expressed to the Commission delegation his hope that increased economic integration with the mainland, as well as the influence of Taiwan's "soft power" through student exchanges, expressions of democratic values, and other mechanisms, would both benefit Taiwan's economy and decrease the likelihood of a military clash across the strait. Representatives of the opposition DPP, on the other hand, expressed deep concern that these policies would weaken Taiwan's security and sovereignty in the face of pressure from the PRC.

In the economic realm, President Ma expressed high hopes that his policy of relaxing investment caps for Taiwan businesses operating on the mainland (moved to 60 percent from the previous limit of 40 percent of assets) would encourage some of these businesses to retain or relocate their headquarters operations in Taiwan and to reinvest their profits in Taiwan. He also expressed hope that warming cross-strait ties and a relaxation of travel restrictions could stimulate Taiwan's economy by bringing in large numbers of tourists from the mainland. President Ma also appealed strongly for completion of a U.S.-Taiwan free trade agreement, listing it as one of the most important things that the United States could do for Taiwan.

In stark contrast to these ideas, however, Tsai Ing-Wen, the new chairwoman of the opposition Democratic Progressive Party, expressed strong concern to the Commission delegation regarding the national security implications of increased economic integration with the PRC. She expressed the DPP's view that the policies of the Ma Administration would surrender Taiwan's sovereignty to the PRC without achieving any substantive PRC concessions in return and that increased economic integration would only give the PRC greater coercive leverage over Taiwan. She said that the "intrusion" of investment capital from the PRC would result in the loss of Taiwan's economic sovereignty as well as in negative macroeconomic impacts such as speculative inflation in real estate markets. She emphasized the disappointing results thus far of increased mainland contacts for Taiwan's economy, citing as an example that an average of only about 300 tourists a day had been coming from the mainland following the advent of Ma's new policies, in contrast to the KMT's prediction during the election campaign that more than 3,000 a day would come to Taiwan. She identified these sorts of disappointing results as a major factor behind declines in President Ma's popularity ratings since the March election. Rather than opening up trade and investment links between Taiwan and the PRC, Dr. Tsai advocated industrial restructuring and improved education to increase competitiveness as the best means to further Taiwan's economic interests.[156]

Discussions Regarding Arms Sales to Taiwan

The issue of arms sales from the United States to Taiwan was the most prominent military and security policy topic to emerge from discussions between Commissioners and Taiwan officials during the Commission's August 2008 trip. Taiwan relies predominantly on the United States for the acquisition of defensive weapon systems; in recent years, intense pressure from the PRC against other potential suppliers has meant that only the United States has been willing to sell arms to Taiwan. Aside from weapon systems, the United States also has provided Taiwan with limited assistance related to the modernization of its armed forces, such as U.S. government assistance, and approval for U.S. defense contractors to support Taiwan, in the "Po-Sheng" Project, an effort to upgrade and modernize the command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) capabilities of the ROC military.[157]

In 2001, the George W. Bush Administration approved an extensive package of arms sales to Taiwan, including 12 P–3C maritime patrol and antisubmarine aircraft, Mark-48 torpedoes, Harpoon antiship cruise missiles, M109A6 Paladin Self-Propelled Howitzers, and four decommissioned Kidd–Class destroyers, and also offered to assist Taiwan to procure eight diesel-electric submarines. The sale of the Kidd–Class destroyers ultimately was finalized, and the ships were transferred to Taiwan in 2006.[158] However, partisan wrangling and disagreements over defense strategy in Taiwan's LY resulted in its repeated failure to approve funding for the other items.[159]

Taiwan's 2008 defense budget (passed in December 2007) allocated funding for seven major arms purchases from the United States, valued at a total of approximately $11 billion. These include the purchase of the P–3C aircraft; upgrades for Patriot PAC–2 surface-to-air missile systems; AH–64D Apache Longbow attack helicopters; and, perhaps most prominently, the purchase of 66 F–16C/D fighter aircraft.

Wang Jin-Pyng, the speaker of the Legislative Yuan, appealed for progress in approving the arms sales during a public appearance in Washington, DC, in late July 2008, and a delegation from the LY stressed a very similar message in a meeting with Commission staff members in the same time frame.[160] Taiwan officials have emphasized the importance of the F–16C/D request for Taiwan's security. In a February 2008 speech, President Ma referred to this request as "particularly important" due to the aging and growing obsolescence of many of the fighter aircraft of Taiwan's air force.[161] President Ma, National Security Council Director Su, and Defense Minister Chen all reiterated this same message during their August meetings with members of the Commission.[162]

The George W. Bush Administration approved some but not all of Taiwan's requested arms sales during the summer and autumn of 2008. In August, the United States proceeded with a $90 million sale of sixty AGM–84 Harpoon air-to-surface antiship missiles to Taiwan, which are to be delivered in 2009.[163] In early October 2008, the Bush Administration formally notified Congress of its intention to make six arms sales to Taiwan: upgrades for four E–2T airborne early warning aircraft; 30 AH–64D Apache Longbow at-

tack helicopters; 330 Patriot PAC–3 surface-to-air missiles and associated support equipment; 32 submarine-launched Harpoon missiles plus two exercise missiles; spare parts and support equipment for F–5E/F, C–130H, F–16A/B, and Indigenous Defense Fighter aircraft; and 182 missile rounds and 20 launch units for the Javelin guided missile system.[164] The total estimated cost for these purchases is $6.463 billion.[165] If Congress does not raise objections to the weapons purchases within 30 days following the formal notification—regardless of whether Congress is in session—the sales can occur under U.S. law.[166]

The Bush Administration omitted two significant arms requests from the October notifications: a request for design assistance for diesel-electric submarines, and a request to purchase 60 UH–60 Blackhawk utility helicopters. The reasons the administration did not approve these particular purchases are not clear.

The sale of the F–16C/D fighters remains unresolved. At the time this Report was completed, the Bush Administration, according to one news report, had refused for over a year to accept a letter of request from Taiwan's government for information on the price and availability of the aircraft, the first formal step in the arms sale process.[167] The budget allocation from Taiwan's Legislative Yuan for the F–16C/Ds remains valid only until the end of December 2008; if the purchase is not approved by that point, the allocation will expire, and the funds will revert to Taiwan's treasury.[168]

The administration's October 2008 Congressional notification of arms sales to Taiwan drew a predictably harsh reaction from PRC officials. A spokesman for the PRC's Ministry of Defense denounced the sales as "reckless" and said they had "vitiated the atmosphere for bilateral military relations and gravely jeopardized China's national security."[169] Beijing also abruptly cancelled a number of military-to-military contacts with the United States after the sales were announced and threatened to halt port calls by U.S. naval vessels and to withdraw from meetings related to restricting the proliferation of weapons of mass destruction.[170] At the time this Report was completed, such PRC responses appear limited to the realm of military and security affairs and not to extend to U.S.-China economic and diplomatic initiatives.

New Trends in Taiwan Regarding Defense Policy

In addition to the matter of arms sales, two other major issues related to defense and national security policy were discussed between members of the Commission and representatives of Taiwan's government in August 2008: the plan of Taiwan's Ministry of Defense to shift away from conscription and toward an all-volunteer military, and the PRC's continued missile buildup across the strait. On the matter of a potential future all-volunteer military for Taiwan, Defense Minister Chen confirmed that current plans and discussions are focused on the objective of downsizing to an all-volunteer force of 200,000 personnel within the next five years and that a task force has been established to study the best means of implementing this. He also said that Taiwan plans to begin force reductions of approximately 10 percent of personnel per year between now and 2013. Minister Chen also emphasized that the new gov-

ernment is committed to set annual defense spending at approximately 3 percent of Taiwan's gross domestic product.[171]

Addressing the matter of the PRC's missile buildup across the Taiwan Strait, Minister Chen expressed concern over the ability of PRC missiles to damage Taiwan's military facilities and infrastructure. He indicated that, in response, Taiwan should examine ways to harden its facilities and protect its communication systems. These comments aligned with President Ma's remarks to the Commissioners, in which he spoke favorably about a recent article titled "Revisiting Taiwan's Defense Strategy" by William S. Murray, an associate research professor at the U.S. Naval War College. In the article, the author criticizes the idea of Taiwan relying primarily for its defense on advanced air, naval, and missile systems and argues instead that Taiwan should adopt a defensive "porcupine strategy" to better equip itself to survive an extended blockade and/or missile bombardment.[172]

President Ma laid out the fundamentals of his new defense strategy, which he has called the "Hard ROC" strategy, in a campaign speech in February 2008. In this speech, he stated:

> *. . . [the] military deterrence . . . pillar of national security is Hard ROC: to defend itself Taiwan has to be hard as a rock. Many members of the DPP elite have said publicly that to deter a Mainland invasion Taiwan should develop the ability to strike at the heart of Mainland China's military capability. They want 'offensive weapons.' We cannot approve of this plan of action. 'Offensive defense' is not only infeasible but also dangerous. . . . In contrast to the aggressive, provocative, and destructive strategy of national defense offered by the DPP, we advocate establishing a Hard ROC defensive stance by building an integrated defensive capability that will make it impossible to scare us, blockade us, occupy us, or wear us down. . . . We believe that Taiwan's defensive stance should be to arm and armor ourselves only to the point that the Mainland cannot be sure of being able to launch a 'first strike' that would crush our defensive capacity and resolution immediately. If the Mainland lacks confidence in this respect, its strategic calculations will become more complex and difficult, and the temptation to make a surprise attack will diminish. Taiwan's national security will naturally increase.*[173]

These comments indicate a major change of direction from the "decisive operations off-shore"[174] defense strategy advocated by the administration of former President Chen. This defense strategy had called for the avoidance of battle on the land areas of Taiwan's densely populated western coastal area, seeking instead engagement with enemy forces in the air and sea in the waters surrounding Taiwan. This doctrine also had incorporated an element of deterrence strategy, including development of missile systems intended to hold at risk significant infrastructure targets and population centers along the southeastern coast of the mainland.[175] A centerpiece of this deterrent strategy was the development of a planned long-range (1000+ kilometer) variant of Taiwan's domestically produced Hsiung Feng IIE surface-to-surface missile system.

However, President Ma's administration announced in late August that it was suspending research and development work on this longer-range variant. Work will continue on the production and deployment of shorter-range variants intended for tactical strikes against military facilities and naval staging areas along the mainland coast.[176] This change is consistent with a conventional defense strategy to target military forces conducting an assault on Taiwan but effectively abandons a "strategic deterrent" strategy to deter an attack on Taiwan by threatening civilian and infrastructure targets on the mainland.

Conclusions

- The United States has an important interest in ensuring the survival of a democratic government in Taiwan. The United States has explicit commitments set forth in the Taiwan Relations Act to assist Taiwan with its own defense.
- While relations between Taiwan and the People's Republic of China (PRC) have improved over the past year, tensions remain, and unresolved issues regarding Taiwan's sovereignty and status continue to divide the two sides. The status of Taiwan creates a potentially dangerous situation that risks armed conflict if the relationship and its inherent tensions are not managed carefully by both sides.
- An armed conflict between the PRC and Taiwan would impair security, stability, and prosperity in East Asia and could involve the United States. It is in the interest of the United States to foster a peaceful resolution of Taiwan's international status and maintenance of a peaceful status quo until that resolution can be achieved.
- The successful peaceful change of government between rival parties in Taiwan during 2008 demonstrates the continuing maturation and stabilization of Taiwan's youthful democratic process.
- Taiwan's political discourse remains vibrant and strong, with pronounced policy differences between Taiwan's major political parties regarding economic ties with mainland China and the best means to provide for Taiwan's prosperity and security. Taiwan's new government has introduced significant shifts in economic and diplomatic policy that emphasize seeking improved relations and liberalized economic ties with mainland China while also seeking improved relations with the United States.
- Officials of Taiwan's government have indicated that they will follow a pragmatic policy of seeking membership in international organizations that do not require internationally recognized status as a state as a prerequisite for membership, and official observer status or other avenues for meaningful participation in international organizations that require statehood for membership.
- Officials in the Ma Administration have described a new defense policy that deemphasizes deterrent or power projection options directed against the mainland and instead relies on a more conventional defense strategy based on defensive weapon systems.

- Arms purchases from the United States are a keystone of Taiwan's plans for its future defensive forces, and those plans cannot be realized if the United States does not supply the weapon systems sought by Taiwan. No other country has been willing to sell arms to Taiwan in the recent past.