

SECTION 2: TAIWAN

Introduction

Through a combination of hearings, trips to China and Taiwan, and research over the past year, the Commission learned more about how China and Taiwan further improved their overall bilateral relationship, continuing a trend that began with the May 2008 inauguration of Taiwan President Ma Ying-jeou. Describing this trend in its 2009 *Report to Congress*, the Commission stated that:

Since Ma Ying-jeou was inaugurated as president of Taiwan in May 2008, many developments have occurred in the relationship between Taiwan and the People's Republic of China (PRC). Almost immediately after President Ma took office, official meetings between Taiwan and the mainland began, including high-level interactions. During these meetings, the two sides signed several agreements—primarily economic in nature—and made progress toward a free trade agreement. However, despite the apparent progress in cross-Strait relations on some fronts, the PRC has shown no signs of abating its buildup of military capacities vis-à-vis Taiwan, increasing the disparity between China and Taiwan's respective military capabilities.¹⁴⁴

Since then, these trends in the cross-Strait relationship have continued. Taiwan and China deepened their economic integration through expanded bilateral trade and investment. They signed an historic trade liberalization pact, the Economic Cooperation Framework Agreement. Diplomatic relations across the Taiwan Strait improved as well. Taiwan and China conducted negotiations and held official visits on a near-regular basis. They signed several agreements and even opened government offices on opposite sides of the Taiwan Strait. However, juxtaposed against progress in the economic and diplomatic cross-Strait relationship is a noticeable lack of progress in the cross-Strait security situation. China's continued military buildup against Taiwan has resulted in a military balance that favors the mainland, especially in regard to Taiwan's air defense capabilities. This section of the Commission's Report will address recent cross-Strait economic, diplomatic, and security developments over the past year. In addition, in accordance with its Congressional mandate, this section will also describe recent developments in the U.S.-Taiwan relationship.

The Economic Cooperation Framework Agreement and Deepening Cross-Strait Economic Integration

Over the past year, China and Taiwan have continued to make significant progress in integrating their two economies. China is

now Taiwan's largest trading partner, with cross-Strait trade in 2009 totaling almost \$110 billion. In 2009, over 40 percent of Taiwan's exports went to the mainland, almost four times as much as the next-largest export destination, the United States (see table 1 below). In 2009, Taiwan imported from China (including Hong Kong) \$25.5 billion worth of goods, up from \$19.1 billion in 2004.¹⁴⁵ Similarly, Taiwan exported to China (including Hong Kong) \$83.7 billion in 2009, up from \$69.3 billion in 2004.¹⁴⁶ By way of comparison, in 2009 the United States imported from China \$296.4 billion worth of goods and exported \$69.6 billion. In addition, over 70 percent (\$7.14 billion) of Taiwan's outbound investment in 2009 went to the mainland.¹⁴⁷ The two sides also signed several economic-related agreements, the most important of which is the Economic Cooperation Framework Agreement.

Table 1: Taiwan's Top Five Trade Partners (2009)

Country	Percentage	\$ Billions
Exports from Taiwan		
Mainland China (including Hong Kong)	41.09%	\$83.7
United States*	11.56%	\$23.5
Japan	7.12%	\$14.5
Singapore	4.23%	\$8.6
South Korea	3.58%	\$7.3
Imports to Taiwan		
Japan	20.77%	\$36.2
Mainland China (including Hong Kong)	14.65%	\$25.5
United States	10.41%	\$18.2
South Korea	6.03%	\$10.5
Saudi Arabia	4.97%	\$8.7

Source: Adapted from Government Information Office of Taiwan, "The Republic of China at a Glance 2010: Economy." <http://www.gio.gov.tw/taiwan-website/5-gp/glance/ch7.htm#top>.

On June 29, 2010, Taiwan's Straits Exchange Foundation and China's Association for Relations Across the Taiwan Straits signed the Economic Cooperation Framework Agreement, a free trade agreement that seeks to liberalize trade between China and Taiwan.† The agreement came into effect on September 12, 2010, after Taiwan's parliament ratified it on August 17, despite members from Taiwan's opposition party, the Democratic Progressive Party, boycotting the vote.¹⁴⁸ With this agreement, the two sides are to reduce and eventually eliminate tariffs on select imports over a

*The values provided by the government of Taiwan differ from U.S. government-provided trade figures. According to the U.S. Bureau of Economic Analysis, in 2009 the United States imported from Taiwan \$41 billion in goods and services, while it exported to Taiwan \$29 billion. U.S. Bureau of Economic Analysis, "U.S. International Transactions, by Area—Taiwan" (Washington, DC: U.S. Department of Commerce, June 17, 2010). http://www.bea.gov/international/bp_web/simple.cfm?anon=71&table_id=10&area_id=40.

†Taipei and Beijing do not have an official bilateral relationship. Instead, cross-Strait negotiations are held under the auspices of two quasi-official organizations. Representing Taiwan is the Straits Exchange Foundation, "a private intermediary body" entrusted to act on behalf of the Taiwan government in cross-Strait matters. The corresponding body in China is the Association for Relations Across the Taiwan Straits. Association for the Relations Across the Taiwan Straits, "Haixia Liang'an Guanxi Xiehui Jianjie" (A Brief Introduction to the Association for the Relations Across the Taiwan Straits), April 17, 2010. http://www.arats.com.cn/bhjs/200904/t20090417_871060.htm; and Straits Exchange Foundation, "Establishment and History of the SEF [Straits Exchange Foundation]." <http://www.sef.org.tw/ct.asp?xItem=48843&CtNode=3987&mp=300>.

three-year period.¹⁴⁹ The agreement's "early harvest" items, those items slated for immediate tariff reduction, include both goods and services. For goods, China will reduce tariffs on 539 items imported from Taiwan, about 16.1 percent of Taiwan's yearly exports to the mainland. In return, Taiwan will reduce tariffs on 267 Chinese imports, about 10.5 percent of China's exports to the island.* For services, Taiwan will gain access to 11 Chinese markets, while China will gain access to seven.†¹⁵⁰ Over the next few years, Taiwan and China will continue to develop and refine the details of the agreement.¹⁵¹

According to initial reports, the economic benefits favor Taiwan more than China. Under the agreement, China is to eliminate tariffs on almost twice as many goods as Taiwan. The affected Taiwan exports are also larger in value: The value of the affected Chinese exports is \$2.86 billion, whereas the value of affected Taiwan exports is \$13.8 billion.¹⁵² According to Taiwan's Mainland Affairs Council, the Economic Cooperation Framework Agreement will expand the island's economic growth between 1.65 and 1.72 percent and create between 257,000 and 263,000 jobs.¹⁵³ In addition, the Ma Administration maintains that signing this agreement may encourage Beijing to acquiesce to Taiwan's signing other free trade agreements with regional trade partners.¹⁵⁴ Soon after Taiwan and China signed the agreement, both Singapore and the Philippines expressed interest in negotiating a free trade agreement with Taiwan.¹⁵⁵ However, during the Commission's July 2010 trip to China, Commissioners heard from a representative of China's Ministry of Foreign Affairs that Beijing continues strongly to oppose Taiwan signing free trade agreements with other nations. The Economic Cooperation Framework Agreement could also lead to additional foreign investment on the island as foreign firms attempt to enter Chinese markets through reduced Taiwan tariffs.¹⁵⁶ Finally, the agreement prohibits Chinese agricultural exports or the movement of Chinese labor to Taiwan for work, both concerns raised by Taiwan negotiators early in the negotiations.¹⁵⁷

Several witnesses testified to the Commission that the minimal amount of economic benefit for China may signal that Beijing is willing to let Taiwan gain the better part of the deal in order to advance China's political agenda of unification with Taiwan.¹⁵⁸ David B. Shear, deputy assistant secretary of State for East Asian and Pacific Affairs, noted to the Commission how China's Premier Wen Jiabao hinted in February 2010 that China was willing to allow Taiwan to "benefit more."¹⁵⁹ According to Merritt T. Cooke,

*Taiwan's 539 export items are located in six industries: agricultural, machinery, petrochemical, textile, transportation equipment, and "other." China's 267 export items are located in the five industries of machinery, petrochemical, textile, transportation equipment, and "other." Taiwan Industry Development Bureau, Ministry of Economic Affairs, "Early Harvest List for Trade in Goods and Tariff Reduction Arrangements," July 5, 2010. <http://www.mac.gov.tw/ct.asp?xItem=85851&ctNode=5921&mp=3>.

†The 11 service areas on the mainland that are open to Taiwan firms include banking, insurance, professional, computer, data processing, research, conference, professional design, audiovisual, hospitals, and air transportation. China will acquire access to seven Taiwan service areas: research, conference, exhibition, special product design, sports, entertainment, and computer reservation services. *China Trade Extra*, "Taiwan, China Ink Economic Cooperation Deal, May Spark U.S. Investment," June 30, 2010; and Alex Pevzner and Ting-I Tsai, "China, Taiwan sign trade pact," *Wall Street Journal*, June 29, 2010. <http://online.wsj.com/article/SB10001424052748704103904575336092449134062.html>.

founder of GC3 Strategy, Inc., “Beijing is clearly hoping, in the short term, to create economic dependency.”¹⁶⁰

Not everyone in Taiwan supports this agreement. According to a survey that the Election Study Center of Taiwan’s National Chengchi University conducted at the end of April 2010, a third of the respondents disapproved of the Economic Cooperation Framework Agreement.¹⁶¹ Detractors of the agreement, led by the opposition party, the Democratic Progressive Party, fear it will make the island’s economy too reliant upon China’s significantly larger economy and, by extension, Taiwan will become overly dependent upon China. In addition, they maintain that this agreement will open the floodgates to cheap Chinese imports, thus harming Taiwan’s local economy.¹⁶² Finally, as representatives from the Democratic Progressive Party told the Commission in December 2009, there is a high level of distrust among Taiwan’s populace for Beijing’s ultimate intentions. This distrust was fueled in part by the lack of transparency concerning this agreement during the early negotiations between China and Taiwan.¹⁶³

In addition to the Economic Framework Cooperation Agreement, Taiwan and China also agreed on three other economic-related accords in 2010:

- *Direct investment in Taiwan financial firms:* In March 2010, Taipei announced that, for the first time since 1949, it would allow Chinese financial firms to invest directly in Taiwan lenders, brokerages, and insurers. The agreement does not provide Chinese firms complete access to Taiwan firms, however. Chinese investing organizations first will have to receive Taiwan government approval, and investments will be limited in size.*¹⁶⁴
- *Intellectual property rights protection and cooperation:* While signing the Economic Cooperation Framework Agreement, Taipei and Beijing also agreed on an intellectual property rights protection process. Although not granting full patent rights, this agreement creates a mechanism for resolving cross-Strait intellectual property rights disputes.¹⁶⁵ In addition, Taiwan and China pledged to coordinate the enforcement of bilateral intellectual property rights.¹⁶⁶
- *Joint promotion of telecommunications technologies:* Signed in June 2010, this agreement aims to create bilateral mobile standards and cooperation on key technologies as well as to promote investment in each other’s telecommunications companies. According to Shyu Jyuo-min, president of Taiwan’s Industrial Technology Research Institute, “[i]nvesting together in new telecommunications technologies and services will boost the global competitiveness of both sides in [fourth generation] wireless broadband, cloud computing, wireless cities and more.”¹⁶⁷

*According to the regulations, a single Chinese financial institution can purchase up to 5 percent of a Taiwan bank, while Taiwan institutions can purchase up to 20 percent of a mainland bank. Crystal Hsu, “Taiwan Approves China Investment,” *Wall Street Journal*, March 11, 2010. <http://online.wsj.com/article/SB10001424052748703625304575116462598849930.html>; Economist, “China and Taiwan: Branching In,” July 1, 2010. http://www.economist.com/node/16485610?story_id=16485610.

Improving Cross-Strait Diplomatic Relations

Although less developed in comparison to their economic ties, Taiwan and China's diplomatic relationship has continued to improve, building upon a trend that began with President Ma's May 2008 inauguration. According to Deputy Assistant Secretary of State Shear, "We have witnessed remarkable progress in cross-Strait relations in the nearly two years since Taiwan President Ma Ying-jeou took office."¹⁶⁸ This progress has eliminated the "corrosive political dynamic" that dominated cross-Strait interactions from the early 1990s to 2008.¹⁶⁹ Improvements in the diplomatic relationship are evident in regular cross-Strait negotiations, official visits, and even the opening of official government offices on opposite sides of the Taiwan Strait.

Cross-Strait negotiations continue to occur on a near-regular basis. According to Shelley Rigger, Brown professor of Political Science at Davidson College, "[h]igh-level visits have become routine, with the heads of the two sides' quasi-official negotiating bodies . . . exchanging regular visits and engaging in substantive negotiations during those visits."¹⁷⁰ The main medium of interaction is the relationship between Taiwan's Straits Exchange Foundation and China's Association for the Relations Across the Taiwan Straits. In late December 2009 and June 2010, they held their fourth and fifth meeting, respectively.*¹⁷¹ During the fourth meeting, they signed agreements on fishing vessel crew cooperation; agricultural quarantine inspection; and industrial product standards, inspection, and certification.¹⁷² These two groups have also met several times in their capacities as titular heads of the negotiations for the Economic Cooperation Framework Agreement.¹⁷³

Numerous visits and meetings have also occurred between Chinese and Taiwan government officials and representatives over the past year. At the highest level, Hu Jintao, China's president and Communist Party general secretary, met several times with Taiwan representatives, such as Lien Chan, former Taiwan vice president (November 2009 and April 2010); † James Soong, chairman of Taiwan's People's First Party (April 2010); and Wu Poh-hsiung, ‡ former chairman of the Chinese Nationalist Party (April and July 2010).¹⁷⁴ In addition to meetings at the senior-most level, frequent "purchasing delegations" from Chinese provincial and municipal governments have visited Taiwan over the past year. These delegations, ranging from several hundred to several thousand people, usually announce large purchase orders during their trips.¹⁷⁵ To date, the largest such delegation was the November 2009 Jiangsu Province delegation, comprising over 4,000 individuals and placing orders in excess of \$3 billion.¹⁷⁶ Annex A at the end of this section

*The first three meetings of the Straits Exchange Foundation and the Association for the Relations Across the Taiwan Straits were held in June 2008, November 2008, and April 2009. U.S.-China Economic and Security Review Commission, *2009 Annual Report to Congress* (Washington, DC: U.S. Government Printing Office, November 2009), pp. 233-34.

†This is their second meeting, having met during the 2008 Asia-Pacific Economic Cooperation meeting in Peru. U.S.-China Economic and Security Review Commission, *2009 Report to Congress* (Washington, DC: U.S. Government Printing Office, November 2009), p. 233.

‡President Hu first met Wu Poh-hsiung in May 2008, when Mr. Wu was chairman of the Chinese Nationalist Party. Du Duodong, "Hu Jintao Meets KMT [Kuomintang] Chairman Wu Poh-hsiung," *Xinhua*, May 28, 2008. http://news.xinhuanet.com/english/2008-05/28/content_8269806.htm.

provides a more comprehensive list of cross-Strait meetings and interactions over the past year.

In another sign of improving diplomatic relations across the Taiwan Strait, in May 2010, China and Taiwan opened tourism offices in each other's capitals. Opened to promote cross-Strait tourism and handle problems among cross-Strait visitors,¹⁷⁷ these offices represent the first government offices established on opposite sides of the Taiwan Strait since ties were severed in 1949.* According to a spokesman for Taiwan's Ministry of Transportation and Communication, which controls Taiwan's Tourism Bureau, "This move is symbolic of the interactivity [sic] between the two sides. The office has an official role, so it should facilitate two-way communication."¹⁷⁸

Cross-Strait Political Situation

Despite the deepening economic integration and warming of cross-Strait diplomatic relations, there are few signs of any deeper political integration. During the Commission's 2009 trip to Taiwan, President Ma explained how Taipei was currently discussing with Beijing only economic issues and not political or military topics. In July 2010, the minister of Taiwan's Government Information Office reiterated this point, publicly stating that "[t]here is still a long way to go and there is no timetable" for cross-Strait political negotiations.¹⁷⁹ Overtures from Beijing for future political negotiations appear to be one-sided, as demonstrated by government and non-government officials in Taiwan quickly distancing themselves from a Beijing academic's July 2010 comment on peace negotiations being the next step in bilateral talks.¹⁸⁰ Several witnesses also told Commissioners how there is little support among the Taiwan populace for further political negotiations.¹⁸¹ "The Taiwan public . . . is cautious of moves that could be seen to compromise Taiwan's sovereignty," said Deputy Assistant Secretary of State Shear.¹⁸² Public opinion polls continue to demonstrate that almost 90 percent of the populace supports the current situation of de facto independence (see table 2 below). Randall G. Schriver, president and chief executive officer of the Project 2049 Institute, elaborated on this point, telling Commissioners how:

When asked what arrangement people would support for Taiwan in the absence of a military threat from China, the numbers supporting independence have been steadily growing, and those supporting eventual unification have been dropping. When people are allowed to answer 'status quo now' but something else later, according to the Mainland Affairs Council in Taiwan, those believing that independence should come after the status quo in Taiwan is on the rise, while those supporting unification after the status quo is on the decline.¹⁸³

* In order to overcome the issue of actually having official government employees run these offices, both offices are staffed by government officials temporarily assigned to nonofficial billets. Cindy Sui, "Taiwan Opens First Office in China to Promote Tourism," BBC News, May 4, 2010. <http://news.bbc.co.uk/2/hi/asia-pacific/8658886.stm>; and David G. Brown, "China-Taiwan Relations: Economic Cooperation Framework Agreement Signed," *Comparative Connections* 12: 2 (July 2010): 78.

Table 2: Taiwan Public's View on Cross-Strait Relations (April–May 2010)

Unification as soon as possible	1.5%	
Independence as soon as possible	14.9%	
Maintain the status quo and unification later	8.6%	88.1%
Maintain the status quo and independence later	38.7%	
Maintain the status quo and decide on independence or status quo later	25%	
Maintain the status quo indefinitely	15.8%	
No opinion	5.6%	

Source: Election Study Center, "Percentage Distribution of the Routine Questionnaire Survey on 'The Public's View on Current Cross-Strait Relations'" (Taipei: National Chengchi University, May 7, 2010), p. 2. <http://www.mac.gov.tw/public/Attachment/05271558676.pdf>.

Scott L. Kastner, associate professor of International Relations at the University of Maryland, attributed these changing views to a new, emerging self-identity on the island, stating that in recent years "the percentage of Taiwan citizens who self-identify as Taiwanese rather than as Chinese or both Chinese and Taiwanese has continued to grow."¹⁸⁴ Therefore, improvements in the Taiwan-China relationship should not automatically be seen "as an inexorable and irreversible movement through economic integration, political reconciliation, and unification," testified Richard C. Bush, III, director of the Center for Northeast Asian Policy Studies at The Brookings Institution.¹⁸⁵

Cross-Strait Military Situation Increasingly Favors China

Despite the improvements in the economic and diplomatic aspects of the cross-Strait relationship over the past year, Taiwan's military situation vis-à-vis China continues to deteriorate. As the Commission's previous reports have discussed, China has greatly improved its military capabilities across from Taiwan. For example, as discussed in chapter 2, section 1, of this Report, China currently has over 1,100 conventionally armed short-range ballistic missiles deployed opposite Taiwan. China's military modernization efforts and military buildup across the Taiwan Strait have resulted in "a cross-Strait military balance that is tilted increasingly in China's favor," testified David A. Shlapak, senior international policy analyst at the RAND Corporation.¹⁸⁶ In addition, Beijing has so far refused to renounce the use of force against Taiwan, keeping the threat of military action in reserve should cross-Strait relations move in a direction counter to Beijing's desires. This combination of improved coercive means, coupled with economic and diplomatic incentives (described above), provides China with what Mr. Schriver labeled a "carrot and stick method" to confront Taiwan.¹⁸⁷ According to Michael Schiffer, deputy assistant secretary of Defense for Asian and Pacific Security Affairs:

It appears that Beijing's long-term strategy is to use political, diplomatic, economic, and cultural levers to pursue unification with Taiwan, while building a credible military threat to attack the island if events are moving in what Beijing sees as the wrong direction. Beijing appears pre-

*pared to defer the use of force for as long as it believes long-term unification remains possible. However, it firmly believes that a credible threat is essential to maintain conditions for political progress, and in this regard we continue to see the military balance as shifting in Beijing's favor.*¹⁸⁸

The Commission has described previously the overall cross-Strait military situation in its reports dating back to 2001. This subsection will focus exclusively on Taiwan's ability to defend the island in the event of an air and missile attack from the mainland.

Taiwan's ability to achieve air superiority* over its airspace continued to decrease over the past year. Until relatively recently, "Taiwan [had] long held the qualitative edge over China in air combat capability."¹⁸⁹ However, as Deputy Assistant Secretary of Defense Schiffer remarked to the Commission this year, "I do not think there is any question that Taiwan faces a challenge to its dominance of its airspace."¹⁹⁰ According to a January 2010 U.S. Defense Intelligence Agency report:

*In recent years, the Chinese People's Liberation Army has increased the quantity and sophistication of its ballistic and cruise missiles and fighter aircraft opposite Taiwan, which has diminished Taiwan's ability to deny PRC efforts to attain air superiority in a conflict.*¹⁹¹

As the Commission's 2009 *Report to Congress* described, in the event of a conflict between Taiwan and the mainland, one possible scenario is for China's military, the People's Liberation Army (PLA), to use its expanding arsenal of conventional ballistic and land-attack cruise missiles to strike Taiwan.¹⁹² An early target would be Taiwan's air bases, and in particular the runways, with the intent of denying Taiwan's air force the ability to acquire and maintain air superiority during the remainder of the conflict.¹⁹³ Although Taiwan possesses several missile defense systems (see table 3 below), China's large, and increasingly capable, missile arsenal would likely overwhelm Taiwan's limited missile defense capabilities.¹⁹⁴ Armed with crater-making submunitions,† Chinese conventional ballistic and cruise missiles would render Taiwan military runways unusable until repaired. In addition, this initial salvo would likely destroy any unprotected aircraft parked nearby. China would only need to use a small percentage of its short-range ballistic missiles to knock out a runway temporarily. According to research by the RAND Corporation, between 90 and 250 missiles, depending upon accuracy, "would suffice to cut every runway at Taiwan's 10 main fighter operating bases and damage or destroy virtually every unsheltered aircraft located on them."¹⁹⁵

*For this Report, air superiority is defined as "[t]hat degree of dominance in the air battle of one force over another that permits the conduct of operations by the former and its related land, sea, and air forces at a given time and place without prohibitive interference by the opposing force." U.S. Joint Chiefs of Staff, *Dictionary of Military and Associated Terms* (Washington, DC: Department of Defense, August 19, 2009), p. 102.

†Submunitions are small explosives contained within larger weapons and are designed to be dispersed over a large area prior to impact.

Table 3: Taiwan's Current Inventory of Air Defense Systems

Type	Number of batteries	Missile count	Mobile?	Source
<i>Long and Medium Range</i>				
Tien Kung (Sky Bow) I and II	6	500	Some	Taiwan
Patriot PAC-2	3	200	Yes	United States
I-HAWK	13	375		United States
<i>Short Range (30 km or less)</i>				
M-48 Chapparral	37	727	Yes	United States
Antelope	1 (6 planned)	Unknown	Yes	Taiwan
Avenger	74	1,299	Yes	United States
Stinger		728	man-portable	United States
RBS 70		20	man-portable	Sweden
<i>Advanced air-to-air missiles</i>				
AIM-120 (AMRAAM)	N/A	418	Yes (F-16 fired)	United States
<i>Future plans</i>				
Tien Kung III	initial operational capability: 2012			
Patriot PAC-3	initial operational capability: 2014			

Sources: Defense Intelligence Agency, *Taiwan Air Defense Status Assessment* (Washington, DC: Bolling Air Force Base, January 21, 2010); and Shirley A. Kan, *Taiwan: Major U.S. Arms Sales Since 1990* (Washington, DC: Congressional Research Service, July 2, 2010), pp. 62–63.

ERR14 Destroying Taiwan's runways, even temporarily, would seriously handicap Taiwan's fighter fleet. According to the Defense Intelligence Agency, Taiwan's aircraft "cannot be used effectively in conflict without adequate airfield protection, especially runways."¹⁹⁶ While the Taiwan military does have the ability to repair damaged runways, it "would face great difficulty repairing the sheer number of potholes that could be created by an attack like this."¹⁹⁷ Mr. Shlapak described to the Commission what the effects of this possible first phase might look like:

Analysis suggests that China—using perhaps one-fourth of its [short-range ballistic missile] force—could potentially deliver a staggering blow to the [Taiwan Air Force] in the first minutes and hours of any cross-Strait conflict by attacking the runways on each base and striking unsheltered aircraft parked outside on the ramps.¹⁹⁸

After this initial phase, the PLA Air Force would likely target any aircraft that survived the initial onslaught.¹⁹⁹ Because many, if not all, of the island's military runways would be unusable at this time, Taiwan's air force would be limited in its ability to scramble its fighters to defend its airspace. This in turn would create a permissible environment for the PLA Air Force to use its growing fleet of air-to-ground strike aircraft, armed with increasing numbers of precision-guided munitions, to destroy both shelters and aircraft.²⁰⁰ At this stage, without outside military support for Taiwan, the PLA would possess air superiority over the island and be able to conduct attacks on "a wide range of military and economic targets" with minimal losses.²⁰¹

Taiwan's ability to maintain air superiority is further handicapped by increasing difficulties in maintaining its air fleet. According to the Defense Intelligence Agency, "[a]lthough Taiwan has

nearly 400 combat aircraft in service, far fewer of these are operationally capable.”²⁰² Much of Taiwan’s foreign purchased fighter fleet (over 70 percent of its fighters) suffers from a lack of spare parts, since most countries have refused to sell Taiwan military weapons and equipment.²⁰³ In addition, Taiwan’s F-5 E/F fighters, representing more than a quarter of its air fleet, are a 1960s-era aircraft and are nearing the end of their useful service life.²⁰⁴ These two factors combine to reduce significantly the availability rates for Taiwan’s fighters. In order to upgrade its fighter fleet, Taiwan is currently requesting that the United States sell it 66 F-16 C/D fighters* (for more on U.S. arms sales to Taiwan, see the following subsection). Taipei is also attempting to upgrade its indigenous F-CK-1 fighters and may seek to do the same with its F-16 A/B fighters.²⁰⁵

Table 4: Taiwan’s Fighter Fleet

<i>Type</i>	<i>Number</i>	<i>Availability Rates (percentage)</i>
F-16 A/B	145	70%
F-CK-1 A/B	126	80%
Mirage 2000	56	79%
F-5 E/F	60	26%

Sources: Compiled by USCC staff from Defense Intelligence Agency, *Taiwan Air Defense Status Assessment* (Washington, DC: Bolling Air Force Base, January 21, 2010), pp. 3, 6; U.S.-Taiwan Business Council, *The Balance of Air Power in the Taiwan Strait* (Arlington: VA: May 2010), p. 3; and U.S.-Taiwan Business Council, *Defense and Security Report First Quarter* (Arlington, VA: April 1, 2010), p. 11.

Taiwan Defense Reforms

In the face of China’s military buildup, Taiwan has taken several steps in an attempt to improve its ability to defend itself. According to Taiwan’s defense minister, defense reforms are necessary in order to build “a ‘small but smart and strong’ modern force capable of deterring potential military aggressors from taking reckless actions and serving as a solid buttress for the government in cross-strait negotiations.”²⁰⁶ In his testimony to the Commission, Albert S. Willner, director of China Security Affairs at CNA, described some of Taiwan’s recent steps to reforming and improving its military, such as:

- Streamlining Taiwan’s defense organizations;
- Reducing the size of the armed forces from 275,000 to 215,000;
- Reducing the number of senior-level officers;
- Increasing the number of civilians working in the Ministry of Defense;
- Replacing Taiwan’s conscript-based military with a volunteer military;
- Improving the planning and development of armaments;
- Strengthening professional military education; and
- Improving defense expenditures.²⁰⁷

*The F-16 C/D is a more advanced version of the F-16 A/B that has improved cockpit control and display technology, as well as built-in structural and wiring architecture, allowing for the C/D version to better perform precision strike, night attack, and beyond-visual-range interception missions. The designators “A” and “C” are for single-seat aircraft, while “B” and “D” are for double-seat aircraft.

However, potential challenges exist that could derail Taiwan from ultimately achieving these goals. According to Dr. Willner, these challenges include a lack of political will for costly defense expenditures, disagreements between the civilian and military leadership over policies, bureaucratic impediments to change within the military, difficulties in recruiting and retention, and infighting among the services over new roles and responsibilities.²⁰⁸

Recent Developments in the U.S.-Taiwan Relationship

As the Commission's *2008 Report to Congress* stated, Taiwan is an important U.S. partner in East Asia. A shared value for democracy, a close economic relationship, historical and cultural ties, and a similar desire for stable cross-Strait relations make the United States and Taiwan natural partners in the region.²⁰⁹ The remainder of this subsection will discuss recent developments in the U.S.-Taiwan relationship. In particular, it will address U.S.-Taiwan trade issues, recent U.S. arms sales to Taiwan, and outstanding bilateral agreements.

U.S.-Taiwan trade issues

Overall, the United States and Taiwan enjoy a strong economic relationship. The United States is currently Taiwan's third-largest trading partner behind China and Japan, while Taiwan is the U.S.'s 15th largest. Although down in 2009 as a result of the global economic downturn, overall U.S.-Taiwan trade had been increasing in recent years (see table 5 below). Taiwan enjoys a trade surplus with the United States. In 2009, the U.S. trade deficit with Taiwan was \$12.2 billion.²¹⁰ In 2009, the United States mainly exported to Taiwan machinery for manufacturing electronic integrated circuits, and computer memory and processing chips, while the United States primarily imported cellular telephones, radio navigational aids (used for global positioning systems), and electronic circuitry.²¹¹ U.S. foreign direct investment in Taiwan in 2009 was \$19.5 billion, an 8.1 percent increase over 2008, for a cumulative total since 1982 (earliest data available) of \$174.6 billion.²¹² Key areas of U.S. investment in Taiwan are contract design and production, research and development, hardware components, and financial services.²¹³ Taiwan's direct investment in the United States is significantly less: \$3.9 billion in 2008 (the most recent year for data), an 18 percent decrease from 2007.²¹⁴

Table 5: U.S.-Taiwan Trade (in billions),*
2000–2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
U.S. Exports to Taiwan	\$32	\$26	\$26	\$24	\$31	\$32	\$34	\$37	\$37	\$29
U.S. Imports from Taiwan	\$49	\$42	\$41	\$41	\$46	\$48	\$53	\$53	\$50	\$41
Balance	-\$17	-\$16	-\$15	-\$17	-\$15	-\$16	-\$19	-\$16	-\$13	-\$12

Source: U.S. Bureau of Economic Analysis, "U.S. International Transactions, by Area—Taiwan" (Washington, DC: U.S. Department of Commerce, June 17, 2010). http://www.bea.gov/international/bp_web/simple.cfm?anon=71&table_id=10&area_id=40.

* Export data include goods, services, and income receipts; while income data include goods, services, and income payments.

In late September, 2010, the United States announced that trade talks with Taiwan, which had been suspended for several years, would resume.²¹⁵ Since 2008, trade talks with Taiwan had been frozen due to a Taiwan ban on certain types of U.S. beef imports* stemming from Taiwan's fear that it might contain bovine spongiform encephalopathy ("mad cow disease").† The announcement of the resumption of trade talks followed a two-day visit to Taiwan by Claire Reade, assistant U.S. Trade Representative for China Affairs. Further trade discussions between the United States and Taiwan are planned for late 2010 or early 2011.²¹⁶

U.S. Arms Sales to Taiwan

In 2010, the Obama Administration, in accordance with the Taiwan Relations Act of 1979,‡ twice informed Congress of its intent to sell arms and equipment to Taiwan. These arms sales are considered necessary in order to ensure Taiwan's defense in the event of a conflict with the mainland as well as to provide Taiwan with the confidence to negotiate with China.²¹⁷ The first announcement, in January 2010, was for a \$6.4 billion package that included the following items:

- Sixty UH-60 Blackhawk utility helicopters.
- Two Patriot Advanced Capability 3 surface-to-air missile units, one training unit, and 114 missiles.
- Additional datalink terminals and technical support for Taiwan's networked command and control system.
- Two *Osprey*-class mine-hunter ships.
- Twelve *Harpoon* antiship training missiles.²¹⁸

Beijing reacted quickly and forcefully to this announced sale. According to U.S. government analysis:

*China responded to the 29 January announcement of new US arms sales to Taiwan with its highest level protest and most forceful retaliation against such a package in recent years, suggesting that Beijing sees the sales as marking a significant challenge to its interests.*²¹⁹

*The banned beef products are ground beef, bone-in beef, and cow offal.

†The United States and Taiwan originally planned to hold trade talks in early 2010, following an October 2009 agreement between the two sides to allow the import of all U.S. beef products. However, a poor rollout of the agreement by the Taiwan government, and surprisingly strong domestic opposition on the island, led Taiwan's legislature to overturn the agreement in January 2010. As a result, the United States again suspended trade talks with Taiwan. Office of the U.S. Trade Representative (USTR) and the U.S. Department of Agriculture (USDA), "Joint Statement from USTR, USDA on Taiwan's Actions to Unjustifiably Restrict U.S. Beef Imports in Violation of Our Bilateral Agreement" (Washington, DC: January 5, 2010). <http://www.ustr.gov/about-us/press-office/press-releases/2010/january/joint-statement-ustr-usda-taiwan%E2%80%99s-actions-unjusti>; U.S.-China Economic and Security Review Commission, *Hearing on Taiwan-China: Recent Economic, Political, and Military Developments across the Strait, and Implications for the United States*, written testimony of Rupert Hammond-Chambers, March 18, 2010; and Shaun Tandon, "U.S. Rules out Taiwan Free Trade Deal," *Agence France-Presse*, July 7, 2010. http://www.google.com/hostednews/afp/article/ALeqM5j_RuJvFhIiqUQNup8GOVPhOLGdqg.

‡"The Taiwan Relations Act (TRA) of 1979, P.L. 96-8, has governed the U.S. relationship with Taiwan, in the absence of formal diplomatic recognition. . . . The TRA specifies that it is U.S. policy, among the stipulations: to consider any non-peaceful means to determine Taiwan's future 'a threat' to the peace and security of the Western Pacific and of 'grave concern' to 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' jeopardizing the security, or social or economic system of Taiwan's people." Shirley A. Kan, *China/Taiwan: Evolution of the "One China" Policy — Key Statements from Washington, Beijing, and Taipei* (Washington, DC: Congressional Research Service, July 9, 2007), summary page. A full text of the act is available at <http://www.ait.org.tw/en/taiwan-relations-act.html>.

The day after the White House announced the January arms sales, China's Ministry of Foreign Affairs stated that China was cutting off military-to-military exchanges with the United States. It also stated that China would impose sanctions upon those U.S. companies involved in the arms sales, a threat it does not appear China followed through on.²²⁰ After eight months of suspended military-to-military relations,* in September 2010 Beijing agreed to resume military talks with the United States after a visit by Deputy Assistant Secretary of Defense Schiffer. As of this Report's drafting, two additional military meetings between the United States and China have been scheduled: a meeting of the Military Maritime Consultative Agreement in Hawaii, and a meeting in Vietnam between Secretary of Defense Robert Gates and his Chinese counterpart, both scheduled for October, 2010.²²¹

In August, the Obama Administration made a second announcement of a \$100 million arms sales package to Taiwan, this time for radar upgrades. According to the U.S. State Department, this sale "will allow the commercial export to Taiwan of defense services, technical data, and defense articles to support Taiwan's existing air defense radar system and upgrades to existing radars on Taiwan's [F-CK-1] indigenous defense fighter aircraft."²²² To date, Beijing has reacted to this announcement in a more limited fashion than it did to the January 2010 announcement, resorting to just one official public condemnation of the announced sales: "China firmly opposes the United States selling weapons and relevant technical assistance to Taiwan . . . We urge the United States . . . to revoke their wrong decision and put an end to arms sales to Taiwan and military ties with Taiwan to avoid causing new harm to Sino-U.S. ties," stated a Ministry of Foreign Affairs spokesman.²²³

As of this Report's writing, Taiwan still has two outstanding arms sales requests. The first is for 66 F-16 C/D fighters, initially requested in 2006 during the Bush Administration. To date, neither the Bush Administration nor the Obama Administration has accepted Taiwan's Letter of Request for these fighters—the preliminary step in authorizing their release.²²⁴ However, Taiwan continues to seek the F-16 C/D, as noted in President Ma's June 2010 request to Raymond Burghardt, chairman of the American Institute of Taiwan, the de facto U.S. embassy in Taiwan. In response to President Ma, Chairman Burghardt stated that "[i]t's an issue we are studying. There has been no decision made saying we are not going to sell . . . We are carefully looking at the aerial defense needs of Taiwan."²²⁵

Another item not included in the January 2010 arms sales notification is a long-discussed design program for diesel-electric submarines.† According to Lt Col Stokes, these submarines "not only

* Although most exchanges between the PLA and the U.S. military had been cancelled, some interaction still occurred. A recent example is the meeting between Admiral Robert F. Willard, commander of the U.S. Pacific Command, and Lieutenant General Ma Xiaotian, deputy chief of staff of the PLA, during the May 2010 Strategic and Economic Dialogue in Beijing—the first high-level military-to-military meeting since January 2010. The Associated Press "PaCom [U.S. Pacific Command] Leader Wants Stronger Ties with China," *Marine Corps Times* May 25, 2010. http://www.marinecorpstimes.com/news/2010/05/ap_us_china_052510/.

† In 2001, the Bush Administration agreed to sell eight diesel-electric submarines to Taiwan. However, due to domestic political disagreements on Taiwan over the need for the submarines and U.S.-Taiwan pricing disagreements, this sale never materialized. Instead, by 2006, the re-

would undercut the coercive value of [China's] growing naval capabilities, but would also contribute toward countering an amphibious invasion.”²²⁶ When asked about the status of this program, Deputy Assistant Secretary of Defense Schiffer stated that the Department of Defense continues “to assess and look at [it].”²²⁷

Outstanding bilateral agreements

Two bilateral agreements between the United States and Taiwan are still under consideration as of this Report.

- *Bilateral extradition agreement*—this agreement would formalize extradition between the United States and Taiwan. During the Commission's December 2009 trip to Taiwan, President Ma noted to Commissioners that Taiwan already has a similar agreement with the mainland and is interested in pursuing such an agreement with the United States.²²⁸ In March 2010, Deputy Assistant Secretary of State Shear testified to the Commission that the Department of State was “looking at the possibility of an extradition agreement with Taiwan,” but had “not yet finished those deliberations.”²²⁹
- *Visa waiver program*—Taiwan is also interested in becoming a member of the U.S. State Department's visa waiver program.* In both May and June 2010, President Ma twice made public his desire to secure “visa-free treatment for Taiwan tourists.”²³⁰ However, according to a U.S. State Department official, Taiwan currently fails to meet the minimum qualifying standards for participation in the program and therefore presently is ineligible for consideration.†

Implications for the United States

There are two overarching implications for the United States that arise from recent developments in the cross-Strait relationship. First, the improved relationship between Taiwan and the mainland benefits the United States, and the region, by noticeably reducing tension across the Taiwan Strait. As Deputy Assistant Secretary of State Shear noted to the Commission, “Enhanced cul-

quest changed from actual submarines to a submarine design program, and the United States accepted Taiwan's Letter of Request in January 2008. However, to date neither the Bush Administration nor the Obama Administration had submitted the design program for Congressional review. Irley A. Kan, *Taiwan: Major U.S. Arms Sales Since 1990* (Washington, DC: Congressional Research Service, July 2, 2010), pp. 10–14.

*According to the U.S. Department of State, “The Visa Waiver Program (VWP) enables nationals of 36 participating countries to travel to the United States for tourism or business (visitor [B] visa purposes only) for stays of 90 days or less without obtaining a visa.” U.S. Department of State, “Visa Waiver Program.” http://travel.state.gov/visa/templwithout/without_1990.html#wvp.

†Specifically, Taiwan's visa refusal rates are too high to be considered for membership in this program. According to section 217 of the Immigration and Naturalization Act, in order to be eligible for participation, countries must have a tourist visa refusal rate for the more recent fiscal year of less than 2.5 percent and an average visa refusal rate for the past two fiscal years of less than 2 percent. Taiwan's visa refusal rates in 2008 and 2009 were 5.9 percent and 4.4 percent, respectively. Nicholas Manring (legislative management officer, Bureau of Legislative Affairs, U.S. Department of State) telephone interview with Commission staff, September 12, 2010; and “Immigration and Nationality Act,” Title 8, *U.S. Code* 1187, Sec. 217. 2010 edition. <http://www.uscis.gov/portal/site/uscis/menuitem.f6da51a2342135be7e9d7a10e0dc91a0/?vgnnextoid=fa7e539dc4bed010VgnVCM1000000ecd190aRCRD & vgnnextchannel = fa7e539dc4bed010VgnVCM1000000ecd190aRCRD&CH=act>; U.S. Department of State, “Adjusted Refusal Rate—B—Visas Only by Nationality, Fiscal Year 2009.” <http://www.travel.state.gov/pdf/FY09.pdf>; and U.S. Department of State, “Adjusted Refusal Rate—B—Visas Only by Nationality, Fiscal Year 2008.” <http://www.travel.state.gov/pdf/FY08.pdf>.

tural, economic and people-to-people contacts help further peace, stability and prosperity in the East Asian Region.”²³¹

Conversely, the growing military imbalance across the Taiwan Strait potentially poses problems for the United States. The PLA increasingly has the capacity to deny Taiwan’s air force the ability to defend Taiwan in the event of an air or missile attack, which in turn increases Taiwan’s reliance upon U.S. support in the event of a crisis. Furthermore, as chapter 2, section 1, of this Report demonstrates, the PLA’s air and conventional missile capabilities could now endanger U.S. military forces and bases in the region should Washington decide to intercede on Taiwan’s behalf in the event of a cross-Strait crisis.

Conclusions

- Over the past year, China and Taiwan have continued to improve their overall bilateral relationship. This improvement builds upon a trend begun at least in May 2008, with the inauguration of Taiwan President Ma Ying-jeou.
- The improvements in the cross-Strait relationship are not even across the board. Most improved are the bilateral economic ties, as demonstrated by the recent signing of a cross-Strait free trade agreement between China and Taiwan. Diplomatic relations, while less improved than the economic relationship, have also seen progress over the past year. Periodic meetings and negotiations between Taipei and Beijing have become the norm.
- The cross-Strait security situation is still of serious concern. China’s continued military buildup across from Taiwan is increasing the gap in military capabilities between the two sides. In particular, Taiwan’s air defense capabilities are degrading as its air force ages and the PLA’s air and missile capabilities improve.

Annex A: Cross-Strait Diplomatic Interactions since October 2009 *

Date	Taiwan Individual/Organization	PRC Individual/Organization	Location/Event
Oct. 2009	Chiang Pin-kung, chairman, Straits Exchange Foundation	Chen Yunlin, chairman of the Association for Relations Across the Straits	Media delegation to Beijing
Nov. 2009	Huang Chih-peng, director of Taiwan's Bureau of Foreign Trade	Tang Wei, director, Ministry of Commerce	Informal talks on the Economic Cooperation Framework Agreement
Nov. 2009	various	Liang Baohua, party secretary of Jiangsu Province	Large purchasing delegation to Taipei; \$4 billion in contracts signed
Nov. 2009	Pacific Cultural Foundation	Zheng Bijian, former deputy director of the Central Party School of the Chinese Communist Party; and a delegation of retired diplomats and generals	Conference in Taipei
Nov. 2009	Lien Chan, former vice president; honorary chairman of the Chinese Nationalist Party	Hu Jintao, president of China and general secretary of the Chinese Communist Party	Asia-Pacific Economic Cooperation leaders' meeting
Nov. 2009	Shih Yen-hsing, minister of economic affairs	Chen Deming, minister of commerce	Beijing
Nov. 2009	Various	Hu Xiaolian, deputy governor of the People's Bank of China	Delegation visit to Taipei
Dec. 2009	Straits Exchange Foundation	Association for Relations Across the Straits	Fourth round of formal cross-Strait discussions
Jan. 2010	Various	Huang Jiefu, vice minister of health	Visit to Taipei
Jan. 2010	Straits Exchange Foundation	Association for Relations Across the Straits	First round of formal Economic Cooperation Framework Agreement negotiations
Mar. 2010	Various	Wang Lingjun, vice governor of Qinghai Province	Delegation visit
Mar. 2010	Various	Tang Wei, director, Ministry of Commerce	Visit to Taipei for informal discussions
Mar. 2010	Various	Jiang Zengwei, vice minister of Commerce	Five-day tour
Mar. 2010	Straits Exchange Foundation	Association for Relations Across the Straits	Second round of formal Economic Cooperation Framework Agreement negotiations
Apr. 2010	Various	Han Zheng, mayor of Shanghai	Delegation visit to Taipei
Apr. 2010	General (ret.) Hsu Linung	Jia Qinglin, member of the Central Committee Politburo	Delegation to Beijing
Apr. 2010	Lien Chan, former vice president; honorary chairman of the Chinese Nationalist Party; and Wu Poh-Hsiung, former chairman of the Chinese Nationalist Party	Hu Jintao, president of China and general secretary of the Chinese Communist Party	Shanghai

**Annex A: Cross-Strait Diplomatic Interactions since October 2009*—
Continued**

Date	Taiwan Individual/ Organization	PRC Individual/ Organization	Location/Event
May 2010	Various	Huang Xiaojing, governor of Fujian Province	Delegation to Taiwan
May 2010	Various	Tang Wei, director, Ministry of Commerce	Visit to Taipei for informal discussions
Jun. 2010	Shih Yen-hsing, minister of Economic Affairs	Chen Deming, minister of Commerce	Asia-Pacific Economic Cooperation meeting, Sapporo, Japan
Jun. 2010	Various	Lu Zushan, governor of Zhejiang Province	Delegation to Taiwan
Jun. 2010	Straits Exchange Foundation	Association for Relations Across the Straits	Third round of formal Economic Cooperation Framework Agreement negotiations
Jun. 2010	Su Huan-chih, magistrate of Tainan County	Various	Trip to Beijing to promote Tainan agriculture
Jun. 2010	Straits Exchange Foundation	Association for Relations Across the Straits	Fourth round of formal talks on the Economic Cooperation Framework Agreement; agreement signed
Jul. 2010	Wu Poh-Hsiung, former chairman of the Chinese Nationalist Party	Hu Jintao, president of China and general secretary of the Chinese Communist Party	Cross-Strait relations meeting in Beijing

Sources: USCC staff compilation from various sources.

* October 2009 is chosen as the starting point, since this is when the Commission's *2009 Annual Report* went to publication. For interactions prior to October 2009, see U.S.-China Economic and Security Review Commission, *2009 Report to Congress* (Washington, DC: U.S. Government Printing Office, November 2009), pp. 234–35. http://www.uscc.gov/annual_report/2009/annual_report_full_09.pdf.