

SECTION 3: TAIWAN

Introduction

Continuing to monitor the situation between Taiwan and China in 2011, the Commission notes that overall the relationship across the Taiwan Strait continues to improve, but at a pace slower than in the previous two years. A key reason for the slower pace of improvements across the Taiwan Strait is the upcoming Taiwan presidential and legislative elections on January 14, 2011, as neither China nor the incumbent Taiwan administration desires to have the cross-Strait rapprochement used as a negative issue prior to the elections. In addition, many of the easier negotiations, such as on economic and trade issues, have been discussed, leaving increasingly difficult political discussions remaining. As a result, this year the two sides have focused on implementing already signed agreements. Despite the slowed, but continued, improvement in economic and diplomatic relations between Taipei and Beijing, the cross-Strait military balance continues to tilt in favor of the mainland due to China's growing military capabilities.

This section of the Commission's Report discusses the current situation across the Taiwan Strait and describes any notable changes in the diplomatic, economic, and military aspects of the cross-Strait relationship over the past year.

Developments in Cross-Strait Diplomatic Relations

Since the Commission's *2010 Annual Report to Congress*, relations between Taiwan and China have continued to improve, although there has been less cross-Strait diplomatic activity in 2011 than in the previous two years. Since November 2010, Taiwan and China have signed only one agreement, as opposed to the 14 previously signed agreements since Taiwan President Ma Ying-jeou's 2008 inauguration. The December 2010 semiannual talks between the Straits Exchange Foundation and the Association for Relations Across the Taiwan Straits* produced the Cross-Strait Agreement on Medical and Health Cooperation, which will facilitate cooperation on the exchange of information about epidemics, development of vaccines, and clinical drug trials.¹⁷⁷ During the meeting, the two sides also agreed regularly to review the implementation of previous agreements.¹⁷⁸ The only new agreement introduced and being discussed this year has been on nuclear safety in response to Japan's nuclear crisis, which was proposed by Taiwan in March

*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. U.S.-China Economic and Security Review Commission, *2010 Annual Report to Congress* (Washington, DC: U.S. Government Printing Office, November 2010), p 143.

2011.¹⁷⁹ In July 2011, Taiwan's Mainland Affairs Council Minister Lai Shin-yuan stated that the nuclear agreement would be addressed at the next meeting between the Straits Exchange Foundation and the Association for Relations Across the Taiwan Straits, which was tentatively scheduled for August 2011 but was postponed until late October.¹⁸⁰

In 2011, Taiwan and China also implemented several unilateral policies that expanded cross-strait relations in the areas of travel and education. In June 2011, China and Taiwan agreed to begin allowing individual Chinese citizens to travel to Taiwan rather than only in preapproved groups. The lifting of the ban, however, applies only to the residents from three mainland cities: Beijing, Shanghai, and Xiamen, and the length of stay is limited to 15 days only.¹⁸¹ Taiwan expanded upon its direct flight agreement with China by announcing in June 2011 that the number of cross-strait direct flights would increase from 370 to 558.*¹⁸² As a result, tourism between the two sides has grown significantly. In his meeting with Commissioners in July 2011, President Ma noted that more than 3,000 mainlanders visit Taiwan every day.¹⁸³ According to Taiwan's Tourism Bureau, 2.4 million Taiwan residents visited the mainland in 2010, a 37 percent increase over 2009. In 2010, 1.6 million mainlanders visited the island, a 41 percent increase over 2009.¹⁸⁴

Taiwan and the mainland have also made their educational systems more accessible to one another. Taiwan's Ministry of Education announced in January 2011 that it would recognize Chinese degrees. In April 2011, Taipei announced that it would allow 2,000 Chinese students to study at Taiwan's universities. However, students from the mainland are subject to stipulations that prohibit them from receiving Taiwan government scholarships, applying for jobs in Taiwan, or studying topics sensitive to Taiwan's national security, such as military technology and aeronautics.¹⁸⁵ In a meeting with members of Taiwan's National Security Council, Commissioners were told that these restrictions were important because of the continuing threat the mainland poses to Taiwan.¹⁸⁶

Over the course of the past year, the two sides failed to conclude several anticipated agreements. These agreements included:

- *Cross-Strait investment protection agreement*: The two sides originally intended to sign in December 2010 an agreement to protect Taiwan investments on the mainland.¹⁸⁷ During a meeting with the Taipei Economic and Cultural Representative Office,† the Commission heard that the two sides were in dispute over whether the agreement would be treated as a domestic or inter-

*The direct flight agreement referred to is the Cross-Strait Air Transport Agreement, which was signed in November 2008 and established direct flights between Taiwan and the mainland. Prior to the implementation of this agreement, direct flights between the island and the mainland first had to transit through a third-party airport. Mainland Affairs Council, "Explanation concerning the Cross-Strait Air Transport Agreement," November 4, 2008. <http://www.mac.gov.tw/public/Data/3962917501071.pdf>.

†The Taipei Economic and Cultural Representative Office is Taiwan's principal representative office in the United States. Because the United States and Taiwan do not engage in official diplomatic relations, the office serves as Taiwan's de facto embassy. For more information, see "Taipei Economic and Cultural Representative Office in the United States, TECRO Profile and Mission" (Washington, DC: November 3, 2010). <http://www.taiwanembassy.org/US/ct.asp?xItem=166566&CtNode=2294&mp=12&xp1>.

national agreement.¹⁸⁸ According to the media, Taiwan is wary of China's legal system and insists on using the International Chamber of Commerce for arbitration. However, China refuses to treat any cross-Strait issue as international.¹⁸⁹ It is unclear when further discussions on this issue will be held.

- *Double taxation agreement:* In June 2011, Taiwan's Finance Minister, Lee Sush-der, stated that the two sides have "largely" reached an agreement on a double-taxation avoidance pact originally expected in 2009. The pact had been set aside due to difficulties in agreeing on the tax rates and categories to be included, and Minister Lee provided no details on the provisions that the agreement would contain or when it would be signed.¹⁹⁰
- *Currency clearance agreement:* During an April 2011 meeting, Taiwan's and China's financial regulation commissions failed to reach a widely anticipated currency clearance agreement that would allow Taiwan banks operating on the mainland to make loans and accept deposits in China's currency, the renminbi (RMB). An official from the People's Bank of China had originally stated in December 2009 that preparation for the agreement was "80 to 90 percent" complete and that it would be signed within the coming months.¹⁹¹ After the agreement was stalled for more than a year, reports anticipated that the April 2011 meeting between the banking regulators would result in its successful completion. However, the two sides only agreed upon procedural measures, including the establishment of a mechanism for holding regular meetings.¹⁹²
- *Cultural agreement:* Taiwan and China have also continued to disagree over the possibility of a cultural agreement, which Beijing has persisted in suggesting to an unresponsive Taipei. Proposed by China's Minister of Culture, Cai Wu, the agreement would institutionalize cultural exchanges between the two sides and "bring together both sides' resources, funding and creativity."¹⁹³ According to one expert, the Ma Administration is reluctant to sign a cultural agreement for fear that the Democratic Progressive Party would attempt to portray the agreement as showing favor to China's culture.¹⁹⁴

A key complicating factor in further cross-Strait negotiations is Taiwan's upcoming presidential and legislative elections in January 2012, for which the cross-Strait situation is expected to remain a major issue.* In July 2011, President Ma announced that he planned to scale back visits from high-level mainland officials to Taiwan "during a certain period of time," which other officials in

* Currently there are three announced candidates for Taiwan's presidential elections. President Ma Ying-jeou is seeking reelection as the Kuomintang Party candidate. His primary opponent is Chairwoman Tsai Ing-wen of the Democratic Progressive Party. In late September 2011, James Soong, formerly of the Kuomintang Party, announced he was running for president as a candidate of the People's First Party. The addition of Mr. Soong's third-party candidacy will likely make an already close election even more difficult to predict.

Taiwan interpreted as an election strategy motivated by aversion to appearing too conciliatory toward China.¹⁹⁵ According to one expert, President Ma has been under pressure from members of his party to prevent the Kuomintang from gaining a reputation as excessively “pro-China.”¹⁹⁶ Taiwan has also banned the travel of senior-level mainland officials to the island, allegedly in an attempt to prevent the visits from being used against his administration in the presidential campaign.¹⁹⁷

Beijing may also be a factor in the slower pace of developments in the cross-Strait relationship. China has taken a strong interest in the outcome of Taiwan’s election, showing preference for a Kuomintang victory. According to Richard C. Bush, director of the Center for Northeast Asian Policy Studies at The Brookings Institution, Beijing has avoided controversial cross-Strait issues and “is not pushing the agenda” before the election because it “understands that it has an interest in keeping President Ma and the KMT [Kuomintang] in power.”¹⁹⁸ China may even become lenient on issues such as participation in international organizations in order to demonstrate the effectiveness of President Ma’s cross-Strait policies.¹⁹⁹ However, according to one Washington D.C.-based expert on cross-Strait issues, it is possible that if President Ma wins reelection, Beijing could take a harder line with Taipei in order to “secure [China’s President] Hu Jintao’s legacy” before President Hu steps down in the fall of 2012.²⁰⁰

Developments in Taiwan’s International Space

Taiwan has continued to pursue efforts to gain international space through participation in international organizations and negotiating with other countries on visa waiver exemption, extradition, and free trade agreements. Since the publication of the Commission’s *2010 Annual Report to Congress*, Taiwan has experienced both progress and setbacks in its participation in international organizations. In 2011, Taiwan joined one new international organization, the Civil Air Navigation and Services Organization, which is an official observer of the United Nations’ International Civil Aviation Organization.* It experienced a setback in May 2011, when the World Health Organization used the label, “Taiwan, Province of China,” sparking Taiwan officials formally to assert that it be referred to as “Chinese Taipei.”²⁰¹ A similar controversy occurred in July 2011, when Taiwan’s Ministry of Foreign Affairs publicly urged Brazil to make the same change after discovering that the Brazilian government’s website designated Taiwan as a province of China.²⁰² A report prepared for the Commission by The Economic Strategy Institute discussed similar People’s Republic of China (PRC) indignation expressed when “Taiwan” is used, stating:

* Rather than joining the organization under a regional name such as the commonly used name “Chinese Taipei,” Taiwan is listed solely as “Air Navigation and Weather Services, Civil Aeronautics Administration,” with no mention of Taiwan. Full membership is open to any organization providing air navigation services, as opposed to the International Civil Aviation Organization, which only admits states. Taiwan is not a member of this latter organization. Shelly Shan, “Taiwan joins CANSO [Civil Air Navigation Services Organization] aviation organization,” *Taipei Times*, January 15, 2011. <http://www.taipetimes.com/News/taiwan/archives/2011/01/15/2003493568>; and Civil Air Navigation Services Organization, “Joining CANSO.” <http://www.canso.org/cms/showpage.aspx?id=329>.

*Any person who has participated in the deliberations of international organizations with China can undoubtedly describe the palpable tension which is created when one delegate makes the mistake of referring to 'Taiwan' rather than by the officially approved nomenclature within that organization. First of all, the room will be quiet enough to hear a pin drop. Then there will be a strong and immediate request by the Chinese representative for a 'correction' to the record. Anyone who makes such a mistake once is unlikely to make it twice. In fact, at Board meetings within the Asian Development Bank, if a delegate does make an erroneous reference to 'Taiwan,' the meeting must be formally stopped, and an official statement clarifying the exact political status of 'Taiwan' is read out. Only when this formal clarification and correction is complete can the Board meeting recommence.*²⁰³

In another sign of Taiwan's success in expanding its international space, it has made substantial gains in joining visa waiver programs. It currently belongs to 124 visa waiver programs around the world, surpassing its original goal of joining 100 programs by 2011.²⁰⁴ Taiwan has yet to join the U.S. program, although President Ma noted to Commissioners in August 2011 that this is an important goal of his administration.²⁰⁵ Taiwan's prospects for joining improved this year due to its declining visa refusal rate, a key obstacle to joining the program.*²⁰⁶ Taiwan and the United States have also made progress on an extradition agreement,²⁰⁷ although a representative from the Taipei Economic and Cultural Representative Office noted to the Commission that obstacles still remain to the agreement's successful conclusion.²⁰⁸

Taipei continues to pursue free trade agreements with other nations. According to some Taiwan experts, "The Ma administration hopes that the ECFA [Economic Cooperation Framework Agreement] would serve as a model framework for Taiwan's trade negotiation with the rest of the world so that other FTA [free trade agreement]-like agreements could be reached without Beijing's obstruction."²⁰⁹ During a meeting with Taiwan's Ministry of Economic Affairs, Commissioners heard how Taiwan is currently negotiating a trade agreement with Singapore.²¹⁰ In addition, Taiwan is conducting feasibility studies for possible free trade agreements with India and the Philippines.²¹¹ Several experts have stated that Taiwan's ability to sign free trade agreements with other nations is contingent upon Beijing's approval, but Taipei disagrees with this assertion.²¹² Commenting on negotiations with Singapore, Minister Lai stated that "China has no say" over whether Taiwan and Singapore come to an agreement, and in the case of India and

* According to section 217 of the Immigration and Naturalization Act, in order to be eligible for participation in the U.S. visa waiver program, countries must have a tourist visa refusal rate for the most 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, or a visa refusal rate of less than 3 percent for just the previous full fiscal year. According to the U.S. State Department, Taiwan's visa refusal rate for fiscal years 2010 and 2009 were 2.2 percent and 4.4 percent. "Immigration and Nationality Act," Title 8, *U.S. Code 1187*, Sec. 217, 2010 edition; 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 2010." <http://www.travel.state.gov/PDF/FY10.pdf>

the Philippines, “we have made it clear to the other side that this is our right.”²¹³

Although the United States remains Taiwan’s third-largest trading partner after China and Japan, negotiations on a U.S.-Taiwan trade agreement, officially titled the U.S.-Taiwan Trade and Investment Framework Agreement,* have been on hold since 2007. The current obstacle to resumption of the talks is a disagreement about Taiwan’s partial ban on U.S. beef imports.²¹⁴ Despite a November 2009 bilateral agreement between Taipei and Washington to allow the import of U.S. beef products into Taiwan, in January 2010 the Taiwan legislature amended a Taiwan food safety law to impose a partial ban on U.S. beef products.²¹⁵ In response to the ban, the Office of the U.S. Trade Representative and the U.S. Department of Agriculture issued a joint statement, noting that:

*The decision by Taiwan authorities to place domestic politics over science raises serious concerns. This action will also undermine Taiwan’s credibility as a responsible trading partner and will make it more challenging for us to conclude future agreements to expand and strengthen bilateral trade and economic ties.*²¹⁶

Since the passage of this law, no further official negotiations have been held on the Trade and Investment Framework Agreement with Taiwan.²¹⁷

Developments in Cross-Strait Economic Relations

Despite the absence of a large number of new agreements, cross-strait economic relations in 2011 have been characterized by strong growth in bilateral trade and steady progress in implementing the agreements already signed. The most prominent accord is the 2010 Economic Cooperation Framework Agreement, which included the establishment of the Cross-Strait Economic Cooperation Committee and tariff cuts on more than 800 items on the agreement’s “early harvest” list.²¹⁸

The Cross-Strait Economic Cooperation Committee is a platform for implementing the provisions of the Economic Cooperation Framework Agreement. The committee is responsible for negotiating agreements on trade in commodities and services, investment protection, and conducting dispute resolution between the two sides. It met for the first time in February 2011, and, according to one expert, is “the most senior forum for direct contact between officials from the two sides and represents a significant step forward in cross-strait cooperation.”²¹⁹ At the meeting, the committee established six working groups on merchandise trade, services trade, investment, dispute settlement, industry cooperation, and customs. In addition, the members agreed to launch in mid-April 2011 three agreement-authorized negotiations on merchandise trade, services

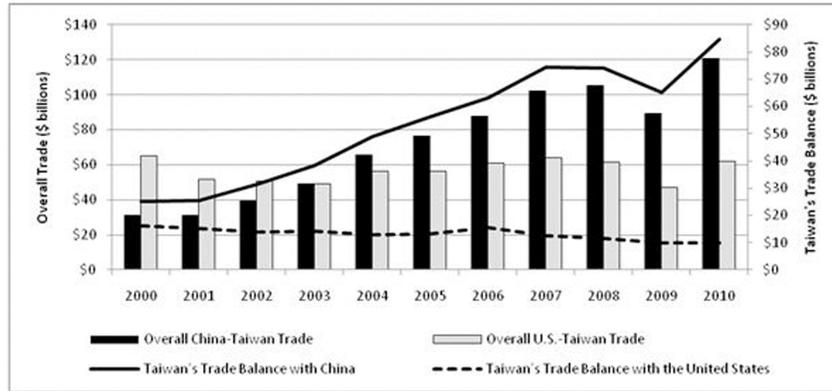
* According to the Office of the U.S. Trade Representative, “Trade and Investment Framework Agreements (TIFAs) provide strategic frameworks and principles for dialogue on trade and investment issues between the United States and the other parties to the TIFA. . . . [T]hese agreements all serve as a forum for the United States and other governments to meet and discuss issues of mutual interest with the objective of improving cooperation and enhancing opportunities for trade and investment.” Office of the U.S. Trade Representative, “Trade & Investment Framework Agreements” (Washington, DC). <http://www.ustr.gov/trade-agreements/trade-investment-framework-agreements>.

trade, and dispute settlement.²²⁰ Working group talks on merchandise and services trade were held in the beginning of August.²²¹

Although Taiwan and China signed no new bilateral economic agreements in 2011, they both continued to pursue individual policies that will improve cross-Strait economic exchange. Taipei has continued to ease restrictions on Chinese investments in Taiwan, although restrictions still remain. According to Taiwan's Ministry of Economic Affairs, investment from the mainland must first undergo a review process to ensure that it does not harm Taiwan's national security or Taiwan industries.²²² As of February 2011, Chinese total investment in Taiwan since mainland investment on the island was first allowed equaled \$139 million.²²³ This amount is substantially lower than Taiwan's direct investment in China, which equaled \$14.62 billion in 2010 alone. According to Taiwan's Mainland Affairs Council, Taiwan's direct investment in China has increased from 70 percent of Taiwan's total direct foreign investment in 2009 to 84 percent in 2010.²²⁴ China's comparatively low amount of direct investment in Taiwan is attributed to Taiwan's restrictions, which gradually have been easing.²²⁵ In March 2011, Taiwan's Ministry of Economic Affairs announced it would open 42 additional sectors to Chinese investors, including the strategically important flat panel and computer chip industries.²²⁶ China also is considering reducing tariffs on rare-earth minerals to Taiwan.²²⁷

Partially as a result of the Economic Cooperation Framework Agreement, cross-Strait trade has continued to expand rapidly. Taiwan's share of China's imports increased in 2011 as a result of the agreement, changing a trend in which its share had been decreasing.²²⁸ According to Taiwan's Mainland Affairs Council, in 2010, total cross-Strait trade increased by 40 percent over the 2009 level, to \$120.8 billion.²²⁹ The import-export balance continues to favor Taiwan, which in the first quarter of 2011 exported to China \$30.1 billion in goods, a 13 percent increase from the same period in the previous year. In contrast, Taiwan imported from China \$14.2 billion in the first half of 2011, a 40 percent increase from the same period last year.²³⁰ By way of comparison, in the first quarter of 2011, U.S. total trade with Taiwan was \$22.1 billion, a 17 percent increase from the same period in 2010. Overall, the United States suffers a trade deficit with Taiwan. In the first half of 2011, the United States imported 35 percent more (\$24.3 billion) from Taiwan than it exported (\$15.7 billion).²³¹ Figure 1, below, provides a comparison of Taiwan's trade with the United States and China between 2000 and 2010.

Figure 1: Comparison of Taiwan's Overall Trade Balance with China and the United States (2000-2010)



Source: Mainland Affairs Council, *Cross-Strait Economic Statistics Monthly* No. 221 (Taipei, Taiwan: August 29, 2011), p. 23. <http://www.mac.gov.tw/public/Attachment/182914593257.pdf>; and U.S. Census Bureau, "Trade in Goods with Taiwan" (Washington, DC: U.S. Department of Commerce). <http://www.census.gov/foreign-trade/balance/c5830.html>.

Developments in the Cross-Strait Military Balance

Despite a third year of improved economic and diplomatic ties, military tension across the Taiwan Strait remains. Beijing's public statements reflect an effort to downplay the threat that China poses to the island, but Taipei maintains that China's military expansion and recent espionage controversies prove otherwise. Taiwan officials continue to emphasize that it is imperative that the island remain militarily competitive with China in order to maintain an equal hand in cross-Strait negotiations.²³² Taipei has made efforts to demonstrate to the United States that it is in need of additional military technology and equipment and to China that it is still capable of defending itself against an invasion.

Over the past year, Beijing has attempted to make reassuring rather than threatening statements about the cross-Strait military situation. China's 2010 defense white paper, for example, highlighted the progress made in the relationship and downplayed any tension. According to this document:

*The Chinese government has formulated and implemented principles and policies for advancing peaceful development of cross-Strait relations in the new situation, promoted and maintained peace and stability in the area. Significant and positive progress has been achieved in cross-Strait relations.*²³³

The white paper also expressed openness to pursuing confidence-building measures with the Taiwan military, something Taiwan so far has declined.²³⁴ According to Taiwan Military Spokesman Lo Shao-ho, "The proposed confidence-building measures would involve national security and the Ministry of National Defense will follow the government's established policy on China in pushing forward such a mechanism gradually, steadily and practically if necessary."²³⁵ On a May 2011 visit to the United States, People's Liberation Army (PLA) Chief of the General Staff Chen Bingde stated

during a joint press conference that the PLA does not have any missiles stationed “across from Taiwan.”²³⁶ However, the U.S. Department of Defense in its congressionally mandated report on China’s military capabilities noted that “the PLA had deployed between 1,000 and 1,200 short-range ballistic missiles to units opposite Taiwan.”²³⁷

Several espionage cases alleging the transfer of Taiwan’s military secrets to China have reinforced Taipei’s suspicion of the mainland. In early February 2011, Taiwan Army Major General Lo Hsien-che was arrested on charges of spying for Beijing since 2004.²³⁸ This case is considered by some to be Taiwan’s worst espionage case in 50 years and raised concerns among U.S. officials when it was revealed that details of sensitive U.S. technologies may have been compromised. Documents found in Major General Lo’s office detailed information about Lockheed Martin’s Po Sheng command, control, and communications network being purchased by Taiwan, as well as the procurement details of 30 Boeing AH-64D Longbow Apache attack helicopters.²³⁹ In a second espionage case, a Taiwan businessman was arrested for allegedly trying to steal military secrets for China, but Taiwan’s Ministry of National Defense denied that any national security information was lost.²⁴⁰ These cases may not be the end of Chinese espionage on the island, as an anonymous Taiwan source told the media that Taiwan knew of at least ten additional spies who had infiltrated Taipei’s national security units and that “[m]any more spies for the Chinese mainland might have gone undetected. . . . The extent of the infiltration into Taiwan’s government units may be worse than imagined.”²⁴¹

In order to show to both China and its own populace that it is capable of defending the island against a mainland attack if necessary, the Taiwan military conducted several high-profile military demonstrations over the past year. These demonstrations included:

- *Military exercises:* In April 2011, Taiwan’s Air Force conducted a high-profile highway landing drill of its fighter jets in a simulation of a surprise attack on Taiwan’s air bases. This was the first highway landing exercise that had been conducted since 2007.²⁴² Analysts believe that this exercise was meant to send several signals: the first to China in a display of its ability to improvise if its airfields are destroyed, the second to the United States in an attempt to convey to Washington the efficacy with which it would use requested fighter jets, and the third to Taiwan’s public in order to convince them of the Ma Administration’s commitment to defense.²⁴³
- *Cruise missile developments:* Over the past year, Taiwan announced that it had begun producing two new cruise missiles. In December 2010, Taiwan’s Deputy Defense Minister Chao Shih-chang stated that Taiwan was mass producing the Hsiung Feng IIE, a land-attack cruise missile under development since the late 1990s.²⁴⁴ With an estimated range between 500 and 650 kilometers, the Hsiung Feng IIE is capable of hitting targets on China’s mainland.²⁴⁵ Deputy Defense Minister Chao also confirmed that Taiwan had begun producing the Hsiung Feng III, a supersonic antiship cruise missile.²⁴⁶ In May

2011, an official government statement declared that the Hsiung Feng III will be outfitted on over a dozen navy vessels and patrol boats.²⁴⁷ However, the accuracy of the Hsiung Feng III was called into question when, during a June 2011 routine test, the missile failed to reach its target, reportedly due to a computer glitch.²⁴⁸

- *New missile boats:* In April 2011, President Ma inaugurated a fleet of ten missile boats equipped with stealth capabilities and antiship cruise missiles. These boats, the *Kuang Hua* VI-class missile boat, joined a group of ten already in service in Taiwan's northeastern naval base in Suao and will be followed by another ten by the end of the year. The 171-ton *Kuang Hua* boats will replace Taiwan's aging 50-ton *Seagull*-class missile boats.²⁴⁹
- *Naval stealth capabilities:* In July 2011, Taiwan's Navy revealed that it had developed a radar-absorbing stealth coating that makes it significantly harder for radar to detect naval vessels coated with the substance.²⁵⁰
- *F-CK-1 fighter upgrade:* In an effort to improve its deteriorating air defense capabilities,* Taiwan has sought to upgrade its indigenously developed fighter aircraft, the F-CK-1A/B Indigenous Defense Fighters. In June 2011, Taiwan's Air Force took delivery of the first six upgraded fighters. Sixty-five more fighters, out of a total of 125, are set to be upgraded by the end of 2012. The upgrades included enhanced radar, electronic warfare systems, and cockpit computers, as well as the ability to double the payload to four air-to-air missiles.²⁵¹
- *Missile tests:* Taiwan also conducted two missile tests this past year in an effort to demonstrate its defensive capabilities, but during both tests a substantial portion of the missiles failed. In January 2011, six of 19 surface-to-air and air-to-air missiles failed to reach their targets, prompting President Ma to express public dissatisfaction with the results.²⁵² In a March 2011 test, two out of four surface-to-air missiles again missed their targets. Taiwan's Defense Minister Kao Hua-chu stated that problems with the tests could be due to both human and mechanical errors, and a Democratic Progressive Party spokesman criticized the Ministry of Defense for not solving the problem after the first unsuccessful test.²⁵³

Further progress in developing Taiwan's indigenous defense capabilities may be hampered by budgetary constraints. Taiwan's 2011 defense budget reached a five-year low of \$9.2 billion, or approximately 2.2 percent of Taiwan's gross domestic product (GDP). In a meeting in Taiwan, Taiwan's Ministry of Defense described to Commissioners how, although the Ma Administration desired a target of 3 percent of GDP for the defense budget, this was unattainable due to economic constraints stemming from the 2010 typhoon recovery and the global financial crisis.²⁵⁴ Budget cuts have already impacted President Ma's plan to convert the military from a

* For more on Taiwan's deteriorating air capabilities, see the U.S.-China Economic and Security Review Commission, *2010 Annual Report to Congress* (Washington, DC: U.S. Government Printing Office, November 2010), pp. 149–152.

conscript-based force to an all-volunteer force.²⁵⁵ Budget constraints may also have postponed the purchase of U.S. Patriot missiles and Black Hawk helicopters, contained in the Obama Administration's January 2010 arms sale notification to Congress.²⁵⁶ While Kuomintang legislator Lin Yu-fang asserted that the reason for the postponement was a budget shortfall, Taiwan Defense Ministry spokesman Luo Shou-he blamed production delays.²⁵⁷ Because of the complexity of the U.S. foreign military sales process, it is unclear whether either reason is true, and to date only four of the 60 Black Hawk helicopters contained in the January 2010 notification are under contract.^{258 *}

In accordance with the Taiwan Relations Act of 1979[†] and Taiwan's designation as "a major non-NATO [North American Treaty Organization] ally" for the provision of defensive arms,[‡] on September 21, 2011, the Obama Administration notified Congress of a potential arms sale to Taiwan for almost \$5.9 billion. The notification contained three separate components: an upgrade to Taiwan's current inventory of 145 F-16A/B fighters (\$5.3 billion), a continuation of the F-16 training program in the United States for Taiwan F-16 pilots (\$500 million), and spare parts for Taiwan's fighter and transport aircraft (\$52 million). The proposed upgrade to Taiwan's F-16A/B fighter fleet includes the following:²⁵⁹

- Active electronically scanned array radars
- Global Positioning System navigation equipment
- Improved electronic warfare systems
- Updated cockpit computer systems
- Engineering and design study for engine upgrade
- Improved communication equipment
- Data link terminals
- Helmet targeting systems
- Night vision systems
- Laser-guided munitions
- Spare parts
- Logistical support

*Part of the difficulty in determining the status of Taiwan arms sales is the large gap between when the administration notifies Congress about a possible arms sale and when the actual item in question is transferred to Taiwan. For example, in October 2008, the Bush Administration notified Congress of the possible arms sale of 30 Apache attack helicopters to Taiwan. According to U.S. government website USASpending.gov, a preliminary "long lead contract" for the production of these helicopters was issued on July 30, 2009, and to date, only 9 percent of the total \$2.5 billion has been obligated by the Taiwan government. Delivery for these helicopters is not expected to begin until at least 2014. USASpending.gov, "Prime Award Spending Data: W58RGZ09C0147," September 23, 2011. http://www.usaspending.gov/search?query=&search_type=&formFields=eyJTZWFyY2hUZXJtIjpbIjc1OFJHWjA5QzAxNDciX X0%3D#; Defense Security Cooperation Agency, "Boeing Co., W58RGZ-09-G-0147: \$141,701,518" (Washington, DC: U.S. Department of Defense, November 8, 2010). <http://air-attack.com/contracts/date/2010-11-08>; and China News Agency (Taiwan), "Boeing Gets Taiwan Apache Helicopter Contract," November 9, 2010. <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20101109000044&cid=1102>. NOTE: The Boeing contract number contains a typo and should actually be W58RGZ-09-C-0147.

†The Taiwan Relations Act (TRA) of 1979 (Public Law 96-8) helps govern 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 defense 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>.

‡According to Public Law 107-228, "for purposes of the transfer or possible transfer of defense articles or defense services under the Arms Export Control Act (22 U.S.C. 2751 et seq.), the Foreign Assistance Act of 1961 (22 U.S.C. 2151 et seq.), or any other provision of law, Taiwan shall be treated as though it were designated a major non-NATO [North American Treaty Organization] ally (as defined in 644(q) of the Foreign Assistance Act of 1961 (22 U.S.C. 2403(q))." The Foreign Relations Authorization Act of Fiscal Year 2003, Public Law 107-228, 107th Cong., 1st sess., September 30, 2002.

According to the announcement of the possible sale, “the improved capability, survivability, and reliability of newly retrofitted F-16A/B aircraft will greatly enhance the recipient’s ability to defend its borders.”²⁶⁰

In response to the arms sale announcement, Beijing quickly followed up on its previous warnings to the United States. Prior to the announcement, China repeatedly expressed its opposition to the sale in several official venues, such as during Secretary Gates’ January 2011 trip to China and during the May 2011 trip of Chen Bingde, chief of the PLA General Staff, to the United States.²⁶¹ Immediately following the announcement, China’s Ministry of Foreign Affairs spokesperson noted that:

*Paying no heed to China’s repeated solemn representations, the US side keeps selling advanced arms to Taiwan under the pretext of the Taiwan Relations Act. Its action has grossly violated the three China-US joint communiqués, especially the principles enshrined in the August 17 Communiqué. It constitutes a serious interference in China’s internal affairs and severely undermines China’s national security and reunification. It also impairs China-US relations and the peace and stability across the Taiwan Straits. The Chinese Government and people will by no means accept it. The erroneous practice of the US will inevitably cause damage to China-US relations and bilateral exchanges and cooperation in the military, security and other fields, and the responsibility completely rests with the US side. [emphasis added].*²⁶²

A day after the arms sales announcement, China’s foreign minister, Yang Jiechi, gave a speech in New York to the National Committee on U.S.-China Relations and the U.S.-China Business Council, stating that:

*The Chinese side urges the U.S. side to fully recognize that U.S. arms sales to Taiwan is a highly sensitive and harmful issue. The Chinese side urges the U.S. side to take China’s solemn position very seriously, correct the mistake of selling weapons to Taiwan, immediately revoke the above-mentioned wrong decision, stop arms sales to Taiwan and U.S.-Taiwan military contacts, and take real actions to uphold the larger interest of China-U.S. relations and peace and stability in the Taiwan Straits.*²⁶³

A few days later, a senior State Department official provided details about a September 26 meeting between Secretary of State Hillary Rodham Clinton and Foreign Minister Yang. According to the State Department official, Foreign Minister Yang indicated to Secretary Clinton that China was “going to suspend or cancel or postpone a series of military-to-military engagements” with the U.S. military, just restarted back in January 2011. The official also warned that more, unspecified retaliations may be forthcoming from China.²⁶⁴

With the Obama Administration’s announcement of the possible sale of F-16A/B retrofits to Taiwan, Taiwan has two arms sales requests still outstanding: F-16C/D fighter jets and diesel-electric submarines. Since 2006, Taiwan has attempted to submit a Letter

of Request to the United States for the purchase of 66 F-16C/D fighters from the United States to replace Taiwan's aging aircraft, especially its 1960s-era F-5 fighters. However, to date, neither the Bush Administration nor the Obama Administration has accepted Taiwan's Letter of Request, the first step in the foreign military sales process.²⁶⁵ Over the past year, Taiwan officials have repeatedly called for the United States to approve the sale of F-16C/D fighters to Taiwan. During the Commission's trip to Taiwan, for example, President Ma described how the sale of the F-16C/D fighters is critical in order to offset the shifting of the cross-Strait military balance in China's favor.²⁶⁶ Despite Taiwan's repeated attempts to submit a Letter of Request for the F-16C/D, its inability to submit the letter prevents any deliberation of an arms sale from going forward and keeps Taiwan defense planners in suspense over the possibility of a future sale of the F-16C/D. Immediately after the announcement of the potential sale of the F-16A/B upgrade package, President Ma noted that his administration, while appreciative of the F-16A/B upgrade, would continue to press for the sale of the 66 F-16C/D fighters.²⁶⁷

Recent Congressional Actions Related to Taiwan Arms Sales

Over the last year, Members of the U.S. Congress have expressed concern regarding Taiwan's ability to defend itself from a Chinese attack. In addition to a number of public statements, Members of Congress have taken the following steps in support of U.S. arms sales to Taiwan:

- On April 13, 2011, Representative Robert Andrews (D-NJ) introduced H.Cong.Res.39, which expresses the sense of Congress that the president should move forward with the sale to Taiwan of new and upgraded F-16s.
- On May 26, Senate Taiwan Caucus Co-Chairmen Robert Menendez (D-NJ) and James Inhofe (R-OK) sent a letter to President Obama urging the administration to approve the sale of F-16C/D fighters to Taiwan. The letter was signed by 45 senators.
- On July 20, the House Committee on Foreign Affairs passed H.R. 2583, *The Foreign Relations Authorization Act for Fiscal Year 2012*. The bill contains language that would require the president to take immediate steps to sell to Taiwan both the 66 F-16C/D fighters and the upgrade package for Taiwan's F-16A/B fighters. The bill also requires the sale of the eight diesel-electric submarines once Taiwan has budgeted for them. This language was included in the bill through amendments offered by Representatives Howard Berman (D-CA), Dan Burton (R-IN), and Gerry Connolly (D-VA) and passed by voice votes.

**Recent Congressional Actions Related to Taiwan
Arms Sales—Continued**

- On August 1, the House Taiwan Caucus, led by Representatives Shelley Berkley (D–NV), Gerry Connolly (D–VA), Mario Diaz-Balart (R–FL), and Phil Gingrey (R–GA), sent a letter with 181 House cosigners to President Obama urging the administration to approve the sale of F–16 C/D fighters to Taiwan.
- On September 12, Senators John Cornyn (R–TX) and Robert Menendez (D–NJ) introduced S.1539, *The Taiwan Airpower Modernization Act of 2011*, which would require the president to sell to Taiwan the requested 66 F–16C/D fighters.
- On September 21, Representative Kay Granger (R–TX) introduced the House version of *The Taiwan Airpower Modernization Act of 2011*, H.R. 2992.
- On September 21, the Senate voted on an amendment offered by Senator John Cornyn (R–TX) S.Amdt.634 to H.R.2832, which would have required the president to sell to Taiwan no fewer than 66 F–16C/D fighters. The amendment failed in the Senate by a vote of 48–48.
- On September 23, Representative Ileana Ros-Lehtinen (R–FL) introduced H.R.2918, *The Taiwan Policy Act of 2011*, which, among other things, would make it the policy of the United States to accept Taiwan’s Letter of Request for the F–16C/D fighters or to provide Taiwan with a formal sales offer for the aircraft. The legislation also would require the administration to consult with Congress regarding Taiwan arms sales and to provide an annual report to Congress detailing Taiwan’s requests for purchase of defense articles; the defense needs asserted by Taiwan; and the decision-making process used to reject, postpone, or modify any such request.

A second outstanding arms sales request by Taiwan is for diesel-electric submarines. First requested in 1995, Taiwan’s request for eight diesel-electric submarines was approved by the Bush Administration in 2001. However, subsequent disputes over the price and funding of the submarines held up the actual sale. In 2002, Taiwan amended its original request for the purchase of the submarines to include a requirement for some of the submarines to be produced in Taiwan with U.S. assistance, further hindering Taiwan’s procurement of the submarines. In 2006, Taiwan submitted a formal Letter of Request for a two-phased approach to the procurement: an initial submarine design phase, followed by possible submarine construction. In January 2008, the Bush Administration accepted Taiwan’s Letter of Request for the submarine design phase. However, neither the Bush Administration nor the Obama Administration has notified Congress of any pending submarine design program. Taiwan continues to reiterate its need for new submarines.²⁶⁸ In August 2011, President Ma expressed to the Commissioners his desire to purchase the submarines.²⁶⁹ Later in that trip, the Commissioners heard from Taiwan’s Minister of Defense Kao Hua-chu that these submarines are critical to Taiwan’s de-

fense, since its current fleet of two 1970s-era submarines is ineffective against China's improving naval capabilities.²⁷⁰*

Implications for the United States

Improvements in the diplomatic and economic realm benefit the United States by noticeably reducing tension across the Taiwan Strait. Growing trade between the two sides decreases the likelihood of a conflict in the near future. Similarly, an increase in people-to-people and government relations across the Taiwan Strait helps to prevent misunderstanding. The overall effect of improved cross-Strait relations helps to safeguard the stability of the region.

At the same time, the continued cross-Strait military standoff tempers the positive developments and potentially endangers U.S. interests in the region. As China continues to increase its military capabilities while Taiwan's ability to defend itself is increasingly in question, the peaceful resolution of the cross-Strait situation is less likely. A gross military imbalance could also lead Beijing to resolve the cross-Strait problem through the use of military force, possibly resulting in U.S. military involvement.

Conclusions

- In 2011, Taiwan and China have continued to strengthen their economic and diplomatic relations by focusing on implementing previous agreements rather than signing new agreements.
- A major factor leading to the slower pace of reduced tensions across the Taiwan Strait is Taiwan's upcoming presidential and legislative elections. Seeking to prevent improving cross-Strait ties from being used against the incumbent Kuomintang Party, both Taiwan and China have moved away from pressing for rapid negotiations and developments as in previous years.
- The cross-Strait military balance continues increasingly to favor China, making it less likely that a peaceful resolution to the Taiwan issue will occur. Despite attempts to improve its capacity to defend the island against a potential attack from the mainland, Taiwan continues publicly to call for additional U.S. arms sales to augment its defense needs.

* For more on China's growing naval capabilities, see chapter 2, section 2, of the Commission's *2009 Annual Report to Congress*. U.S.-China Economic and Security Review Commission, *2009 Annual Report to Congress* (Washington, DC: U.S. Government Printing Office, November 2009).