

SECTION 3: CHINA AND TAIWAN

Key Findings

- Taiwan President Tsai Ing-wen has pursued a cross-Strait policy of “maintaining the status quo,” demonstrating goodwill toward Beijing, and reassuring her counterparts across the Taiwan Strait. However, Beijing insists she endorse the “1992 Consensus” and continues to increase its pressure on Taipei in response to her refusal to do so. At the same time, Beijing is bypassing the government of Taiwan in its pursuit of “deepening economic and social integrated development” across the Taiwan Strait. It is doing so through efforts to enhance its economic leverage over Taiwan and increase the number of young people from Taiwan traveling, studying, and working in China.
- China remains Taiwan’s largest trading partner and largest source of foreign direct investment. Taiwan’s continued economic reliance on China makes it vulnerable to political pressure from Beijing and susceptible to fluctuations in China’s economy. To help reduce this dependence, President Tsai is pursuing an agenda, referred to as the New Southbound Policy, to diversify Taiwan’s economic ties, particularly with Southeast Asia, Australia, India, New Zealand, and other South Asian countries.
- The threat to Taiwan posed by Chinese military modernization continues to grow as the cross-Strait military balance has shifted toward China. Taiwan is engaged in a robust program to enhance its defensive capabilities through its domestic defense industrial production, the procurement of U.S. weapons systems, and its transition to an all-volunteer force. However, these efforts face a major challenge from the scope and speed of the modernization of the People’s Liberation Army.
- In an attempt to delegitimize Taiwan on the global stage, Beijing’s pressure on Taipei over its participation in the international community has become more pronounced over the past year. Since December 2016, two countries have severed diplomatic relations with Taiwan and established official ties with China, and Beijing has blocked Taiwan’s participation in multiple international fora in which it has participated in recent years. Beijing has also pressured countries to downgrade unofficial ties with Taipei.
- Beijing seeks to undermine Taiwan’s democracy through collaboration with various individuals and groups in Taiwan and spreading disinformation through social media and other online tools. In July, Taiwan media reported, based on Taiwan government information, that “Chinese influence” was involved in protests and the spread of disinformation against the Tsai Administration.

- Despite uncertainties conferred by a change in administration in the United States, the trend in U.S.-Taiwan relations remains positive. President Tsai has made enhancing Taiwan's economic relations with the United States a top priority for her Administration. Nonetheless, the two sides have not made progress resolving a long-standing dispute over imports of U.S. pork. In U.S.-Taiwan security cooperation, the Trump Administration's approval of arms sales to Taiwan was a sign of continued support for Taiwan.

Recommendations

The Commission recommends:

- Congress urge the Administration to invite Taiwan to participate, at least as an observer, in U.S.-led bilateral and multilateral military and security-related exercises, including the Rim of the Pacific (RIMPAC) maritime exercise, Red Flag air-to-air combat training exercises, and Cyber Storm cybersecurity exercise, in order to support Taiwan's efforts to enhance its defense capabilities, expand opportunities for Taiwan to contribute to regional and international security, and counter China's efforts to limit Taiwan's international space.
- Congress highlight the accomplishments and otherwise elevate the visibility of the Global Cooperation and Training Framework, which facilitates U.S.-Taiwan cooperation in areas such as public health and disaster relief. Such efforts possibly could include examining whether the program would benefit from additional staffing and funding.
- Congress urge the executive branch to reexamine its practice regarding reciprocal visits by senior U.S. and Taiwan military officers and civilian officials with the aim of increasing high-level exchanges, including Cabinet-level officials and senior National Security Council officials, as part of an effort to enhance U.S.-Taiwan relations.
- Congress ensure relevant U.S. military personnel are sufficiently familiar with Taiwan's defense situation by allocating funds for U.S. military personnel to take courses at Taiwan's defense educational institutions (such as Taiwan's war college, service command and staff schools, and airborne school) and other courses in Taiwan in an unofficial capacity through the American Institute in Taiwan, in order to ensure the U.S. military is prepared to act in support of Taiwan's defense if called on to do so.

Introduction

Over the past year, Beijing has increased its pressure on Taipei on multiple fronts. Taiwan President Tsai Ing-wen's Administration has followed a cross-Strait policy of "maintaining the status quo." However, President Tsai has not acquiesced to Beijing's de-

mand that she endorse the “one China” framework* for cross-strait relations that Taipei and Beijing both endorsed during the Ma Ying-jeou Administration. One of the areas in which Beijing is pressuring Taipei is Taiwan’s diplomatic relations and participation in international fora. Most notably, Beijing established diplomatic relations with Sao Tome and Principe and Panama after they broke official ties with Taiwan.

These developments have added to the challenges facing the Tsai Administration, which include transforming Taiwan’s economy as part of reducing its dependence on cross-strait trade and investment. The Tsai Administration also seeks to increase Taiwan’s defensive and deterrent capabilities amid the growing threat from China’s military modernization program and the resulting shift in the cross-strait military balance toward China. U.S.-Taiwan cooperation can help Taiwan meet these challenges, and despite uncertainty surrounding Washington’s Asia policy in the wake of a change in administration, U.S.-Taiwan ties remain robust. The announcement of possible arms sales to Taiwan in June 2017 was one of several indications of continued U.S. support. The United States and Taiwan share values of democracy, rule-of-law, and respect for human rights, and Taiwan is an important economic and security partner. Notably, in 2017, Freedom House and Reporters Without Borders ranked Taiwan first in Asia for press freedom.¹

This section explores developments in cross-strait relations, cross-strait trade and investment, Taiwan’s international engagement, Taiwan’s military and security situation, and U.S.-Taiwan relations. It is based on consultations with experts on Taiwan and cross-strait relations, the Commission’s fact-finding trip to Taiwan in 2017, and open source research and analysis.

Cross-Strait Relations

Political Relations

As the Commission noted in its *2016 Annual Report to Congress*, cross-strait relations entered a period of increased tension after President Tsai was elected in January 2016, as Beijing steadily increased pressure on Taiwan. President Tsai † has followed a cross-strait policy of “maintaining the status quo” of neither formal independence for Taiwan nor unification of Taiwan and China, and has repeatedly demonstrated goodwill toward Beijing and sought to reassure her counterparts across the Taiwan Strait. Nevertheless, Beijing demands that President Tsai endorse the “one China” framework for cross-strait relations that Taipei and Beijing endorsed during the administration of her predecessor,

*Beijing insists that cross-strait communication and talks be based on the “1992 Consensus,” a tacit understanding reached at a meeting between representatives of Taiwan and China in 1992 that there is only “one China” but that each side may maintain its own interpretation of the meaning of “one China.”

†President Tsai is also the chairperson of the Democratic Progressive Party (DPP). In 1991, the DPP adopted a clause to its charter that called for formal independence and the establishment of the Republic of Taiwan, but this clause was obviated by the DPP’s 1999 “Resolution on Taiwan’s Future” that states that Taiwan is already a “sovereign and independent country.” Dafydd J. Fell, “Parties and Party Systems,” in Gunter Schubert, ed., *Routledge Handbook of Contemporary Taiwan*, Routledge, 2017; J. Michael Cole, “To Freeze or Not to Freeze: The DPP’s ‘Independence Clause,’” *Diplomat*, July 23, 2014.

Ma Ying-jeou. Beijing insists that cross-Strait communication and talks be based on the “1992 Consensus,” a tacit understanding reached at a meeting between representatives of Taiwan and China (when Lee Teng-hui was President of Taiwan and Jiang Zemin was General Secretary of the Chinese Communist Party) that there is only “one China” but that each side may maintain its own interpretation of the meaning of “one China.” President Tsai told Commissioners in May 2017 that Beijing has a “mental block” regarding the “1992 Consensus.”² President Tsai has refused to submit to Beijing’s pressure, as she persists in seeking to maintain stability in cross-Strait relations and rejecting a “return to the old path of confrontation.”³ The 2017 China Security Report by the National Institute for Defense Studies in Japan notes, “The Xi Jinping government has not yet subjected Tsai Ing-wen to the kind of personal criticism once directed at Lee Teng-hui and Chen Shui-bian,* a situation likely designed to leave some leeway for negotiations with her administration.”⁴ Nonetheless, Beijing’s pressure on Taipei has increased in response to President Tsai’s refusal to endorse the “1992 Consensus.” Among the measures Beijing is employing are the following:

Beijing suspends cross-Strait communication: Last year, for the first time in eight years, Beijing suspended official and semi-official † cross-Strait communication and meetings.⁵ In June 2016, a spokesperson for China’s Taiwan Affairs Office ‡ announced “the cross-Strait contact and communication mechanisms have been suspended because the Taiwan side has not recognized the ‘1992 Consensus,’ this common political foundation that embodies the one China principle.”⁶ During the Commission’s May 2017 trip to Taiwan, Minister of Taiwan’s Mainland Affairs Council Chang Hsiao-yueh confirmed all official channels of communication with China remain closed. She said other Taiwan ministries are still able to communicate with their Chinese counterparts on technical issues, such as managing cross-border health threats, and some unofficial communication channels exist, including academic exchanges. However, Minister Chang said the current channels of communication are insufficient.⁷ She also said that Taipei continues to send notices to Beijing per established procedures (generally via fax, but occasionally via phone or press release). The Chinese side acknowledges receipt but will not respond.⁸ Minister Chang pointed to the July 2016 incident in which there was a missile misfire during a routine Taiwan military exercise to illustrate the importance of reliable communication channels. She said the lack of communications prevented quick notification of Beijing.⁹

*Chen Shui-bian is a former President of Taiwan.

†Beijing suspended communication and meetings between the semi-official Straits Exchange Foundation and the Association for Relations Across the Taiwan Straits. Taiwan’s Straits Exchange Foundation and China’s Association for Relations Across the Taiwan Strait facilitate cross-Strait negotiations in the absence of formal ties between the governments of Taiwan and China. Although the two bodies are semi-official organizations, they receive direction from their respective governments.

‡The Taiwan Affairs Office is an agency within China’s State Council that is responsible for overseeing China’s cross-Strait policies. The Mainland Affairs Council, a cabinet-level agency in Taiwan’s executive branch, is responsible for overseeing Taiwan’s cross-Strait policies.

Beijing reduces the number of Chinese group tours to Taiwan and Chinese students at Taiwan universities: The Chinese government has reduced visits to Taiwan by Chinese tourists.¹⁰ Between May 2016 and May 2017, the total number of Chinese tourists visiting Taiwan decreased by 38.3 percent.¹¹ According to Bonnie S. Glaser, Senior Advisor for Asia at the Center for Strategic and International Studies, “Privately, Chinese officials insist that the government is not actively discouraging tourists from visiting Taiwan. Rather, they say, it is simply no longer encouraging mainland Chinese to travel to the island.”¹² Beijing has not publicly acknowledged a role in the drop in Chinese tourism to Taiwan. Minister Chang told the Commission that the reduction in group tours is “severely” affecting vendors catering exclusively to Chinese visitors.¹³ In addition to reducing group tours to Taiwan, Beijing cut the number of Chinese students allowed to study at Taiwan universities in 2017 by more than half.¹⁴ Taipei continues to take steps to attract tourists from other countries, a policy that has helped to offset the economic impacts (including decreased profits of hospitality businesses, retail stores, and food vendors and restaurants) of the drop in tourists from China (for more information on this policy, see “New Southbound Policy,” later in this section). Taipei seeks to attract more students from other Asian countries.¹⁵ Although Beijing has reduced the number of group tours to Taiwan and the number of Chinese citizens studying in Taiwan, it is encouraging Taiwan citizens to visit as well as to work and study in China (for more information on cross-Strait tourism, see “Cross-Strait Trade and Investment,” later in this section).

Additional economic levers used by Beijing to pressure Taipei: China’s General Administration of Quality Supervision, Inspection and Quarantine has destroyed or returned imports from Taiwan to China due to what Zhi Shuping, the director of the agency, described as “political factors.”¹⁶ According to Mr. Zhi, these factors inhibited the rectification process that would otherwise be in place to communicate with the Taiwan side and resolve problems with packaging or insufficient documentation.¹⁷ In 2016, 722 shipments of food and cosmetics imports from Taiwan were rejected at Chinese ports, accounting for 23.7 percent of all products denied entry to China last year.¹⁸ Mr. Zhi admitted the 2016 rejection rate for Taiwan products was unusually high, but maintained imports from Taiwan were subjected to the same standards as all other imports.¹⁹ In January 2017, around 175 shipments of Taiwan imports were rejected, or 43 percent of all import shipments denied entry into China that month.²⁰

During meetings with the Commission in May 2017, Minister Chang and a business representative in Taiwan said Taiwan businesspeople operating in China are under pressure from the threat of surprise inspections or audits.²¹ It was reported in November 2016 that an entity related to the Taiwan restaurant chain Hai Pa Wang International in Chengdu was subject to an inspection that claimed to discover a food safety violation. The company was fined nearly \$60,000. Allegations about the safety of the production activities of three other branches of the company in China also surfaced. The next month, the company took out a full-page advertisement in Tai-

wan's *Want Daily* newspaper for a letter in which it pledged its support for Beijing's position, declaring "Hai Pa Wang's firm belief that the two sides of the Taiwan Strait are part of one China and in peaceful win-win has never wavered."²²

Beijing refuses to facilitate repatriation of Taiwan citizens accused of fraud in third countries: Between April 2016 and August 2017, 270 Taiwan citizens living in Armenia, Cambodia, Indonesia, Kenya, Malaysia, and Vietnam who were accused of committing telecommunications fraud against people in China were deported to China, rather than to Taiwan.²³ This constituted a break from a pattern of cross-Strait law enforcement cooperation—begun in 2011—in countries with which Taiwan does not have diplomatic relations.²⁴ Beijing's motivation for not allowing the suspects to be sent to Taiwan initially may have stemmed solely from its desire to crack down on telecommunications fraud against Chinese citizens (the first group of Taiwan citizens deported from Kenya in April 2016 had been arrested in December 2014, and Beijing requested that they be sent to China in January 2015, one year before President Tsai's election).²⁵ Subsequently, however, Beijing likely also began to view these cases as another means to pressure Taipei.^{*26}

Taiwan excluded from international fora: Since April 2016, Taiwan officials and other citizens have been prevented from participating in numerous international fora in which they participated in preceding years. In one of the most significant of these exclusions, the Taiwan government did not receive an invitation to attend the annual UN World Health Assembly held in May 2017 after having been invited each year since 2009.²⁷ In addition, the UN's International Civil Aviation Organization did not invite Taiwan to participate in the organization's 2016 Council Assembly, a reversal from the previous assembly in 2013. In both cases, Taiwan Affairs Office spokespersons said Taiwan could not participate because the Tsai Administration had not endorsed the "1992 Consensus."²⁸ Despite being allowed to participate in recent years, individuals from Taiwan also were barred from a symposium on the steel sector organized by the Belgian government and the Organization for Economic Cooperation and Development (OECD), the annual conference of the UN's International Labor Organization, and a meeting of the Food and Agriculture Organization of the UN's Committee on Fisheries.^{†29} In

*In August 2016, a journalist requested that a Taiwan Affairs Office spokesperson confirm whether Taiwan's Mainland Affairs Council had protested to Beijing through cross-Strait communication channels regarding Kenya's deportation of Taiwan citizens to China. In his response, the spokesperson stated that the mechanisms for cross-Strait communication and talks had been suspended because Taipei had not endorsed the "1992 Consensus." He added that "the Taiwan side should face up to this fact and make practical efforts to resume the working of these mechanisms." China's Taiwan Affairs Office, *Taiwan Affairs Office: The People on Both Sides of the Strait Support Cracking down on Telecommunications Fraud According to Law. The Taiwan Side Should Make Practical Efforts to Resume the Working of the Cross-Strait Contacts and Communication Mechanisms*, August 8, 2016.

†In April 2016, the Belgian government barred a Taiwan government delegation from attending a meeting on the steel sector organized by the Belgian government and the OECD in Brussels. Although Taiwan is not a member of the OECD, it has been allowed to attend OECD steel committee meetings since 2005. In June 2016, a professor of labor relations from Taiwan's Chung Cheng University and a study group she was leading were blocked twice from attending an annual conference of the UN's International Labor Organization. The professor had led study groups to attend the conference in 2014 and 2015 without a problem. In July 2016, Taiwan officials were not allowed to participate in a meeting of the Food and Agriculture Organization of the UN's Committee on Fisheries, an organization in which they have been permitted to participate since 2003. Leaf Chiang, Tai Ya-chen, and Lilian Wu, "Chinese Bullying Sends Taiwan Packing from

May 2017, Taiwan's delegation was forced to leave a meeting of the Kimberly Process held in Perth, Australia, after Chinese officials at the meeting protested their participation.³⁰ In a meeting with the Commission in May 2017, Joseph Wu, then secretary general of Taiwan's National Security Council, said Beijing is "gearing up to kick Taiwan out" of more international organizations.³¹ In addition, he said that although Taiwan continues to be able to participate in Asia Pacific Economic Cooperation (APEC) meetings, Beijing is "causing trouble" for Taiwan there as well.³²

Although Beijing has increased its pressure on Taiwan's presence in certain international fora since President Tsai's election, Taiwan has long been unable to participate in many other international fora, such as the International Criminal Police Organization (INTERPOL).^{*} Taiwan was forced to withdraw from INTERPOL in 1984, when China applied to join.³³ Notably, INTERPOL's current president is Meng Hongwei, China's Vice Minister of Public Security. He was elected at the general assembly meeting in November 2016 and his term lasts until 2020.³⁴

Since Taiwan is not a member of INTERPOL, it does not have access to the organization's I-24/7 global police communication system.³⁵ This system enables law enforcement agencies to share urgent information and access INTERPOL's criminal databases, which include information on suspected criminals and lost or stolen travel documents, among other things.³⁶ The Taiwan government requested access in preparation for Taipei's hosting of the 2017 Universiade international athletic competition, but INTERPOL refused and said it must access the system through the Chinese government.³⁷ To deal with the problem of not having access to the INTERPOL system, the Taiwan government developed bilateral counterterrorism intelligence-sharing arrangements with other countries, including the United States.³⁸

Beijing turns away from the cross-Strait "diplomatic truce": In a significant departure from the status quo of the previous eight years, Beijing established diplomatic relations with three of Taiwan's former diplomatic partners (one broke ties with Taiwan in 2013, long before President's Tsai's election, and two broke ties after her inauguration). Beijing re-established diplomatic relations with The Gambia in March 2016 and Sao Tome and Principe[†] in December 2016, and established diplomatic relations with Panama in June 2017. In 2008, Taipei and Beijing reached a tacit understanding to stop using financial incentives to

OECD Meeting," *Focus Taiwan*, April 19, 2016; Jamey Keaten, "Taiwan Study Group Baffled over Blocked Geneva Visit to UN," Associated Press, June 8, 2016; Christie Chen and Yang Shumin, "Taiwan Officials Forced out of UN Fisheries Meeting Allegedly by China," *Focus Taiwan*, September 21, 2016.

^{*}In March 2016, then President Barack Obama signed a bill (S. 2426) that mandated the Secretary of State report to Congress within 90 days on the U.S. government's strategy for supporting Taiwan's participation in INTERPOL as an observer. The U.S. Department of State submitted this report in June 2016. Despite the U.S. government's efforts, INTERPOL turned down Taiwan's request to attend its November 2016 general assembly meeting as an observer. Central News Agency, "Obama Inks Taiwan INTERPOL Bid Bill," *China Post*, March 20, 2016; Executive Communication EC5932, 114th Cong., 2nd Sess., June 28, 2016; Central News Agency, "Taiwan Barred from Interpol Assembly," November 6, 2016.

[†]After gaining independence from Portugal in 1975, Sao Tome and Principe established diplomatic relations with China. Then, in 1997, Sao Tome and Principe established diplomatic relations with Taiwan, and China suspended ties. Associated Press, "China Resumes Ties with Sao Tome, Which Turned away from Taiwan," December 26, 2016.

compete for recognition from each other's diplomatic partners—a “diplomatic truce.”³⁹ During the period that followed, Beijing also rejected overtures from several of Taiwan's partners to establish diplomatic relations with China to avoid harming cross-strait relations.⁴⁰ (For example, The Gambia severed ties with Taiwan in 2013, but the Chinese government did not re-establish relations with The Gambia for more than two years.⁴¹) The extent to which Beijing enticed Sao Tome and Principe and Panama to cut diplomatic relations with Taiwan, as opposed to merely indulging their wishes to establish diplomatic ties, is unclear. Speaking in reference to Sao Tome and Principe, Minister Chang told the Commission that Beijing “took our ally.”⁴² After Panama established ties with China, Taiwan's Ministry of Foreign Affairs stated Panama “caved in to Beijing and decided to switch its diplomatic engagement toward the Beijing authorities for economic gain.”⁴³ Regardless, given Beijing's previous rejection of overtures from several countries to establish diplomatic relations—including from Panama in 2009 and Sao Tome and Principe in 2014⁴⁴—its newfound willingness to establish relations reflects a trend of increasing pressure on Taipei.⁴⁵

A January Bloomberg report found that “people and companies with links to China” offered funding to the government of Burkina Faso in exchange for ending diplomatic relations with Taiwan,*⁴⁶ suggesting China has indeed resumed actively courting at least one of Taiwan's partners with financial incentives. In an interview with Bloomberg, Burkina Faso's Foreign Minister Alpha Barry said, “We get outrageous proposals telling us, ‘if you sign with Beijing we'll offer you \$50 billion or even more.’”⁴⁷ However, Minister Barry expressed support for the status quo, saying, “Taiwan is our friend and our partner. We're happy and we see no reason to reconsider the relationship.”⁴⁸

Taiwan's diplomatic relationships, even those with small countries like Sao Tome and Principe, are important to its efforts to preserve its voice in international affairs. Symbolically, they confer legitimacy on Taiwan's position on the world stage in the face of marginalization by China.⁴⁹ Practically, their advocacy for Taiwan's participation in international organizations helps Taiwan in its pursuit of greater international space.⁵⁰ These are not Taiwan's only sources of international support, however. In fact, Taiwan almost certainly gains more from its unofficial relations with countries that have extensive international influence, such as the United States, that promote an expansion of opportunities for Taiwan to participate in the international community and support Taiwan in other ways.⁵¹ Still, diplomatic relations are an important component of Taiwan's toolbox for maintaining a presence on the international stage.

Following the severing of diplomatic ties with Taipei by Sao Tome and Principe and Panama, and Beijing's establishing of diplomatic relations with them, there is a chance other countries will break ties with Taipei and establish diplomatic relations with Beijing. In June 2017, Taiwan's Foreign Minister Lee Ta-wei voiced concerns that Taiwan's diplomatic relations with two other countries, which

*It is unclear whether these people and companies are connected to the Chinese government. Pauline Bax, Bloomberg News Journalist, interview with Commission staff, January 30, 2017.

he did not name, might also be at risk.⁵² In 2016, reports emerged that Beijing and the Vatican—which has diplomatic relations with Taiwan*—were in talks to address longstanding areas of disagreement.⁵³ A resolution of these issues and warming of relations between China and the Holy See could put Taiwan's relations with the Vatican at risk. Then Secretary General Wu told the Commission Taipei continues to monitor the Vatican's rapprochement with China. He said there appear to be limits on concessions either side is willing to make; China is unwilling to allow for the kind of religious freedom the Vatican seeks.⁵⁴

Beijing pressures unofficial diplomatic partners: In January 2017, during a visit by China's foreign minister Wang Yi to Nigeria, which does not have diplomatic relations with Taiwan, Nigeria's foreign minister Geoffrey Onyeama announced that the Nigerian government had told Taipei to move its representative office from Abuja, the capital, to Lagos.⁵⁵ In his comments to journalists, Minister Onyeama said the office “will be moving to Lagos to the extent that it functions as a trade mission with a skeletal staff.”⁵⁶ A spokesperson for China's Ministry of Foreign Affairs said Nigeria's actions “help settle the legacy issue that bears on the political mutual trust between China and Nigeria once and for all, and remove the stumbling blocks obstructing the sound development of bilateral relations.”⁵⁷ In June 2017, Director-General of the Taiwan Ministry of Foreign Affairs' department of West Asian and African affairs Chen Chun-shen said that, under pressure from Beijing, the Nigerian government also demanded Taiwan change the name of its representative office from Trade Mission of the ROC† (Taiwan). He also said the governments of Bahrain, Dubai, Ecuador, and Jordan—all of which have unofficial relations with Taiwan—also demanded Taiwan change its representative offices' names.⁵⁸ These countries comprise five of six countries in which the names of Taiwan's representative offices include “ROC” or “Taiwan.”‡⁵⁹ Subsequently, the Taiwan government changed the names of its representative offices in Ecuador and Dubai from “Commercial Office of ROC (Taiwan)” to “Commercial Office of Taipei.”⁶⁰ The question of Taiwan's official designation in international contexts is important to both Taipei and Beijing, with Beijing advocating for names that suggest Taiwan's status as a mere province of China and Taipei advocating for names that convey separateness and autonomy from China.

Detention of Lee Ming-che in China Continues a Disturbing Trend and Further Strains Cross-Strait Relations

Chinese authorities' detention of Lee Ming-che, a human rights advocate from Taiwan, in China further strained cross-Strait relations. Mr. Lee was detained in March 2017 after he entered mainland China from Macau.⁶¹ In May 2017, a Taiwan Affairs Office spokesperson announced that Mr. Lee had been arrested on suspi-

*The Vatican established ties with the Republic of China government in 1942 and maintained those ties after the government moved to Taiwan and Beijing expelled the Vatican's representative from China in 1951. Kevin Hsu, “China and the Vatican: Toward a New Era?” *Diplomat*, September 22, 2016.

†ROC stands for Republic of China, Taiwan's official name.

‡Taiwan's representative office in the United States is called the Taipei Economic and Cultural Representative Office in the United States (TECRO).

cion of “subverting state power.”⁶² In September 2017, Mr. Lee went on trial during which he pleaded guilty.⁶³ Prior to his trial, Chinese authorities did not allow his family to visit him.⁶⁴ Human Rights Watch’s China director Sophie Richardson wrote that Mr. Lee’s detention and prosecution were “riddled with violations of fair trial rights, including incommunicado detention and denial of defense counsel of choice.”⁶⁵ In further describing the trial of Mr. Lee and a Chinese activist, Peng Yuhua, Dr. Richardson wrote, “the prosecution presented no evidence suggesting the pair’s activities were anything but acts of peaceful expression and association.”⁶⁶ He may be the first Taiwan citizen to be charged in China with “subverting state power.”⁶⁷ Mr. Lee’s arrest is part of a disturbing trend. In its statement on Mr. Lee’s case in April 2017 Human Rights Watch observed that, “Since President Xi Jinping came to power in March 2013, authorities have apprehended citizens of other countries—inside and outside China—for their work helping Chinese human rights lawyers and activists or for speaking critically of Chinese leaders.”⁶⁸ Two foreign citizens affiliated with Hong Kong publishing house Mighty Current Media, a publisher of political gossip books banned in mainland China, reportedly were abducted outside of mainland China and brought there, where they were detained.⁶⁹ In addition, the Taiwan Foundation for Democracy writes that “Lee’s case will undoubtedly exacerbate fears among Taiwan’s nongovernmental organization community that their activities in China may also subject them to arbitrary arrest and detention.”⁷⁰

Beijing’s Outreach to Taiwan Political Parties and Local Governments

At the same time Beijing has reduced contact with Taiwan’s central government, it has continued its outreach to politicians at the party and local government levels as a way to promote its preferred cross-Strait policy and support the political opposition by demonstrating the benefits of doing what Beijing wants.⁷¹ During her meeting with the Commission in May 2017, Minister Chang said Beijing “is trying to divide us” and “downgrade the [Taiwan] government’s role” in cross-Strait relations by engaging with Taiwan’s opposition groups and other nongovernment entities.⁷² Beijing adopted this strategy during the administration of President Chen Shui-bian, Taiwan’s previous president from the Democratic Progressive Party (DPP).⁷³ This strategy has included meetings between Chinese Communist Party officials and leaders of the Kuomintang (KMT) and other pan-blue parties,* and a forum between the cities of Taipei and Shanghai.⁷⁴ In September 2016, for example, eight KMT and blue-leaning independent mayors and county magistrates met with senior officials in China to discuss cooperation in various areas.⁷⁵ During one of the meetings, Taiwan Affairs Office Director Zhang Zhijun thanked the local officials for supporting the “1992 Consensus.”⁷⁶ The same day, a Taiwan Affairs Office spokesperson announced eight measures Beijing would take to promote ties between the Taiwan counties

*Pan-blue parties comprise the KMT, the New Party, and the People’s First Party (the latter two have their origin in the KMT). In general, these parties see Taiwan’s identity as more closely linked to China than the DPP and other “pan-green” parties.

and cities represented and China, including in tourism, the import of Taiwan agricultural and specialty products, and cooperation in green and high technology.⁷⁷ Following this meeting, J. Michael Cole, editor-in-chief of *Taiwan Sentinel*, wrote, “Beijing is now accelerating its efforts to bypass the central government in Taipei and rewarding local governments that agree to say what it wants. ... The key to Beijing’s strategy is to undermine the central government’s authority by creating bilateral dependencies.”⁷⁸

Taiwan and the 20th Anniversary of the Hong Kong Handover

Some observers in Taiwan, as well as the ROC government, are concerned about the fate of freedom and democracy in Hong Kong.⁷⁹ In June 2017, two days before the 20th anniversary of the handover of Hong Kong to China, Taiwan’s Mainland Affairs Council released a statement calling on Beijing “to honor its promises, respect the right of Hong Kong to be ruled by the people of Hong Kong, and respond positively to the demands of the people of Hong Kong for democracy and freedom.”⁸⁰ Broadly, the idea of adopting Hong Kong’s “one country, two systems”* framework—Beijing’s stated framework for cross-Strait unification—as a model for Taiwan has long been unpopular among the Taiwan public. However, Mr. Cole told the Commission in 2016 that developments in Hong Kong have intensified the Taiwan public’s opposition to Chinese rule and the “one country, two systems” framework.⁸¹ (See Chapter 3, Section 4, “China and Hong Kong,” for more information on developments in Hong Kong.)

The apparent abduction and detention by mainland authorities in late 2015 of five sellers of political gossip books banned in mainland China cast further doubt on whether Beijing would abide by any agreement to protect political and civil liberties in Taiwan under a “one country, two systems” arrangement.⁸² The abduction reportedly involved mainland authorities engaging in illegal cross-border law enforcement for supposed crimes committed in Hong Kong by individuals tied to Causeway Bay Books, a Hong Kong bookstore and publishing house. According to Article 22 of Hong Kong’s Basic Law, no mainland government entity may interfere in Hong Kong affairs, and thus only Hong Kong’s law enforcement agencies are allowed to enforce laws and take related actions within the territory.⁸³

As China’s efforts to increase control over both Taiwan and Hong Kong have intensified in recent years, Hong Kong and Taiwan activists have forged closer ties despite Beijing’s pressure to stop such cooperation.⁸⁴ In June 2017, Executive Chairman of Taiwan’s New Power Party Huang Kuo-chang founded a new Taiwan Congressional Hong Kong Caucus alongside other Taiwan legislators and several Hong Kong localist activists in Taipei. Ac-

*The “one country, two systems” framework is a policy measure adopted by the People’s Republic of China following the establishment of Hong Kong and Macau as Special Administrative Regions. The system grants Hong Kong and Macau the right to self-govern their economies and political systems to a certain extent, excluding foreign affairs and defense.

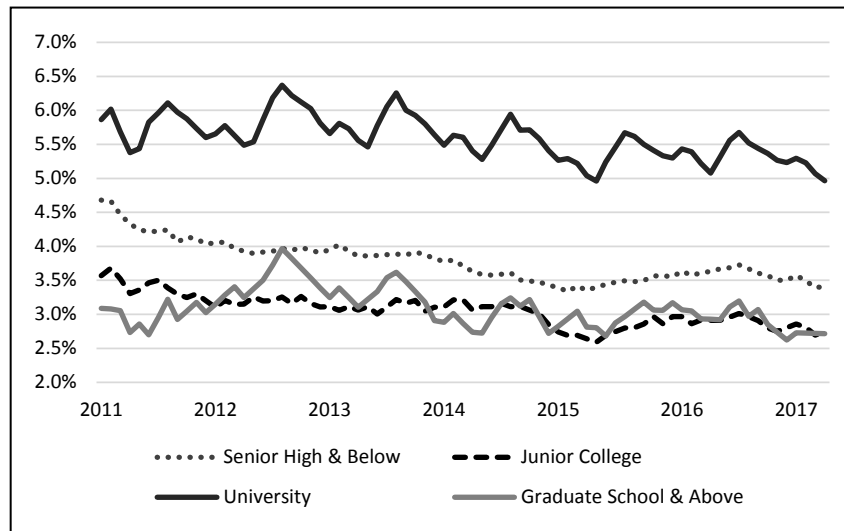
Taiwan and the 20th Anniversary of the Hong Kong Handover—Continued

According to Mr. Huang, the caucus (composed of 18 Taiwan lawmakers: 13 from the Democratic Progressive Party and 5 from the New Power Party), will focus on providing support for the Hong Kong prodemocracy movement.⁸⁵ In response to the announcement, Beijing and pro-establishment lawmakers in Hong Kong condemned the development as “collusion between pro-independence forces.”⁸⁶ Minister Chang told the Commission that the Taiwan government continues to maintain engagement with authorities in Hong Kong and Macau (where it has offices), but the slowdown in cross-strait relations is starting to have a negative impact. She said Hong Kong and Macau officials are “more reluctant, cautious, and conservative” about meeting with Taiwan government officials.⁸⁷

Taiwan’s Economy and Cross-Strait Trade and Investment

Since taking office in May 2016, President Tsai has devoted a major part of her policy agenda to economic and social issues.⁸⁸ Taiwan’s economic growth has accelerated under President Tsai, with real gross domestic product (GDP) increasing 2.5 percent year-on-year in the second half of 2016 (and 1.48 percent in all of 2016), up from 0.75 percent in 2015.⁸⁹ In August 2017, Taiwan’s government raised its 2017 GDP growth forecast to 2.11 percent, up from May’s estimate of 2.05 percent.⁹⁰ The upward revision reflects Taiwan’s strong exports, which expanded for 13 straight months through August 2017 and increased 10.6 percent year-on-year in the first eight months of 2017.⁹¹

Despite the uptick in Taiwan’s economic growth, President Tsai’s record on other priorities—particularly creating jobs for young professionals and increasing wages—is mixed. As of August 2017, nearly 5.5 percent of Taiwan workers with a university degree were unemployed, compared to just 3.7 percent unemployment for workers across all education levels (see Figure 1).⁹² Taiwan’s services and tech-driven economy has few practical applications for academic research skills, creating a gap between the number of academic research positions available and the supply of highly educated workers.⁹³ Wage growth in Taiwan also remains stagnant, with the Numeracy Lab, a Taiwan-based math teaching group, reporting 54 percent of workers between the ages of 35 and 39 earn less than \$1,180 per month on average, well below the national average of \$1,600.⁹⁴ Numeracy Lab also found that 74 percent of workers under 30 years old earn less than \$1,200 a month.⁹⁵ These factors, coupled with high housing prices, have led to a “brain drain” as educated young professionals seek employment outside Taiwan.⁹⁶ China in particular has attempted to recruit young Taiwan workers in fields like science and engineering by offering higher pay and greater opportunities for career development.⁹⁷ In 2015, more than 420,000 Taiwan workers were estimated to be employed in China, 58 percent of all Taiwan workers outside of Taiwan.⁹⁸

Figure 1: Taiwan Unemployment by Education Level, 2011–2017

Note: 2017 data are through August. Junior colleges provide technical and vocational education in such areas as hospitality, healthcare, commerce, and languages.

Source: Taiwan's Directorate-General of Budget, Accounting and Statistics via CEIC database.

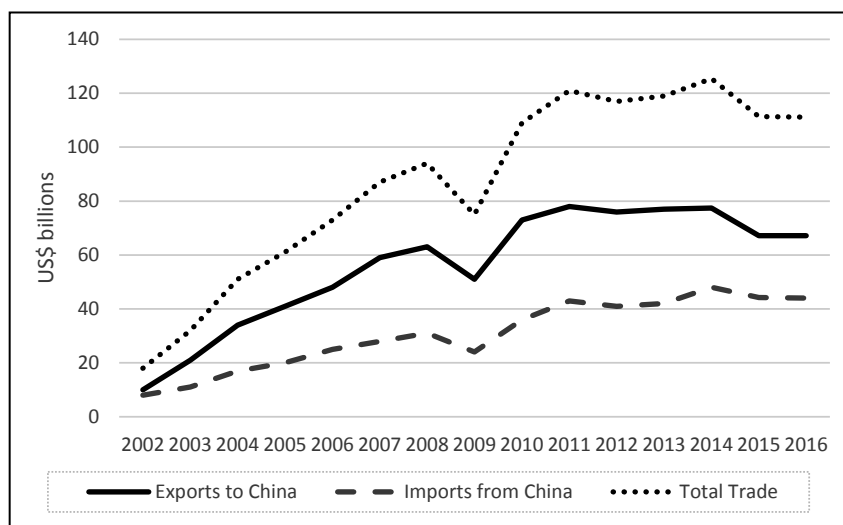
One persistent challenge to sustained economic growth is Taiwan's dependence on China-bound exports (see "Cross-Strait Trade and Investment," later in this section). President Tsai has sought to reduce Taiwan's reliance on cross-Strait trade by pursuing an innovation-driven economic model, seeking collaboration with foreign countries in areas like research and development, human resources, and financial capital.⁹⁹ The Tsai Administration has also emphasized a "5+2 Major Innovative Industries" policy, which seeks the development of five pillar industries (green energy, defense, the Internet of Things, biotechnology, and smart precision machinery), and two auxiliary sectors (high-value agriculture and the "circular economy"*)¹⁰⁰ The initiative is backed by Taiwan's Industrial Innovation and Transformation Fund, which will invest \$3.3 billion to develop new technologies in pillar industries.¹⁰¹ As part of Taiwan's trade diversification and industry development initiatives, the government also plans to spend \$140 million promoting smart machinery, \$1.65 billion in green energy investment through 2025, and \$32.73 million each year through 2022 to develop artificial intelligence research centers.¹⁰² In August 2017, Taiwan's Legislature also approved a special budget of more than \$14 billion over the next four years to support Taiwan's infrastructure development, including projects related to rail transport construction, water improvement, and green energy development.¹⁰³

*A circular economy is a closed supply chain allowing for natural resource use while reducing pollution, avoiding resource constraints, and sustaining economic growth. Ying-Che Hsieh et al., "Governing a Sustainable Business Ecosystem in Taiwan's Circular Economy: The Story of Spring Pool Glass," *National Tsing Hua University*, June 20, 2017, 4.

Cross-Strait Trade and Investment

China remains Taiwan's largest trading partner, biggest export market, and top source of imports.¹⁰⁴ In 2016, cross-Strait trade totaled \$111.2 billion, down 1 percent from 2015 levels yet still comprising 22.6 percent of Taiwan's total annual trade.¹⁰⁵ Cross-Strait trade increased from 2016 levels in the first seven months of 2017, with Taiwan's exports to China up 21.6 percent year-on-year and imports from China up 10.6 percent year-on-year.¹⁰⁶ Increased 2017 trade flows represent a shift from recent years, when the slowdown of China's economy contributed to a decrease in cross-Strait trade: between 2014 and 2016, Taiwan exports to China were down 13.2 percent and imports from China declined 8.4 percent (see Figure 2).¹⁰⁷

Figure 2: Taiwan's Trade with China, 2002–2016



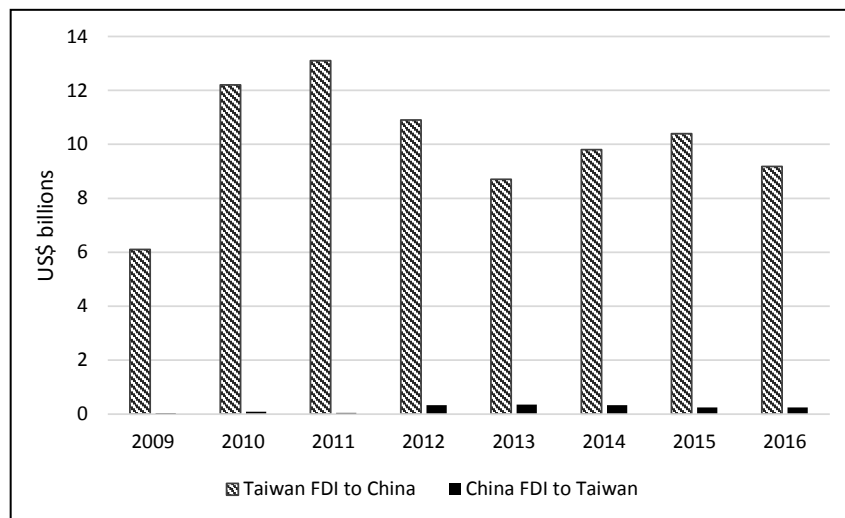
Source: Taiwan's Bureau of Foreign Trade, *Trade Statistics*. <http://cus93.trade.gov.tw/FSCE000F/FSCE000F>.

Taiwan's top exports to China consist largely of circuits and electronic materials: Taiwan's top three China-bound exports in 2016 were hybrid circuits (\$5.6 billion), circuit chips (\$4.3 billion), and circuit wafers (\$3.6 billion).¹⁰⁸ Taiwan's top imports from China also consist mainly of electronic devices, with digital circuits (\$2.4 billion), telephones (\$2.3 billion), and hybrid circuits (\$1.3 billion) topping the imports list in 2016.¹⁰⁹

China remains Taiwan's top destination for foreign direct investment (FDI), though investment flows—like trade flows—have declined in recent years due to China's slowing economic growth.¹¹⁰ In 2016, Taiwan invested \$9.2 billion in China, down 11.7 percent from 2015 levels (see Figure 3).¹¹¹ Computer manufacturing made up the largest share (nearly 22 percent) of Taiwan's FDI in China in 2016, with electronic manufacturing (16.3 percent) and financial services and insurance (14.1 percent) accounting for the second- and third-largest shares, respectively.¹¹² From January to August 2017,

Taiwan invested \$5.8 billion in China, a decline of 5 percent from the same period in 2016.¹¹³ Meanwhile, Chinese FDI in Taiwan remained consistent with 2015 levels, increasing from \$244 million to \$247.6 million in 2016.¹¹⁴ In the first eight months of 2017, Chinese FDI in Taiwan reached \$167.6 million, down 1.5 percent from the same period in 2016.¹¹⁵ Chinese FDI remains limited in part because of laws requiring the Taiwan government to approve of inbound Chinese FDI projects and prohibiting Chinese investors from appointing managers or having controlling stakes in Taiwan firms.¹¹⁶

Figure 3: Cross-Strait Investment, 2009–2016



Source: Taiwan's Ministry of Economic Affairs, Investment Commission, *Monthly Report*, May 2017.

Beijing is continuing its policy of emphasizing cross-Strait economic ties, making it easier for Taiwan citizens to travel, study, or work in China, and expanding cultural and other people-to-people exchanges in pursuit of its goal of “deepening economic and social integrated development.”¹¹⁷ According to the Taiwan Affairs Office, new measures include making it more convenient for Taiwan citizens to purchase train and airplane tickets for travel in China, implementing initiatives to increase employment opportunities for Taiwan citizens in China, and strengthening support for Taiwan entrepreneurs in China.* In May 2017, a Taiwan Affairs Office spokesperson described the efforts various government agencies were undertaking as “policy measures to convenience Taiwan compatriots.”¹¹⁸

Beijing is also increasing emphasis on outreach to Taiwan youth and “grassroots” groups.¹¹⁹ In August 2017, the Hong Kong-based newspaper *South China Morning Post* reported that these efforts include inviting Taiwan students and grassroots leaders to visit China

*A Taiwan Affairs Office spokesperson said that this policy includes “support in areas such as start-up capital, financing, and the use of office space.” China's Taiwan Affairs Office, *TAO News Conference Transcript (May 10, 2017)*, May 10, 2017. Translation.

for “cultural and education events, interschool contests, research on community service and elderly health care, internships and seminars on job creation and business start-ups.”¹²⁰ The newspaper also reported that while schools were on vacation in 2017 there was an increase in the frequency of these invitations, including to groups from elementary and high schools.¹²¹

Taiwan’s International Engagement

Despite Beijing’s efforts to constrict Taiwan’s international space, Taipei continues to pursue greater participation in the international community through its official diplomatic relations with 20 countries,* efforts to expand its involvement in international organizations, and initiatives to strengthen economic and unofficial diplomatic partnerships with countries other than China.

Trans-Pacific Partnership

Taiwan is at a disadvantage when competing economically with other countries because it is more difficult for Taiwan to sign free trade agreements (FTAs)¹²²—in large part because Beijing pressures other countries not to sign FTAs with Taiwan.¹²³ Taiwan’s protectionist policies in sectors like agriculture and financial services also limit its ability to join FTAs.¹²⁴ As a result, Taiwan has signed FTAs with only eight countries—Panama, Guatemala, El Salvador, Honduras, Singapore, Nicaragua, Paraguay, and New Zealand—and has an economic cooperation agreement with China.¹²⁵ With fewer FTAs, Taiwan’s trade with key trade partners has grown at a sluggish rate compared to other economies and its brands have floundered in global markets. In contrast, South Korea, which, like Taiwan, has pursued an economic growth model driven by exports of advanced technologies and electronics, has 16 FTAs (along with an additional 10 FTAs currently being negotiated).¹²⁶ After the signing of the U.S.-Korea Free Trade Agreement (KORUS) in 2011, the value of South Korean merchandise exports to the United States increased by an average of 3.4 percent annually from 2010 to 2016.¹²⁷ Meanwhile, Taiwan, which has no FTA with the United States, saw the value of its merchandise exports decrease 1.7 percent between 2010 and 2016.¹²⁸

For this reason, Taiwan has been eager to participate in the Trans-Pacific Partnership (TPP) trade agreement, which was originally negotiated as a 12-country deal representing around 40 percent of world GDP. Both the Ma and Tsai administrations endeavored for Taiwan to be included in the second round of negotiations of the agreement. Vice Minister of Taiwan’s Ministry of Economic Affairs Wang Mei-hua told the Commission in May 2017 that Taiwan was still interested in joining a TPP led by Japan and Australia even though the United States had withdrawn from the agreement.¹²⁹ Several days later, trade ministers from the 11 remaining TPP member countries decided to continue to advance the trade deal.¹³⁰ In June 2017, Japan’s Chief Cabinet Secretary Yoshihide

*Taiwan has diplomatic relations with Belize, Burkina Faso, the Dominican Republic, El Salvador, Guatemala, Haiti, the Holy See, Honduras, Kiribati, the Marshall Islands, Nauru, Nicaragua, Palau, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Solomon Islands, Swaziland, and Tuvalu. Taiwan’s Ministry of Foreign Affairs, *Diplomatic Allies*.

Suga welcomed Taiwan's interest in joining the TPP and Taiwan's then Premier Lin Chuan stated that Taiwan will continue to pursue TPP membership.¹³¹

New Southbound Policy

In 2016, the Tsai Administration initiated the "New Southbound Policy" to strengthen trade, investment, people-to-people, and other links with the countries of Southeast Asia, South Asia, and Oceania. In part, Taipei hopes the policy will help Taiwan further diversify its economic ties beyond China.¹³² The policy aims to enhance economic collaboration through initiatives such as the opening of "Taiwan Desks" in these countries to conduct research on local business conditions and help Taiwan businesspeople establish business clusters* in these countries.¹³³ The policy also seeks to bring more foreign students to Taiwan's universities, encourage professionals to work in Taiwan, promote cooperation in the healthcare sector, expand cultural exchanges and attract more tourists, and promote technology collaboration and agricultural technology assistance.¹³⁴ During a meeting with the Commission in May 2017, President Tsai said Taiwan companies, in collaboration with the Taiwan government, have prepared 5,000 vacancies for Southeast Asian citizens to work or study in Taiwan, and will largely cover the expenses of these students and interns.¹³⁵ She added that the students will be able to stay in Taiwan for a few years after graduation.¹³⁶ She explained that Taiwan's companies need young and skilled labor, and Southeast Asian countries are looking for training and educational opportunities for their citizens. According to President Tsai, the New Southbound Policy is different from China's "One Belt, One Road initiative" because it prioritizes human capital-intensive programs related to education, training, high technology, agriculture, and innovation, rather than infrastructure.¹³⁷ She said this approach will benefit Taiwan's small and medium enterprises.¹³⁸

In a meeting with the Commission in May 2017, the American Chamber of Commerce in Taipei explained that Taiwan companies had already been operating in Southeast Asia before the launch of the New Southbound Policy, searching for lower labor costs and attractive markets.¹³⁹ With the implementation of the New Southbound Policy, Taiwan's government seeks to integrate Taiwan firms with New Southbound Policy target countries' supply chains, link Taiwan's domestic industries to foreign markets, and develop bilateral infrastructure projects.¹⁴⁰ Taipei has budgeted over \$130 million for the Southbound Policy in 2017, along with plans to work with local governments, private firms, and nongovernmental organizations for additional funding.¹⁴¹

Most of the 18 countries covered in the policy are developing economies with a rising middle class, making them attractive markets for Taiwan businesses.† According to International Monetary Fund estimates, annual growth rates of Southbound Policy target coun-

*Business clusters are concentrations of businesses from the same industry in a limited geographic area.

†The 18 countries included in the New Southbound Policy are the Association of Southeast Asian Nations (ASEAN) members, Australia, Bangladesh, Bhutan, India, Nepal, New Zealand, Pakistan, and Sri Lanka. Taiwan's Executive Yuan, *New Southbound Policy Promotion Plan*, September 26, 2016.

tries will far outpace global growth, which is expected to increase around 3.5 percent year-on-year in 2017.¹⁴² The Philippines, Vietnam, and Indonesia, for instance, are forecast to experience GDP growth of 6.8 percent, 6.5 percent, and 5.1 percent, respectively, in 2017.¹⁴³ Additionally, India's GDP is expected to grow 7.2 percent, which would make it the world's fastest growing economy.¹⁴⁴

Although it is difficult to assess the Southbound Policy's effectiveness so soon after implementation, Taiwan appears to be forming more diverse trade and investment relationships. For instance, Taiwan is reportedly close to signing bilateral investment agreements with Vietnam and Thailand, and Burma (Myanmar) and Brunei have been mentioned as other potential investment partners.¹⁴⁵ Additionally, Taiwan's total trade with Southbound Policy target countries grew 14.9 percent year-on-year between January and July 2017, compared to a 13.7 percent year-on-year increase for all Taiwan trade over the same period.¹⁴⁶ According to statistics from Taiwan's Bureau of Foreign Trade, Southbound Policy target countries made up 31.8 percent of Taiwan's total trade from January to July 2017, down from 36.2 percent during the same period in 2016 (see Table 1).¹⁴⁷

**Table 1: Taiwan's Trade with Select Partners,
Jan.–Jul. 2016 and Jan.–Jul. 2017**

Trade Partner		US\$ billions		Share of Taiwan's Total Trade (%)	
		Jan.–Jul.		Jan.–Jul.	
		2016	2017	2016	2017
ASEAN	Exports	26.7	30.9	18.7	19.2
	Imports	14.8	18.0	11.6	12.3
	Balance	11.9	12.9		
Australia	Exports	1.6	1.5	1.1	1
	Imports	3.2	4.9	2.5	3.4
	Balance	(1.6)	(3.4)		
China	Exports	35.3	42.9	24.7	26.7
	Imports	24.7	27.4	19.5	18.7
	Balance	10.6	15.5		
India	Exports	1.6	1.7	1.1	1.1
	Imports	1.0	1.9	0.8	1.3
	Balance	0.6	(0.2)		
New Zealand	Exports	0.2	0.2	0.1	0.1
	Imports	0.5	0.5	0.4	0.3
	Balance	(0.3)	(0.3)		
United States	Exports	17.9	19.7	12.5	12.3
	Imports	16.4	17.1	12.9	11.7
	Balance	1.5	2.6		

Source: Taiwan's Bureau of Foreign Trade, *Trade Statistics*. <http://cus93.trade.gov.tw/ENGLISH/FSCE/>.

One area in which the policy has already yielded success is tourism. Between October 2016 and March 2017, the number of tourists visiting Taiwan from the New Southbound Policy countries increased by 28.6 percent over the same period the year before.¹⁴⁸ This rise in tourists from Southeast Asia has partially offset the recent reduction in tourists from China.¹⁴⁹ Since 2016, the Taiwan government has allowed visitors from Brunei and Thailand to stay in Taiwan for 30 days without a visa.¹⁵⁰ Also, people from Cambodia, India, Indonesia, Laos, Burma, the Philippines, and Vietnam who have been issued a visa within ten years by Australia, Canada, Japan, or the United States, among other countries, can now apply online for a visa to visit Taiwan rather than applying at a Taiwan representative office.¹⁵¹

Vice Minister Wang told the Commission the policy has been well received by the partner countries, which are eager for more trade and investment from Taiwan and hope to host Taiwan's manufacturing.¹⁵² Among other areas of policy that have been appealing to these countries, according to an article in *Taiwan Business Topics*, "Indonesia has been particularly interested in agricultural cooperation with Taiwan, including projects involving aquaculture and organic farming."¹⁵³

Taiwan Military and Security Issues

Cross-Strait Military Balance

As President Tsai entered her second year in office, the threat to Taiwan posed by Chinese military modernization continued to grow. China's military modernization program remained focused on deterring Taiwan from moving toward formal independence and preparing the People's Liberation Army (PLA) for a cross-Strait conflict. As the Commission has noted, the cross-Strait military balance has shifted toward China, and continues to worsen.¹⁵⁴ The PLA possesses both a quantitative and a qualitative military advantage over the Taiwan military and is capable of conducting a range of military campaigns against Taiwan.

- The PLA Rocket Force has approximately 1,200 short-range ballistic missiles and 200–500 ground-launched land-attack cruise missiles.*¹⁵⁵ According to congressional testimony by U.S. Defense Intelligence Agency Director Lieutenant General Vincent R. Stewart in February 2015, all of China's short-range ballistic missiles are deployed across from Taiwan.¹⁵⁶ The primary purpose of the majority of these missiles is to deter a move toward formal independence by Taiwan or to destroy Taiwan's ports and airfields should Beijing choose to do so. Although it has not greatly expanded in size since the late 2000s, China's short-range ballistic missile arsenal has become more lethal with the

*Official U.S. and Taiwan estimates of China's number of short-range ballistic missiles and land-attack cruise missiles vary. According to the Taiwan Ministry of National Defense's August 2015 report on China's military power for the Legislative Yuan, China has 1,700 ballistic and cruise missiles, and 1,500 of these missiles are deployed against Taiwan. Senate Armed Services Committee, *Hearing on Worldwide Threats*, written testimony of Vincent R. Stewart, February 26, 2015; Zhu Ming, "Ministry of National Defense: China Keeps 1,500 Missiles Deployed against Taiwan," *Storm Media*, August 31, 2015. Translation.

introduction of new missile variants with longer ranges and improved accuracies and warheads.¹⁵⁷

- The PLA Air Force and Navy have about 2,100 combat aircraft, of which approximately 600 are modern.*¹⁵⁸ Fewer than 330 of Taiwan's combat aircraft are modern.¹⁵⁹ As part of its efforts to further enhance the capabilities of its fleet of combat aircraft, China signed a contract with Russia to purchase 24 Su-35 fighter aircraft in November 2015, and the first four were delivered in December 2016.¹⁶⁰ Also, the PLA Air Force accepted its first batch of J-20s, one of two fifth-generation fighter aircraft China is developing, in March 2017, and a spokesperson for China's Ministry of National Defense confirmed in September 2017 that the J-20 has been officially commissioned into service.¹⁶¹
- The PLA Navy has more than 300 surface combatants, submarines, and missile-armed patrol craft, in addition to China's highly capable coast guard and maritime militia.¹⁶² Taiwan, on the other hand, has 92 naval combatants, comprising four submarines—two of which are only used for training—and 88 surface ships.[†]¹⁶³ As China's efforts to improve its navy continue, an increasing percentage of these ships will be modern‡ and feature advanced weaponry. For example, in June 2017, China launched the first in its newest class of cruiser, the Type 055.¹⁶⁴ This cruiser will be equipped with a variant of the YJ-18, China's newest antiship cruise missile.¹⁶⁵ In addition, the PLA Navy recently acquired a land-attack capability, as the new LUYANG III-class guided missile destroyer is capable of launching land-attack cruise missiles.¹⁶⁶ (See Chapter 2, Section 2, "China's Military Modernization in 2017," for more information on developments in Chinese military modernization.)

Faced with a growing threat from PLA modernization, Taiwan has sought to enhance its military capabilities in part by indigenously developing combat ships and aircraft as well as weapons systems. Advanced antiship cruise missiles, air defense missiles, and fast attack and stealthy catamaran-style patrol ships are among the newest platforms and weapons systems Taiwan has produced. Some of the developments in Taiwan's procurement of domestic military equipment in recent years include the following:

*"Modern" combat aircraft are defined as possessing advanced avionics and weapons systems. These aircraft include the J-10, J-11, JH-7, Su-27, and Su-30. For more information on the Commission's definition of "modern" combat aircraft, see U.S.-China Economic and Security Review Commission, *2014 Annual Report to Congress*, November 2014, 309.

†Taiwan's coast guard is in the midst of a ten-year shipbuilding program that will bring its forces to 173 ships. Taiwan does not have a maritime militia. Mrityunjoy Mazumdar, "Taiwanese Coast Guard Launches OPV amid Ongoing Force Development Programme," *Jane's Defense Weekly*, May 28, 2015.

‡In reference to China's submarine force, the term "modern" is used in this Report to describe a submarine capable of employing antiship cruise missiles. These include the SHANG nuclear attack submarine, SONG diesel attack submarine, KILo diesel attack submarine, and YUAN diesel air-independent power attack submarine. In reference to China's surface force, the term "modern" is used to describe multi-mission platforms with significant capabilities in at least two warfare areas. These include the following: LUZHOU guided missile destroyer, LUYANG I/II/III guided missile destroyer, SOVREMENNYĬ I/II guided missile destroyer, and JIANGKAI II guided missile frigate. U.S. Department of Defense, *Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2010*, August 2010, 45.

- *Submarines*: In March 2017, Taiwan's Ministry of National Defense, National Chung-Shan Institute of Science and Technology, and CSBC Corporation signed a memorandum of understanding on cooperation to build submarines.¹⁶⁷ Taipei hopes the U.S. government will assist with this process.¹⁶⁸ During meetings with the Commission in May 2017, Taiwan officials reiterated the desire for U.S. assistance.*¹⁶⁹ Of Taiwan's four submarines, two are operational Zwaardvis-class submarines and two are decommissioned U.S. Navy GUPPY-class submarines (which have undergone upgrades since the 1940s) used only for training.¹⁷⁰
- *Missile corvette*: Taiwan commissioned the first ship in the TUO JIANG-class of catamaran-style missile corvettes in March 2015, and after identifying several areas in which the ship needed improvement, has since created a new design for serial production.¹⁷¹ Taiwan will build 11 more ships in the TUO JIANG-class, starting with a group of three.¹⁷² The corvette has stealth features and better range, endurance, and sea-keeping ability than Taiwan's other patrol ships, and it is equipped with 16 antiship cruise missiles.¹⁷³ It also has two torpedo tubes and a towed sonar array.¹⁷⁴ These features will enhance the survivability and lethality of Taiwan's antisurface and antisubmarine forces in a potential cross-Strait conflict.¹⁷⁵
- *Advanced jet trainer*: The Tsai Administration launched the development of a new advanced jet trainer for the Taiwan military in February 2017 with the signing of a production agreement between Taiwan's Ministry of National Defense and National Chung-Shan Institute of Science and Technology and a memorandum of understanding on cooperation between the National Chung-Shan Institute of Science and Technology and Aerospace Industrial Development Corporation.¹⁷⁶ The new trainers will replace Taiwan's aging AT-3 and F-5 E/F aircraft.¹⁷⁷

Taiwan also seeks to enhance its military capabilities through the procurement of military platforms and weapons systems from overseas. Select military equipment Taiwan is acquiring from the United States includes the following (see also the discussion on arms sales, military-to-military contact, and U.S.-Taiwan defense relations in "U.S.-Taiwan Relations," later in this section):

- *F-16 fighter upgrade*:† According to a January 2017 report by *IHS Jane's Defense Weekly*, Lockheed Martin said the upgrade of Taiwan's 144 F-16 A/B fighter aircraft has begun.¹⁷⁸ The

*In 2001, the United States approved Taiwan's request to purchase diesel-electric submarines via the foreign military sales process. However, the sale stalled for a number of reasons, including disagreements between Washington and Taipei over costs, gridlock in Taiwan's legislature over a special budget, and delays in Taiwan's commitment of funds. Furthermore, the United States has not built a diesel-electric submarine since the 1950s or operated one since 1990. Shirley A. Kan, "Taiwan: Major U.S. Arms Sales Since 1990," *Congressional Research Service*, August 29, 2014, 11–15.

†In 2011, the United States government approved the upgrade of Taiwan's F-16 A/Bs instead of the sale of new F-16 C/Ds to Taiwan, which Taipei had sought. Shirley A. Kan, "Taiwan: Major U.S. Arms Sales Since 1990," *Congressional Research Service*, August 29, 2014, 25.

most important part of the upgrade is the installation of active electronically scanned array scalable agile beam radar made by Northrup Grumman.¹⁷⁹ This radar will enable Taiwan's F-16s to better detect China's advanced combat aircraft.¹⁸⁰

- *P-3C Orion maritime patrol aircraft*: In July 2017, Taiwan received the last of 12 P-3C antisubmarine aircraft that the United States approved for sale in 2007.¹⁸¹ The P-3Cs, which began arriving in 2013, are replacing Taiwan's 11 S-2T antisubmarine aircraft, which have served for more than 40 years.¹⁸² The P-3C will increase the capabilities and endurance of the Taiwan military's fixed-wing maritime patrol aircraft force, improving Taiwan's ability to perform antisubmarine warfare and intelligence, surveillance, and reconnaissance missions.¹⁸³
- *OLIVER HAZARD PERRY-class guided missile frigates*: The Taiwan Navy took delivery of two retrofitted PERRY-class frigates from the United States in March 2017.¹⁸⁴ These general-purpose escort ships, which will be equipped for antisubmarine, surface-to-surface, and surface-to-air operations,¹⁸⁵ would help Taiwan protect other ships against PLA submarines, surface combatants, and aircraft.

China's large defense expenditures are a major challenge for Taiwan. China's defense budget grew by double digits almost every year between 2005 and 2015.^{*186} In contrast, Taiwan's defense budget has grown modestly.¹⁸⁷ For example, the defense budget approved by the Executive Yuan for 2018 increased by 1.9 percent over the previous year's budget.¹⁸⁸ In 2016, China's official defense budget was about 14 times Taiwan's.¹⁸⁹

Beyond an examination of the cross-Strait military balance, it is also important to consider how Chinese strategists view the potential employment of the PLA to achieve Beijing's objectives vis-à-vis Taiwan and how the PLA plans and trains for a conflict with Taiwan. Based on how Chinese military thinkers write about the pre-conflict use of force, China may attempt to manage a crisis involving Taiwan by seeking gains at the lowest possible cost, while balancing those gains against the risks that escalation could lead to conflict.¹⁹⁰ Beijing has tasked the PLA with planning and preparing for a range of contingency operations should conflict with Taiwan occur.¹⁹¹ While the PLA presently lacks the amphibious lift to directly assault Taiwan, China could instead attempt to seize ports and airfields to land follow-on forces to conduct on-island operations.¹⁹² This is a high-risk operation for Beijing, and one China may conduct only after other coercive options are exhausted. (See Chapter 2, Section 3, "Hotspots along China's Maritime Periphery," for detailed discussion of how a cross-Strait conflict might unfold.)

*This measurement is according to China's announced defense budgets, not actual aggregate spending. China's announced budget omits major defense-related expenditures, such as purchases of advanced weapons, research and development programs, and local government support to the PLA.

PLA Activities near Taiwan

On November 25, 2016, during long-range training, Chinese military aircraft flew over the Bashi Channel to the south of Taiwan and then over the Miyako Strait to the north of Taiwan to return to China. Taiwan's then Deputy National Defense Minister Lee Hsi-ming explained this was the first time Chinese military aircraft had "circled around Taiwan."¹⁹³ On December 10, 2016, Chinese military aircraft again conducted long-range training that took them around Taiwan, this time initially flying over the Miyako Strait and returning to China by flying over the Bashi Channel.¹⁹⁴ Then, on January 11 and 12, 2017, China's only operational aircraft carrier sailed through the Taiwan Strait when returning to its homeport after completing training in the South China Sea.¹⁹⁵ This was neither the first time the carrier had sailed through the Strait nor an indication Beijing was preparing for or anticipating an imminent military contingency. It did, however, carry significant symbolic meaning, particularly in the context of China's actions on multiple fronts to pressure and intimidate Taiwan.* On July 1 and 2, 2017, the carrier passed through the Taiwan Strait again on its way to visit Hong Kong as part of the Chinese government's commemoration of the 20th anniversary of the city's handover from British rule.¹⁹⁶ It also transited the Taiwan Strait on July 12 en route to its homeport.¹⁹⁷ Furthermore, Chinese military aircraft flew near Taiwan one time in March and multiple times in July and August as part of training activities.¹⁹⁸

The Tsai Administration's Defense Initiatives

Taiwan's Ministry of National Defense published the report from its first quadrennial defense review under the Tsai Administration in May 2017. The report outlines Taiwan's defense strategy, described as "resolute defense, multi-domain deterrence."¹⁹⁹ In describing "multi-domain deterrence," the report states, "To achieve resolute defense through multi-domain deterrence, we are adopting innovative/asymmetric means and developing joint capabilities to present multiple dilemmas to the enemy and deter aggression."²⁰⁰ Under the Ma Administration, the Ministry of National Defense described Taiwan's defense strategy as "resolute defense, credible deterrence."²⁰¹ Derek Grossman, Michael S. Chase, and Logan Ma of the RAND Corporation write that "both strategies seek to deter or, if necessary, repel a Chinese attack against the island by developing key capabilities and enhancing the Taiwan military's ability to conduct joint operations."²⁰²

In addition to launching the jet trainer and submarine development programs, the Tsai Administration took several measures to advance its goal of enhancing Taiwan's defense industry. Among these measures, the Ministry of National Defense released a draft version of the Revitalizing the Defense Industry Bill for comments

*The aircraft carrier passed through the Taiwan Strait for the first time after its commissioning in November 2013 as it sailed to conduct training in the South China Sea, and did so again on its way back to its homeport in December 2013. Wang Jionghua, "China's Aircraft Carrier Passed through the Taiwan Strait Three Times Before. Ministry of National Defense: Its Combat Capability Is Stronger Each Time," *Apple Daily*, January 5, 2017. Translation.

in March 2017 and is implementing a new “National Defense Manufacturers Security Control Mechanism.”²⁰³

The Tsai Administration is continuing to transition the Taiwan military to an all-volunteer force, a process that began under former President Ma. The Taiwan government seeks to increase the quality of Taiwan’s military personnel by building a force of volunteers—individuals who it assesses want to serve and over time will be more experienced and receive more training than conscripts.²⁰⁴ Taiwan’s transition to an all-volunteer force has been costly, increasing budgetary pressure on research and development as well as operations and maintenance funding.²⁰⁵ Taiwan also has struggled with recruitment and retention.²⁰⁶ To build the all-volunteer force, Minister of Defense Feng Shih-Kuan explained to the Commission in May 2017, the ministry seeks to expand training opportunities so recruits learn skills they can use after the transition to civilian life, offer additional benefits, and increase pay for those serving in combat, intelligence community, or reconnaissance posts.²⁰⁷ The Tsai Administration also is taking steps to improve morale and working conditions in the Taiwan military by introducing improved combat uniforms and renovating old living quarters.²⁰⁸

Hong Kong Customs and Excise Department Seizes Singapore Armored Vehicles Returning from Taiwan

Beijing used an incident involving the seizure of Singapore military vehicles by Hong Kong authorities to pressure Singapore over its military cooperation with Taiwan. In November 2016, the Hong Kong Customs and Excise Department seized nine Singapore Armed Forces armored personnel carriers. The carriers were transiting through Hong Kong on a commercial cargo ship en route to Singapore after their use in military training in Taiwan.²⁰⁹ The department, which stated that it conducted the seizure due to a suspected breach of the territory’s licensing requirements, impounded the vehicles until January 2017.²¹⁰ They arrived in Singapore on January 30, 2017.²¹¹ After the vehicles were seized, Beijing lodged a diplomatic protest with the government of Singapore and spokespersons for both the Chinese Ministry of Foreign Affairs and Ministry of Defense spoke out against Singapore’s military contacts with Taiwan.²¹² Several analysts assessed that in addition to pressuring Singapore over its longstanding military-to-military relationship with Taiwan, Beijing sought to use the seizure and impounding of the vehicles to pressure Singapore over its perceived support for the July 2016 ruling of the Permanent Court of Arbitration on China’s claims and activities in the South China Sea.²¹³

Taiwan Military Training and Activities

The Taiwan military routinely conducts a range of exercises to maintain combat readiness; integrate new weapons systems and tactics; test and improve its capabilities; and demonstrate to the Taiwan people, China, and others that it has a credible deterrence capability. In 2017, select exercises and activities included the following:

- *Antisubmarine exercise*: As part of its training for antisubmarine warfare, in March 2017, the Taiwan military carried out an exercise in which a P-3C antisubmarine aircraft engaged a simulated enemy submarine with torpedoes and depth charges.²¹⁴
- *Han Kuang exercises*: Taiwan's annual Han Kuang exercises began in early May with a five-day, computer-assisted command post exercise, a combat simulation exercise in which commanders, staff, and communications personnel participate. Live-fire exercises were held later in the month.²¹⁵ The live-fire exercises included joint air defense, joint counter amphibious landing, and joint counter airborne landing, among other missions.²¹⁶

China's Espionage and Political Warfare against Taiwan

China's aggressive intelligence activities against Taiwan pose a threat to Taiwan's security and to the security of U.S. military information and equipment to which Taiwan has access. Peter Mattis, China fellow with the Jamestown Foundation, wrote in September 2016 that "from 2006 to the present, more than 40 Taiwanese citizens were prosecuted for espionage and espionage-related crimes involving China."²¹⁷

In the face of the Chinese espionage threat, the Taiwan government and military have implemented measures to impede Chinese intelligence activities. Mr. Mattis writes that "Taiwan has made several substantial efforts to improve security—including trip reporting and routine polygraphs for personnel with sensitive access as well as boosting its counterintelligence staff—and serious offenders can, but not always, receive heavy prison sentences."²¹⁸ Among the most recent actions the Taiwan government has taken is requiring government personnel to receive government approval before transiting through an airport in China. Taiwan civil servants are already required to obtain approval before traveling to China.²¹⁹

The problem of Chinese espionage against Taiwan has implications for U.S. interests. William Stanton, former director of the American Institute in Taiwan (AIT) and current director of Taiwan's National Tsinghua University's Center for Asia Policy, said in 2013 that cases of Chinese espionage against Taiwan "have been harmful not only because of the potential loss of unknown quantities of classified information, but also because their success and frequency serves to undermine U.S. confidence in security cooperation with Taiwan."²²⁰ However, David Major, a former director of counterintelligence, intelligence and security programs at the National Security Council testified to the Commission in 2016 that "if the USA begins to slowdown or stop the transfer of needed technology and information with Taiwan for fear of espionage loss then [China] wins and Taiwan is doomed."²²¹

Beyond espionage, Taiwan faces Chinese political warfare, including through disinformation. One of the goals of disinformation targeting Taiwan is to damage the morale of the Taiwan people.²²² For example, according to the Ministry of National Defense's communications division, individuals working for the Chinese government tried to spread misleading and negative information about the 2017 Han Kuang exercises through online fora.²²³

Beijing has a network of organizations involved in political warfare against Taiwan. One of the main organizations is the former PLA General Political Department's 311 Base.²²⁴ According to a report published by the Project 2049 Institute, the 311 Base is "at the forefront of applied psychological operations and propaganda directed against Taiwan."²²⁵

In what appears to be an example of a Chinese psychological operation against Taiwan, state-run media outlet China Central Television broadcast video of a PLA exercise involving an assault on a building resembling Taiwan's presidential palace; the broadcast aired in July 2015, during the lead-up to Taiwan's presidential election.²²⁶ Mr. Cole said the following about the exercise:

*[It] strikes at the heart of what is recognizable to ordinary Taiwanese—downtown Taipei ... By making the threat more recognizable and immediate than missiles fired off Taiwan's northern and southern tips, or drills simulating an amphibious assault, Beijing may hope to engage ordinary Taiwanese not at the intellectual and abstract level, but on an emotional one.*²²⁷

Derek Grossman, a senior defense analyst at the RAND Corporation, wrote in reference to the video that "psychological warfare is just one component of a likely broader Chinese information operations campaign meant to reduce Taiwanese morale."²²⁸

In July 2017, Taiwan's *Liberty Times* reported, based on Taiwan government information, that "Chinese influence" was involved in protests and the spread of disinformation against the Tsai Administration's pension reforms.²²⁹ Later that month, Mr. Cole wrote that Beijing had intensified its political warfare efforts against Taiwan,

*from ramped up efforts by China's United Front apparatus to recruit and co-opt academics, journalists and local officials in Taiwan and abroad to a major campaign of (dis)information saturation to distract from the real issues and create a sense of permanent crisis in Taiwan. The campaign is aimed at undermining democratic processes, eroding public support for the Tsai Ing-wen Administration, and overwhelming the Taiwanese government by sapping its finite resources.*²³⁰

In addition, Mr. Cole wrote that China "is now using bots, various social media (e.g., LINE, WeChat) and content farms (also known as content mills) to saturate Taiwan with pro-Beijing agitprop—the standard Chinese modus operandi."²³¹ In August 2017, Mr. Mattis wrote that "Beijing's effort to shape or even destabilize Taiwanese society itself through united front work is intensifying. The aim, according to several Taiwanese interlocutors, is to create a 'fake civil society' that can be used against Taiwan's democratic system."²³² The idea of a "fake civil society" appears to have been reflected in the remarks of Taiwan legislator Wang Ting-Yu during a meeting of the Legislative Yuan's Foreign and National Defense Committee when he raised concerns about certain people and groups in Taiwan that receive direction and resources from outside Taiwan whose pur-

pose is not to protest and express their views but rather to create chaos in society.²³³

The Challenge of Chinese Cyber Operations

Chinese cyber operations pose a significant threat to Taiwan. According to Taiwan's 2017 quadrennial defense review report, "The PLA has drastically increased its information and electronic warfare and cyber operations capabilities, threatening our military and civilian networks."²³⁴ Among the measures the Tsai Administration is taking to address this challenge is the establishment of the Information and Electronic Warfare Command within the Taiwan military to lead the military's cyber defense efforts. The command is tasked with integrating and coordinating the efforts of the military's information and electronic warfare units and with working with Taiwan's executive branch.²³⁵

U.S.-Taiwan Relations

Despite uncertainties conferred by a change in administration in the United States, the trend in U.S.-Taiwan relations remains generally positive under President Donald Trump. In an interview with Fox News in December 2016 then President-elect Trump said, "I don't know why we have to be bound by a One-China policy unless we make a deal with China having to do with other things, including trade,"²³⁶ which raised concerns in Taiwan that the United States might now be inclined to use Taiwan as a bargaining chip in its relationship with China.²³⁷ However, prior to his confirmation, now Secretary of State Rex Tillerson and Secretary of Defense James Mattis made statements at the June 2017 Shangri-La Dialogue in Singapore indicated overall continuity in the executive branch's approach to Taiwan policy.²³⁸ Secretary Mattis said, "The Department of Defense remains steadfastly committed to working with Taiwan and with its democratic government to provide the defense articles necessary, consistent with the obligations set out in our Taiwan Relations Act."²³⁹ Moreover, the Trump Administration approved new potential sales of defense items to Taiwan; the U.S. Department of State notified Congress of these potential sales in June 2017 (for more information on these potential sales, see "Security Cooperation," later in this section).²⁴⁰

U.S.-Taiwan Economic and Trade Relations

In a meeting with the Commission in May 2017, President Tsai emphasized enhancing Taiwan's economic relations with the United States as a top priority for her Administration.²⁴¹ The comments echoed statements President Tsai made at an American Chamber of Commerce event in March 2017, where she spoke about her hopes for U.S.-Taiwan relations, saying, "Taiwan and the [United States] should engage in bilateral discussions and trade negotiations as a

^{*}The Taiwan Relations Act states, "It is the policy of the United States to ... consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area 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 that would jeopardize the security, or the social or economic system, of the people on Taiwan." American Institute in Taiwan, *Taiwan Relations Act* (Pub. L. No. 96-8).

matter of priority. Both sides should have frank and substantive discussions and work together towards a new bilateral trade agreement. Preferably, of course, FTA type.”²⁴² So far, Taiwan’s Ministry of Economic Affairs has identified six sectors—steel, semiconductors, petrochemicals, textiles, automobile components, and smart machinery—as targets for further Taiwan-U.S. cooperation.²⁴³ In June 2017, Taiwan also sent its largest delegation—comprising 140 representatives from 84 Taiwan businesses—to the SelectUSA Investment Summit in Washington, DC, which the Ministry of Economic Affairs told the Commission highlights Taiwan’s commitment to good economic ties with the United States.²⁴⁴

As of 2013 (the most recent data available), Taiwan companies employed more than 12,000 workers in the United States.²⁴⁵ In one notable example of Taiwan investment in the United States, Foxconn, Taiwan’s electronics maker and Apple Inc. supplier, announced plans in July 2017 to invest more than \$10 billion in a display-making factory in Wisconsin.²⁴⁶ According to Foxconn, the investment will create between 3,000 and 13,000 U.S. jobs in four years.²⁴⁷ Although Foxconn already operates some facilities in Pennsylvania, the newly announced investments would mark the firm’s most significant investment in the United States to date.*²⁴⁸

A spokesman for Wisconsin Governor Scott Walker described the new Foxconn deal as a “once-in-a-lifetime opportunity” and indicated private investment would be the driving force behind the deal, contributing \$6.70 for every \$1 of public funds.²⁴⁹ Nevertheless, critics have attacked the plan as too expensive after Governor Walker offered \$3 billion in tax breaks and subsidies for the plant. According to the nonpartisan Legislative Fiscal Bureau, a research agency under the Wisconsin Legislature, it will take at least 25 years for the plant to see a return on investment (the estimate assumes 13,000 workers are hired; if, however, the actual employment numbers are lower, recouping the investment could take significantly longer).²⁵⁰ Assuming the factory provides the full 13,000 jobs, the *Washington Post* estimates state subsidies provided to the project would amount to \$230,700 per worker annually.²⁵¹ Environmental organizations have also objected to the deal, which, under Governor Walker’s proposal, would be exempt from filing environmental permits and conducting an environmental analysis.²⁵² In September 2017, Governor Walker approved the deal, sending it to the Wisconsin Economic Development Corporation where the last details of the contract will be finalized.²⁵³

Bilateral goods trade between the United States and Taiwan totaled \$65.4 billion in 2016, down 2 percent year-on-year, making Taiwan the United States’ tenth-largest trading partner.²⁵⁴ In 2016, U.S. goods exports to Taiwan remained consistent with 2015 levels (\$26 billion), but U.S. imports from Taiwan dropped 3.9 percent year-on-year to \$39.3 billion.²⁵⁵ Of the United States’ \$26 billion worth of goods exports to Taiwan in 2016, the leading categories were industrial machinery (\$5.4 billion), electrical machinery (\$5.2 billion), and civilian aircraft (\$3.2 billion).²⁵⁶ U.S. goods imports from Taiwan

*In 2013, Foxconn announced a \$30 million investment for a new plant in Pennsylvania, but the factory was never built. Todd C. Frankel, “How Foxconn’s Broken Pledges in Pennsylvania Cast Doubt on Trump’s Jobs Plan,” *Washington Post*, March 3, 2017.

were led by electrical machinery (\$14 billion), general equipment and machinery (\$6.8 billion), and vehicles (\$2.5 billion).²⁵⁷

Taiwan and the United States continue to discuss bilateral economic issues primarily through a Trade and Investment Framework Agreement (TIFA), which was established in 1994.²⁵⁸ In the latest TIFA discussions held in July 2017, the United States and Taiwan discussed a range of bilateral economic issues, including agriculture, pharmaceuticals and medical devices, intellectual property rights protection, trade barriers, and investment.²⁵⁹ The two sides have yet to resolve a decade-long dispute over U.S. pork imports, one of the most contentious issues in the economic relationship. An April 2017 report from the Office of the U.S. Trade Representative highlighted Taiwan's continued failure to open its pork market to U.S. producers, with Taiwan authorities citing pressure from the local pork industry and consumer groups as the main obstacle to implementation.²⁶⁰ The conflict stems from U.S. pork farmers' use of ractopamine, a feed additive, to produce leaner meat products. Taiwan, along with the EU and China, has banned the use of ractopamine due to health and food safety concerns.²⁶¹ Ractopamine had been a sticking point in U.S. beef trade to Taiwan up until 2012, when Taiwan loosened some restrictions on residual levels of ractopamine in U.S. beef imports.²⁶² To date, however, no similar progress has been made on pork market access in Taiwan.²⁶³

Security Cooperation

U.S.-Taiwan security cooperation includes arms sales, training, advising, exchanges, and equipment maintenance. This partnership helps Taiwan enhance its ability to deter and, if necessary, defend against an attack from the Chinese military.

On June 29, 2017, the State Department announced its approval of seven foreign military sales to Taiwan valued at \$1.36 billion.*²⁶⁴ This announcement marked the first arms sales to Taiwan approved by the Trump Administration and the first notifications since December 2015. The announced items that are available to Taiwan are: (1) operation and maintenance support for Taiwan's Surveillance Radar Program; (2) upgrade of the AN/SLQ-32(V)3 electronic warfare systems on Taiwan's KEELUNG-class destroyers; (3) AGM-154C joint stand-off weapon air-to-ground missiles; (4) MK 54 lightweight torpedo conversion kits; (5) MK 48 Mod 6AT heavyweight torpedoes; (6) Standard Missile-2 Block IIIA missiles and components; and (7) AGM-88B high-speed antiradiation missiles. The Trump Administration also notified Congress of a possible direct commercial sale to Taiwan, which raised the total value of the items notified to about \$1.4 billion.²⁶⁵

Military-to-military contacts between the United States and Taiwan are robust, though visitors to Taiwan are currently limited by

*The executive branch is required to notify Congress of arms sales through the foreign military sales process that meet or exceed the following values: \$14 million in major defense equipment, \$50 million in defense articles or services, and \$200 million in design and construction services. After the executive branch's decision to approve, the government purchasing the arms may decide to purchase less than what is approved and must finalize a contract with the supplier. Therefore arms sales notified to Congress are not final. Paul K. Kerr, "Arms Sales: Congressional Review Process," *Congressional Research Service*, April 19, 2016; Piin-Fen Kok and David J. Firestein, "Threading the Needle: Proposals on U.S. and Chinese Actions on Arms Sales to Taiwan," *East-West Institute*, September 10, 2013, 71.

State Department practice to mid- or lower-grade U.S. personnel, and U.S. military observer delegations attending the Taiwan's Han Kuang exercise are led by a retired general or flag officer.²⁶⁶ More than 3,200 U.S. defense personnel visited Taiwan in 2015.²⁶⁷ Among other areas of training, the United States provides training to Taiwan fighter pilots, special operations personnel, and rapid runway repair personnel.²⁶⁸ Additionally, Taiwan military personnel undergoing education and training at U.S. military institutions number in the hundreds.²⁶⁹

Nevertheless, the U.S. government practice of limiting the highest rank of U.S. military personnel who can visit Taiwan to colonels and captains (O6 level) prevents the most senior U.S. officers from gaining firsthand knowledge of the Taiwan military and the operational environment in a potential cross-Strait conflict.²⁷⁰ Furthermore, the U.S. government has not invited Taiwan to the major U.S.-led Rim of the Pacific (RIMPAC) exercise, Red Flag air-to-air combat training exercise, or the cybersecurity exercise Cyber Storm. Participating in such exercises, even as an observer, could help Taiwan enhance its ability to defend itself and provide the Taiwan military with more opportunities to interact with other militaries.

Other Areas of Cooperation

Beyond commercial and security ties, U.S.-Taiwan cooperation spans many other areas, including environmental protection, cybersecurity, education, public health, and science and technology.²⁷¹ One example of U.S.-Taiwan cooperation is the Global Cooperation and Training Framework. During a visit to Taiwan in April 2017, AIT chairman James Moriarty said, "We consider [the Global Cooperation and Training Framework] one of the signature programs in the U.S.-Taiwan relationship, built on our long history of strong cooperation."²⁷² Through this initiative, which the two countries established in June 2015, the United States and Taiwan jointly train experts from the Asia Pacific in areas such as public health, energy, information and communication technology, and the empowerment of women.²⁷³ Programs Taiwan has hosted under the initiative include a training course for laboratory professionals on diagnosing, preventing, and responding to Middle East Respiratory Syndrome, and a training course for government officials and healthcare professionals on the prevention and control of dengue fever.²⁷⁴ This partnership recently was expanded to include humanitarian assistance and disaster relief. The first workshop on this topic was held in Taiwan in July 2017.²⁷⁵

²⁶⁶The National Defense Authorization Act for Fiscal Year 2017 includes a sense of Congress that "the Secretary of Defense should conduct a program of senior military exchanges between the United States and Taiwan that have the objective of improving military-to-military relations and defense cooperation between the United States and Taiwan." The exchanges would occur at least once a year in the United States and in Taiwan and would involve active-duty general or flag officers and civilian Department of Defense officials at the level of assistant secretary of defense or above. The National Defense Authorization Act for Fiscal Year 2018, which passed the Senate, includes the sense of Congress that "the United States should support expanded exchanges focused on practical training for Taiwan personnel by and with United States military units, including exchanges between services, to empower senior military officers to identify and develop asymmetric and innovative capabilities that strengthen Taiwan's ability to deter aggression." As this Report went to print, the bill was awaiting conference. National Defense Authorization Act for Fiscal Year 2018, H.R. 2810, introduced September 19, 2017; Ankit Panda, "Senior Military Exchanges between the U.S. and Taiwan: Coming in 2017?" *Diplomat*, December 27, 2016.

Implications for the United States

The United States was an ally of the Republic of China for decades before severing formal relations in 1979, under President Carter. Following that action, recognizing the importance of Taiwan in the Asia Pacific, Congress passed the Taiwan Relations Act of 1979. The Act is designed to “preserve and promote extensive, close, and friendly commercial, cultural, and other relations between the people of the United States and the people on Taiwan, as well as the people on the China mainland and all other peoples of the Western Pacific area.”²⁷⁶ In the Act, Congress declared that “peace and stability in the area are in the political, security, and economic interests of the United States.”²⁷⁷ The Taiwan Relations Act also makes it clear that “the United States’ decision to establish diplomatic relations with the People’s Republic of China rests upon the expectation that the future of Taiwan will be determined by peaceful means.”²⁷⁸ Further, the Act states that it is U.S. policy “to consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States.”²⁷⁹

The United States, since that time, has successfully encouraged the development of a multi-party democracy on Taiwan and continued a policy of providing defensive arms and services to Taiwan. If the United States ignored its own law and its long commitment to a peaceful resolution of the cross-Strait problems, it would undermine the credibility of U.S. foreign policy and security commitments regionally, if not globally.

The Tsai Administration is engaged in the difficult tasks of transforming Taiwan’s economy and strengthening its defensive and deterrent capabilities in the face of China’s major military modernization program. Beijing has increased its pressure on Taipei on multiple fronts, including in Taiwan’s foreign relations and participation in international organizations. China also has continued to use its economic leverage to exert political pressure on Taiwan, including reducing tourism from China to Taiwan and stepping up efforts to attract Taiwan workers and students to China. Increased cross-Strait tension could lead to instability in the Asia Pacific or even a conflict that might involve the United States.

U.S. support is important to help Taiwan overcome the challenges it faces in the security, economic, and international realms. China’s military modernization presents a significant challenge both to Taiwan’s ability to defend itself and to the United States’ ability to intervene effectively in a cross-Strait conflict. Improvements in China’s military capabilities enhance Beijing’s ability to use the threat of military force to coerce Taipei into making political concessions. The shift in the military balance underscores the importance of U.S. arms sales to Taiwan, U.S.-Taiwan military exchanges, and other areas of security cooperation. The U.S.-Taiwan security partnership contributes to regional peace and stability by enhancing Taiwan’s ability to deter an attack by the Chinese military.

In the economic realm, although Taiwan has worked to diversify its trade and investment ties away from China, further reforms are needed to guarantee long-term, sustainable economic growth. To this end, Taiwan’s government recognizes the importance of fur-

thering Taiwan's economic relationship with the United States. Increased trade and investment with Taiwan also could benefit the United States.

U.S. support also is an important source of confidence for Taipei as it faces increased pressure in the international arena from Beijing. Working with Taiwan to solve international problems and supporting Taiwan's participation in the international community benefits the United States in many ways. Taiwan's robust democracy, civil society, and technology sector, and its vast expertise and experience in areas such as humanitarian assistance and disaster relief make it a strong partner for the United States in initiatives like the Global Cooperation and Training Framework and the International Environmental Partnership. Taiwan also has much to contribute in areas like aviation safety, combating the spread of infectious diseases, and law enforcement and fighting transnational crime.²⁸⁰ At a Global Cooperation and Training Framework workshop in July 2017, AIT director Kin Moy called Taiwan "a model of disaster preparedness" in Asia.²⁸¹ As Mr. Cole writes, Taiwan's exclusion from certain international organizations means that "Taiwan risks becoming a blind spot and a potential launch pad for illicit trade, various forms of trafficking, terrorist attacks and disease outbreaks, while its busy airspace can, due to lack of information, become more prone to accidents resulting from miscommunication."²⁸² These transnational challenges have the potential to affect the United States and U.S. citizens living and traveling around the world, underscoring the importance of continued U.S.-Taiwan collaboration and Taiwan's inclusion in international organizations to the United States.

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