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Summary

This report summarizes findings from a congressional staff trip to Taiwan (Republic of China), December 10-17, 2000, with supplemental material from other sources. The staff delegation met with Taiwan government and military officials, political party representatives, leading private citizens, and United States officials and business persons in Taipei, the capital. The findings include major factors that have shaped relations between Taiwan and the People's Republic of China (PRC) since Chen Shui-bian's election as President of Taiwan in March 2000. Taiwan's democratization and the growth of cross-strait economic ties have, in some respects, helped to stabilize relations in the short run. Taiwan's legislative elections in December 2001 will likely focus largely on domestic issues; its impact on cross-strait relations is uncertain. Chinese nationalism and military modernization in the PRC will likely continue to contribute to tensions. This report will not be updated.

Domestic Political Challenges to the Chen Administration

Background. Elected in March 2000 with 39% of the popular vote,[1] Taiwan President Chen Shui-bian has since faced an uncooperative legislature and has endeavored to establish a firm grip on his government. Chen's Democratic Progressive Party (DPP) currently holds only 67 seats in Taiwan's 225-member legislature, the Legislative Yuan. The Nationalist Party, or Kuomintang (KMT), which lost the presidential election – the first time it has not ruled the Republic of China (ROC) – holds a plurality of 109 seats. Together, three opposition parties – the KMT, the New Party, and the People First Party (PFP) – which tend to be economically and politically conservative compared to the DPP and more inclined to consider eventual unification with China, have blocked, thwarted, and

[1] James Soong of the People First Party (PFP), an offshoot of the KMT, received 37% of the vote; Lien Chan of the Nationalist Party or Kuomintang (KMT) garnered 23% of the vote. Many Taiwanese political analysts contend that Chen won the election because the KMT was split into two camps, one supporting James Soong and the other backing Lien Chan.

defied many of Chen Shui-bian's policies. Because the DPP lacks administrative experience, many leadership posts within the government remain filled by KMT members.

Chen Shui-bian has faced several contentious issues during his first several months as President. These include: an economic downturn; labor demonstrations; Chen's anti-corruption campaign aimed at KMT vote-buying and gang-related politics ("black gold"); and Premier Chang Chun-hsiung's announcement that work on Taiwan's fourth nuclear power plant, a project begun by the previous KMT government, would be halted. Opposition members have threatened to introduce motions of no confidence in Premier Chang and to recall President Chen. However, they have recently backed down, partly in response to public demands to reduce political deadlock.

Research Trip Findings. Taiwan's democracy is experiencing a period of rancor and instability as it undergoes a process of political maturation. Some Taiwanese government and party officials repeated the saying that "the DPP has not yet learned how to rule while the KMT has not yet learned how not to rule." The congressional staff delegation observed several important features of Taiwan's "transition politics." One, the political system lacks institutions for moderating partisanship and facilitating the transfer of power. For example, few formal and informal procedures and precedents have been established for divided government. Two, Taiwanese political parties do not have experience forming coalitions and creating stable parliamentary majorities. Three, voter identification tends to be unstable and unpredictable. A DPP representative explained that political personalities, rather than party ideologies, drive Taiwanese politics. An American observer stated that intra-party factionalism further destabilizes Taiwanese politics. Four, the mass media, though "free," lack traditions of objective reporting. A spokesperson for the Government Information Office stated that most mass media in Taiwan, including newspapers and television, are government- or party-affiliated and politically-biased.[2]

There are no firm indications about how Taiwan's political parties will fare in the December 2001 legislative elections, although no party is expected to attain a majority in the Legislative Yuan. According to an American observer at the American Chamber of Commerce (AmCham) in Taipei, while the KMT continues to wield economic clout and political influence, its popularity has continued to wane for several reasons: it has not democratized from within, expanded its party base, created a compelling alternative vision for the country, or produced a charismatic leader.

Economic Challenges to the Chen Administration

Background. President Chen faces some troubling economic indicators. At the end of 2000, Taiwan's stock market had fallen by more than 50% since Chen's election and unemployment had reached a 15-year high.[3] Taiwanese investment in the People's Republic of China (PRC) nearly doubled in 2000, which resulted in the transfer of many

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[2] "Experts Blast Media Appointments," *Taipei Times Online Edition* [http://www.taipeitimes.com], June 25, 2000.

[3] Some economists link Taiwan's stock market plunge to NASDAQ's poor performance after March 2000. Taiwan's 2000 unemployment rate, at 3%, was low by international standards.

skilled and high tech jobs to the mainland. According to some estimates, non-performing loans have reached 12-17 percent of all Taiwan bank loans.[4]

Research Trip Findings. An expert at the American Institute in Taiwan (AIT), which conducts U.S.-ROC relations, stated that the notion of a "troubled" Taiwanese economy is more a perception than a reality. Nonetheless, AIT officials envisioned several long-term trends that would challenge the Taiwanese economy. These include declining exports to the United States, increasing imports from abroad if Taiwan joins the WTO,[5] greater economic competition from China, the loss of global competitive advantage of some Taiwanese export items, and falling consumer demand at home. Some American and Taiwanese economic analysts viewed China as the key to Taiwan's continued development. They told the delegation that the PRC's accession to the WTO and direct trade, transportation, and communication between the mainland and Taiwan would further open China to Taiwanese investment and exports. Because of a common language and culture, Taiwanese investors and traders on the mainland already have an edge over their American, Japanese, and European counterparts. However, ROC government officials stated that some restrictions on investment in mainland China were necessary in order to help preserve Taiwanese technological superiority, economic autonomy, and political leverage.

The "One-China" Issue[6]

DPP Policy. The platform of the DPP has long advocated independence for Taiwan.[7] However, in his inauguration speech of May 20, 2000, Chen Shui-bian promised that, as long as the PRC did not use military force against Taiwan, he would not declare independence.[8] Analysts have posited several factors and considerations that may explain

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[4] Philip P. Pan, "Uncertainty Roils Taiwan's Stock Market," *Washington Post*, November 21, 2000; Mure Dickie, "Taiwan's Bad Assets 'Higher Than Estimated'," *Financial Times*, December 13, 2000; Tom Holland, "Taiwan: Crisis? What Crisis?" *Far Eastern Economic Review*, December 21, 2000. These estimates do not include defaults on farm cooperative loans.

[5] See CRS Report RS20683, *Taiwan and the World Trade Organization*, by Wayne M. Morrison.

[6] See CRS Report RL30341, *China/Taiwan: Evolution of the One-China Policy*, by Shirley A. Kan.

[7] Taiwanese are often politically divided among "native Taiwanese" who migrated from the mainland but have lived in Taiwan for several generations, including during the Japanese colonial period (1895-1945), and "mainlanders" who came to Taiwan after the Communist takeover of the mainland in 1949. The DPP and Taiwan independence movements have generally drawn most of their support from native Taiwanese. The KMT is divided among native Taiwanese and mainlander factions.

[8] Chen also promised that, as long as the PRC had no intention of using military force against Taiwan, he would not change the national title, change the Constitution to enshrine the "state-to-state" principle, nor promote a referendum to change the "status quo" in regards to the question of independence or unification. Beijing has asserted that although the PRC would strive for "peaceful reunification" through "negotiations to be held on an equal footing," it may use force if Taiwan were attacked by another country, if Taiwan declared independence, or if Taiwanese authorities "refuse, sine die, the peaceful settlement of cross-Straits reunification through negotiations." See

(continued...)

Chen's break from past positions and pro-independence members in his party, including Chen's pragmatic nature, pressure from the PRC, Taiwanese public opinion, and U.S.-China relations.

Opposition Party Efforts. While President Chen and the PRC government have made little progress in breaking the impasse on opening formal talks, many opposition lawmakers – up to one-third of the legislature – reportedly have gone to Beijing to engage in informal discussions on cross-strait issues. They and the PRC government have appeared eager both to resume the dialogue that broke off in 1995 and to undermine President Chen's role in the process.[9] Chen Shui-bian has expressed a willingness to resume cross-strait talks, but without agreeing to the PRC's "one-China principle" as a starting point. By contrast, opposition leaders have been more accepting of the "one-China" principle as a basis of negotiations.[10]

Research Trip Findings. Taiwanese and American political experts told the delegation that following the March 2000 presidential election, both the DPP and the KMT have taken more conciliatory stances toward the mainland. The KMT has downplayed former President Lee Teng-hui's suggested "state-to-state" framework for negotiations. The DPP has conveyed greater acceptance of the idea that some political accommodation with the PRC is inevitable, while the independence faction within the party has been marginalized. Several government officials privately suggested that Vice President Annette Lu, an ardent member of the independence faction, does not enjoy widespread public support.

An official at the ROC Mainland Affairs Council (MAC) stated that DPP and KMT positions on cross-strait issues have converged somewhat. Both parties support the "status quo" – a position of neither independence nor unification – for the time being. Both put forth democratization on the mainland as a condition for substantive moves toward greater political ties or unification. A DPP authority on international affairs cautioned, however, that the maintenance of Taiwan's sovereignty is still a central goal of the party. He suggested that sovereignty could be achieved in two ways – through independence or a cross-strait political arrangement that is mandated by the Taiwanese electorate.

According to several ROC government officials, over two-thirds of Taiwanese support the status quo and President Chen's inauguration day remarks. The remaining one-third of Taiwanese are split between those who advocate independence and those who favor unification in the near future. Thus, President Chen's approval ratings, which fell from over 75% during his first few months in office to 50% in November 2000, reflected anxiety over the island's economy rather than his positions on cross-strait relations. The

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[8] (...continued)
Taiwan Affairs Office, "White Paper: The One-China Principle and the Taiwan Issue," February 21, 2000.

[9] Russell Flannery, "Asia Focus: Beijing Softens Tactics on Taiwan Relations – Island's Politicians Make Trips to Mainland," *Wall Street Journal*, September 21, 2000.

[10] The KMT recently proposed forming a "confederation of Taiwan and mainland China." *Central News Agency* (Taipei), January 4, 2001.

consensus on this "wait-and-see" attitude toward the mainland, however, masks significant differences in self-identity among Taiwanese. Some Taiwanese commented that Taiwan was a "separate country" from China while others, particularly those in contact with relatives in the PRC, expressed sentimental ties to the mainland.

Cross-Strait Economic Ties

Background. Despite the uncertain and often tense political atmosphere, cross-strait economic ties have grown considerably since the late 1980s. Bilateral trade was worth $25.8 billion in 1999, up 14.5 percent from 1998. In the first half of 2000, cross-strait trade increased 29%. According to PRC data, Taiwan is China's largest source of imports. Taiwanese firms have invested an estimated $40 billion in more than 40,000 enterprises on the mainland. Some analysts report that business interests on both sides of the strait are pursuing greater economic cooperation in preparation for PRC and ROC accession to the WTO.[11]

Research Trip Findings. Taiwanese leaders explained that growing economic ties with the mainland have created a dilemma for the new government. On the one hand, the mainland economy provides ample opportunities for Taiwanese businesses. Economic interdependence may also discourage the PRC from using force against Taiwan. On the other hand, Taiwanese officials worried, increased investment may cause Taiwan to lose jobs and technological know-how to the mainland. Furthermore, if the Taiwanese economy were to become too intertwined with that of the mainland, it may become vulnerable to economic shocks on the mainland or Taiwan may become beholden to PRC political demands. Nonetheless, the DPP has cautiously encouraged greater trade and investment. President Chen has considered easing existing restrictions on Taiwanese businesses, which apply to large-scale investment, construction, and high tech manufacturing on the mainland. On January 2, 2001, the Chen administration formally opened two ROC offshore islands to trade and travel with the mainland as a precursor to broader direct links.[12]

Defense Issues

Research trip findings.[13] Officials of the ROC government and military establishment discussed military and political solutions to the cross-strait tensions. Officials at the Ministry of National Defense raised several concerns. First, they articulated Taiwan's requirements for more sophisticated U.S. armaments in general.[14] Second, Taiwanese military leaders discussed their inability to fully utilize some U.S. hardware because of the need for components, military training, and joint exercises. Third,

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[11] David Brown, "Relaxed, but not Re-linked," *Comparative Connections* (CSIS), July-September 2000; John Pomfret, "Taiwan Enticed by 'Huge Market' in China – Firms' Growing Reliance on Mainland Influences President-Elect's Approach," *Washington Post*, March 27, 2000.

[12] Taiwanese made 1.3 million trips to the mainland in the first half of 2000. Brown, op. cit.

[13] For background, see CRS Issue Brief IB98034, *Taiwan: Recent Developments and U.S. Policy Choices*, by Kerry Dumbaugh.

[14] See CRS Report RS20365, *Taiwan: Annual Arms Sales Process*, by Shirley A. Kan and CRS Report RS20483, *Taiwan: Major U.S. Arms Sales Since 1990*, by Shirley A. Kan.

they expected the PRC-Taiwan dialogue to resume within two years and help diffuse tensions. Fourth, they expressed the desire not to unnecessarily aggravate strains in U.S.-PRC relations.

ROC defense officials asserted that a mainland military attack was possible but not likely in the short-term. They stated, on the one hand, that the PRC still lacked the capability to successfully invade the island. Furthermore, one official contended, although the PRC carried out military exercises on a frequent basis, not all of them constituted preparation for an attack. An ROC general maintained that although the PRC White Paper of February 2000 added a condition for the PRC's use of force – Taiwan's "refusal" to enter into negotiations – it did not indicate greater imminence than before of a mainland attack. On the other hand, Taiwanese defense leaders argued that currently the mainland could pressure Taiwan through conducting missile tests, shooting down Taiwanese fighters or sinking its ships, or taking over offshore islands. An American military specialist in Taipei concurred that although the ROC's equipment and training were still superior to the mainland's, a PRC missile attack could "wreak havoc" on the island and China's capabilities were expected to improve substantially over the next five years.

However, AIT officials suggested that the mainland's military buildup was not the only factor influencing the PRC's actions toward Taiwan. First, the PRC leadership is likely split between hardline and liberal factions. Second, the PRC leadership is torn between conflicting goals: the PRC government's antipathy toward foreign interference in China's "domestic affairs" and frequent exploitation of Chinese nationalism may fuel militaristic behavior; China's emphasis on economic development and aspirations for international prestige may discourage a military solution. Thus, considerations of coercive actions against Taiwan may be checked by their perceived economic and political costs. AIT officials described the critical U.S. policy objectives as encouraging liberal forces in PRC politics and raising the economic and political as well as military costs to the PRC of using force against Taiwan.

Implications for U.S. Policy

Two trends have helped to stabilize PRC-Taiwan relations in the short term. First, the development of real political competition in Taiwan has encouraged the major parties to appeal to the center of the political spectrum. Democratic politics has given strong voice since Chen's election to the current majority view that the status quo in cross-strait relations should be maintained. Although Beijing, the DPP, and opposition parties may disagree about means and objectives, the status quo at least allows for future talks on the issue. The timing of negotiations, however, may depend upon the outcome of the December 2001 legislative elections. Second, cross-strait economic ties, which have been bolstered by the prospect of WTO membership for both sides, have raised the economic and political costs of a military conflict for Beijing and Taipei.

Other factors may add to tensions in the future. PRC foreign policy mishaps or social unrest stemming from economic reforms may trigger renewed government emphasis on Chinese nationalism. China's military modernization also bears watching.

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