

## SECTION 2: TAIWAN

### Introduction

This section—based on the Commission’s meetings with Taiwan officials in Washington and Taipei and independent research—examines cross-Strait relations; Taiwan’s international space; Taiwan’s role in the East and South China Sea disputes; U.S.-Taiwan relations; and cross-Strait military and security issues. The section concludes with a discussion of the implications of the current cross-Strait dynamic for the United States.

### Cross-Strait Relations

#### *Diplomatic Affairs*

During the Chinese Communist Party’s (CCP) 18th Congress in November 2012, outgoing CCP General Secretary Hu Jintao expressed hope that China and Taiwan “would jointly explore cross-Strait political relations and make fair and reasonable arrangements for them.”<sup>1</sup> Mr. Hu also called for both sides to “discuss the development of a [cross-Strait] military confidence-building mechanism” and “reach a peace agreement,” though he did not provide timelines to achieve these objectives.<sup>2</sup> Mr. Hu’s remarks generated concern in Taiwan that China’s incoming leadership might seek to shift the focus of cross-Strait diplomatic relations from economic to political and security issues.<sup>3</sup> However, Beijing has signaled in subsequent public statements its near-term preference to avoid more sensitive areas and concentrate on sustaining progress on cross-Strait economic agreements.

In a July 2013 meeting, Taiwan President Ma Ying-jeou told the Commission that his agenda for cross-Strait diplomatic relations during his second term includes securing follow-on agreements to the Economic Cooperation Framework Agreement (ECFA) signed between the two sides in 2010, expanding cross-Strait educational exchanges, and establishing reciprocal representation offices. President Ma has indicated “the time is not yet ripe for both countries to speak of political dialogue” on unification.<sup>4</sup> He has not discounted meeting President Xi before the end of his second term but said in July 2013 such a meeting would be conditional on “whether [Taiwan] needs it, whether the [Taiwan] people support it, [and] that we can meet with dignity.”<sup>5</sup>

Since the Commission’s 2012 Report, Taiwan’s semiofficial Straits Exchange Foundation (SEF) and its Chinese counterpart, the Association for Relations across the Taiwan Strait (ARATS),\*

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\* SEF and ARATS facilitate cross-Strait negotiations and manage cross-Strait relations in the absence of formal ties between the governments of Taiwan and China.

held talks from June 20 to June 22 in Shanghai. This meeting, the ninth round of SEF–ARATS talks since May 2008, resulted in a major agreement on trade in services. See below for full treatment of this agreement.

Talks between Taiwan’s ruling Kuomintang (KMT) party and the CCP picked up after a brief slowdown around the CCP’s 18th Party Congress in November 2012. Former Taiwan Vice President (1996–2000) and KMT party elder Lien Chan in February 2013 visited Beijing to meet with then President Hu and incoming president Xi Jinping.<sup>6</sup> In June 2013, former KMT Chairman Wu Poh-hsiung (2007–2009) met with President Xi.<sup>7</sup> In the absence of formal diplomatic ties, this party-to-party dialogue serves as a way for China and Taiwan to relay high-level information. Taiwan’s main opposition party, the Democratic Progressive Party (DPP), has criticized KMT–CCP talks on grounds they are secretive and have not been authorized by the Taiwan people or Taiwan’s legislature.<sup>8</sup>

Some prominent DPP members have publicly tied the party’s defeat in Taiwan’s 2012 presidential election to voter concerns that cross-Strait relations would deteriorate under a DPP administration. In response, the DPP has taken several actions designed to boost the party’s image as a viable alternative to the ruling KMT and improve the Taiwan public’s perception of its ability to interact with China.

- *Developing a new policy for cross-Strait engagement:* In November 2012, the DPP established the China Affairs Committee to formulate a new policy for cross-Strait engagement. Nine prominent DPP members, including Party Chairman Su Tseng-chang and former DPP presidential candidate Tsai Ing-wen, compose the committee. At its first meeting in May 2013, Chairman Su said the party’s China agenda will be guided by a “new type of framework and thinking involving: how to persist and make the Taiwan Dream a reality, how to open a new order for cross-Strait interaction and how to contribute to regional stability and peace.”<sup>9</sup>
- *Building cross-Strait ties:* In October 2012, Frank Hsieh, the DPP’s 2008 presidential candidate, visited Xiamen and Beijing to meet with academics and high-ranking Chinese officials involved in cross-Strait affairs. According to Mr. Hsieh, the trip was intended as the “first step for bilateral exchanges” between the DPP and China. Mr. Hsieh added, “Cross-Strait engagement cannot be monopolized by the [KMT]. The DPP cannot stand still and neither should it be marginalized from the platform of bilateral dialogue.”<sup>10</sup> Since then, more high-profile DPP officials have visited China.<sup>11</sup> A spokesperson for China’s Taiwan Affairs Office\* said it is “more than happy to help” DPP members visit China and that “any discussion, seminar, cooperation, or political talks that may help increase or elevate cross-Strait relations will be welcomed.”<sup>12</sup>

\*The Taiwan Affairs Office is an agency within China’s State Council that is responsible for overseeing China’s cross-Strait policies.

### **China's New Passport Design Creates Controversy in Taiwan**

In May 2012, China introduced a new passport design that includes images of two popular tourist sites in Taiwan and depicts Beijing's South China Sea claims.\* Taiwan's Mainland Affairs Council † responded with a strong statement: "[China's] inclusion of photographs of Taiwan's territory and landscape entirely ignores existing facts and provokes controversy, while at the same time not only harms the foundation of mutual trust established through efforts by the two sides over the recent years, but also hurts the feelings of Taiwan's 23 million people. [China's] action is absolutely unacceptable to the [Taiwan] government."<sup>13</sup>

Many South China Sea claimants harshly criticized China's new passports. Vietnam and the Philippines are not stamping the new passports and instead are issuing separate visa sheets. The Mainland Affairs Council explained that since Taiwan does not recognize China's passports, it could not take similar measures to protest the new design. A council official also said, "Since the entry papers of Chinese citizens bear the full name of [Taiwan] and its national flag, it is sufficient declaration of our nation's autonomy." After pressure from opposition legislators, a Mainland Affairs Council spokesperson in December 2012 said Taiwan would develop "countermeasures in response to the passport issue."<sup>14</sup> However, as of the writing of this Report, Taiwan has yet to announce these countermeasures.

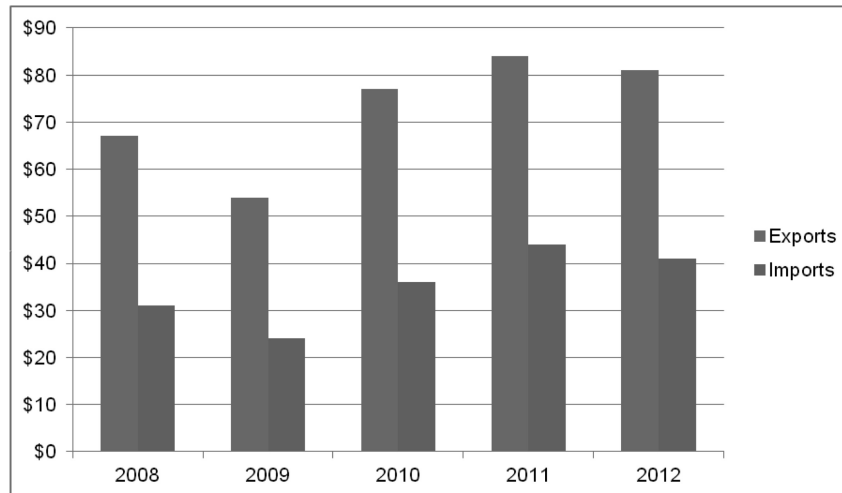
### ***Trade***

From January through July 2013 (the most recent months for which official statistics are available), the total value of trade between China ‡ and Taiwan was \$71.8 billion. The total value of cross-Strait trade during this period grew by 2.79 percent compared to the same period in 2012. Through the first seven months of 2013, China remained Taiwan's largest export market, accounting for approximately \$47.3 billion worth of exports (26.9 percent of Taiwan's total exports). China followed behind Japan as Taiwan's second largest source of imports, accounting for approximately \$24.5 billion worth of imports (15.5 percent of Taiwan's total imports).<sup>15</sup> See figure 1 for Taiwan's trade with China from 2008 to 2012.

\*Taiwan does not recognize China's passports. Chinese citizens visiting Taiwan must apply for a "compatriot pass" issued by Taiwan's National Immigration Agency.

†The Mainland Affairs Council is a cabinet-level agency in Taiwan's executive branch that is responsible for overseeing Taiwan's cross-Strait policies.

‡Throughout the trade and investment subsections, "China" excludes Hong Kong and Macau.

**Figure 1: Taiwan's Trade with China, 2008–2012 (U.S. \$ billions)**

Source: Bureau of Foreign Trade (Taiwan), "Trade Statistics." <http://cus93.trade.gov.tw/ENGLISH/FSCE/>.

In 2012, China's gross domestic product (GDP) was approximately \$8.2 trillion while Taiwan's GDP was approximately \$474 billion, according to the International Monetary Fund. On a per capita basis (purchasing power parity), China and Taiwan's GDPs were \$9,055 and \$38,356, respectively.\*

### **Investment**

Although China remained the top destination for Taiwan foreign direct investment (FDI) in 2012, Taiwan's approval of \$10.9 billion in investments in China in 2012 represented a 16.6 percent decrease from the previous year and a three-year low.<sup>16</sup> From January through July 2013, the value of Taiwan FDI to China continued to decrease, slipping 17.23 percent from the previous year.<sup>17</sup> Officials at the American Institute in Taiwan (AIT), which serves as the de facto U.S. embassy in Taiwan, told the Commission that Taiwan businesses increasingly are looking for investment opportunities in Southeast Asia, Africa, and Latin America as manufacturing costs in China continue to rise.

Mainland investment in Taiwan continued to grow in the first seven months of 2013, with the value of investments increasing 79.34 percent compared to the same period in 2012.<sup>18</sup> In 2012, Chinese FDI in Taiwan totaled \$328.1 million, a 650 percent increase from the previous year. The growth in 2012 was due largely to a \$139 million investment by state-owned China Ocean Shipping

\*International Monetary Fund, "World Economic Outlook Database." <http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>. According to the International Monetary Fund (IMF), the purchasing power parity (PPP) between two countries is the "rate at which the currency of one country needs to be converted into that of a second country to ensure that a given amount of the first country's currency will purchase the same volume of goods and services in the second country as it does in the first." In the IMF's World Economic Outlook online database, the implied PPP conversion rate is expressed as national currency per current international dollar.

(Group) Company and other Chinese shipping firms into Kaohsiung-based Kao Ming Container Terminal Corporation and the establishment of branches in Taiwan of two Chinese state-owned banks: Bank of Communications and Bank of China.<sup>19</sup>

### ***Economic Agreements***

Since President Ma's first term began in 2008, Taiwan and China have signed several agreements that have deepened and broadened cross-Strait economic relations. Most importantly, the two sides in June 2010 signed the ECFA, which serves as a roadmap for future economic integration through a series of four major follow-on agreements concerning investment protection, trade in goods, trade in services, and trade dispute settlement.<sup>20</sup> Since the Commission's 2012 Report, China and Taiwan have made further progress toward developing and implementing the ECFA follow-on agreements as well as advancing economic cooperation in other areas.

- *Trade promotion offices:* Taiwan opened its first trade promotion office in Shanghai in December 2012 and since then has established offices in Beijing and Guangzhou.<sup>21</sup> China opened its first trade promotion office in Taipei in January 2013.<sup>22</sup> These offices are designed to facilitate cross-Strait trade, primarily in the service sector, by providing local market information, product advertising, and consulting services to their side's businesses.
- *Trade in goods agreement:* As part of the ECFA, Taiwan and China agreed to reduce and gradually eliminate tariffs on select imports. The final group of these "early harvest" items became tariff free on January 1, 2013. Through this arrangement, China has removed tariffs on 539 items imported from Taiwan while Taiwan has removed tariffs on 267 items imported from China.<sup>23</sup> Taipei and Beijing intend to build on this progress by completing a more comprehensive trade in goods agreement, which President Ma told the Commission he hopes the two sides will sign by the end of 2013.
- *Currency clearing agreement:* In January 2013, Taiwan and China signed a direct currency clearing agreement. This followed an August 2012 memorandum of understanding on the subject between both sides' central banks.<sup>24</sup> In the past, Taiwan banks were not allowed to conduct transactions in China's renminbi (RMB), and China's banks were not able to deal in Taiwan's New Taiwan Dollar (NTD). As a result, trade deals or money transfers were initially denominated in a third currency (usually the U.S. dollar) and then converted to the local currency. Designated Chinese banks in Taiwan began conducting RMB transactions in February 2013, and designated Taiwan banks in China began conducting NTD transactions in April 2013.<sup>25</sup>
- *Trade in services agreement:* In June 2013, Taiwan and China signed a services trade agreement to eliminate investment restrictions and other barriers across 11 service sectors in both countries. Taiwan investors will gain access to 80 service sub-

sectors in China, including those in e-commerce, printing, construction, transportation, tourism, entertainment, and funeral services. In return, Chinese investors will gain access to 64 service subsectors in Taiwan, including those in car rental, cargo transportation, beauty parlors, online gaming, and funeral services.<sup>26</sup> As of the writing of this Report, Taiwan's legislature has not yet ratified the agreement due to political and public opposition.

- *Trade dispute settlement mechanism:* Taiwan and China in 2013 continued to discuss a mechanism to help resolve trade disputes between the two sides that might arise from the interpretation, implementation, and application of the ECFA follow-on agreements. This subject is on the agenda for the next SEF-ARATS meeting.<sup>27</sup>

### Taiwan's International Space

Beijing's insistence on the "one China principle" precludes any country or international organization from simultaneously recognizing China and Taiwan, thereby restricting Taiwan's full participation in the international community. Nevertheless, Taiwan pursues greater international space by maintaining its official diplomatic relations with 23 countries,\* expanding its participation in international organizations, and strengthening economic partnerships with countries other than China.

In 2008, China and Taiwan reached a tacit understanding—or what President Ma unilaterally declared to be a "diplomatic truce"—to stop poaching each other's diplomatic partners in order to maintain positive momentum in the cross-strait relationship.<sup>28</sup> China appears to have adhered to this diplomatic truce during President Ma's first term, though Beijing's March 2013 call for the Vatican to sever ties with Taiwan shortly before President Ma's trip to the city-state for the Investiture Mass of Pope Francis runs counter to the tacit agreement. It is not clear if this action signaled a policy shift or was motivated by other factors, such as Beijing's longstanding rift with the Vatican.<sup>29</sup>

China continues to attempt to restrict Taiwan's participation in international organizations and activities. For example, Beijing pressured Indonesia to discourage Taiwan from attending the Jakarta International Defense Dialogue in March 2013. Taiwan ultimately did not participate in the event.<sup>30</sup> In another instance, China boycotted Japan's March 2013 commemorative ceremony for the 2011 Tohoku earthquake after Tokyo invited Taiwan to attend the event. Tokyo had faced domestic criticism for excluding Taiwan, the largest aid donor following the earthquake, from 2012's commemorative ceremony. China's Ministry of Foreign Affairs said Tokyo's decision to invite Taiwan "violated the principles and spirit of the China-Japan Joint Statement and the commitments of the Japanese side."<sup>31</sup>

\*The following 23 countries have official diplomatic relations with Taiwan: Belize, Burkina Faso, the Dominican Republic, El Salvador, the Gambia, Guatemala, Haiti, the Holy See, Honduras, Kiribati, the Marshall Islands, Nauru, Nicaragua, Palau, Panama, Paraguay, Saint Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines, São Tomé and Príncipe, Solomon Islands, Swaziland, and Tuvalu.

Nevertheless, Taiwan has made important progress on issues affecting its international space. In July 2013, President Obama signed legislation directing the U.S. Secretary of State to “develop a strategy to obtain observer status for Taiwan in the ICAO.”<sup>32</sup> The president of the UN’s International Civil Aviation Organization (ICAO) in September 2013 invited a Taiwan delegation to attend the upcoming ICAO assembly as his “guests.”<sup>33</sup>

Furthermore, Taiwan has advanced its international trade ties. Taiwan and New Zealand signed a free trade agreement in July 2013, which marks Taiwan’s first such deal with a country with which it does not have official diplomatic relations; Taiwan and Singapore agreed in principle to a free trade agreement in May 2013;<sup>34</sup> and Taiwan is participating in negotiations with 22 other World Trade Organization members, including the United States, on a multilateral Trade in Services Agreement.

Taiwan’s Ministry of Economic Affairs told the Commission that Taiwan’s efforts to expand its trade ties with the Asia Pacific region are part of President Ma’s larger push to diversify Taiwan’s economic partners to avoid overreliance on China. Other Taiwan officials explained to the Commission that the agreements will help promote Taiwan’s inclusion in Asia’s broader economic integration, including participation in multilateral trade pacts such as the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership.

### **Taiwan’s Role in the East and South China Seas Disputes**

Taiwan claims “historic” sovereignty over the Senkaku Islands (known as Diaoyutai in Taiwan) in the East China Sea and over all of the South China Sea. Japan objects to Taiwan’s East China Sea claims; Brunei, Malaysia, Philippines, and Vietnam object to Taiwan’s South China Sea claims. Taiwan thus far has called for peaceful solutions and joint development of resources to avoid escalation of tensions while defending its own territorial claims. Although Taiwan and China have not openly denied each other’s claims since doing so would raise the sensitive issue of the definition of “one China,” there is no evidence the two countries are cooperating in their positions or approaches to the maritime disputes.

#### ***East China Sea***

On April 10, 2013, Taiwan and Japan signed a fisheries agreement after 17 years of intermittent negotiations. The agreement, concluded before the start of the annual fishing season, delineates a broad fishing zone of 1,750 square miles near the Senkakus—with the exception of the islands’ 12 nautical mile territorial waters—where Taiwan and Japanese fishing boats can operate freely.<sup>35</sup> It includes no reference to sovereignty over the disputed territory. President Ma said the agreement demonstrates Taiwan’s constructive role in reducing tension in the East China Sea without compromising Taiwan’s maritime claims and could be used as a blueprint and impetus for a similar agreement between Taiwan and other countries with claims in the South China Sea.<sup>36</sup>

Beijing said it was “extremely concerned” about the agreement and urged Tokyo to “earnestly abide by its promises on the Taiwan issue.”<sup>37</sup> After the signing of the fisheries agreement, Beijing also reiterated its call for China and Taiwan to “safeguard the overall interests of the Chinese nation.”<sup>38</sup>

### ***South China Sea***

In the South China Sea, Taiwan adheres to the principles of the 2002 Declaration on the Conduct of Parties in the South China Sea.\* However, Taiwan’s political status precludes it from signing it or participating in any formal cooperation with other claimants in the region. Taiwan administers Itu Aba Island (also known as Taiping) and Pratas Reef (also known as Dongsha) and stations 100 to 150 Coast Guard personnel on each island to enforce local fisheries, conduct search and rescue, and demonstrate Taiwan’s sovereignty. In 2013, Taiwan announced plans to upgrade Itu Aba by building a new wharf able to accommodate larger, more capable naval and maritime law enforcement ships. Currently, only small patrol craft can dock at the island. Furthermore, a greater capacity to dock larger ships will facilitate the planned extension of Itu Aba’s existing runway by about 20 percent. The longer runway will allow larger and heavier military aircraft to take off and land there.<sup>39</sup> See figure 2 for a map of Taiwan-controlled islands in the South China Sea.

In March 2013, the Philippine Coast Guard opened fire on a Taiwan fishing boat operating in disputed waters in the South China Sea, resulting in the death of a Taiwan fisherman and sparking a diplomatic row with Taiwan. Manila and Taipei both claim the incident took place within their respective exclusive economic zones† in the South China Sea.<sup>40</sup> According to an AIT brief to the Commission, there is a long history of Philippine fishermen harassing Taiwan fishermen in the South China Sea, and this incident pushed Taiwan to a breaking point.

In the initial aftermath of the shooting, Taiwan called for the Philippines to issue a formal government apology, pay compensation to the victim’s family, punish the perpetrators, and initiate cooperative fishery talks. After it claimed the Philippines failed to adequately address its demands, Taiwan stopped accepting new Filipino labor applications;‡ suspended trade, fishery, and technology exchanges with the Philippines; and removed the Philippines from Taiwan’s visa waiver program.<sup>41</sup> Taiwan also deployed two naval ships and four maritime law enforcement ships to the disputed waters. Taiwan removed the sanctions in August after the Philippines offered an official apology on behalf of the Philippine president, agreed to pay compensation to the victim’s family, and

\*A 2002 Declaration on the Conduct of Parties in the South China Sea adopted by China and the Association of Southeast Asian Nations encourages claimants to, among other measures, exercise self-restraint in occupying any previously unoccupied land features in disputed waters in order to avoid escalating ongoing disputes.

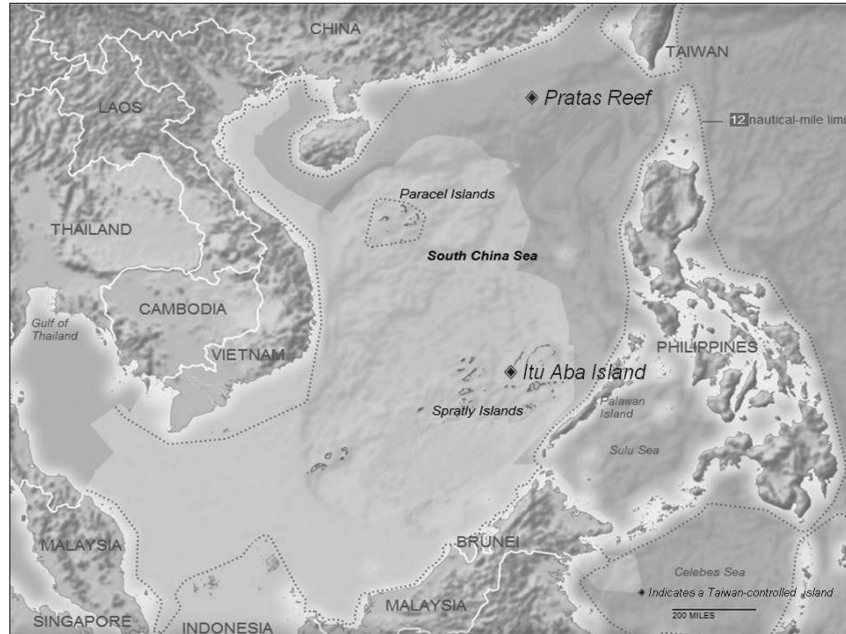
†According to the United Nations Convention on the Law of the Sea, a coastal state is entitled to an exclusive economic zone, a 200 nautical mile zone extending from its coastline within which that state can exercise jurisdiction to explore and exploit natural resources, but not full sovereignty.

‡According to an AIT brief to the Commission, there were approximately 80,000 Filipinos living/working in Taiwan before Taipei stopped accepting new Filipino labor applications.



recommended homicide charges for the Philippine Coast Guard personnel who opened fire on the Taiwan fishing boat.<sup>42</sup> Taiwan and the Philippines also are discussing measures to reduce the risk of future incidents and working to establish a bilateral fisheries mechanism.<sup>43</sup>

**Figure 2: South China Sea**



Source: *New York Times*, "Territorial Claims in the South China Sea," <http://www.nytimes.com/interactive/2012/05/31/world/asia/Territorial-Claims-in-South-China-Sea.html?ref=southchina-sea>, adapted by the U.S.-China Economic and Security Review Commission. Locations of various features are not exact.

### Next Media Controversy

In November 2012, Next Media Ltd.—a Hong Kong-based media company that is critical of Beijing—agreed to sell its Taiwan print and television media outlets to a group of Taiwan businessman with extensive commercial interests in China.<sup>44</sup> Before being finalized, however, the \$600 million deal required the approval of Taiwan regulators.

Next Media's sale generated significant public opposition in Taiwan, primarily due to the involvement of Tsai Eng-meng as a principal investor. Mr. Tsai is a pro-Beijing billionaire whose corporation owns *Want China Times*, one of Taiwan's four largest newspapers. Freedom of the press advocates and the DPP charged that the deal, if approved, would give Mr. Tsai's group a near monopoly over Taiwan's print media as well as provide China greater opportunities to influence the Taiwan media.<sup>45</sup>

In March 2013, Taiwan's independent media regulator and anti-trust agency proposed new antimonopoly rules, which apparently scuttled the deal.<sup>46</sup> Although Next Media maintains the buyers pulled out from the purchase,<sup>47</sup> Taiwan media speculated Mr. Tsai

cancelled the deal because of growing public pressure and concern about a potential government inquiry into his media assets.<sup>48</sup>

## **U.S.-Taiwan Relations**

### ***Taiwan's Role in the U.S. Rebalance to Asia***

In October 2011, then Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell testified to the U.S. House of Representatives, Foreign Affairs Committee that “an important part of this turn to Asia is maintaining a robust and multidimensional unofficial relationship with Taiwan.”<sup>49</sup> Since then, however, U.S. officials appear to have avoided making explicit references to Taiwan’s actual or potential role in the U.S. rebalance to Asia in public statements. For example, U.S. Secretary of Defense Chuck Hagel in a June 2013 speech on the rebalance limited his remarks on Taiwan to the following: “The United States strongly supports the efforts made by [China] and Taiwan in recent years to improve cross-strait relations. We have an enduring interest in peace and stability in the Taiwan Strait. The United States remains firm in its adherence to a one-China policy based on the three joint U.S.-China communiqués and the Taiwan Relations Act.”<sup>50</sup>

Some U.S. security experts propose a more prominent role for Taiwan in the U.S. rebalance to Asia. According to Michael Mazza, research fellow at the American Enterprise Institute:

*Taiwan's potential role in the U.S. pivot to Asia has been largely ignored ... Because of its proximity to and knowledge of China, Taiwan is uniquely equipped to help U.S. efforts to (1) expand presence and access in the region by ensuring U.S. forces can utilize facilities on the island in the event of a conflict; (2) build partnership capacity by improving its self-defense capabilities; and (3) improve military innovation by sharing experience, technology, and intelligence with the United States. Rather than fearing damaging bilateral ties with China, the United States should take advantage of the benefits this important partnership can offer.*<sup>51</sup>

Similarly, Mark Stokes, executive director of the Project 2049 Institute, and L.C. Russell Hsiao, research fellow at the Project 2049 Institute, argue:

*Taiwan should be the central guiding focus of defense planning in the Asia Pacific region ... Taiwan is the principal security partner in the region that is willing and able to develop the kind of force needed for networked, integrated deep interdiction operations in an [antiaccess/area denial] environment. Taiwan's knowledge of single points of failure in the PLA's air and missile defense system could someday save many lives. Maintaining Taiwan's capacity to interdict single points of failure in the PLA's [antiaccess/area denial] system could relieve the United States of part of its heavy operational burden and reduce risks of escalation ... [Furthermore], Taiwan is uniquely positioned to contribute to regional situational awareness of the air, space, sea and cyber domains.*<sup>52</sup>

### ***Diplomatic Affairs***

In February 2013, AIT and the Taipei Economic and Cultural Representative Office in the United States (TECRO) signed an updated agreement on reciprocal privileges and immunities. The agreement, which replaces the 1980 agreement on this subject, enhances legal protection for AIT personnel in Taiwan and TECRO personnel in the United States. Specifically, according to the U.S. Department of State, certain AIT and TECRO employees now have “expanded protection from criminal jurisdiction and arrest as well as specified immunities from providing testimony.”<sup>53</sup> Previously, these personnel only had such protections within the scope of authorized work functions.

### ***Democratic Progressive Party Outreach to Washington***

The opposition DPP has increased engagement with the United States to repair perceived damage to bilateral ties and to “rebrand” the party’s image as a “responsible” alternative to the ruling KMT.<sup>54</sup> DPP Chairman Su Tseng-chang visited Washington, DC in June 2013 to inaugurate the DPP’s new representative office\* and to build closer ties with the United States. During a speech at the Brookings Institution, DPP Chairman Su said, “Friends here are anxious to learn how the DPP plans to manage Taiwan’s relations with China. Past history has left its imprint and the DPP has to work hard to regain the confidence of our international friends.”<sup>55</sup>

### ***Trade***

In March 2013, the United States and Taiwan held the first round of talks under the Trade and Investment Framework Agreement (TIFA)† since 2007. Talks had stalled over Taiwan’s ban on importing U.S. beef containing ractopamine, a common feed additive,‡ but resumed after Taiwan’s legislature lifted some restrictions on the use of ractopamine in beef in July 2012. However, Taiwan’s ban on ractopamine in pork remains in place and could hinder future U.S.-Taiwan trade talks.

According to the Office of the U.S. Trade Representative, the March TIFA meeting, held in Taipei, “produced numerous results, including new joint statements on investment principles and information and communication technology services, and the launch of new TIFA working groups on investment and technical barriers to trade.” Taiwan also agreed to “conduct bilateral technical exchanges to facilitate the establishment of science-based maximum residue levels for pesticides.”<sup>56</sup> In a meeting with the Commission, President Ma said Taiwan hopes TIFA talks will lead to negotiations on a U.S.-Taiwan investment agreement and Taiwan’s participation in the Trans-Pacific Partnership. Officials from Taiwan’s

\*The DPP had an office in Washington in the 1990s but closed it during DPP President Chen Shui-bian’s administration from 2000–2008. Shu-yuan Lin and Jay Chen, “DPP office in Washington to open by June,” Central News Agency (Taipei), February 28, 2013. <http://focus.taiwan.tw/news/aip1/201302280015.aspx>.

†The Trade and Investment Framework Agreement, established in 1994, serves as the primary mechanism for the United States and Taiwan to discuss trade- and investment-related issues in the absence of official diplomatic ties.

‡The chemical ractopamine is used as a feed additive for livestock, intended to increase muscle size and leanness in livestock such as cattle and pigs. The U.S. government has approved the use of ractopamine since 2003 and has declared that meat from animals fed the additive is safe for human consumption.

Ministry of Economic Affairs acknowledged to the Commission that developing a bilateral investment agreement with the United States would be difficult due to Taiwan's political status but said they believed U.S. congressional members supported the agreement.

The new TIFA working group on investment held its first meeting in September. According to U.S. Deputy Assistant Secretary of State for East Asian and Pacific Affairs Kin Moy, "There was a discussion on promoting a transparent and predictable investment regime, and an exchange of preliminary views on a potential U.S.-Taiwan Bilateral Investment Agreement."<sup>57</sup> The new TIFA working group on technical barriers to trade is scheduled to meet in October. The next full TIFA meeting will occur in 2014 in Washington, DC.<sup>58</sup>

### ***U.S. Arms Sales to Taiwan***

Taiwan continues to be one of the largest buyers of U.S. arms in the world and is the largest in Asia. Since President Ma assumed office in 2008, Taiwan has agreed to purchase approximately \$18.3 billion of U.S. arms. In August 2013, President Ma said, "Although cross-Strait relations have gradually eased and cross-Strait relations are now the most peaceful in more than six decades, we still cannot afford to be lax in terms of combat readiness ... [Taiwan] will continue to purchase U.S.-built weapons that [Taiwan] cannot produce on [its] own."<sup>59</sup> Responding to concerns about the impact of Taiwan's declining defense budget on U.S.-Taiwan arms sales, Taiwan's Ministry of Defense said it will "increase the budget or apply for special funds from the [Taiwan legislature] if the United States agrees on more arms sales to Taiwan."<sup>60</sup> See figures 3–4 for more details on U.S. arms sales to Taiwan.

**Figure 3: Value of U.S. Arms Sales Notifications to Taiwan**

<b>Year</b>	<b>Value of Arms Sales Notification (billion USD)</b>
2001	1.082
2002	1.521
2003	0.775
2004	1.776
2005	0.280
2006	—
2007	3.717
2008	6.463
2009	—
2010	6.392
2011	5.852

*Source:* U.S.-Taiwan Business Council and Project 2049 Institute, *Chinese Reactions to Taiwan Arms Sales* (Arlington, VA: March, 2012), p. 38. [http://project2049.net/documents/2012\\_chinese\\_reactions\\_to\\_taiwan\\_arms\\_sales.pdf](http://project2049.net/documents/2012_chinese_reactions_to_taiwan_arms_sales.pdf).

**Figure 4: U.S. Arms Sales to Taiwan**

Year of Notification	Weapon, Item, or Service ‡	Projected Value (million USD)* †	Status	Delivery
2008	330 PAC-3 missiles and firing units	3,100	Not delivered	Beginning in 2014 <sup>61</sup>
2008	32 UGM-84L Harpoon missiles	200	Not delivered	Expected in 2013
2008	Spare parts for F-5E/F, C-130H, F-16A/B, and Indigenous Defense Fighter (IDF) aircraft	334	Ongoing deliveries	Not applicable
2008	182 Javelin missiles and command launch units	47	Delivered	2011
2008	Four E-2T aircraft refurbishment and upgrades	250	Completed	2011–2013 <sup>62</sup>
2008	30 AH-64 Apache helicopters and related ordnance	2,532	Six delivered	2013–2014
2010	114 PAC-3 missiles and firing units	2,810	Not delivered	Beginning in 2014 <sup>63</sup>
2010	60 UH-60M Black Hawk helicopters	3,100	Not delivered	2014–2018 <sup>64</sup>
2010	12 ATM-84L and RTM-84L Harpoon missiles	37	Unknown	Unknown
2010	60 MIDS/LVT-1 terminals to improve F-16A/B C4ISR § systems	340	Not delivered	Unknown
2010	Two OSPREY-class mine hunting ships (refurbishment and upgrades)	105	Delivered	2012 <sup>65</sup>
2011	145 F-16/AB aircraft refurbishment and upgrades	5,300	Not complete	2016–2017
2011	F-16 pilot training	500	Ongoing	Not applicable
2011	Spare parts for F-16A/B, F-5E/F, C-130H, and IDF aircraft	52	Ongoing	Not applicable

*Source:* Except where indicated, this information is compiled from the following three sources: U.S.-Taiwan Business Council and Project 2049 Institute, *Chinese Reactions to Taiwan Arms Sales* (Arlington, VA: March, 2012). [http://project2049.net/documents/2012\\_chinese\\_reactions\\_to\\_taiwan\\_arms\\_sales.pdf](http://project2049.net/documents/2012_chinese_reactions_to_taiwan_arms_sales.pdf); Shirley Kan, *Taiwan's Major U.S. Arms Sales since 1990* (Washington, DC: Congressional Research Service, July 23, 2013); and Piin-Fen Kok and David J. Firestein, *Threading the Needle: Proposals For U.S. And Chinese Actions On Arms Sales To Taiwan* (New York, NY and Washington, DC: East West Institute, September 2013).

## Cross-Strait Military and Security Issues

### *Military Balance*

Since the late 1990s, China's military modernization has focused on improving its capabilities for Taiwan conflict scenarios that in-

\* These values represent amounts as presented to Congress at the time of notification, which may differ from the actual amount Taiwan pays for the weapon, item, or service.

† These are the weapons, items, and services as presented to Congress at the time of notification, which may differ from the actual weapons, items and services that the United States ultimately sells to Taiwan.

‡ Consistent with Figure 3, these values represent amounts as presented to Congress at the time of notification, which may differ from the actual amount Taiwan pays for the weapon, item, or service.

§ C4ISR refers to command, control, communications, computers, intelligence, surveillance, and reconnaissance.

clude U.S. intervention. This modernization program likely is designed to hedge against a failure of China's cross-Strait diplomatic strategy; deter Taiwan from taking steps toward *de jure* independence; signal to the United States that China is willing to use force against Taiwan if necessary; and enhance China's ability to deter, delay, or deny any U.S. intervention in a cross-Strait conflict.

China's People's Liberation Army (PLA) is more prepared than in the past to conduct several different military campaigns against Taiwan, including a partial naval blockade and a limited air and missile campaign.

- China has a large and sophisticated short-range ballistic missile (SRBM) force, including over 1,100 mobile SRBMs that are positioned in southeast China and able to strike Taiwan. China continues to improve the range, accuracy, and payloads of its SRBMs with the introduction of new missiles or variants and component upgrades.<sup>66</sup>
- The PLA has approximately 2,300 combat aircraft capable of participating in large-scale air operations, 490 of which are based within range of Taiwan. By contrast, the Taiwan Air Force has approximately 410 combat aircraft.<sup>67</sup>
- The PLA Navy has approximately 75 major surface combatants, 85 missile patrol boats, and 60 conventional and nuclear submarines. These units are available for a range of missions, such as enforcing a blockade of Taiwan. As China's naval modernization continues, an increasing percentage of these ships and submarines will feature advanced weaponry. In contrast, the Taiwan Navy has 26 major surface combatants, 45 missile patrol boats, and two operational submarines.<sup>68</sup>
- Although China at this time does not appear to be pursuing the amphibious capabilities necessary to conduct a large-scale invasion of Taiwan, the PLA Navy since 2008 has commissioned three new amphibious transport docks. These large amphibious ships—which can carry a mix of air-cushion landing craft, amphibious armored vehicles, helicopters, and marines—improve China's ability to seize and hold Taiwan's offshore islands.<sup>69</sup>

Furthermore, major elements of China's military modernization focus on developing long-range strike capabilities to place U.S. ships, aircraft, and bases in the Western Pacific at risk. (See chapter 2, section 1, "Military and Security Year in Review," for full treatment of China's antiaccess/area denial capabilities.)

Taiwan's ability to defend against China's growing military capabilities is declining. The key shortcomings in Taiwan's defensive capabilities are its insufficient infrastructure hardening and lack of mobile systems.<sup>70</sup> For example, Taiwan relies on fixed land-based coastal surveillance radars for maritime surveillance. The PLA likely would destroy these vulnerable sites during initial air and missile strikes in a campaign against Taiwan, severely degrading Taiwan's ability to defend itself. China's overwhelming quantitative and qualitative advantage over Taiwan also would challenge the Taiwan military's ability to sustain high-intensity operations during a conflict.

### ***Defense Spending Trends***

Cross-Strait defense spending trends since 2001 have dramatically shifted in China's favor. The officially reported budget gap in 2013 totaled more than \$100 billion.

China's official defense budget rose to approximately \$117 billion in 2013 from \$106 billion in 2012, marking the 22nd consecutive year-on-year increase. Furthermore, China's total defense-related expenditure likely is significantly higher than the official budget figure. The Institute of International Strategic Studies assesses China's actual defense spending is 40 to 50 percent higher than the official figure.<sup>71</sup> Most analysts expect China's defense spending will continue to grow steadily in the near term, even if economic growth slows. (See chapter 2, section 1, "Military and Security Year in Review," for full treatment of China's 2013 defense budget.)

Taiwan's defense budget, on the other hand, continues to decline. Taiwan's official defense budget contracted to \$10.5 billion in 2013 from \$10.6 billion in 2012. Taiwan's 2013 defense spending represents 2.1 percent of its GDP, a record low matched only in 2006 and 2011. This is less than 3 percent of GDP—the level at which President Ma pledged to maintain defense spending—and marks a substantial decrease from 3.8 percent of GDP in 1994. Furthermore, 2013 defense spending accounts for only 16.2 percent of the total government budget, down from 24.3 percent in 1994.<sup>72</sup> In response to concerns about Taiwan's declining defense budget relative to GDP, President Ma has explained defense spending cannot be expected to keep pace with Taiwan's GDP growth.<sup>73</sup> Taiwan's GDP growth rate was 10.7 percent in 2010, 4 percent in 2011, and 1.3 percent in 2012.<sup>74</sup>

Taiwan's defense spending likely will remain stagnant through at least the end of President Ma's term in 2016 as he continues to implement a strategy he described to the Commission as the "institutionalization of rapprochement as the first line of defense." Moreover, President Ma has little incentive to increase the defense budget, since improved cross-Strait relations have reduced public perceptions of the China threat in Taiwan<sup>75</sup> while domestic and social welfare issues have become more salient as Taiwan's economy attempts to recover from the global financial crisis and its workforce ages. U.S. officials and outside observers suggest that if this trend continues, then the Taiwan military may struggle to maintain a credible deterrent capability.<sup>76</sup>

### ***Chinese Espionage against Taiwan***

Despite warming cross-Strait ties, China continues to engage in aggressive espionage activities against Taiwan. Since September 2012, Taiwan has arrested at least six former or active Taiwan military officers, including one flag officer, for espionage.<sup>77</sup> In one case, a former Taiwan Navy commander, who had served as the head of the political warfare division at Taiwan's Naval Meteorological and Oceanographic Office, may have provided to China classified submarine nautical charts as well as hydrographic information about the waters surrounding Taiwan.<sup>78</sup> These cases underscore the breadth and depth of China's espionage activities against Taiwan and demonstrate Taiwan's vulnerability to espionage.

Former AIT director William Stanton said in March 2013 that espionage cases in recent years “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.”<sup>79</sup> AIT told the Commission the Chinese espionage threat to Taiwan is “a real concern” that the United States has raised with Taiwan “at the highest levels” but emphasized recent espionage cases do not mean the U.S.-Taiwan arms sale process has been infiltrated.

## **Taiwan Defense Policy and Reform**

### ***Quadrennial Defense Review***

In March 2013, Taiwan published its second Quadrennial Defense Review.<sup>\*80</sup> The *2013 Quadrennial Defense Review* offers no major changes to Taiwan’s defense strategy from the 2009 version. It reiterates President Ma’s emphasis on force preservation and infrastructure hardening while maintaining the ability to combat China’s air and naval forces in the Taiwan Strait. The defense review also endorses and refines key defense reforms that are in various stages of implementation, such as fielding a smaller, better educated, and more effective all-volunteer force and developing and fielding innovative and asymmetric capabilities.

### ***All-volunteer Force Transition***

Since 2008, Taiwan has been implementing a program to gradually convert its conscript-heavy active duty military into an all-volunteer force. The all-volunteer force transition has been more expensive than anticipated, and the military has had difficulty recruiting high-quality volunteers due to a number of factors, including a declining birth rate, a quickly aging workforce, and a culture that does not hold military service in high esteem. While the all-volunteer force was originally scheduled for completion by the end of 2014, the Taiwan Ministry of National Defense announced in September 2013 that Taiwan will continue to conscript some active duty personnel until 2017 in order to maintain readiness and overcome current manpower shortfalls.<sup>61</sup>

Taiwan is diverting funds from other portions of the defense budget to ease the rising personnel costs resulting from the all-volunteer transition. Between 2009 and 2013, Taiwan increased the share allocated for personnel by approximately 10 percent while reducing shares allocated for operations and investments.<sup>82</sup>

The Taiwan military’s ability to attract volunteers may be further hampered by the death of a 24-year old conscript in July 2013. Army Corporal Hung Chung-chiu, found with a banned camera-

\*Taiwan began the Quadrennial Defense Review process as a result of 2008 legislation stipulating that the Ministry of National Defense must submit a Quadrennial Defense Review to the legislature no later than 10 months after each presidential inauguration. The Quadrennial Defense Review serves as Taiwan’s most authoritative public statement on its defense strategy and provides the foundation for defense policymaking. Taiwan also uses the Quadrennial Defense Review as a public relations tool to inform and attempt to influence domestic and foreign opinion. The Quadrennial Defense Review is drafted by the Ministry of National Defense’s Integrated Assessment Office and includes input from ministry staff units and agencies, Taiwan’s military services, and civilian experts. Alexander Chieh-cheng Huang, *A Midterm Assessment of Taiwan’s First Quadrennial Defense Review* (Washington, DC: Brookings Institution, February 2011).



equipped mobile phone while on a military base, was placed in solitary confinement for a week and forced to perform strenuous exercises in summertime heat that ultimately caused him to die from heat stroke. An investigation uncovered further hazing and abuses of power by Taiwan military officials. Corporal Hung's death triggered large public demonstrations against the military, including an August 3 protest near the presidential office in Taipei that drew a crowd of over 100,000. Minister of Defense Kao Hua-chu resigned over the incident, and 18 military officers and noncommissioned officers, including a general officer, were indicted with various crimes for their roles in the soldier's death.<sup>83</sup> Then Deputy Minister of National Defense Andrew Yang told the Commission that Taiwan must "face the problem [of abuse of power and unprofessionalism in the military], fix it, and take responsibility."

### ***Downsizing and Streamlining***

In order to cover the recruitment and retention costs inherent in an all-volunteer force, the Taiwan military is downsizing its active duty force from approximately 270,000 to 215,000. Furthermore, the Taiwan legislature in November 2012 passed six laws that provide the legal foundation to begin streamlining the military's structure under the "Jingtsui Program." The most significant change is the planned consolidation of the service branches from six to three. The functions of the Combined Logistics Command, Military Police Command, and Reserve Command will be merged into the remaining service branches—the army, navy, and air force. Other changes include the reduction of general and flag officer billets by approximately 25 percent and the consolidation of the Ministry of National Defense's six departments into four.<sup>84</sup>

### ***Integrating Innovative and Asymmetric Capabilities***

Taiwan has focused on integrating innovative and asymmetric platforms and weapon systems into its military since approximately 2009. Taiwan fielded 30 stealthy patrol craft from 2009 to 2011 and 32 unmanned aerial vehicles in 2012 and continues to develop other asymmetric platforms and systems, including unmanned combat aerial vehicles and land attack cruise missiles (LACMs).<sup>85</sup> This approach is designed to improve Taiwan's ability to defend against the PLA's rapidly growing capabilities and allow the Taiwan military to target assessed vulnerabilities in the PLA's strategy and weapon systems. Furthermore, Taiwan judges asymmetric systems will be more cost-effective and will reduce its reliance on major, conventional weapon systems that are expensive, difficult to maintain, and vulnerable to the PLA's precision strike capabilities.<sup>86</sup>

### ***Accepting New Missions***

Taiwan's perception of its security environment has evolved since 2008 due to a number of developments, including the devastation caused by Typhoon Morakot in 2009, heightened tension over maritime territorial disputes in the region, and increased levels of piracy in important maritime trade routes. In response, Taipei is pushing its military to gradually improve its ability to conduct non-

traditional missions, such as humanitarian assistance/disaster relief inside and outside of Taiwan, defense of Taiwan's sovereignty and commercial interests in the East and South China Seas, and protection of distant maritime trade routes.<sup>87</sup> As part of its effort to meet these requirements, the Taiwan Coast Guard in March 2013 commissioned the first two ships under a new development program that calls for the construction of 37 new units over the next 10 years.<sup>88</sup>

### ***Strengthening Cyber and Electronic Warfare Capabilities***

China conducts extensive cyber operations against Taiwan's government and corporate networks. For example, China targeted the publicly accessible websites of Taiwan's National Security Bureau approximately 3.34 million times in 2012, according to the agency. Taiwan is increasing its budget for cyber warfare, integrating cyber warfare into Taiwan's routine training and large-scale exercises, adding a fourth unit to the Communication Electronics and Information Bureau, and constructing an "experimental" facility that will simulate cyber attacks on the nation's critical infrastructure to help train Taiwan's cyber defenders.<sup>89</sup>

### **Taiwan's Military Modernization**

Taiwan continues to domestically produce military platforms and weapon systems. Key programs under development or recently completed include the following:

- *Missile corvette*: Taiwan began work on a prototype of a new class of catamaran-style missile corvette in November 2012. Taiwan plans to build up to 11 corvettes by 2014. The new ship will carry long-range antiship cruise missiles and feature better sea-keeping ability, range, and endurance compared to Taiwan's current patrol fleet. In a potential conflict with China, the corvette will enhance the lethality and survivability of Taiwan's antisurface force.<sup>90</sup>
- *Replenishment oiler*: Taiwan began to construct its long-planned second replenishment oiler in December 2012. The additional oiler, scheduled for completion in 2014, will help the Taiwan Navy sustain operations at sea and improve Taiwan's ability to conduct humanitarian assistance, presence patrols, and port visits to countries that retain diplomatic relations with Taiwan.<sup>91</sup>
- *Land attack cruise missiles*: Taiwan began to field its Hsiung Feng (HF)-2E LACM in May 2012, with deployments to three mobile missile squadrons complete by early 2013. The missile's 375–500 mile range suggests it is designed to strike targets on mainland China, such as airfields and air defense sites. Taiwan also is developing a longer-range LACM, known as the "Yun Feng." Public information on the Yun Feng is limited, but press reporting indicates it will be able to achieve supersonic speeds and strike targets at twice the range of the HF-2E.<sup>92</sup>
- *Multiple-launch rocket system*: Taiwan certified its long-delayed Ray Ting (RT)-2000 multiple-launch rocket system dur-

ing an April 2013 military exercise and since has deployed it operationally. In a potential Chinese invasion, the RT-2000 will provide Taiwan with quick-fire capability against Chinese amphibious ships as they cross the Taiwan Strait. With a range of up to 25 miles and a wheeled chassis allowing for easy maneuverability, the RT-2000 is a significant improvement over its predecessor, the Kung Feng VI.<sup>93</sup>

Taiwan also continues to acquire and pursue military equipment and training from the United States. Select programs include the following:

- *P-3C Orion maritime patrol aircraft*: Taiwan in September 2013 received the first of the 12 refurbished P-3C Orion maritime patrol aircraft that it purchased from the United States in 2007. The aircraft will supplement and ultimately replace Taiwan's aging S-2T maritime patrol aircraft. The P-3C will increase the capability and endurance of the military's fixed-wing maritime patrol aircraft force, improving Taiwan's ability to perform antisubmarine warfare and intelligence, surveillance, and reconnaissance.
- *Apache attack helicopters*: In 2010, the United States agreed to sell 30 AH-64 Block III Apache attack helicopters to Taiwan for \$2.04 billion. Taiwan began pilot and crew training in November 2012 and is scheduled to receive the helicopters in groups from October 2013 to July 2014. Taiwan has yet to order the Apache's principal weapon, the AGM-114L Hellfire missile,<sup>94</sup> suggesting Taiwan may be concerned about cost or developing its own missile.
- *PAC-3 missiles*: In January 2013, the United States awarded Lockheed Martin a \$755 million production contract to supply Taiwan with 168 Patriot Advanced Capability (PAC-3) missiles and 27 launcher modification kits. Taiwan is scheduled to begin receiving the missiles in early 2014.<sup>95</sup> The PAC-3 is an air defense missile designed to intercept aircraft and ballistic and cruise missiles.
- *Submarines*: In 2001, the United States approved Taiwan's request to purchase diesel-electric submarines via the foreign military sales process. However, the sale has stalled for a number of reasons on both sides. These include partisan political gridlock in Taiwan's legislature, delays in Taiwan's commitment of funds, and disagreements between Washington and Taipei over costs. Furthermore, the United States has not built a diesel-electric submarine since the 1950s or operated one since 1990. Multiple reports in recent years claim Taipei is no longer committed to acquiring the submarines from the United States and is considering designing and manufacturing the submarines domestically, with U.S. and possibly other foreign technical assistance. Taiwan officials over the last several years reportedly have met with government officials or commercial entities from a number of countries—including Russia, Greece, Germany, Japan, and Spain—seeking assistance on submarine construction, submarine technology, or the purchase of used submarines.<sup>96</sup> Furthermore, Taiwan's Ministry of Na-

tional Defense in March 2013 announced plans to conduct a feasibility study over the next four years to determine Taiwan's ability to produce submarines domestically.<sup>97</sup> Taiwan officials continue to stress to the Commission the importance of acquiring submarines. During the Commission's recent trip to Taiwan in July, Taiwan officials emphasized that the navy's ability to counter China's expanding and modernizing submarine fleet will continue to erode as Taiwan's aging submarine force increasingly is unable to support Taiwan Navy antisubmarine training. Taiwan's current fleet of four submarines includes two former U.S. boats that were built in the 1940s and transferred to Taiwan in the 1970s.

- *Fighters*: In October 2012, the United States awarded Lockheed Martin a \$1.85 billion contract to begin performing a mid-life upgrade on Taiwan's existing fleet of 145 F-16 A/B fighter aircraft. The upgrades will occur from 2017 to 2022 in groups of 24 aircraft.<sup>98</sup> However, many analysts believe the retrofit program does not adequately address all of Taiwan's air defense requirements. Without additional acquisitions, Taiwan's fighter force will face substantial numerical shortfalls as Taiwan's F-5 fighters are retired over the next five to 10 years. In response to Congressional concerns over U.S. arms sales to Taiwan, Robert Nabors, Assistant to the President and Director of the Office of Legislative Affairs, wrote in an April 2012 letter that the Obama Administration is "committed to assisting Taiwan in addressing the disparity in numbers of aircraft through our work with Taiwan's defense ministry on its development of a comprehensive defense strategy vis-à-vis China." Mr. Nabors also said the Obama Administration would decide on a "near term course of action on how to address Taiwan's fighter gap, including through the sale to Taiwan of an undetermined number of U.S.-made fighter aircraft."<sup>99</sup> This language differs from an earlier White House letter on the subject, which definitively stated the Obama Administration's position that "the F-16 A/B upgrade effectively meets Taiwan's current needs."<sup>100</sup>
- *OLIVER HAZARD PERRY-class guided-missile frigates (FFG)*: The U.S. Fiscal Year 2013 National Defense Authorization originally contained provisions authorizing the transfer of up to four surplus PERRY FFG to Taiwan. However, the legislation did not pass due to disagreements over other parts of the bill. Both the 2012 and 2013 versions of the Naval Vessels Transfer Acts called for the transfer of four PERRY FFG to Taiwan, but neither act has been passed. Taiwan currently has eight PERRY FFG, which were partially built in Taiwan in the 1990s and early 2000s with U.S. authorization and assistance. These ships are equipped with U.S. medium-range air defense missiles and indigenous long-range antiship cruise missiles. Additional major surface combatants like the PERRY would replace Taiwan's KNOX-class frigates, which are scheduled for retirement in the next few years.<sup>101</sup>

### Taiwan Military Training

The Taiwan military routinely conducts exercises to train in core combat competencies, integrate new weapon systems and tactics, evaluate and refine operational concepts and plans, and demonstrate to China and the United States that it has a credible deterrent capability. In 2013, high-profile exercises included the following:

- *Han Kuang*: Han Kuang, Taiwan's only national-level joint exercise, is conducted annually and consists of a field training exercise and a command post exercise. The 2013 field training exercise, which occurred in April, focused on air defense, maritime interdiction, anti-amphibious landing, and ground defense. Taiwan media portrayed the event—in which 81 rockets were fired from nine RT-2000 multiple rocket launchers and over 7,500 soldiers participated—as the largest display of force by Taiwan since 2008.<sup>102</sup> The command post exercise, which occurred in July, simulated a full-scale Chinese invasion of Taiwan in 2017 to test the military's ability to conduct command and control for joint operations.<sup>103</sup>
- *South China Sea Live-Fire Exercises*: In April 2013, the Taiwan Coast Guard conducted its biannual live-fire exercise near Itu Aba. This was the second live-fire drill on the island since Taiwan transferred long-range artillery and mortars there in August 2012 and the first drill in which those weapons were fired.<sup>104</sup>
- *Friendship and Training Cruise*: In spring 2013, the Taiwan Navy conducted its annual Friendship and Training Cruise to the Caribbean and Central America. The deployment, which consisted of two naval combatants and a replenishment ship, called at Belize, Panama, Nicaragua, Honduras, El Salvador, Guatemala, and the Dominican Republic. Taiwan uses these cruises to train for long-distance navigation and strengthen ties with countries that maintain diplomatic relations with Taiwan.<sup>105</sup>
- *Surface-to-Air Missile Test*: In September 2013, the Taiwan Navy successfully fired a Standard Missile 2 (SM-2)—Taiwan's most capable air defense missile—against a drone target during a simulated Chinese air attack. This is the first time Taiwan has fired a SM-2 since 2007 and only the sixth time since Taiwan acquired the missiles from the United States in the mid-2000s.<sup>106</sup> Taipei-based military analyst J. Michael Cole, citing Taiwan military sources, explains, "Taiwan must first obtain permission from the [United States] before it can proceed with firing the Raytheon Corporation-made fleet area air defense weapon, primarily over fears that the Chinese military will use the occasion to collect sensitive information about the system (Chinese 'fishing' vessels, some bristling with antennas, are often spotted in sea areas near where Taiwanese naval exercises are held). Additionally, because of its maximum range of about [105 miles], the [United States] has expressed con-

cerns over the risks involved in firing the weapon, along with the political implications of doing so.”<sup>107</sup>

### **Implications for the United States**

Since 2008, Taipei and Beijing have taken steps to reduce cross-Strait tension and increase economic, cultural, and educational ties. The recent cross-Strait rapprochement benefits the United States by reducing the likelihood of a U.S.-China conflict over Taiwan; contributing to peace, prosperity, and stability in East Asia; and allowing U.S. policymakers to focus their time and attention on other priorities in the U.S.-China and U.S.-Taiwan relationships.

At the same time, warming ties between China and Taiwan raise concerns for Washington and Taipei. Increasing cross-Strait economic integration will continue to tie Taiwan closer to China. This could strengthen China’s bargaining power over Taiwan and allow Beijing to make progress toward its long term goal of unification. Responding to these concerns, officials from Taiwan’s National Security Council insisted to the Commission that Taipei’s economic engagement with Beijing is carefully calibrated to promote both Taiwan’s economic growth and continued autonomy.

Furthermore, the counterintelligence risks to Taiwan and U.S. military information shared with Taiwan are increasing as cross-Strait ties expand and Chinese citizens visit Taiwan in greater numbers. China now has greater access to Taiwan and better opportunities to conduct intelligence operations against Taiwan citizens both in Taiwan and China.

Despite the recent cross-Strait rapprochement, the core sovereignty and security issues between Taiwan and China remain unresolved. China’s military modernization has significantly increased Beijing’s ability to achieve air, sea, and information superiority against Taiwan and to project power across the Taiwan Strait. Furthermore, important elements of the PLA’s modernization are designed to restrict U.S. freedom of action throughout the Western Pacific. These “antiaccess/area denial” capabilities raise the costs and risks to the United States for intervention in a potential Taiwan conflict involving China.

As the cross-Strait military balance of power continues to shift in China’s favor, Taiwan may seek to develop closer political ties with Washington and to acquire additional U.S. arms and related military assistance. Taiwan’s diminishing ability to maintain a credible deterrent capability may provide incentives and create opportunities for Beijing to take on greater risk in its approach to cross-Strait relations, including pressuring Taiwan to move toward political talks or using military force to achieve political objectives.

### **Conclusions**

- Cross-Strait economic, cultural, and educational ties continue to expand and deepen. However, domestic political dynamics and priorities in China and Taiwan still constrain movement on political and security issues.

- Since the Commission's 2012 report, Taiwan has used creative diplomacy to sign two free trade agreements and secure participation in a key international organization. Taiwan's expanding international space helps the country counterbalance its economic reliance on China by increasing its competitiveness in the world economy, raises the cost to Beijing of military coercion against Taiwan, and promotes regional stability.
- President Ma since his reelection in January 2012 has accelerated efforts to increase Taiwan's economic engagement with the United States and gain U.S. support for expanding Taiwan's international space while continuing to advocate for future U.S. arms sales.
- Taiwan's military over the last decade has improved its ability to conduct joint operations and has developed some asymmetric capabilities. However, China's rapid military modernization during this time has outpaced these improvements and negated many of the military advantages Taiwan previously held over China.

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