Implementation of Taiwan Relations Act: An Examination After Twenty Years

Edited by Hungdah Chiu, Hsing-wei Lee and Chih-Yu T. Wu
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# IMPLEMENTATION OF TAIWAN RELATIONS ACT: AN EXAMINATION AFTER TWENTY YEARS

Edited by Hungdah CHIU, Hsing-wei LEE and Chih-Yu T. WU

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PREFACE

The Taiwan Relations Act (TRA) of 1979 is without precedent in the history of international relations and international law. It maintains the substance of relations between Taiwan (the Republic of China) and the United States after the termination of diplomatic relations on January 1, 1979. Under the Act, the United States established a non-profit corporation in Washington, D.C. to conduct relations with Taiwan, known as the American Institute in Taiwan (AIT). Taiwan established an unofficial organization, the Coordination Council for North American Affairs (CCNAA), later renamed the Taipei Economic and Cultural Office (TECRO) in the United States, as a counterpart to the AIT. The U.S.-Republic of China Mutual Defense Treaty of 1954 was terminated on December 31, 1979 according to Article X of the Treaty after one year’s notice. The security provision of the treaty has been replaced by Section 2 of the TRA, a U.S. law authorizing the United States to maintain the capacity “to resist any resort to force or other forms of coercion that would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.”

In the introduction to this book, I concisely analyze and discuss the interplay among the Republic of China (ROC-Taiwan), the People’s Republic of China (PRC-mainland) and the United States, and the relations between Taiwan and the mainland. Most of the remaining chapters are written by U.S. officials who technically took leaves of absence to serve in the AIT for their respective experiences.

**The cut-off date for all presentations was 1999.** In my Introduction, I have tried to bring the event as close to the publication date as possible, including President Bush’s decision, in late April 2001, to sell advanced weapons to Taiwan under the TRA for defensive purposes. The text of the TRA and the Presidential Executive Order 12143 of June 22, 1979 are attached as appendixes for reference.

The book is edited with Dr. Hsing-wei LEE, visiting professor of the University of Maryland at College Park and honorary research associate of the University of Maryland School of Law East Asian Legal Studies Program, and Ms. Chih-Yu T. WU, Associate Director of East Asian Legal Studies Program.
In preparing the manuscript for publication, I am grateful not only to the co-editors, but also to Dr. Chun-i CHEN, David Salem, Yufan LI, and Lu Ann Marshall, they have provided invaluable services to this work.

Hungdah Chiu
University of Maryland School of Law
September, 2001
CHAPTER 1

CHINA, TAIWAN, AND THE UNITED STATES

Hungdah Chiu

I. INTRODUCTION

On January 1, 1979, the United States, for the first time in American diplomacy, de-recognized and severed diplomatic relations with a friendly country and a long-time ally—the Republic of China (ROC). At the same time, the United States decided to recognize and establish full diplomatic relations with the People’s Republic of China (PRC),¹ which had sent more than one million military personnel to intervene in the 1950-1953 Korean War and provided massive aid to North Vietnam to assist the latter’s intervention in the Republic of Vietnam. These actions contributed to thousands of American casualties from those U.S. forces who were sent to help the Republic of Korea and the Republic of Vietnam repel aggression. Moreover, in recognizing the PRC, President Jimmy Carter accepted the PRC’s three conditions for establishing diplomatic relations: severance of diplomatic relations with Taiwan; abrogation of the mutual defense treaty with Taiwan; and, withdrawal of U.S. troops from Taiwan. He did not get a promise from the PRC on the non-use of force against Taiwan. President Carter’s decision disturbed the conscience of the American people and their elected representatives. Public opinion in the United States before President Carter’s recognition of the PRC clearly demonstrated that the PRC’s three conditions for accepting U.S. recognition were unacceptable. A poll conducted by Harris-ABC News survey between June 27 and July 1, 1978, indicated that by a 66 to 19 percent margin, Americans were opposed to a U.S. withdrawal of recognition of the ROC government in Taiwan, and by 64 to 19 percent an almost identical majority wanted the United States to maintain its Mutual Defense Treaty with the ROC.²

². Released on September 11, 1978 (1 SSN 0046-6875).
On the congressional side, a poll conducted by the American Conservative Union (ACU), released on October 12, 1978, indicated that 56 senators were opposed to the severance of diplomatic relations and the termination of the mutual treaty with the ROC as conditions for normalizing relations with the PRC. Eight other senators were leaning toward such a policy. Only 3 senators favored accepting the PRC's conditions, while 23 were undecided and 9 refused to answer the poll.\(^3\) An earlier poll by the ACU showed that 264 members of the House opposed any change in U.S.-ROC relations, while only six favored accepting the PRC's conditions; the remaining members were undecided or refused to answer the poll.\(^4\) On September 12, 1978, Congress, by an overwhelming majority, also adopted the Dole-Stone Amendment to the International Security Assistance Act of 1978 Concerning the Mutual Defense Treaty with the ROC. The Amendment stated that "it is the sense of the Congress that there should be prior consultation between the Congress and the Executive Branch on any proposed policy changes affecting the continuation in force of the Mutual Defense Treaty of 1954."\(^5\)

After President Carter's December 15, 1978 announcement of his decision to recognize the PRC on January 1, 1979, at the expense of de-recognizing the ROC, more than 80 percent of the general public's letters, cables or phone calls to the White House expressed disapproval of the President's act, especially his failure to assure the security of Taiwan. A New York Times-CBS survey conducted the weekend after President Carter's December 15 announcement found that American opposed closer ties with China at the expense of Taiwan by a 45 percent to 27 percent margin. The same poll found the public believing that the PRC would benefit more from increased trade than the United States.\(^6\) Even after more than a month of publicity and explanation by Carter administration, a substantial plurality of the American people still disapproved recognizing the PRC at the expense of relations with Taiwan by a 46 percent to 32 percent margin, according to a New

\(^3\) Information supplied by the American Conservative Union.

\(^4\) Ibid.


York Times—CBS survey conducted from January 23 to 26, 1979.7 Many members of the Congress also criticized the secret diplomacy of President Carter, his unilateral decision to terminate the security treaty with Taiwan and his failure to provide assurance for Taiwan’s security.

According to the Constitution of the United States, it is the President’s sole power to recognize and to establish diplomatic relations with a foreign country or its government.8 Despite the public and Congressional disapproval of President Carter’s policy of derecognizing the ROC, there was no way for the Congress to overturn the President’s decision. However, through its legislative power, Congress enacted the Taiwan Relations Act (TRA) of 1979,9 which essentially maintained the substance of relations between the United States and the ROC. This paper begins with a view of important events leading to President Carter’s decision to recognize the PRC and Congressional adoption of the TRA, then analyzes the TRA within the context of international law and relations, the de facto amendment of the TRA by the U.S. executive branch in 1982, subsequent efforts by the executive branch to remove the undesirable impact of the de facto amendment on Taiwan, and the unexpected influence of the TRA on the reduction of tension between the ROC and the PRC. The final part of this paper will make an overall assessment of the TRA as a substitute for formal diplomatic relations and also will deal with certain future problems in implementing the TRA in light of recent political developments in Taiwan.

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II. THE DE-RECOGNITION OF THE
REPUBLIC OF CHINA

On July 15, 1971, after a secret visit by Secretary of State Henry Kissinger to Beijing, President Nixon suddenly announced that he had reached agreement with Premier CHOU En-lai to visit the PRC at an appropriate date before May 1972 for the purpose of seeking "the normalization of relations between the two countries and also to exchange views on questions of concern to the two sides." Many interpreted Nixon's move as one that would ultimately lead to the abandonment of the ROC by the United States. The term "normalization" was considered simply a euphemism for the "recognition and establishment of diplomatic relations."

On February 27, 1972, when President Nixon concluded his visit to the PRC, a joint communiqué was issued at Shanghai; this historical document has usually been referred to as the Shanghai Communiqué. This document is peculiar in diplomatic history because it states, in the words of Nixon, "frankly the significant differences between the two sides on major issues rather than smoothing them over."

With respect to the question of Taiwan, the PRC stated its claim of being the sole legal government of China and its conviction that Taiwan was a province of China. It asserted that the liberation of Taiwan was China's internal affair in which no country had a right to interfere and demanded that all American forces and military installations be withdrawn from Taiwan. The Communiqué concluded by stating that "the Chinese government firmly opposes any activities which aim at the creation of 'one China, one Taiwan,' 'one China, two government,' 'two Chinas,' an 'independent Taiwan,' or advocate that 'the status of Taiwan remains to be determined.'"

The wording of the U.S. section on Taiwan avoided a clash by stating simply: "The United States acknowledge that all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is a part of China. The United States government does not challenge that position. It affirms its interest in a peaceful settlement of the Taiwan question by the Chinese themselves." The United States also stated its ultimate objective of withdrawing

American troops from Taiwan but did not put any final date on that withdrawal, and it agreed in the meantime to reduce its forces and installations on Taiwan progressively "as the tension in the area diminishes."

Despite disagreement on the Taiwan problem, both the PRC and the United States agreed on improving their trade, cultural exchange and other relations, and they also agreed to move toward the normalization of relations. According to a reliable PRC source, Nixon promised the PRC that he would normalize relations in his second term, i.e., after 1976, though Nixon's memoirs do not confirm this.

In February 1973, Secretary of State Kissinger visited the PRC again. He told the Chinese authorities that the United States was prepared to "fully normalize relations with China along the Japanese formula [see below]," i.e., to establish diplomatic relations with the PRC, while maintaining people-to-people relations with Taiwan. After the visit, Kissinger announced on February 23, 1973 that the United States and the PRC agreed to establish a "liaison office" in each other's capital. Each "liaison office," Kissinger said, "would handle trade as well as all other matters except the strict formal diplomatic aspects of the relationships." Although "not a formal diplomatic office," it "would cover the whole gamut of relationships," he emphasized, and its personnel would have diplomatic privileges and immunities and facilities of communicating with their home country in code.

In May, the United States and the PRC opened their respective liaison offices. The United States appointed David Bruce, one of the most distinguished American ambassadors, as chief of the liaison office in Beijing. The PRC appointed Huang Chen, former PRC ambassador to France and then the only Chinese diplomat with membership in the Central Committee of the Chinese Communist Party, as chief of liaison office in Washington. Before his arrival on April 20, President Nixon approved S.1315 (Public Law 93-22), an act to extend diplomatic privileges and immunities to the


liaison office of the PRC and to the members thereof. The United States and the PRC for all practical purposes established semi-diplomatic relations.

In August 1974, President Nixon was compelled to resign as a result of the Watergate scandal, and Vice-President Gerald Ford succeeded to the presidency. According to a reliable PRC source, President Ford said he would normalize relations with the PRC during his term. When Secretary of State Kissinger visited the PRC in November 1974, he told Vice-Premier DENG Xiaoping that the United States was willing to adopt the “Japanese formula” to normalize relations with the PRC, but it intended to establish a “liaison office” in Taiwan, in view of the pro-Taiwan influence in the United States. He also said that the United States had not found an appropriate solution on the mutual defense treaty issue and hoped that the PRC would make a statement on the peaceful liberation of Taiwan so that the United States could consider abandoning its “mutual defense relations” with Taiwan. Deng, however, insisted that the PRC could not accept the “reverse liaison office formula” and demanded that the United States sever diplomatic relations with Taiwan, abrogate its mutual defense treaty with Taiwan and withdraw U.S. troops from Taiwan. These were later referred to as the three conditions for normalization. He also considered that the Taiwan question was an internal affair of China.

In December 1975, President Ford visited the PRC. Although nothing concrete regarding normalization was mentioned after the visit, it was disclosed later by DENG Xiaoping, then vice-premier of the state council of the PRC, in an interview with directors of the Associated Press in Beijing on September 6, 1977, that President Ford did “promise” in that visit that if he were reelected he would resolve the Taiwan problem and establish full relations with Beijing in the same way as the Japanese. Ford, however, had a different version of the story and said that he did suggest the so-called Japanese formula as “a possibility” for normalization, but he added that “any change toward normalization must be predicated on the

19. Ibid.
20. Ibid.
peaceful solution of the Taiwan-People’s Republic of China Situation.\textsuperscript{22}

On June 30, 1977 President Carter said at a press conference that he hoped that the United States “can work out an agreement with the People’s Republic of China, having full diplomatic relations with them, and still make sure that the peaceful life of the Taiwanese, the Republic of China, is maintained.”\textsuperscript{23}

Secretary of State Cyrus Vance visited the PRC on August 20-27, 1977, and, according to a Chinese source, told the Chinese that at the appropriate occasion, the U.S. government would issue a statement to reaffirm the American concern and interest in the peaceful settlement of the Taiwan question by the Chinese. He also hoped that the PRC would not issue a statement opposing the U.S. statement and thereby emphasize settlement of the question by force. Moreover, after normalization, Vance believed that the continuation of trade, investment, tourism, scientific exchange and other private connections between the United States and Taiwan should be ensured and that U.S. officials should be able to remain in Taiwan under an “unofficial arrangement.” If the PRC government was willing to accept these conditions, the United States was willing to recognize the PRC as the sole legal government of China, to let “diplomatic relations” with Taiwan and the mutual “defense treaty” lapse and to withdraw all military personnel from Taiwan. DENG Xiaoping, however, told Vance that the United States must accept the three conditions and the questions of unification of Taiwan with the mainland would be resolved by the Chinese themselves.\textsuperscript{24} Vance’s version of the discussion on normalization, however, was slightly different.\textsuperscript{25}


\textsuperscript{24} \textit{Diplomacy of Contemporary China, supra} note 13, pp. 227-228.

\textsuperscript{25} Cf. the following excerpts from Vance’s memoirs:

On August 23, 1977 at first formal meeting . . . I came quickly to the point. The president had authorized me to explore how the United States and China might normalize relations. “Provided we can find a basis that will not lessen the prospects for a peaceful settlement of the Taiwan question by the Chinese themselves and which would enable informal contacts to continue,” I said, “the president is prepared to normalize relations.” In accordance with the Shanghai Communiqué, which acknowledged the existence of only one China, we were prepared to recognize the PRC as the sole legal government of China. I stated that our defense treaty with Taiwan would “lapse” (we would not use the word “abrogate”), and we would complete the withdrawal of our military forces and installations from Taiwan.
In May 1978, President Carter’s National Adviser, Zbigniew Brzezinski, visited the PRC and told the Chinese authorities that the United States was willing to accept the three conditions for normalization, but “hope[d] (not as a condition) that when the American side expresses the expectation that the Taiwan question, which is purely an internal affair of China, be settled peacefully, it will not be explicitly rebutted by China, so that the domestic difficulties of the U.S. may be more easily resolved.\textsuperscript{26} He also told the Chinese side that President Carter had authorized the Chief of the U.S. Liai-

\begin{footnotesize}

\footnote{I stated carefully that we had concluded that, “It would be necessary for U.S. government personnel to remain on Taiwan under an informal arrangement.” I stressed that such representation would be neither diplomatic in character nor have any of the characteristics or appurtenances of an embassy, such as flags or a government seal. I pointed to the negative reaction in the United States to Chinese statements about liberating Taiwan by force, and said that at the appropriate time we would make a public statement of our interest in a peaceful settlement. I stressed that it would be essential that China riot contradict such a statement or make any statements about liberation by force.

The next morning we met in the Great Hall of the People to hear Huang Hua’s not unexpected response. My presentation had been too much for him to accept. He reiterated the three Chinese conditions and said our position simply gave “lip service” to them. After tough words about liberating Taiwan, the foreign minister concluded that normalization would be further delayed... .

I met Vice-Premier Deng Xiaoping that afternoon... I briefly outlined our position again, stressing that I offered it as a starting point for discussion. Deng, an embodiment of Chinese courtesy, calmly termed my comments a retreat from the Shanghai Communiqué. He read me portions of a memorandum of a conversation in which Henry Kissinger had allegedly agreed that the United States owed a debt to China and that normalization would be in conformity with the Chinese conditions. He referred to a discussion with President Ford in December 1975, in which the president had stated he would be in a better position to normalize relations in accordance with the so-called Japanese formula after the 1976 elections. Deng omitted to note, though, that Ford had added a qualifying “if”–if the Taiwan issue was worked out. Deng characterized my proposal to Huang Hua as a retreat from the previous state of affairs.

Deng said that the most China could accept was the “Japanese formula.” He described what I had proposed as an embassy that would not have a sign or a flag at its door.


\end{footnotesize}
son Office In China, Leonard Woodcock, to begin negotiations with the PRC on the normalization problem. 27

On September 19, 1978, President Carter met with the Chief of the Chinese Liaison Office, CHAI Tse-min, at the White House. The U.S. conditions for normalization with the PRC set by President Carter were:

1. an official American presence in Taiwan after normalization;
2. the continuation of American commercial, cultural, and other relations with Taiwan;
3. selected defensive arms sales to Taiwan after normalization;
4. a public U.S. statement expressing hope for a peaceful solution to the Taiwan problem; and,
5. termination of the defense treaty with Taiwan in accordance with the terms of the treaty, which provided for termination upon one year's by either party. 28

On December 15, 1978, President Carter dramatically announced to the world that the United States and the PRC would establish diplomatic relations on January 1, 1979. 29 He also declared that he would sever diplomatic relations with the ROC on that date, terminate the Mutual Defense Treaty with the ROC a year from that date, and withdraw all U.S. forces from Taiwan within four months. There was neither a PRC commitment to refrain from using force against Taiwan nor a unilateral U.S. commitment to the security of Taiwan. The President's statement accompanying the Joint Communique on establishing diplomatic relations did state that "the United States continues to have an interest in the peaceful resolution of the Taiwan issue and expects that the Taiwan issue will he settle peacefully by the Chinese themselves."

The PRC immediately issued a response to this statement, insisting that the decision as to the method by which Taiwan would be brought back to PRC control was part of China's "internal affairs" for "unifying the country." 30 It is elementary that a country may

use force in its internal affairs, so the Carter statement on the peaceful resolution of the Taiwan issue was in fact and in law rejected by the Chinese. As a matter of fact, at a press conference held in Beijing on January 5, 1979, Vice-Premier Deng Xiaoping publicly acknowledged that the Chinese cannot restrict themselves by renouncing the possibility of using force for the unification of Taiwan and the mainland. He also said the future of Taiwan “is entirely an internal Chinese affair” but that Beijing would “take note” of President Carter’s wish that the dispute be settled peacefully.31

III. THE JAPANESE FORMULA AND THE ENACTMENT OF THE TAIWAN RELATIONS ACT

A. The Japanese Formula for Normalization of Relations with the Chinese Communist Government and Its Implication on U.S.-People’s Republic of China Government Normalization

In the process of the normalization of relations between the United States and the PRC, the “Japanese formula” had not been mentioned either in name or in substance. Therefore, it is necessary to discuss this formula briefly and to analyze to what extent this formula is applicable to the U.S.-PRC normalization issue.

On September 29, 1972, Japan established diplomatic relations with the PRC and terminated its diplomatic relations and other treaty relations with the ROC.32 However, Japan and the ROC soon set up “unofficial” instrumentalities to handle their commercial, cultural, tourist and other relations. On the Japanese side, a foundation (zaidah hojin) called the Exchange Association (Kuroy Kyokai) was established under the aegis of the Ministry of Foreign Affairs and the Ministry of International Trade and Industry. Teizo Horikoshi, vice president of Keidanren, was named President; former Ambassador to the Republic of China Osamu Itagaki was named chairman of the Board; and Shugen Takahashi, former chief of the Osaka Bureau of International Trade and Industry, was named Managing Director. Headquarters were set up in Tokyo and offices were set up in Taipei and Kaohsiung. The Association was


charged with handling consular type work: protecting Japanese nationals and their property in Taiwan, educating Japanese children, issuing travel documents to serve in place of visas, maintaining economic relations, guaranteeing the safety of fishing vessels, promoting cultural and sports exchanges, etc.\textsuperscript{33}

The ROC side set up an East Asian Relations Association, with branches in Tokyo, Yokohama, Osaka and Fukuoka, to replace the former ROC embassy and consulates there. “Unofficial” agreements were concluded between these two nominally “unofficial organs” for commercial, cultural and other relations. Officials of both “unofficial organs” in fact enjoyed certain privileges and immunities in each other’s country.\textsuperscript{34}

This formula cannot be used to fully maintain post-normalization relations between the United States and the ROC for several reasons. First, Japan is an executive-dominated government and there is wide administrative discretion in dealing with foreign affairs. On the other hand, the United States is a law-dominated government. As such, without clear legal authorization, it is not possible to maintain the substance of relations between the United States and the ROC after de-recognition. Second, the United States has security commitments to Taiwan, while Japan does not. Third, the U.S. Congress strongly opposed the acceptance of the PRC’s three conditions and under the U.S. separation of powers system, the President cannot control the Congress. On the other hand, Japan is a cabinet system; the premier is the majority party leader of the Japanese Diet and there is no possibility of confrontation between the two. In view of these differences, it is necessary to enact a law in the United States to maintain existing relations with Taiwan in the post-normalization period and to adopt some parts of the Japanese formula into that law.

B. The Enactment of the Taiwan Relations Act

Because of differences in the political and legal systems of the United States and Japan, it was necessary for the United States to


enact necessary legislation to maintain the substance of relations with Taiwan. However, enactment of the law would take several months, and any legal vacuum created by the de-recognition of the ROC on January 1, 1979 would severely disrupt the existing extensive relations between the United States and the ROC on Taiwan, since, under international law, the ROC would be legally non-existent in U.S. eyes after that date. In order to avoid this undesirable situation, on December 30, 1978, President Carter issued a memorandum to all U.S. departments and agencies instructing them that all existing treaties and agreements between the United States and the ROC “shall continue in force” and “whenever any law, regulation, or order of the United States refers to a foreign country, nation, state, government, or similar entity, departments and agencies shall construe those terms and apply those laws, regulations or orders to include Taiwan.” This memorandum in fact wiped out most of the legal effect of U.S. de-recognition of the ROC.

President Carter’s sudden recognition of the PRC and his acceptance of virtually all the latter’s demands, needless to say, were a shock to the ROC. While leaders of the ROC had expected President Carter’s move sometime in the future, they could not understand why the president had acted abruptly at that time, giving them only seven hours’ notice. They were particularly upset by the lack of U.S. assurance on the security of Taiwan. Thus, when President Carter sent a delegation headed by Deputy Secretary of State Warren Christopher to Taiwan on December 28-29, 1978, to discuss post-normalization U.S.-ROC relations, the ROC made sev-

Under the Law of the United States:
(1) an entity not recognized as a state, or a regime not recognized as the government of a state, is ordinarily denied access to courts in the United States;
(2) a regime not recognized as the government of a state is not entitled to property belonging to that state located in the United States;
(3) courts in the United States ordinarily give effect to acts of a regime representing an entity not recognized as a state, or of a regime not recognized as the government of a state, if those acts apply to territory under the control of that regime and relate to domestic matters only.


37. The State Department instructed U.S. Ambassador Unger in Taipei to give the ROC only one-hour advance notice of the President’s surprise move. Ambassador Unger, however, disregarded the instruction and informed the ROC leaders as soon as he receive the message, so the ROC Government received a seven-hour advance notice of the President’s dramatic action.
eral basic demands, namely, that future U.S.-ROC relations be maintained on a government-to-government basis that the United States take concrete and effective measures to assure the security of Taiwan, that the United States continue to supply adequate arms to the ROC, and others.\textsuperscript{38}

The Christopher mission did not succeed in reaching an overall agreement with the ROC on the future of U.S.-ROC relations, though both sides agreed to hold further negotiations in the United States on the subject. They also agreed that pending the final agreement on principles and concrete arrangements concerning their future relations, existing cultural, commercial and other relations should be continued without interruption until March 1, 1979.

U.S.-ROC negotiations on maintaining trade, cultural and other relations in the post-normalization period were resumed in Washington in early January 1979, but no substantive progress was made for several weeks because the ROC insisted on having official, that is, government-to-government, relations with the United States while the latter insisted, at least formally, on unofficial relations. According to the U.S. proposal, a new American Institute in Taiwan would be created to take over all functions of former U.S. embassy and Consular services in Taiwan. The Institute would be a nonprofit private corporation, incorporated under District of Columbia law, but would be staffed by veteran diplomats or other civil servants "temporarily" on leave of absence from the U.S. government.\textsuperscript{39} Despite the ROC's objection, the U.S. State Department incorporated the Institute on January 10, 1979,\textsuperscript{40} and urged the ROC to create a similar unofficial organ to replace its embassy and consular services in the United States.

After several weeks of deadlock over this issue, the United States sent an ultimatum to Taipei, calling for an agreement to non-governmental relationships by February 10 or a complete rupture in


U.S.-ROC ties. A few days later, however, the United States made a minor concession by agreeing to let the ROC issue an executive order to create a Coordination Council for North American Affairs (CCNAA) to serve as a counterpart of the American Institute in Taiwan (AIT). The council would have an office in Washington and branch offices in New York, Chicago, Atlanta, Houston, Seattle, San Francisco, Los Angeles and Honolulu. The United States would call the Council an "unofficial" organ, while the ROC could maintain that it was of an "official nature."

The United States also agreed to grant the following privileges and immunities to the Council and its personnel on the condition that similar privileges and immunities be extended to the American Institute in Taiwan and its personnel by the ROC: the privileges of a secure pouch; the right to send and receive coded messages; customs courtesies, involving such matters as freedom from customs inspections and duties; tax exemption of the Council and its personnel; inviolability of the premises of the Council; and immunity of appropriate members of the Council from criminal and civil liability for any acts committed in the performance of their duties.

With respect to the ROC demand for a security guarantee for Taiwan, which was supported by many members of the Congress, the Carter administration asserted such a guarantee was unnecessary, whether in the form of a presidential declaration or a congressional resolution.

On January 29, 1979, the Carter Administration sent a bill to the Congress to maintain the substance of relations with Taiwan af-


According to Harvey Feldman, the Director of the ROC Desk at the Department of State, he suggested to ROC Vice-Minister of Foreign Affairs, H.K. Yang, who was responsible for the negotiation, that while the United States necessarily must describe the new relationship as being entirely unofficial, it had no way of preventing the ROC from describing it otherwise when it became clear the Congress would not write an explicit official relationship into the TRA, the suggestion was accepted by the ROC. See his "Political and Diplomatic Relations," in William B. Bader and Jeffrey T. Bergner eds., The Taiwan Relations Act: A Decade of Implementation, Indianapolis, Indiana: Hudson Institute; Menlo Park, California: 1989, p 20.

43. See Taiwan Enabling Act Report, supra note 40, pp. 29-30.

44. See Deputy Secretary of State Warren Christopher’s statement at Senate hearings on Taiwan, February 5, 1979, Taiwan Hearings, supra note 39, p. 24.
ter normalization with the PRC.\textsuperscript{45} This bill did not have any provision on Taiwan's security guarantee, arm sales, privileges and immunities of unofficial organs and other important items which were later incorporated in the TRA; therefore, it was, in the words of Senator Frank Church, Chairman of the Senate Foreign Relations Committee, "woefully inadequate to the task, ambiguous in language, and uncertain in tone."\textsuperscript{46}

After extensive discussions in the Congress, the Taiwan Relations Act was adopted by an overwhelming majority on March 29, 1979 and signed into law by President Carter on April 10, 1979.\textsuperscript{47} The original bill proposed by the Carter Administration was in fact discarded and replaced by the one adopted by the Congress. The Act was effective retroactively to January 1, 1979.

IV. THE MAIN CONTENTS OF THE TAIWAN RELATIONS ACT AND ITS IMPLICATION IN INTERNATIONAL LAW

The Taiwan Relations Act has 18 sections.\textsuperscript{48} Section 2 ("Findings and Declaration of Policy," 22 U.S.C. 3301) states in paragraph (a) that, since the President terminated governmental relations between the United States and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, Congress finds enactment of the act necessary to help maintain peace, security and stability in the western Pacific and to promote the foreign policy of the United States by authorizing continuation of commercial, cultural and other relations between the people of the United States and the people of Taiwan.

Section 2(b) (22 U.S.C. 3301) states that it is the policy of the United States:

1. to preserve and promote extensive, close and friendly commercial, cultural and other relations between the people of the United States and the people of Taiwan, as well as the people on the mainland China and all other peoples of the Western Pacific area;

\textsuperscript{45} See Taiwan Hearings, supra note 39, pp. 3-10.
\textsuperscript{46} Id., p.11.
\textsuperscript{47} See supra note 9.
(2) to declare that peace and stability in the area are in the political, security and economic interests of the United States, and are matters of international concern;

(3) to make 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;

(4) 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;

(5) to provide Taiwan with arms of a defensive character; and

(6) 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 of Taiwan.

Section 2(c) (22 U.S.C. 3301(c) ) provides that nothing in the act shall contravene the interest of the United States in human rights, especially with respect to those of “all the approximately eighteen million inhabitants of Taiwan”; the preservation and enhancement of these rights are reaffirmed as U.S. objectives.

Section 3 of (“Implementation of United States Policy with Regard to Taiwan.” 22 U.S.C. 3302) states, in paragraph (a), that the United States will make available to Taiwan defense articles and services “in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability,” and provides, in paragraph (b), for their nature and quantity to be determined by the President and Congress. Paragraph (c) reads:

(c) The President is directed to inform the Congress promptly of any threat to the security or the social or economic system of the people of Taiwan and any danger to the interests of the United States arising therefrom. The President and the Congress shall determine, in accordance with constitutional processes, appropriate action by the United States in response to any such danger.

Section 4 (22 U.S.C. 3303) covers the continuing application of U.S. domestic law, both federal and state, regarding Taiwan, “as if
derecognition had not occurred.” This section effectively wipes out all the international legal consequences of U.S. de-recognition of the ROC. Among the provisions under this section, § 4(8) (c) is of particular significance. It states:

(c) For all purposes, including actions in any court in the United States, the Congress approves the continuation in force of all treaties and other international agreements, including multilateral conventions, entered into by the United States and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, and in force between them on December 31, 1978, unless and until terminated in accordance with law.

With regard to Overseas Private Investment Corporation (OPIC) investment projects in Taiwan, section 5(a) of Public Law 96-8 (22 U.S.C. 3304(a)) suspended for a 3-year period from enactment the $1,000 per capital income restriction [Taiwan already exceeded that limit in 1978] applicable in its determinations by whether to provide reinsurance, loans, or guaranties for a project.

The provisions of sections 6 through 9 (22 U.S.C. 3305-3308), and 11 and 12 (22 U.S.C. 3310, 3311) are directly concerned with the American Institute in Taiwan, or a comparable successor non-governmental entity to be designated by the President. Sec. 6(b) (22 U.S.C. 3305(b)) provides:

(b) Whenever the President or any agency of the United States Government is authorized or required by or pursuant to the laws of the United States to enter into, perform, enforce, or have in force an agreement or transaction relative to Taiwan, such agreement or transaction shall be entered into, performed, and enforced, in the manner and to the extent directed by the President, by or through the Institute.

Section 6(c) (22 U.S.C. 3305(c)) declares that the Taiwan Relations Act preempts any law, rule, regulation, or ordinance of the District of Columbia, or of any State or subdivision thereof, which impedes or otherwise interferes with the Institute’s performance of its functions.

Section 7(a) (22 U.S.C. 3306(a)) authorizes Institute employees on Taiwan to perform the services with customarily were performed by American consular officers for U.S. citizens on Taiwan.
Section 7(b) (22 U.S.C. 3306(b)) declares that such acts shall be valid, and of like force and effect within the United States, as if performed by any other person authorized under the laws of the United States to perform such acts.


Section 12 (22 U.S.C. 3311) sets out reporting requirements to Congress, both as to agreements and transactions to which the Institute is a party and as to economic relations between the United States and Taiwan. It provides:

(a) The Secretary of State shall transmit to the Congress the text of any agreement to which the institute is a party. However, any such agreement the immediate public disclosure of which would, in the opinion of the President, be prejudicial to the national security of the United States shall not be so transmitted to the Congress but shall be transmitted to the Committee on Foreign Relations of the Senate and the Committee on Foreign Affairs of the House of Representatives under an appropriate injunction of secrecy to be removed only upon due notice from the President.49

Sections 13 and 14 (22 U.S.C. 3312, 3313) also relate to congressional oversight of the operation of both the Taiwan Relations Act and the American Institute in Taiwan.

Section 10 ("Taiwan Instrumentality," 22 U.S.C. 3309) provides in paragraph (a) that U.S. Government dealings with Taiwan shall be conducted through an instrumentality established by Taiwan "which the President determines has the necessary authority under the law applied by the people on Taiwan to provide assurances and take other actions on behalf of Taiwan in accordance with this Act." Section 10(b) (22 U.S.C. 3309(b)) requests the President to extend to the Taiwan "instrumentality" the same number of offices and

49. This, in fact, applies the Case Act, August 22, 1972, Public Law 92-403, United States Statutes At Large, Vol. 86, p. 619, to the agreements with Taiwan. The Act requires the President to transmit to Congress all international agreements other than treaties within 60 days after their conclusion. If the President deems public disclosure of the agreement prejudicial to national security, he shall transmit it instead to the foreign affairs committees of both Houses of Congress under an injunction of secrecy, to be removed only upon due notice from the President.
personnel complement that "the governing authorities on Taiwan recognized as the Republic of China prior to January 1, 1979" previously operated in the United States. Section 10(c) (22 U.S.C. 3309 (c)) authorizes the President to extend to the Taiwan "instrumentality," and its appropriate personnel, such privileges and immunities as may be necessary for effective performance of their functions, subject to the granting by Taiwan of comparable privileges and immunities to the Institute and its appropriate personnel.

Section 15 (22 U.S.C. 3314) defines, for purposes of the Taiwan Relations Act, "laws of the United States" and "Taiwan." The latter term includes, as the context may require, the islands of Taiwan and the Pescadores, the people on those islands, corporations and other entities and associations created or organized under the laws applied on those islands, and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, and any successor governing authorities (including political subdivisions, agencies, and instrumentalities thereof).

The TRA does not deal with the legal issue of the international legal status of Taiwan, because the Senate Foreign Relations Committee considered addressing that issue was "unnecessary." 50

Under the TRA, the United States nominally accepted the PRC's three conditions for establishing diplomatic relations—severance of diplomatic relations with Taiwan, abrogation of the mutual defense treaty and withdrawal of troops from Taiwan, but in fact the first two conditions were replaced effectively by the TRA. Needless to say, the PRC was not satisfied with such an arrangement, as will be discussed in the next section.

The December 15, 1978 Carter announcement on de-recognition of the ROC on January 1, 1979, was a shock to the people and government of the ROC. Though they expected the United States to take such an action in the indefinite future, they were surprised that no security guarantee was arranged for Taiwan. The financial markets were for some time at a standstill and some confusion existed until the adoption of the TRA. After the enactment of the TRA, everything gradually began to return to normal.

The implementation of the TRA in 1979-80 under the Carter Administration was not without difficulty for the ROC on Taiwan. Basically, the Administration was hostile to Taiwan, implementing the TRA to the minimum extent possible, over-sensitive to any possible adverse reaction from the PRC. For instance, Section 10(b) of the TRA provides that the “President is requested to extend to the instrumentality established by Taiwan [CCNAA] the same number of offices and complement of personnel as were previously operated in the United States by the governing authorities on Taiwan recognized as the Republic of China prior to January 1, 1979,” but the Carter Administration insisted that the ROC close its consulates in Guam, Kansas City, Portland, Boston and Calexico (in California, bordering Mexico). The Administration also interfered in other ways; for example, it made it difficult for CCNAA representatives to obtain decent license plates for their cars.\footnote{For a study of the first year experience, see generally Taiwan: One Year After United States-China Normalization, A Workshop Sponsored by the Committee on Foreign Relations United States Senate and Congressional Research Service, Library of Congress, Washington, D.C.: U.S. Government Printing Office, 1980.}

V. THE CHINESE COMMUNIST PARTY’S RESPONSE, ITS PEACE OVERTURE TO TAIWAN AND THE 1982 DE FACTO AMENDMENT TO THE TAIWAN RELATIONS ACT

A. The Chinese Communist Party’s Response to the Taiwan Relations Act

Officials of the PRC Embassy in Washington, D.C. closely watched the hearings and debates on the TRA when the bill moved through Congress, yet it only made a perfunctory protest against the bill on March 16, 1979, shortly before the bill’s adoption on March 29, 1979. At that time, HUANG Hua, then PRC Foreign Minister, told U.S. Ambassador to the PRC, Leonard Woodcock, that “if the bills [sic] are passed as they are worded now, and are signed into law, great harm will be done to the new relationship that has just been established between China and the United States.”\footnote{“Huang Hua Reiterates China’s View,” Beijing Review, Vol. 22, No. 13 (March 30, 1979), p. 8.} However, between the period when the bill was passed on March 29 and signed by President Carter on April 10, 1979, the PRC did not protest. On April 19, 1979, Vice-Premier DENG
Xiaoping told a visiting Senate Foreign Relations Committee delegation that:

The political foundation of Sino [PRC]-American normalization is only one China, now this foundation has been disturbed; China is not satisfied with the “Taiwan Relations Act” adopted by the Congress and the most essential problem of this bill [sic] is it in practice does not recognize one China. President Carter indicated that when he executes this bill [sic], he will comply with the agreement on establishing diplomatic relations between China and the United States, we are watching the future behavior of the United States.53

On April 28, 1979 the PRC secretly protested to the United States by saying:

The Chinese government’s position of opposing “Two Chinas” or “One China” is firm and steadfast. if the United States side does not comply with the agreement reached on the Taiwan question at the time of establishing diplomatic relations and continues to harbor attempts to interfere in the internal affairs of China, this can only bring damage to Sino-American relations and will not benefit either.

This protest was kept secret from the press until the spring of 1982 when it was partially disclosed in a PRC publication, entitled Journal of International Studies, published under the auspices of the PRC Foreign Ministry.54

A little more than two months later, on July 6, 1979, the U.S. Embassy in Beijing replied to the Chinese protest of April 29, 1979. The U.S. note stated:

The United States shall comply with various understandings reached with the People’s Republic of China on establishing diplomatic relations . . .

The Taiwan Relations Act finally adopted by the Congress does not comply with the wishes of the U.S. government in every detail; however, it provides full discre-


tionary authority to the President in dealing with [difficult] situations and enables the President to implement this Act in a manner fully consistent with the normalization formula. It is on that basis that the President signed this bill and made it law. The United States Government has ensured that the language used in this Act will not impair the understanding reached with your government or compel our government to take action deviating from such understanding.\textsuperscript{55}

This note was kept secret until 1988 when the PRC published it in an internally-circulated book.\textsuperscript{56}

Apparently assured by the above secret U.S. note, the PRC did not make the TRA a public issue during the Carter Administration, exception in two instances. In January, 1980, when the New China News Agency reported a U.S. announcement on the resumption of arms sales to Taiwan,\textsuperscript{57} its only comments was, "[i]t is recalled that the Chinese government had stated its opposition to the position of the U.S. government to continue to sell weapons to Taiwan."\textsuperscript{58} In October 1980, when the AIT and CCNAA concluded an agreement granting each other privileges and immunities,\textsuperscript{59} the PRC protested.\textsuperscript{60}

Chinese Communist writers, however, consider the TRA a violation of international law.\textsuperscript{61} Some argued that because the U.S.

\textsuperscript{55} Translated from Diplomacy of Contemporary China, supra note 13, p. 235.
\textsuperscript{56} Ibid. The United States has not yet released the text of this note. It is not even mentioned in Digest of United States Practice in International Law 1979, supra note 48.
\textsuperscript{57} At the time of normalization, the Carter Administration agreed not to sell any arms to Taiwan, 1979. "U.S. Agreed to Ban Arms to Taiwan," Facts on File, Vol. 39, No. 1993 (January 19,1979), p. 27.
\textsuperscript{58} Feldman, "Political and Diplomatic Relations," supra note 42, p. 22.
\textsuperscript{61} E.g., see the following comments made by two PRC international lawyers. Professor LIU Fengming wrote:

The municipal law of a state should not violate the international obligations assumed by itself. The "Taiwan Relations Act" (April 10, 1979) passed by the U.S. Congress and signed by the President of the United States provides "[in Section 4(b) (1)]: Whenever the laws of the United States refer or relate to foreign countries, nations, states, governments, or similar entities, such terms shall include and such laws shall apply with respect to Taiwan." This in fact attempts to view Taiwan as a "state" and the Taiwan authorities as a "govern-
recognized the PRC's sovereignty over Taiwan, the TRA was a blatant interference in the PRC’s "internal affairs." As a matter of fact, this is not true. At the time of normalization in the U.S.-PRC joint communique, the English text states that the U.S. "acknowledges the Chinese position that there is but one China and Taiwan is part of China." In the Chinese text, the PRC purposely mistranslated the word "acknowledges" into Cheng-jién (Chéngjièn in Pinyin), which, if retranslated into English, means "recognizes." When the Senate Foreign Relations Committee held its hearing on the Taiwan bill in February, 1979, Deputy Secretary of State Warren Christopher assured the Committee that the United States adhered only to the English translation of the joint communique on normalization.

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63. See supra note 1.


B. Reopening of the Arms Sales Issue Under the Reagan Administration and the Chinese Communist Peace Overture to Taiwan

Before normalization, the United States made it clear to the PRC that it would sell arms to Taiwan after normalization.\(^{66}\) Therefore, it was on the condition of continuing U.S. arms sales to Taiwan after normalization that diplomatic relations were established and ambassadors were exchanged. The PRC was fully aware of this at that time.

According to President Carter’s diary of January 31, 1979, Vice-Premier DENG Xiaoping only told him “to be prudent in the sale of any weapon to Taiwan after this year [1979], and he let it be known that they were not in favor of any such sale.”\(^{67}\) Later, when President Carter announced in early 1980 that the United States would sell $280 million arms to Taiwan, the PRC did not protest. In 1980, the Carter Administration sold a total of $830 million in arms to Taiwan without causing any diplomatic crisis with the PRC. By the time Reagan assumed office, the PRC might have felt that relations with the United States were sufficiently strong as to weather a diplomatic crisis on the issue of U.S. arms sales to Taiwan, and it decided to test the will of U.S. commitment to Taiwan by reopening the Taiwan arms sales issue. Despite Reagan’s pro-ROC stance before he assumed the presidency, his first Secretary of State, Alexander M. Haig, Jr. and others in his administration were convinced of the importance of “strategic relationship” with the PRC vis-a-vis the Soviet Union in Asia. Therefore, they were susceptible to PRC pressure. Moreover, the PRC also took a giant step in adjusting its policy toward Taiwan after normalization, which helped to redirect U.S. dealings with Taiwan arms sales in the PRC’s favor.

The main U.S. reason for continuing arms sales to Taiwan was the refusal of the PRC to commit itself to peaceful resolution of the Taiwan issue. The PRC realized that unless it made certain concessions on this issue, it was not possible to undercut U.S. arms sales to Taiwan. Thus on September 30, 1981, Marshal YEH Chien-ying made a specific nine-point proposal to Taiwan with more concrete terms for unification. The essential parts of it are as follows:

(2) . . . We propose that the two sides make arrangements to facilitate the exchange of mail, trade, air and shipping

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services and visits by relatives and tourists as well as academic, cultural and sports exchanges and reach an agreement thereupon.
(3) After the country is reunified, Taiwan can enjoy a high degree of autonomy as a special administrative region and it can retain its armed forces. The Central Government will not interfere with local affairs on Taiwan.
(4) Taiwan's current socio-economic system will remain unchanged, so will its way of life and its economic and cultural relations with foreign countries. There will be no encroachment on the proprietary rights and lawful right of inheritance over private property, houses, land and enterprises, or on foreign investments.
(5) People in authority and representative personages of various circles in Taiwan may take up posts of leadership in national political bodies and participate in running the state.
(6) When Taiwan's local finance is in difficulty, the Central government may subsidize it as is fit for the circumstances.68

The proposal was immediately rejected by the ROC because it was preconditioned on the latter's giving up its sovereignty, in favor of the PRC. Without such sovereignty, the PRC could change terms on unification after incorporating Taiwan into its territory.69 However, on the surface, the PRC's proposal seemed very reasonable and was generally received favorably by U.S. public opinion.70 The PRC did not relinquish its rights to use force against Taiwan on the unification issue, but it appeared superficially that it did not intend to change the social and economic systems of Taiwan, which were the main concern of the TRA.

After the Cancun Conference of October 1981, PRC Foreign Minister HUANG Hua visited Washington to discuss the Taiwan arms sales issue with U.S. officials. The Chinese side pointed out

that, after the nine-point proposal on unification, there was no reason or necessity for a foreign country to sell arms to Taiwan. Such sales could only increase the difficulties of the PRC government for seeking a peaceful resolution to the Taiwan question. The PRC also demanded that U.S. arms sales to Taiwan not exceed the quality and quantity of those made during the Carter Administration. Moreover, it insisted that the United States should reduce gradually its arms sales to Taiwan and ultimately terminate them within a specified period.71

Under strong PRC pressure, the United States relented and, on August 17, 1982, signed a joint communique with the PRC to restrict its arms sales to Taiwan.72

C. The De Facto Amendment to the TRA's Provision on Arms Sales to Taiwan

In the August joint communique with the PRC, the United States reiterated that it had no intention of infringing on Chinese sovereignty and territorial integrity or interfering in China's internal affairs, or pursuing a policy of "two China" or "one China, one Taiwan." It also understood and appreciated the Chinese policy of striving for a peaceful resolution of the Taiwan question as indicated in China's message to compatriots in Taiwan issued on January 1, 1979 and the Nine-point proposal put forward by China on September 30, 1981. Such a "new situation . . . provides favorable conditions for a settlement of United States-China differences over the question of United States arms sales to Taiwan." The United States then stated

that it does not seek to carry out a long-term policy of arms sales to Taiwan, that its arms sales to Taiwan will not exceed, either in qualitative or in quantitative terms, the level of those supplied in recent years since the establishment of diplomatic relations between the United States and China, and that it intends to reduce gradually its sales of arms to Taiwan, leading over a period of time to a final solution.

This limitation in the quality and quantity of U.S. arms sales to Taiwan and the commitment to reduce sales constituted a de facto amendment to the TRA, which clearly stated in Section 3(a) that

71. Diplomacy of Contemporary China, supra note 13, p. 236.
the U.S. "will make available to Taiwan such defense articles and
defense services in such quality as may be necessary to enable Tai-
wan to maintain a sufficient self-defense capacity."73 The Reagan
administration, however, considered that the communiqué was
"fully consistent with the Taiwan Relations Act."74 The Adminis-
tration also emphasized that its promise to gradually reduce arms
sales to Taiwan was premised on a continuation of the PRC's peace-
ful policy toward resolution of its difference with Taiwan.75 In this
connection, it is essential to quote the following statement made by
Assistant Secretary of State John Holdridge at both the Senate and
House Committee on Foreign Affairs on August 18, 1982:

- First, the document must be read as a whole, since
  the policies it sets forth are interrelated.

- Second, as I have previously noted, the communiqué
  contains a strong Chinese statement that its fundamental
  policy is to seek to resolve the Taiwan question by peaceful
  means (Para. 4). In this context, I would point out again
  that the reference to their "fundamental" policy carries
  the connotation in Chinese of "unchanging and long-
term."

- Third, the U.S. statements concerning future arms
  sales to Taiwan (Para. 6) are based on China's statements
  as to its fundamental peaceful policy for seeking a resolution
  to the Taiwan question and on the "new situation" created
  by those statements (Para. 5). This situation is new be-
  cause, for the first time, China has described its peaceful
  policy toward Taiwan in the terms I have outlined. Thus,
  our future actions concerning arms sales to Taiwan are
  premised on a continuation of China's peaceful policy to-
  ward a resolution of its differences with Taiwan. This is
  indicted by the words at the beginning of Para. 5 that
  "Having in mind the foregoing statements by both sides,

73. Cf. Views of Senators John Glenn and Jesse Helms at the Senate Foreign Rela-
tions Committee's hearing, U.S. Policy toward China and Taiwan, Hearings before Sen-
ate Foreign Relations Committee, 97th Congress, 2nd Session, August 17, 1982,

74. See "Statement on United States Arms Sales to Taiwan," August 17, 1982, Pub-
lic Papers of the President of the United States, Ronald Reagan, 1982, Vol. II, Wash-

75. Statement of Assistant Secretary of State for East Asian and Pacific Affairs
John Holdridge, at the August 17, 1982 Senate Foreign Relations Committee's hearing,
U.S. Policy Toward China and Taiwan, supra note 73, p. 13.
the United States Government states. . .” We have no reason to think that the Chinese will change this fundamental policy, but if they should we would, of course, reexamine our position.

Fourth, we did not agree to set a date certain for ending arms sales to Taiwan and the statements of future U.S. arms sales policy embodied in the Communique do not provide either a time frame for reductions of U.S. arms sales or for their termination. The U.S. statements are fully consistent with the Taiwan Relations Act, and we will continue to make appropriate arms sales to Taiwan based on our assessments of their defense needs, as specified by the Act.76

According to the ROC, on July 14, 1982, before the issuance of the Communique, the United States made known to the ROC that it:

1. Has not agreed to set a date for ending arms sales to the Republic of China,
2. Has not agreed to hold prior consultations with the Chinese Communists on arms sales to the Republic of China,
3. Will not play any mediation role between Taipei and Beijing,
4. Has not agreed to revise the Taiwan Relations Act,
5. Has not altered its position regarding sovereignty over Taiwan,
6. Will not exert pressure on the Republic of China to enter into negotiations with the Chinese Communists.77

While the United States did not deny such unilateral assurances, it did not make an official release of the alleged assurances.78


78. These six points were not published by the U.S. side, but at the U.S. Senate Committee on Foreign Relations hearings on August 17, 1982, Assistant Secretary of State Holdridge acknowledged the existence of these points and the conveyance of
VI. MILITARY TECHNOLOGY TRANSFER AS A PARTIAL ALTERNATIVE TO ARMS SALES

The 1982 U.S.-PRC Taiwan Arms Sales Communique was very damaging to U.S.-ROC relations. As pointed out by Democratic Senator John Glenn: "[A]greeing to limit [the quality and quantity], gradually reduce and ultimately end arms sales put us [U.S.] in an impossible position. Soon the Chinese will return with more demands and insist that we finally resolve the issue. We will be in the unfortunate position of having limited our argument to when, not if, a cut off should occur." 79 A PRC source claimed that when then Vice-President George Bush visited China in April 1982, he expressed the views that the U.S. disagreement on setting a date for termination of arms sales to Taiwan did not mean that it would sell arms to Taiwan indefinitely. 80

Moreover, the Communique's reference to the PRC's "Nine-point proposal" on peaceful unification of Taiwan with the mainland, at least raises the spectre that the United States tacitly endorsed the proposal, which was conditioned on the elimination of the international personality of the ROC.

The Communique severely undercut the U.S. political and security commitment to the people of Taiwan under the TRA and these points to Taiwan authorities. The following excerpts are reproduced from Senate hearings:

The Chairman [Senator Percy]. I would like to go back over the six points that you mentioned today just for necessary emphasis I think for all of us.

First, these are assurances to Taiwan that the administration has not agreed to a cutoff date for arms sales to Taiwan. Second, the administration has not agreed to amend the Taiwan Relations Act. Third, the administration will not pressure Taiwan into accepting the PRC reunification proposal. Fourth, the administration will not play a mediating role between the PRC and Taiwan. Fifth, the administration will not consult the PRC about future arms sales. Sixth, the administration has not recognized PRC sovereignty over Taiwan.

Were these items specifically furnished to Taiwan in advance, and were they discussed with them?

Ambassador Holdridge. Let me say, Mr. Chairman, over a month ago the people on Taiwan became aware through appropriate channels that these points which you have outlined. . . .

79. U.S. Policy toward China and Taiwan, supra note 73, p. 4.
80. Diplomacy of Contemporary China, supra note 13, pp. 237-238.
made the people of Taiwan feel uncertain about their future. This was because the numerical inferiority faced by the ROC’s armed forces in every category of military strength makes it essential for the ROC to maintain a military balance in the Taiwan Strait. With the U.S. commitment in the Communiqué to restrict the quality of arms sales to Taiwan, one can expect that the military balance in the Taiwan Strait would shift gradually to the PRC as Taiwan’s weaponry ages and the PRC gains access to advanced U.S. and European weaponry.

The concern over Taiwan’s future security by Chinese people there had an unfavorable impact on Taiwan’s economy as reflected in the domestic investment rate. From 1971 to 1985, the national savings rate of gross domestic products increased from twenty-eight percent (28%) to thirty-one point six percent (31.6%). On the other hand, the domestic investment rate of gross domestic products decreased from twenty-six point thirty-nine percent (26.39%) to seventeen point nine percent (17.9%). The rate of domestic investment began to decrease significantly after 1982—the year the United States signed the Joint Communiqué. In 1982, the domestic investment rate decreased to twenty-five point seventeen percent (25.17%) and in the first quarter of 1986 further decreased to sixteen percent (16%).

Moreover, between 1982 and the summer of 1986, the Reagan Administration took several steps that further undercut the confidence of the people of Taiwan in the U.S. political and security commitment to them. On October 11, 1984, Chinese Communist leader Deng Xiaoping said that the PRC could institute a military blockade against Taiwan. On May 10, 1985, the General Secretary of the Chinese Communist Party, Hu Yaobang specifically pointed out that the PRC would use force against Taiwan in eight or ten years. Despite the fact that a high official of the State Department stated, at the Hearing on Taiwan Arms Sales Communiqué of the Senate Foreign Relations Committee on August 17, 1982, that if the PRC changed its peaceful policy to Taiwan, the United States would reexamine its position of limiting the quantity and

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quality of arms sales to Taiwan. The United States, however, did not make a public challenge to the Chinese leaders' remarks on the use of force against Taiwan.

In May 1986, the Reagan Administration decided to sell $550 million in radar and electronic weapons systems to the PRC for its high altitude fighter interceptor, the F-8, to provide 50 of them with an all-weather, day-night capability. The Administration asserted that these fighters would be used to strengthen the PRC's defense capability vis-a-vis the Soviet Union. The effect of 50 jet fighters with all-weather and day-night capability in the PRC's defense against the Soviet Union is almost nil, as the latter has thousands of jet fighters of similar and higher quality. On the other hand, 50 such jet fighters would pose a serious security threat to Taiwan, which does not possess jet fighters of similar quality. This sale has cast further doubt in the minds of the people of Taiwan of the U.S. political and security commitment to Taiwan under the TRA.

In view of the severe concern of the ROC over its future security, the United States finally agreed to provide the assistance of U.S. private industry to develop an indigenous all-weather fighter. In other words, both the ROC and the United States agreed to use military technology transfer as a partial substitute for arms sales restricted by the U.S.-PRC Joint Communique.

In an interview with Selig S. Harrison of the Carnegie Endowment for International Peace on April 23, 1986, HU Yaobang, then General Secretary of the Chinese Communist Party, spoke strongly against technology transfer to Taiwan and opined that arms sales and the transfer of technology for arms manufacture were the same thing. In an article in the authorities Liao-wang Chou-k'ian (Liaowang Zhoukan in Pinyin, The Outlook Weekly) magazine, it was alleged that private U.S. involvement in producing jet-fighters in Taiwan "seriously violated the principle of the August 17 commu-

85. See Statement of Assistant Secretary of State for East Asian and Pacific Affairs Holdridge made on August 17, 1982 at the hearings on U.S. Policy toward China and Taiwan, supra note 73, p. 13.
86. See "Editorial: Arms for China, Arms for Taiwan," Wall Street Journal, April 28, 1986, p. 24, where it questions why the U.S. is selling fighter technology to China when it won't sell new aircraft to Taiwan. Some conservatives fear that the sale of $500 million of advanced avionics to upgrade PRC's interceptor aircraft will tip the balance of power with Taiwan in China's favor. See Wall Street Journal, May 5, 1986, p. 32.
nique.” During a visit to the United States in June 1986, PRC Vice-Foreign Minister ZHU Qishen sought clarification of the U.S. position on technology transfer. It was reported that the PRC did send an inquiry to the United States, asking whether military technology transfer violated the spirit of the August 17, 1982 Communiqué.

On August 15, 1986, the U.S. reply stated that the Communiqué stood on its own, and that there was no need to interpret or renegotiate it. A U.S. official reportedly stated: “The text is very clear. It talks of arms sales and not technology.” Because of the firm position taken by the United States, the PRC did not press this issue to make it a major diplomatic crisis. With the resolution of this basic security issue and the generally favorable response from indirect contacts with the mainland (as explained below), the ROC moved forward a more positive response to the PRC’s peace overture of “three links” (mail, air and shipping services, and trade) and “four exchanges” (relatives and tourists, academic groups, cultural groups and sports representatives) with Taiwan, launched in 1979 and reiterated in the PRC’s 1981 “Nine-point Proposal” for unification.

The PRC’s overture for “three links” and “four exchanges” has great appeal to many people in Taiwan. Those who have family ties with people on the mainland would naturally like to visit their relatives. For others, who only learned about China from books, there is a natural curiosity and nationalistic feeling to visit the Chinese mainland. Taiwan businessmen are attracted by the opportunity of opening a vast new market on the mainland. Under such circumstances, the ROC government was in a dilemma. If it categorically rejected the overture, this definitely would have caused popular discontent in Taiwan. If it responded positively to this overture, it may have been viewed as impliedly acceding to the PRC’s sovereign claim to Taiwan. There was also the security concern that extensive contacts with the mainland might facilitate the Communists’ infil-

92. See supra note 68.
tration of Taiwan and undercut the people's anti-communist will vigilance. This concern was especially important, from the ROC's point of view, because the Chinese Communists have refused to renounce the use of force against Taiwan and the August 17, 1982 U.S.-PRC Joint Communiqué limited the quality and quantity of arm sales to Taiwan. In view of this dilemma, the ROC has taken an indirect and limited, yet positive-response to the PRC's overture for "three links" and "four exchanges."

In the early 1980s, the ROC quietly allowed indirect trade between Taiwan and the mainland to develop and finally legitimized such trade in 1985. It also permitted scientists and others from Taiwan to sit down with their PRC counterparts at international meetings. The ROC allowed indirect mail exchanges and did not prosecute ordinary people who quietly visited their relatives on the mainland. On March 23, 1981, the ROC agreed to have the Republic of China's Olympic Committee rename the Chinese Taipei Olympic Committee, thus making it possible for athletes from both the mainland and Taiwan to compete in international sports activities.

After the U.S. commitment to transfer military technology to Taiwan in 1986, the ROC government, on July 16, 1987, formally lifted the ban on direct tourist visits to Hong Kong to facilitate people from Taiwan in meeting their relatives from the mainland. On October 15, 1987, the Central Standing Committee of the ruling Nationalist Party approved a new policy to allow people living in Taiwan to visit their relatives on the Chinese mainland. On November 2, 1987, the Red Cross Society of the Republic of China began to handle the applications for mainland visits and to provide assistance to people who want to locate their relatives on the mainland. Soon after, mail exchanges through Hong Kong were permitted. On June 10, 1989, direct mail exchanges with the mainland began. In 1988, the ROC began to allow a limited number of mainland Chi-

inese to visit their sick relatives in Taiwan or to attend their funeral services.\textsuperscript{97}

Trade between the mainland and Taiwan has flourished since the early 1980s. The total volume of trade between 1979 and 1986 was about 4 billion U.S. dollars. In 1987 alone it was $1.6 billion and in 1988 it jumped to $2.4 billion.\textsuperscript{98} In April 1989, the ROC began to allow its reporters to visit the mainland and considered allowing mainland reporters to visit Taiwan.\textsuperscript{99}

The PRC also has actively solicited people from Taiwan to invest in the mainland by offering generous terms and thus attracting many Taiwan investors, especially in the Fujian Province opposite Taiwan.\textsuperscript{100}

These interchanges across the Taiwan Strait have greatly reduced the tension and the concern of the Chinese people in Taiwan over the future security of their country. This change is also reflected in the domestic economy. In 1986, some banks refused to accept large deposits because of the difficulty in finding enough companies or individuals to apply for loans. Further, the stock and housing markets became stagnant. These situations gradually have improved since 1987. Although in 1988-89, Taiwan's domestic investment incentive has again run into trouble, most observers consider that it has nothing to do with the security problem and is primarily due to labor and environmental movements, crime and psychological factors tied into a "get rich quick" mentality generated by Taiwan's wild stock market.

With respect to the TRA, since the issuance of the August 17, 1982 U.S.-PRC Communique, U.S. arms sales to Taiwan have de-

\textsuperscript{97} In 1988 there were 389 Chinese from the mainland who went to Taiwan to visit their sick relatives or attend funerals. See "Press Conference of Ding Guangen, Director of the Taiwan Affairs Office of the State Council," Taisheng (Voice of Taiwan), 1989, No. 3, p. 6.

\textsuperscript{98} Ibid.

\textsuperscript{99} After the Tiananmen Square Massacre of June 4, 1989, the ROC decided to postpone its decision to allow PRC reporters to visit Taiwan. After the massacre, it was clear to the ROC government that mainland reporters were under the total control of the PRC government and could not report Taiwan's situation in a reasonably objective way. Chung yan jih-pao (Central Daily News), international ed., August 7, 1989, p. 1. However, the ban on PRC reporters to visit Taiwan was removed in the summer of 1990.

China, Taiwan, and the United States

dined progressively by about U.S. $20 million a year since 1982, when the total amount was $780 million, to U.S. $720 million for fiscal year 1987. The United States also refused to sell high performance jet fighters, such as the F-16 or the F-20, to Taiwan. With improved interchanges between Taiwan and the mainland, although the PRC still routinely protests arms sales, it does not make them a major issue in U.S.-PRC relations. It appears that the PRC has come to realize that the TRA, despite its alleged interference in China's internal affairs, also plays a positive role by making increasing contacts with Taiwan possible.

The maintenance through the TRA of substantive relations, including a de facto alliance, between the United States and the ROC, which without formal diplomatic relations, is unprecedented in international law. At the beginning of the implementation of the TRA, the Carter Administration insisted that the "AIT would have to act on behalf of the U.S. in reality as well as in theory" but this soon proved to be impractical, as the "AIT simply is not large enough to substitute for the myriad agencies of the U.S. government, nor can it be expected to acquire expertise on the entire range of governmental concerns from atomic energy to agriculture price support." Therefore, it turned out that necessary action would still need to be taken by relevant U.S. government agencies and communicated by the AIT to the CCNAA.

During the Reagan Administration, direct contacts between the CCNAA or ROC officials became frequent, though they did not include certain official function that were limited to officials of countries with which the United States had formal diplomatic relations. Working level CCNAA officials were and remain free to call on their U.S. counterparts so that official business between the ROC and the United States can be accomplished efficiently. The only exceptions to this practice are contacts between CCNAA and the Department of State and the Executive Office of the President. However, members of the ROC Legislative Yuan or National Assembly are allowed to call on State Department officials.

Since the U.S. Constitution recognizes the separation of powers, there is no restriction for the Congress and the Judiciary on contact with ROC or CCNAA officials. As a result, the ROC and the United States actually maintain very close relations that are, for all intents and purposes, "diplomatic" except in name.

102. Id., p. 30.
As for the security commitment in the TRA, since the introduction of military technology transfers to bypass the August 17, 1982 Communiqué's restriction on arms sales to Taiwan, it is no longer a major issue between the ROC and the United States. The improved and increased contacts between Taiwan and the mainland also caused the PRC to avoid any public attack on the TRA or any renewal of its armed threat to Taiwan in recent years. Therefore, under this framework of the TRA, U.S. relations with the ROC and the PRC seem to work reasonably well.\textsuperscript{103}

Be that as it may, the rise of the Taiwan Independence movement in Taiwan has cast serious doubt on the future of U.S. relations with Taiwan and the PRC within the framework of the TRA. Before the December 2, 1989 election of the Legislative Yuan, the PRC issued several stern warnings through its officially-controlled media against this movement.\textsuperscript{104} However, 8 of the 101 legislators elected are well known for their advocacy of independence.\textsuperscript{105} If this movement continues to spread in Taiwan, the PRC would renew its military threat against Taiwan, as explained in the next section.

Despite the issuance of the U.S.-PRC-Taiwan arms sales joint communiqué of August 17, 1982,\textsuperscript{106} Taiwan and the PRC have moved rapidly toward closer relations in cultural, social, trade and investment areas.

\section*{VII. MOVING TOWARD CLOSER TAIWAN-MAINLAND RELATIONS}

\subsection*{A. The Guidelines for National Unification}

On January 13, 1988, President CHIANG Ching-kuo passed away, and Vice President LEE Teng-hui succeeded to the presidency and also succeeded to the chairmanship of the ruling Chinese Nationalist Party (Kuomintang, KMT), left vacant by Chiang's

\begin{flushright}
\textsuperscript{103} The deterioration of U.S.-PRC relations is due to the June 4, 1989 Tiananmen Square massacre by the Chinese Communist forces and has little to do with Taiwan.


\textsuperscript{106} See supra note 72 and following pages.
\end{flushright}
death. On July 12, 1988, the KMT's Thirteenth National Congress adopted a new policy toward the mainland, significantly modifying the late President Chiang's "three nos" policy. This new policy basically differentiated between government contacts and unofficial contacts with the mainland. The "three nos" policy would in principle continue to apply only to governmental contacts, while unofficial contacts in a broad sense between individuals or civic organizations and the mainland would be expanded gradually.\textsuperscript{107}

On May 20, 1990, in his inaugural address entitled, "Opening a New Era for the Chinese People,"\textsuperscript{108} President LEE Teng-hui avoided negative anti-Communist rhetoric and took a more positive approach to mainland-Taiwan relations. After reaffirming the position that "Taiwan and the mainland are indivisible parts of China's territory and all Chinese should work together to seek peaceful and democratic means to achieve our common goal of national reunification," he stated:

I would like at this point to earnestly declare that, if the Chinese communist authorities can recognize the overall world trend and the common hope of all Chinese, implement political democracy and a free economic system, renounce the use of military force in the Taiwan Straits and do not interfere with our development of foreign relations on the basis of a one-China policy, we would be willing, on a basis of equality, to establish channels of communication, and completely open up academic, cultural, economic, trade, scientific, and technological exchange, to lay a foundation of mutual respect, peace, and prosperity. We hope then, when objective conditions are ripe, we will be able to discuss our national reunification, based on the common will of the Chinese people on both sides of the Taiwan Straits.\textsuperscript{109}

Two days later, at a press conference, President Lee stated that "it is not necessary that all the three conditions I put forward are

\textsuperscript{107} Chung-kuo kuo-min-tang hsien-chieh-tuan ta-lu cheng-ts'e (The KMT's policy toward the mainland at the present stage) (Taipei: Department of Cultural Affairs of the KMT Central Committee, 1988).


met before we can improve relations with mainland China.” Rather, he said, “issues can be dealt with one by one.”\textsuperscript{110}

To implement his new initiatives toward mainland-Taiwan relations, President Lee set up a National Unification Council (NUC), representing a wide spectrum of Chinese interests at home and abroad, in October 1990.

On February 23, 1991, the NUC adopted the \textit{Guidelines for National Unification}, which were approved by President Lee on March 5, 1991. According to the \textit{Guidelines}, the unification process of China should go through three phases as stated below:\textsuperscript{111}

1. \textit{In the short term}—A phase of exchange and reciprocity. During this period, regulations governing exchanges across the Taiwan Straits should be enacted and an intermediary “unofficial” organization should be established to enter into contacts with its counterpart on the mainland. The two sides should end the state of hostilities and, under the principle of “one China,” solve all disputes by peaceful means. Moreover, both sides should respect, not reject, each other in the international community, so as to move toward a phase of mutual trust and cooperation.

2. \textit{In the medium term}—A phase of mutual trust and cooperation. During this period, both sides should establish official communication channels on equal footing. Direct postal, transport and commercial links should be allowed, and both sides should jointly develop the southeastern coastal area of the Chinese mainland and then gradually expand to other areas. Both sides should work together and assist each other in taking part in international organizations and activities. Mutual visits by high-ranking officials on both sides should be promoted to create favorable conditions for consultation and unification.

3. \textit{In the long term}—A phase of consultation and unification. A consultative organization for unification should be established through which both sides, in accordance with the will of the people on both the mainland and Taiwan, and while upholding the principles of democracy, economic freedom, social justice and the nationalization of


armed forces, jointly discuss the grand task of unification and map out a constitutional system to establish a democratic, free and equitable prosperous China.

The Guidelines were adopted on March 14, 1991 by the Executive Yuan Council (Cabinet) as the guiding principles for dealing with mainland-Taiwan relations. Earlier, the Executive Yuan had established a Mainland Affairs Council to take charge of mainland-Taiwan relations. A “private” Straits Exchange Foundation (SEF) also was established on February 8, 1991 to make unofficial contacts and negotiations with the Chinese Communist authorities on the mainland. The Foundation is funded two-thirds by the government and one-third by private contributions. SUN Yun-hsuan, former premier and now a senior adviser to the President, was elected honorary chairman, and KOO Chen-fu, chairman of the National Association of Industry and Commerce at that time and a member of the KMT Central Standing Committee, was elected as the chairman.

The SEF is authorized specifically to undertake the following tasks:

1. Accepting, ratifying, and forwarding entry and exit documents from the two sides of the Straits
2. Verifying and delivering documents issued on the mainland
3. Deporting fugitives on the two sides of the Straits
4. Arbitrating trade disputes
5. Promoting cultural and academic exchanges
6. Providing consultation on general affairs
7. Helping protect the legal rights of ROC citizens during their visits to the mainland
8. Dealing with other affairs commissioned by the ROC government

On May 1, 1991, the ROC terminated its “Period of Mobilization for the Suppression of Communist Rebellion,” thus ending the state of hostility toward the Chinese Communist-controlled mainland. On July 31, 1992, the ROC enacted a law to govern relations between the people of the Taiwan area and the people of the mainland area, covering civil, penal and administrative matters. The new law applies conflict of laws rules in resolving civil matters.

With the relaxation of tension since the early 1980s, Taiwan and the mainland have moved rapidly toward closer relations in cultural, social, trade and investment areas.

These closer relations necessitate unofficial contacts between the two sides. For instance, between 1987 and 1989, it was estimated that 6,406 Chinese from the mainland, who attempted to or did enter Taiwan illegally, were intercepted. Through the Red Cross societies on both sides, the ROC negotiated a repatriation agreement with the PRC at Quemoy on September 12, 1990.

Between 1987 and 1992, it is estimated that there have been more than 4.2 million visits by the people of Taiwan to the mainland, and about 40,000 visits by mainland people to Taiwan. The reason for such a discrepancy in the number of visits is that Taiwan is the second most densely populated area in the world; it must strictly control visitors to prevent their possible illegal settlement in Taiwan during their visit.

During the same period, total indirect trade between Taiwan and the mainland was over US $20 billion, with Taiwan carrying a favorable balance of US $16 billion. However, this balance is misleading because it does not take into account the money spent by Taiwan people on their 4.2 million visits to the mainland, and the money remitted by Taiwan residents to help their relatives or friends on the mainland. In 1992, Taiwan exported US$6.28 billion worth of goods to the mainland, an increase of 34.73 percent over 1991, while its imports from the mainland were only worth US$1.1 billion, a decrease of 0.62 percent from 1991.

With respect to postal exchanges, 6.56 million pieces of mail were sent to the mainland from Taiwan in 1992, while 11.61 million pieces of mail were sent to Taiwan from the mainland. As for telecommunications, Taiwan people made 16.208 million calls (50.27

115. Liang-an ching-chi fen-hsi pao-kao (Report on Bi-coastal Economic Analysis), No. 7 (March 1993), p. 46. This is a journal edited and published by the ROC Mainland Affairs Council.


118. Ibid., pp. 8-9. According to a study by Professor LIN Chung-Ihsung, between 1984 and 1991 Taiwan people spent US $11.3 billion traveling to the mainland. In addition, between 1987 and 1990, it is estimated that Taiwan people remitted US $9 billion to their relatives or friends on the mainland.

million minutes) to the mainland in 1992, while mainland people made 10.53 million calls (34.92 million minutes) to Taiwan.\footnote{Id., No. 8 (April 1993), pp. 28, 30.}

Taiwan's investment on the mainland is difficult to estimate, but it is believed that total investment may be as high as US$10 billion, and growth is expected to continue.\footnote{121. According to an official ROC source, Taiwan investment on the mainland through November 1992 was about US $3.2 billion. \textit{Ibid.}, p. 3. According to a PRC source, total Taiwan investment on the mainland in 1992 alone was more than US $4 billion, exceeding the accumulated amount of all previous years before 1991. See WANG Jianmin, “Taiwan Economy: Moderate Growth in 1992 and Expected to Steadily Grow in 1993,” Liao-wang chou-k’an (The Outlook Weekly) (Beijing), February 8, 1993, No. 6, p. 22. An Agence France-Presse dispatch estimated Taiwan's investment on the mainland as US $3.8 billion, although some estimates put the figure at US $10 billion. “Beijing-Taipei Produces Four Facts,” \textit{International Herald Tribune}, April 29, 1993, p. 1.}

\section*{B. The Chinese Communist Party’s Response to the ROC’s Unification Guidelines}

On June 7, 1991, the Taiwan Affairs Office of the Central Committee of the Chinese Communist Party (CCP) issued a statement on mainland-Taiwan relations, which many believe is the official response to the ROC’s unification guidelines.\footnote{122. CPC [Communist Party of China] Office Issues Statement on Ties,” \textit{FBIS-CHI-91-110} (June 7, 1991), p. 70.} It made a stern warning regarding the Taiwan independence movement as follows:

While we advocate national reunification through peaceful means, we do not promise to renounce the use of force. This stand is absolutely not meant for Taiwan people, it is meant for foreign forces' interference in China's reunification, and for "Taiwan independence." Recently activities for "Taiwan independence" have been rampant on Taiwan, and they have caused serious concern among countrymen at home and abroad. Taiwan is an inalienable part of Chinese territory and national reunification is the national aspiration and the general trend and popular feeling. "Taiwan independence" goes against national interests and the historical trend, and it will never succeed. We are firmly opposed to any attempt or act aiming at creating "two Chinas," "one country, two governments," or "Taiwan independence." We will never sit by and watch Taiwan become "independent."
The CCP statement again called for establishing the three direct links and urged the KMT to send representatives to contact the CCP "so that conditions can be created for negotiations in connection with formally ending the two sides' hostility and achieving peaceful reunification step by step." It further states that "under the premise of upholding the principle that there is but one China, we can also discuss other issues which the Taiwan authorities are concerned about."

The CCP statement also raised an offer to send a CCP delegation to Taiwan to discuss the unification issue or welcome the KMT to send a delegation to the mainland to establish contacts.

The next day, ROC Government Spokesman Dr. Yu-ming SHAW rejected the CCP's offer for party-to-party contacts and stated that the CCP statement "lacks new meaning [and] does not contain any good intention." "Before the Chinese Communists renounce the use of military force to invade Taiwan and refrain from exerting diplomatic isolation against us, their offer to send a delegation to Taipei for a party-to-party talk would be absolutely unacceptable," he said.123

With respect to the question of establishing the three direct links, Shaw said that "they are listed as the second stage [phase] of cross-strait development under our [Guidelines for National Unification], and would only be made possible when the communists commit to stop threatening to use force against us and isolating us from [the] international community."124

The Chinese Communist regime, however, later decided to make a more positive response to the ROC's proposal of establishing an intermediate organization to facilitate mutual contact. On December 6, 1991, it decided to establish a nominally "unofficial" organ—the Association for Relations Across the Taiwan Straits (ARATS). RONG Yiren, vice chairman of the NPC Standing Committee and president of the China International Trust and Investment Corporation, was chosen as the honorary chairman of the Association and WANG Daohan, a former mayor of Shanghai, was elected chairman. TANG Shubei, former consul-general at San Francisco, was elected standing deputy chairman.

According to Tang, the Association mainly would strengthen nonofficial contacts and exchanges, team up with the relevant or-

124. Ibid.
gans in Taiwan to crack down on maritime smuggling and piracy, and settle disputes between the two sides. This is a counterpart organization to Taipei's Straits Exchange Foundation.\textsuperscript{125}

C. Negotiation between the SEF and the ARATS

In November 1991, members of the SEF were authorized by the Mainland Affairs Council of the ROC to go to the mainland to negotiate with authorities of the PRC on the issue of taking joint measures to crack down on maritime smuggling and piracy. However, negotiations soon became deadlocked over the PRC's insistence on inserting "the principle of one China" in the preamble of the proposed agreement. The ROC was reluctant to explicitly specify this principle in an agreement with the PRC. Since most countries in the world have recognized the PRC as the "sole legal government of China," including this principle in the proposed agreement could create the impression that the ROC was submitting to the Chinese Communist regime's sovereignty.

On May 20, 1992, when Standing Deputy Chairman of the ARATS, TANG Shubei, visited New York, he proposed a compromise solution to resolve the issue of "the principle of one China." He stated that, while all negotiations between the SEF and the ARATS should be conducted under "the principle of one China," there was no need to discuss in depth the meaning of "one China," since such discussion likely would lead only to differences in opinion. Both sides temporarily would table the issue of the meaning of "one China," and take a more pragmatic approach to resolve some practical issues generated by the exchanges between Taiwan and the mainland.\textsuperscript{126}

With this new pragmatic approach of the PRC to the issue of the meaning of "the principle of one China," the ROC's National Unification Council adopted a resolution on the meaning of "one China" at its August 1, 1992 meeting as follows:

First, both sides of the Taiwan Straits have been adhering to the principle of one China. Nevertheless, the positions of the two sides are somewhat different. The Chinese Communists, for example, contend that one China means the People's Republic of China and that, after reunification in the future, Taiwan will become a spe-


cial administrative region under the jurisdiction of the Chinese Communists. Meanwhile, our side contends that one China means the Republic of China founded in 1912 and [its] sovereignty covers all of China. Our government's current political power, however, only covers Taiwan, Penghu, Chinmen [Quemoy] and Matsu. Taiwan is a part of China and the mainland is also part of China.

Second, since the 38th year of the Republic of China [1949], China entered a temporary division and two political entities have ruled the two sides of the Taiwan Straits since then. This is an objective fact. All views on unifying the country must not overlook the existence of this fact.

Third, to develop the nation and promote the nation's prosperity and the people's welfare, the Government of the Republic of China has formulated a program for national reunification. It also has sought a common understanding among all people, and it has implemented steps to promote the reunification of the country. Therefore, it earnestly hopes that the authorities on the mainland will seek truth from facts, discard preconceived ideas, cooperate with us, and contribute to the building of a free, democratic, commonly rich, and single China.\footnote{127}

Once this issue was resolved, it appeared that both sides would reach agreement on the substance of the issue of cracking down on smuggling and piracy, but this did not happen. The ARATS insisted that the proposed agreement would be applicable only to the Taiwan Straits area, while the SEF wanted to have a more general application of the agreement.\footnote{128}

The SEF and ARATS also began to negotiate two other agreements, dealing with the question of notarization of official documents issued by authorities of the Chinese Communist regime and the question of tracing and compensating for lost registered mail. The first agreement is very important in dealing with cases relating to inheritance, marriage, and divorce in Taiwan, as ROC administrative agencies or courts could not decide whether those documents presented by the petitioners were authentic documents


issued by the Chinese Communist authorities. These negotiations again became deadlocked over the issue of how to express “the principle of one China” in the agreement, but through prolonged efforts, both sides agreed that the “one China” principle could be presented verbally but would not be included in the written agreement. Once this issue was resolved, both sides again could not agree on the technical issues of the subject matter, such as fees to be charged for notarizing a document and the categories of documents available for notarization.

VIII. ORIGIN OF THE KOO-WANG TALKS

Since its establishment in February 1991, the SEF has attempted to make contacts first with the Taiwan Affairs Office of the State Council of the PRC, and then with the ARATS to resolve certain issues arising out of closer exchanges between the people across the Taiwan Straits. However, as stated above, the operation of such communication channels was not smooth, and each side complained frequently that the other side was uncooperative.

On January 8, 1992, shortly after the founding of the ARATS, it sent a letter to the SEF inviting its chairman, vice chairman, and secretary-general to lead a delegation to the mainland. Because the content of the letter was too vague, the SEF did not respond. Several months later, the chairman of the ARATS, WANG Daohuan, sent a personal letter to the chairman of the SEF, KOO Chen-fu, on August 4, 1992, inviting Koo to meet with him to discuss matters of mutual concern for both organizations, as well as bi-coastal cultural, economic, and trade exchanges.

On August 22, 1992, Koo accepted the invitation and suggested that he meet Wang in Singapore. At that time, it was anticipated that Koo and Wang would meet in October 1992. However, things did not proceed as expected. The ARATS soon proposed that there should be a preparatory meeting between the SEF and ARATS to set the agenda of the meeting. While the SEF agreed to such a preparatory meeting, it also counterproposed that both sides resolve the official documents notarization and registered mail issues first.

129. Id., pp. 55-56.
In late January 1993, it was reported that KOO Chen-fu said he would propose at the meeting establishing a hotline between the SEF and the ARATS, because of the possibility of military conflict arising from a misunderstanding or a wrong evaluation of the other side’s intentions.\textsuperscript{132} Other possible items on the meeting’s agenda may have included the establishment of a periodic consultation channel for both organizations, the establishment of dispute settlement procedures, the protection of Taiwan investment on the mainland, and other matters relating to the facilitation of mutual exchanges.

A. Preparatory Meeting and the Nature of the Talks

On March 12, 1993, Mr. Cheyne CHIU, an experienced career diplomat and then deputy secretary-general of the Presidential Office, resigned from his official position and began to serve as the secretary-general of the SEF. On April 3, 1993, the ROC’s Mainland Affairs Council authorized Cheyne CHIU to lead a delegation to Beijing to hold a preparatory meeting with the ARATS.\textsuperscript{133} At the April 11, 1993 preparatory meeting, both sides agreed that the Koo-Wang talks would be nongovernmental, practical, economic and functional in nature. The purpose of the talks would be to establish a channel for liaison and negotiation to resolve problems evolving from cross-Straits private exchange, and to boost economic, cultural and technological interaction. No political issues would be discussed. Specific topics scheduled for discussion included the following items:

A. The establishment of a system for regular consultation and contact

\textsuperscript{132} "Taiwan, China May Set Up Hotlines," \textit{The Reuters Library Report}, January 29, 1993 and \textit{Chung-yang jih-pao} (Central Daily News) (Taipei) (International edition), January 30, 1993, p. 1. There have been several incidents in the past which almost resulted in armed conflict between the ROC and the PRC. For instance, on June 13, 1991, ROC patrol vessels captured six PRC customs officers from a Panamanian registered ship, \textit{Eagle King}, while those officers were investigating smuggling activities onboard the ship. The incident was caused by the false report of crew members of the \textit{Eagle King} that they were being attacked by “pirates.” Later, upon verifying the identity of these officers, they were repatriated to the mainland through Hong Kong on June 17, 1991. See Tammy C. PENG, “Foreign Ship, Mainland Officers Held in Taiwan,” \textit{Free China Journal}, Vol. 8, No. 46 (June 19, 1991), p. 1. For details, see \textit{Hai-hsia chiao-lieu chi-chin-hul pa-shih nien nien-pao}, 61-64. There were also cases where one side’s vessels were captured by the other side for alleged smuggling activities or piracy. See \textit{id.}, pp. 64-72.

\textsuperscript{133} For the complete text of the authorization document, see \textit{Chung-kuo shih-pao} (China Times) (Taipei), April 4, 1993, 2.
B. Repatriation of illegal immigrants across the Taiwan Straits

C. Protection of Taiwan investment in the mainland and mainland businessmen's possible visits to Taiwan

D. Private conferences on economic exchange and joint efforts to develop energy and resources

E. Exchanges of youth visits, technology, and the media

F. Formal signing of two agreements on document notarization and the search and compensation for lost registered mail

The date of the talks was set for April 27-28, 1993.

B. Agreements Reached in Singapore

On April 25-26, 1993, another preparatory meeting was held in Singapore which set the final agenda of the talks, and on April 27, the Koo-Wang talks formally began. Despite the agreement at the preparatory meetings to exclude political issues from the talks, the ARATS's WANG Daohan attempted to test that limit by urging the SEF to include the "three links" in the agenda in his opening remarks, which the SEF immediately rejected. The ROC's Mainland Affairs Council also issued a statement rejecting such a proposal.

Because of the large amount of Taiwan "investments" in the mainland, the SEF wanted to discuss this issue with the ARATS. However, the ARATS refused to discuss this issue on the grounds that there is no direct trade between Taiwan and the mainland and the latter's current protection of Taiwan investors is sufficient.

Because of this issue, the talks were extended for another day, but no agreement on it was reached. On April 29, 1993, at the con-


135. Jessie HSIEH, "MAC Says No to '3 Directs'," China News (Taipei), April 28, 1993, p. 1. Direct air and shipping services involve the issues of the nationality and flag of a ship or aircraft, the issuance of certificates and recognition of ships or aircraft, and defining air and sea routes, all of which are related to sovereignty and the legal status of documents of an issuing government. Therefore, the ROC government considers it a political issue that cannot be negotiated by two private organizations. See Wo-men tui Koo-Wang hui-t' an ti k'an-fa (Our views on the Koo-Wang talks) (Taipei: ROC Mainland Affairs Council, 1993), pp. 13-15.

clusion of the talks, four agreements were reached: the Agreement on the Use and Verification of Certificates of Authentication (Notarization) Across the Taiwan Straits, the Agreement on Matters Concerning Inquiry and Compensation for [Lost] Registered Mail Across the Taiwan Straits, the Agreement on the System for Contacts and Meetings Between the SEF and the ARATS, and the Joint Agreement of the Koo-Wang Talks.  

According to the first agreement on certificates of notarization, the two organizations will cooperate by forwarding copies of original notarized documents. If one presents a notarized document to the SEF in Taipei, the latter will compare it with the copy of the same document sent by the ARATS in Beijing. If it is the same, then the SEF will certify it so the document can be formally used in Taiwan courts or administrative agencies. Similar procedures will be applied to a notarized document issued by Taiwan. The categories of documents, which may be so verified, include certificates of marriage, birth, death, inheritance, adoption, consignment, academic degree, residence, lineage and property ownership.

The second agreement relates to registered mail service, which does not need any explanation.

The third agreement on a system of contact provides that regular meetings will be held between the chairmen, vice chairmen, and secretaries-general of the SEF and ARATS. The deputy secretaries-general of both organizations will be responsible for liaison work in times of emergency. Also, when personnel of the two organizations travel on official business in the territory of a counterpart, the concerned authorities will expedite their entry and exit. In the fourth agreement, both organizations agree in principle to meet again at a later date to discuss subjects that require further negotiation in 1993, including repatriation of persons illegally entering the other's jurisdiction, suppression of maritime smuggling and piracy, fishery disputes, protection of intellectual property rights, and judicial assistance.

With respect to the issue of the protection of Taiwan’s investments in the mainland, no agreement was reached at the talks. Therefore, in the Joint Agreement, both sides only agreed to negotiate further in the future; however, no exact date was set.

C. Reaction in the Chinese Mainland and Taiwan

The Chinese Communist Party’s reaction to the Koo-Wang talks was generally favorable, as reflected in an editorial of the overseas edition of the April 30, 1993 People’s Daily, the official newspaper of the Chinese Communist Party. “The success of these talks demonstrates an important step in the relations between the two sides and will help promote all kinds of contacts and exchanges, moving forward the talks of the peaceful unification of the nation,” the editorial said.138

Taiwan’s reaction was mixed. Although Premier LIEN Chan was upset by the ARATS’s refusal to accept the SEF’s request for comprehensive protection of Taiwan’s investments, he said he believed the mainland authorities would look toward a more pragmatic cross-Straits policy following the Koo-Wang talks.139 However, HUANG Kun-huei, chairman of the Lien Cabinet’s Mainland Affairs Council, warned that Chinese Communist hostility will not disappear just because of a meeting between the SEF and ARATS, and he urged that Taiwan residents should retain a “high degree of vigilance” when engaging in exchanges with the mainland controlled by the Chinese Communist party.140 A poll conducted by the Public Opinion Poll Association of the ROC after the Koo-Wang talks indicated that 52.6 percent of the Taiwan people still considered the Chinese Communist party hostile to Taiwan, while only 21.9 percent did not.141

From the ROC’s point of view, after the talks, Taiwan-mainland relations were still in the first phase (stage) of the Guidelines

141. Chung-kuo shih-pao, May 10, 1993, 2. A public opinion poll conducted by Lien-ho pao also indicates that 32 percent of the respondents feel that the relationship between Taiwan and the mainland is still marked by hostilities, and only 20 percent believe relations to be amicable. “Poll Indicates Public Is Changing Attitude Toward Cross-Straits Links,” Free China Journal 10, no. 34 (May 11, 1993), p. 2.
for National Unification, i.e., private exchanges. The talks had nothing to do with the question of unification and they were not political negotiations. In a public opinion poll conducted after the talks, 46 percent of those polled said that they do not think the unification issue should be discussed at this time, while only 21 percent are in favor of discussing it.

D. Prospects for Further Development of Taiwan-Mainland Relations

If, after the Koo-Wang talks, the SEF and the ARATS could carry out their functions more smoothly, it will certainly contribute to the stable and constructive development of economic, trade and cultural relations between Taiwan and the mainland. However, there still is a limit to how far such relations can progress unless three basic issues can be resolved.

The first is the continued Chinese Communist threat of using force against Taiwan. Only when the PRC is willing to respond positively to the call for settling Taiwan-mainland disputes by peaceful means “under the principle of one China,” as provided in the ROC’s Guidelines for National Unification, will it be possible to enter the intermediate phase of the Guidelines, i.e., a phase of mutual trust and cooperation. Then the two sides can move closer to the goal of national unification. A closely related issue is Taiwan’s right to purchase defensive arms abroad. In light of the PRC’s opposition to such purchases and especially the U.S.-PRC Joint Communiqué of August 17, 1982 restricting the quality and quantity of U.S. arms sales to Taiwan, the ROC, anticipating future difficulties, has sought since 1979 to stockpile as much military hardware as possible.

If the PRC drops its opposition to Taiwan’s purchases of defensive, arms abroad and renounces the use of force against Taiwan, there should be no need for the ROC to purchase so many foreign weapons. If this happens, the ROC could divert some of its defense funds to the joint development of mainland coastal areas as provided in the intermediate phase of the Guidelines for National Unification. Then, amicable and mutually beneficial relations could be created between Taiwan and the mainland.

142. See Wo-men tui Koo-Wang hui-t’ an ti k’an-fa, pp. 13-15.
143. See “Poll Indicates Public Is Changing Attitude Toward Cross-Straits Links,” and Wo-men tui Koo-Wang hui-t’ an ti k’an-fa, p. 2.
The last issue is the PRC's policy of isolating Taiwan in the international community, particularly its opposition to Taiwan's participation in intergovernmental organizations and conferences. The ROC's *Guidelines for National Unification* call for an end to the state of hostilities between the mainland and Taiwan and, under the principle of "one China," respect each other in the international community so as to move toward the second phase of mutual trust and cooperation. After the Koo-Wang talks, President LEE Teng-hui commented that, while the unification of China is the goal of his government, "the Chinese Communists should not obstruct ROC activities in the international community, but denounce the use of force against Taiwan and treat the ROC as an equal entity." Premier Lien Chan also said the Koo-Wang talks had demonstrated that the ROC is sincere and responsible in its efforts to promote better relations with the mainland. As long as the ROC is not isolated in the international community and its national status is not degraded, the problems that now exist between Taiwan and the mainland "will not be difficult" to resolve, he added.¹⁴⁵

As a matter of fact, the PRC's policy of isolating Taiwan and downgrading the ROC's status in the international community is, ironically, undercutting its attempt to win over the Chinese people in Taiwan for the cause of unification. As such, that policy can only help the advocates of Taiwan independence, because they can make a seemingly convincing argument that only when Taiwan becomes independent can it break out of its present international isolation. In a press conference held on April 30, 1991, President LEE Teng-hui elaborated on this issue as follows:

Why do so many people among us want to advocate independence for Taiwan? This is because Communist China blocks our various activities in the international community and leaves no way out for us. As a result, some youths and some people who are dissatisfied with what the Government has done went abroad and called for Taiwan independence. The call for Taiwan independence does not originate from within Taiwan. Rather, it is a result of Communist China's practice of isolating us from the international community. Personally, I believe that if Communist China understands this point, it would not want to hamper the various activities conducted by us in the inter-

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national community. Letting the ROC have enough space in the international community is the way to truly promote the development of the ROC on Taiwan as well as reunification of our country. It is not a bad thing for all the Chinese people and will definitely be of great help to our country. Therefore, probably, I'll have to say that the leaders of Communist China are wrong in their thinking. They do not understand what gives rise to the call for Taiwan independence.\(^{146}\)

If the PRC responds positively toward the three above-stated issues, mainland-Taiwan relations would move to the intermediate phase of the ROC's *Guidelines for National Unification*. This would include direct trade, investment, air and shipping services, mutual high-level visits, establishment of direct official communication channels, and joint development of mainland coastal areas. However, this did not happen, but Taiwan's investment in the mainland increased significantly after the Koo-Wang talks.

After the Koo-Wang talks, tensions in the Taiwan Strait were reduced dramatically. Taiwan's investment in the mainland has continued to increase and annual trade between Taiwan and the mainland has also increased rapidly, to the point where the Chinese mainland is now Taiwan's largest trading partner.

On January 30, 1995, President JIANG Zemin of the PRC delivered an eight-point speech on the Chinese unification issue.\(^{147}\) The tone was basically conciliatory. He urged the Taiwan side to engage in negotiations for peaceful unification; specifically, as a first step toward unification, he urged Taiwan to negotiate a formal cessation of hostilities under the principle of "one China." Jiang said:

It has been our consistent stand to hold negotiations with the Taiwan authorities on the peaceful reunification of the motherland. Representatives from the various political parties and mass organizations on both sides of the Taiwan Straits can be invited to participate in such talks. I said in my report at the Fourteenth National Congress of the Communist Party of China held in October 1992, "On the


premise that there is only one China, we are prepared to talk with the Taiwan authorities about any matter, including the form that official negotiations should take, a form that would be acceptable to both sides." By "on the premise that there is only one China, we are prepared to talk with the Taiwan authorities about any matter," we mean naturally that all matters of concern to the Taiwan authorities are included. We have proposed time and again that negotiations should be held on officially ending the state of hostility between the two sides and accomplishing peaceful reunification step by step. Here again I solemnly propose that such negotiations be held. I suggest that, as the first step, negotiations should be held and an agreement reached on officially ending the state of hostility between the two sides in accordance with the principle that there is only one China. On this basis, the two sides should undertake jointly to safeguard China's sovereignty and territorial integrity and map out plans for the future development of their relations. As regards the name, place and form of these political talks, a solution acceptable to both sides can certainly be found so long as consultations on an equal footing can be held at an early date.\textsuperscript{148}

Moreover, Jiang held that political differences should not affect or interfere with economic cooperation between the two sides. He also appealed to the Chinese cultural tradition shared by the Chinese people on both sides of the Taiwan Strait by stating:

The splendid culture of 5,000 years created by the sons and daughters of all ethnic groups of China has become the tie keeping the entire Chinese people close at heart and constitutes an important basis for the peaceful reunification of the motherland. People on both sides of the Taiwan Straits should inherit and carry forward the fine traditions of Chinese culture.\textsuperscript{149}

\textsuperscript{148} "Coverage on Jiang Zemin's 'Reunification' Speech," No. 85; \textit{Press Release}, p. 3.

\textsuperscript{149} "Coverage on Jiang Zemin's 'Reunification' Speech," No. 86; \textit{Press Release}, p. 4.
On April 8, 1995, President LEE Teng-hui of the ROC responded to Jiang’s speech in a six-point proposal.\textsuperscript{150} Lee first noted that to resolve the unification problem, one must be pragmatic, respect history, and seek a feasible way for national unification based on the fact that the two shores are separately governed. He then noted that in 1991 Taiwan formally renounced its use of force against the mainland in the expectation that all Chinese people would be relieved from the suffering that resulted from civil war. By the same token, in order to pave the way for peace talks which would end the state of hostility, he hoped that the mainland authorities would publicly forego any intention of attacking Taiwan by force. He said:

The descendants of Emperors Yan and Huang should first show sincerity to each other and no longer engage in fratricide. We do not want the Chinese people to go down the path of civil war once again, and hope that hostility will be turned into friendship. In 1991 the ROC announced the end of the Period of Mobilization for the Suppression of the Communist Rebellion, acknowledged that the two sides were separated, and announced that it would no longer use force against the mainland. It is regrettable that over the last four years, the Chinese Communist authorities have not announced its [sic] renunciation of the use of force against Taiwan, Penghu, Kinmen and Matsu, causing the continuation of the situation of hostile confrontation up to this day. We hold that the mainland authorities should show their goodwill by renouncing the use of force against Taiwan, Penghu, Kinmen and Matsu, and that they should refrain from any military actions that could cause suspicions, thereby laying the foundation for ending the situation of hostile confrontation through formal cross-Strait talks. I must emphasize that using the so-called “Taiwan independence forces” or “foreign interference” as a pretext for refusing to make the commitment to not use force against Taiwan is disregarding and distorting the founding spirit and policy of the ROC, which will only deepen suspicions between the two sides and hinder mutual trust. The degree of maturity for ending the situation

of hostile confrontation through formal cross-Strait talks requires sincere fostering by both sides. At present, we will have our relevant government departments carry out research and formulate plans concerning the termination of hostile confrontation. When the CPC [Communist Party of China] officially announces its renunciation of the use of force against Taiwan, Penghu, Kinmen and Matsu, a preliminary consultation on how to end the state of hostile confrontation between the two sides will be held at a most appropriate time and opportunity.  

Moreover, Lee called for both sides to join international organizations. Thus, leaders of the two sides could naturally meet each other on equal footing on certain occasions. Lee said:

I have repeated many times that natural meetings of leaders from the two sides on international occasions will ease political confrontation between the two sides and foster an atmosphere of harmonious contacts and meetings. Now, the two sides have joined several important international economic and sports organizations. If leaders from both sides meet each other naturally while attending meetings of such organizations, it will surely help eliminate hostility between the two sides, build up mutual trust, and lay a foundation for future consultation and cooperation. We believe that the more international organizations the two sides join on an equal footing, the more it will be conducive to developing bilateral relations and promoting the process of peaceful reunification. This will also show the world that the Chinese people on the two sides, despite political differences, can still join hands to make contributions to the international community and create a new age for the Chinese nation to stand proud in the world.  

Furthermore, Lee believed that trade and economic ties between Taiwan and the mainland should be enhanced and developed into mutually beneficial and complementary relations. He also pointed out that the profound cultural similarities inherited by all Chinese should be a basis for both sides to foster brotherhood and enhance cooperative exchanges in technology and information science, as well as in academic studies and sports activities. In addition, he suggested that, faced with the trend of expending great

151. "Text of President's Speech," p. 79.
152. Ibid.
effort to develop their economies, Chinese on both sides should complement and benefit each other as well as share experiences with each other.

The PRC’s response to Lee’s six points was not entirely negative. A Beijing Central People’s Radio commentary, however, stated that Lee’s response to Jiang’s eight-point proposal lacked “sincerity.”153

The commentary added that the principal issue for both sides of the Taiwan Strait was whether or not the nation and its territory would be split up. The commentary said:

However, in his six-point statement, [LEE Teng-hui] stressed at the very beginning the need for separate rules. He asked the mainland to recognize the Taiwan authorities’ sovereignty over Taiwan, Penghu, Jinmen [Kinmen], and Mazu [Matsu]. This is actually asking the mainland to recognize two Chinas first and then discuss the issue of the reunification of one China.

At the same time, [LEE Teng-hui] deliberately reversed the order of cross-Strait negotiations and the ending of the state of hostility between the two sides. He said: When the CPC officially announces its renunciation of the use of force against Taiwan, Penghu, Jinmen and Mazu [sic], a preliminary consultation on how to end the state of hostile confrontation between the two sides will be held. Public opinion pointed out that [LEE Teng-hui’s] demand on Beijing to unilaterally issue a statement committing itself to [the] non-use of force in the Taiwan Strait is a political hoax. Before the Taiwan authorities give an effective guarantee that they will not promote Taiwan’s independence under any circumstances and that they will not allow foreign intervention, Beijing will never fall into that trap.

[LEE Teng-hui’s] statement that the two sides join international organizations on an equal footing and leaders of the two sides will naturally meet each other on such occasions is an apparent attempt to create two entities of equal status and two Chinas. In his Spring Festival speech, JIANG Zemin specifically maintained that the affairs of the Chinese people should be handled by themselves,
something that does not take an international occasion to accomplish, and that leaders from the two sides may visit the other side in their appropriate capacities. [LEE Teng-hui] himself realized that his proposal for leaders of the two sides to naturally meet with each other is in conflict with the principle of one China and that the mainland will never agree.\textsuperscript{154}

The commentary also acknowledges that there were some merits in Lee's six points:

Of course, [LEE Teng-hui's] six-point response is not devoid of merit. On the question of promoting cross-Strait ties, he proposed stepping up cross-Strait exchanges, increasing economic exchange and trade, and developing mutual benefits on the basis of Chinese culture. These proposals are the main aspects of current cross-Strait exchanges, which have been achieved by the general public on both sides of the Strait after overcoming layers upon layers of restrictions imposed by the Taiwan authorities. However, because of the deep differences between the two sides on the issue of the country's peaceful reunification and on major political principles, all-round economic and cultural as well as other exchanges [have been] difficult to carry out smoothly.\textsuperscript{155}

An unnamed high official of the ARATS also commented on Lee's proposals, saying that he welcomed President Lee's calls for increased cross-Strait exchanges based on traditional Chinese cultural ties and for expanded trade and economic cooperation on a reciprocal basis. He further said he had taken notice of Lee's statement that the first Koo-Wang meeting and follow-up working-level talks between SEF and ARATS had ushered in a new era of negotiations in cross-Strait relations. The ARATS official further made four suggestions: a second Koo-Wang meeting should be held as soon as possible for the two sides to conduct high-level policy talks; SEF and ARATS should intensify work to promote cross-Strait commercial, technological, and agricultural exchanges and jointly organize a nongovernmental economic cooperation meeting; the two intermediary bodies should jointly work out ways to reinvigorate Chinese culture; and, the two bodies should avoid sensitive po-

\textsuperscript{154} Id., p. 88.
\textsuperscript{155} Id., p. 89.
litical issues in working-level talks on nonpolitical administrative issues in a pragmatic manner.156

In late May 1995, the SEF and the ARATS held the first preparatory consultations for the second Koo-Wang Talks to be held in Beijing. They planned the second preparatory consultations for the period between June 27 and July 1, and intended to hold the talks around July 20, 1995. It was expected that during the second Koo-Wang Talks, both chairmen could privately discuss certain sensitive issues, such as how to begin negotiations for the cessation of hostilities and Taiwan’s participation in certain international organizations or conferences. There was no sign of tension in Taiwan-mainland relations at the time.

In the meantime, President LEE Teng-hui was invited by Cornell University, his alma mater, to deliver a speech at the Olin Lecture. On June 1, 1995, the United States Department of State granted Lee an entry visa for his private visit to Cornell from June 7-12, 1995. Before Lee left Taipei for the United States, the mass media on the Chinese mainland suddenly launched a series of attacks against Lee, accusing him of, among other things, promoting Taiwan independence or “two Chinas,” attempting to internationalize the Taiwan question, and departing from the “one China” policy.157 In his Cornell lecture entitled “Always in My Heart,” Lee described Taiwan’s successful democratic reform, relying on public opinion as a basis of formulating government policy, and the sense of sovereignty that belongs to the people in Taiwan and others.158 With respect to the Chinese unification issue, he said:

I have repeatedly called on the mainland authorities to end ideological confrontation and to open up a new era of peaceful competition across the Taiwan Strait and reunification. Only by following a “win-win” strategy will the best interests of all the Chinese people be served. We believe that mutual respect will gradually lead to the peaceful reunification of China under a system of democracy, freedom and equitable distribution of wealth.

158. LEE Teng-hui, Always in My Heart, Taipei: Government Information Office, 1995, pp. 11-12.
To demonstrate our sincerity and goodwill, I have already indicated on other occasions that I would welcome an opportunity for leaders from the mainland to meet their counterparts from Taiwan during the occasion of some international event, and I would not even rule out the possibility of a meeting between Mr. [JIANG] Zemin and myself.  

Lee's speech drew sharp criticism from the Chinese Communist media, which claimed, among other things, that Taiwan was a local government with no sovereignty and that Lee's view promoted "two Chinas" or "one China, one Taiwan," thereby exploiting "public opinion" to oppose the reunification of the motherland. The Chinese Communist media also severely criticized the United States for promoting "two Chinas" and "Taiwan independence." In fact, U.S. federal officials neither received Lee nor granted him the honor of a visiting foreign head of state. During this period, the exchange of visits between the SEF and the ARATS continued. However, on June 16, 1995, the ARATS wrote to the SEF, stating that: "In view of a series of actions taken recently by Taiwan which have damaged cross-Strait relations and which have seriously affected the convocation of the second Wang-[Koo] meeting and the atmosphere of the preparatory consultations, the meeting will have to be postponed."  

IX. LEE TENG-HUI'S VISIT TO CORNELL UNIVERSITY AND PRC'S MISSILE TESTS AND NAVAL EXERCISES IN THE TAIWAN STRAIT

After the decision to postpone the second Koo-Wang talks, the PRC mass media published a series of articles attacking President LEE Teng-hui personally, alleging that he was attempting to split China, seek independent sovereign status for Taiwan, and resist reunification under the Chinese Communist "one country, two sys-

159. Ibid.
161. E.g., see "U.S. 'Playing with Fire'," FBIS-CHI-95-113 (June 13, 1995), pp. 7-9; "Spokesman Cites 'Grave' Impact," id., p. 9; and "Dual-Track' Policy Condemned," id., pp. 9-10.
tems” formula. These accusations were followed by a Chinese Communist military exercise dubbed “East Sea No. 5” held off China’s Zhejiang province, north of Taiwan.\(^{163}\) China then announced that it would conduct surface-to-surface missile tests in the East China Sea between July 21 and 28, 1995 over a circular area of 10 square nautical miles, with the central point less than 100 miles northeast of Taiwan.\(^{164}\)

Amid the missile tests, the authoritative People’s Daily published a commentary entitled “LEE Teng-hui Is Guilty of Damaging Relations between the Two Sides of the Taiwan Strait” on the front page of its July 27, 1995 issue. The article said:

In March of last year [1994] when he [Lee] talked with the Japanese writer Shiba Ryotaro,\(^{165}\) he said: “China is an ambiguous word,” “sovereignty is a dangerous word,” and it is a “strange dream” that Taiwan is a province of the People’s Republic of China. He even said that he would lead the Taiwan populace to build a “country of the Taiwan people.” He asserted repeatedly: “Of the two sides of the Strait now, one is water and the other is oil, and water and oil won’t mix with each other” [and] “We should forget to the best of our ability such words as one China, two Chinas.” In talking thus, he is challenging the state sovereignty, and is setting himself against the 1.2 billion Chinese people including Taiwan compatriots. . . .

After President JIANG Zemin put forward the proposal “on the premise that there is only one China, negotiation can be held on officially ending the state of hostility,”\(^{166}\) LEE Teng-hui went so far as to reject it publicly. . . .\(^{167}\) Relations between the two sides of the Strait are now at a crucial point. Facts have shown that expecting a person such as LEE Teng-hui who “doesn’t know what


\(^{166}\) See note 148 above and accompanying text.

\(^{167}\) See note 151 above and accompanying text. In fact, Lee did not reject this proposal, but wished to have the Chinese Communists renounce the use of force against Taiwan in order to create an atmosphere to pave the way for peace talks. Apparently, the Chinese Communist side considers this “precondition” as equivalent to rejection.
China is to improve and develop cross-Strait relations is nothing less than climbing a tree to catch fish. All Chinese should definitely not cherish any illusions about LEE Teng-hui.\textsuperscript{168}

Why did the PRC suddenly change its conciliatory attitude toward Taiwan? It is possible that the PRC "misinterpreted" the events leading to U.S. approval of President Lee's private visit to Cornell University as equivalent to shifting the U.S. "one China" policy to "two Chinas" policy. On May 2, 1995 the U.S. House of Representatives, by a vote of 396 to zero, adopted a nonbinding resolution requesting President Bill Clinton to express his welcome to President Lee to visit Cornell. The Department of State issued a statement on May 3 stating that the United States formally recognized the PRC as the only legal government of China. Therefore, allowing President Lee, who has the title of ROC president, to visit the United States endangered bases of official relations with the PRC.\textsuperscript{169} On May 4, a PRC Foreign Ministry spokesman stated that the House resolution was intended to create "one China, one Taiwan." The PRC strongly opposed and urged the United States not to allow Lee's visit under any name, title, and formality, so as not to endanger Sino-American relations, claiming that such a visit was impossible.\textsuperscript{170} On May 9, the United States Senate adopted a resolution similar to the House of Representatives on Lee's visit by a vote of 97 to 1, and the State Department made similar comments. On May 11, the spokesman of the PRC Foreign Ministry condemned the Senate resolution as a violent interference in China's internal affairs, which the PRC resolutely opposed.\textsuperscript{171} On May 22, under strong congressional pressure, a U.S. Department of State spokesman announced that President Clinton had agreed to allow President Lee to come to the United States in his private capacity to attend Cornell University's alumni meeting.

On May 24, the Foreign Affairs Committee of the PRC National People's Congress (NPC) issued a statement lodging a strong protest against the United States, stating:

\textsuperscript{170} Gongdang wenti yanjiu (Studies in Communism) (Taipei), Vol. 21, no. 7 (July 15, 1995), p. 81.
We would like to sternly warn the U.S. Government and Congress: Your decision to permit [LEE Teng-hui] to visit the United States has seriously hurt the national feelings of 1.2 billion Chinese people. You would be well advised not to stray further; otherwise, you will begin with injuring others and end up ruining yourselves.

The Chinese NPC Foreign Affairs Committee firmly supports the Chinese Government’s solemn and just stand, and strongly urges the U.S. Government to immediately revoke its erroneous decision to permit [LEE Teng-hui] to visit the United States. If the U.S. Government is bent on having its own way, it will be entirely responsible for all consequences arising from this.172

The PRC’s military exercises continued until March 21, 1996, two days before Taiwan held its first popular presidential election on March 23, 1996, as indicated in map 1.

In order to warn the PRC not to miscalculate the situation and thus accidentally begin an armed conflict, President Clinton sent two aircraft carriers to international waters near Taiwan.173 This was done in accordance with Section 2 of the Taiwan Relations Act of 1979,174 particularly Section 2 (b) (6):

Sec. 2. (a) The President having terminated governmental relations between the United States and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, the Congress finds that the enactment of this Act is necessary—

(1) to help maintain peace, security, and stability in the Western Pacific; and

(2) to promote the foreign policy of the United States by authorizing the continuation of commercial, cultural, and other relations between the people of the United States and the people on Taiwan.

(b) It is the policy of the United States—

(1) 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;

(2) to declare that peace and stability in the area are in the political, security, and economic interests of the United States, and are matters of international concern;

(3) to make 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;
(4) 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;

(5) to provide Taiwan with arms of a defensive character; and

(6) 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.

Despite the PRC’s military threats and exercises, the presidential election was successfully held in Taiwan on March 23, 1996. Among the four candidates, President Lee won 54 percent of the popular votes, with a turnout of 76.04 percent. Although the PRC criticized President Lee prior to the election, its reaction to Lee’s victory was quite interesting. In a Xinhua News Agency commentary released on April 27, 1996 from Beijing, it emphasized the decisive defeat of the Democratic Progressive Party (DPP) candidate PENG Ming-min, who received only 21.14 percent popular votes, as an indication of the Taiwan people’s rejection of Taiwan independence.

On May 20, 1996, President LEE Teng-hui was sworn in as the ninth president of the Republic of China. In his inaugural speech, he was quite conciliatory on Taiwan-mainland relations:

The ROC has always been a sovereign state. Disputes across the Strait center around system and lifestyle; they have nothing to do with ethnic or cultural identity. Here in this country it is totally unnecessary or impossible to adopt the so-called course of Taiwan independence. For over 40 years, the two sides of the Strait have been two separate jurisdictions due to various historical factors, but it is also true that both sides pursue eventual national unification. Only when both sides face up to the facts and engage in dialogue with profound sincerity and patience to seek


common ground while striving to resolve differences will they be able to find the solution to the unification question and work for the common welfare of the Chinese people.

Today, I will especially seriously call upon the two sides of the Strait to deal straightforwardly with the momentous question of how to terminate the state of hostility between them, which will then make a crucial contribution to the historic task of unification. In the future, at the call of my country and with the support of its people, I would like to embark upon a journey of peace to mainland China taking with me the consensus and will of the 21.3 million people. I am also ready to meet with the top leadership of the Chinese Communists for a direct exchange of views in order to open up a new era of communication and cooperation between the two sides and ensure peace, stability and prosperity in the Asia-Pacific region.\textsuperscript{177}

Both President Lee and Premier LIEN Chan (he was then also vice president) have repeatedly requested the PRC’s ARATS to resume negotiations, which were suspended on June 16, 1995.\textsuperscript{178} By the time Lee’s term terminated on May 20, 2001, the negotiation had not resumed. The PRC has not formally responded to this call. Without a positive response from the PRC, it would have been difficult for President Lee to start negotiations for the termination of hostilities.\textsuperscript{179} Therefore, relations between Taiwan and the mainland remain uncertain and volatile.\textsuperscript{180}

\textsuperscript{177} "Taiwan: Text of President Lee Teng-hui’s Inaugural Speech," \textit{FBIS-CHI-96-098} (May 20, 1996), pp. 53-54.

\textsuperscript{178} See note 163 above.

\textsuperscript{179} In his inaugural speech, Lee quietly dropped his condition for the PRC to renounce the use of force against Taiwan before beginning negotiations for termination of hostilities. Also, he dropped his condition of meeting PRC leaders in an international forum.

\textsuperscript{180} President Clinton’s “mishandling” of Lee’s visit to the United States, which appears to have caused the present impasse in Taiwan-mainland relations, was criticized by Senator John McCain as follows:

Much has been made of the president’s inclination to seek solutions to problems that merely postpone their worst consequences. Much has also been made of the causal relationship between presidential rhetoric and action. The disaster that has been President Clinton’s China policy shows the severity of both problems.

Candidate Clinton attacked President Bush for coddling the “butchers of Beijing” and promised to make support for human rights the centerpiece of his China policy. As president, he attempted various ruses to delay fulfilling that promise, first renewing most-favored-nation (MFN) trading status to China and then issuing an executive order that conditioned the next year’s renewal
With respect to U.S. arms sales policy toward Taiwan, because the PRC renewed its military threat to Taiwan in violation of the peaceful intention expressed in the August 17, 1982 Taiwan Arms Sales Communiqué, the United States reexamined its arms sales policy toward Taiwan. The restriction on arms sales to Taiwan is no longer governed by the Communiqué’s restriction. It is necessary to recall here that Assistant Secretary of State John Holdridge told the Senate Committee on Foreign Relations and the House Committee on International Relations, immediately after the issuance of the Communiqué, on August 18, 1982, that the U.S. had no reason to think that the Chinese “will change this fundamental policy of seeking to resolve the Taiwan question by peaceful means [paragraph 4 of the Communiqué], but if they should, we would, of course, reexamine our position.”

China’s military exercise in the Taiwan Strait in 1995 released the U.S. obligation to reduce the quantity and quality of arms sales to Taiwan under the August 17, 1982 U.S.-China Arms Sales Communiqué.

on human rights progress. The Chinese, however, refused to cooperate. One year later, when his allies in Congress began their annual attempt to deny renewal of MFN status, and after his secretary of state was publicly humiliated in Beijing, the president ignored his previous executive order and reversed himself by delinking human rights and MFN. The president arrived at the right policy, but the route he took did incalculable harm to American credibility, broadcasting from Pyongyang to Port-au-Prince his weakness as a foreign policy leader.

The president has used the diplomacy he employed to such poor effect in the MFN dispute as the model for his subsequent dealings with Beijing. Rather than privately informing the Chinese that Taiwanese president Lee Teng-hui would be allowed to come to the United States and assuring them of the political insignificance and private nature of the visit, President Clinton told the Chinese that the visit would not occur. Beijing was left to learn of the president’s change of heart on television.

China’s subsequent show of force in the Taiwan Strait and the alarm this act of aggression set off throughout Asia was a direct consequence of the administration’s mishandling of the Lee visit. In response to China’s belligerence, President Clinton appropriately ordered two U.S. aircraft carrier groups to approach the Strait. When China warned the United States not to allow its carriers to enter the Strait, the president demurred, leaving unchallenged an objection to a principle—freedom of navigation—that has been a vitally important American interest since the day George Washington took the oath of office.

181. See supra note 74.
182. See supra note 76 and accompanying text, third part of Holdridge’s statement.
183. See supra notes 163-168.
184. See supra notes 72-75.
X. THE ELECTION OF CHEN SHUI-BIAN: TAIWAN-MAINLAND RELATIONS ENTER AN UNCERTAIN STAGE

On May 20, 2000, Democratic Progress Party (DPP) candidate CHEN Shui-bian, who was elected by 39 percent of the popular vote, was sworn in as the Tenth President of the Republic of China. The DPP's party platform has been known to advocate Taiwan independence, but in his inauguration speech, he stated that:

Today, as the Cold War has ended, it is time for the two sides to cast aside the hostility left from the old era. We do not need to wait further, because there is now a new opportunity for the two sides to create an era of reconciliation together.

The people on the two sides of the Taiwan Strait share the same ancestral, cultural, and historical background. While upholding the principles of democracy and parity, building upon the existing foundations, and constructing conditions for cooperation through good will, we believe that the leaders on both sides possess enough wisdom and creativity to jointly deal with the question of a future "one China."

I fully understand that, as the popularly elected tenth-term President of the Republic of China, I must abide by the Constitution, maintain the sovereignty, dignity and security of our country, and ensure the well-being of all citizens. Therefore, as long as the CCP regime has no intention to use military force against Taiwan, I pledge that during my term in office, I will not declare independence, I will not change the national title, I will not push for the inclusion of the so-called "state-to-state" description in the Constitution, and I will not promote a referendum to change the status quo in regard to the question

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185. On July 9, 1999, when interviewed by a reporter of the Voice of Germany, President Lee said that the relations between Taiwan and the Chinese mainland is of "special state-to-state relations." Later, because the United States expressed its concern of this policy, Lee said that he had no intention of changing the Guideline for National Unification, which still adheres to the one China policy. The PRC, however, interpreted this as a move toward declaring independence. See Frank Langfitt, "Taiwan's Front-line isle ignores rumors of war," The Sun, August 15, 1999, p. 1A. The whole event is reported in detail in Chung-Kuo Shih-pao (The China Times), December 18, 2000, p. 3. See also Michael Lavis, "Taiwan Stock Market Plunges, Rumor Spread that China Plans Retaliation for Policy Shift," The Washington Post, July 17, 1999, p. A15. Dr. Yin-wen TSAI,
of independence or unification. Furthermore, there is no question of abolishing the Guidelines for National Unification and the National Unification Council.\(^{186}\)

Despite his almost conciliatory tone, he has so far not assumed the Presidency of the National Unification Council, and no meeting of the Council has been convened since his inauguration. Moreover, the PRC’s ARATS refused to resume negotiations with the SEF, because Chen has so far refused to acknowledge the “one China” principle. At the time of this writing, in September 2001, the negotiation between PRC’s ARATS and Taiwan’s SEF has not yet resumed.

The Bush administration, however, still honors the Taiwan Relations Act of 1979 and agreed to sell substantial weapons to Taiwan, as announced in April 2001, despite the PRC’s protest.\(^{187}\)

\(^{186}\) Now the Chairperson of the Mainland Council, is a key member in proposing state-to-state relations to former President LEE Teng-hui.

CHAPTER 2

U.S. RELATIONS WITH TAIWAN

David Dean*

I. BREAK IN DIPLOMATIC RELATIONS

Following National Security Council Advisor Zbigniew Brzezinski's May 1978 visit to China, U.S. negotiations with the Peoples Republic of China leading to the establishment of diplomatic relations were initiated secretly in Beijing in July 1978. Five months later, President Jimmy Carter, on December 15, 1978, announced that agreement had been reached for the exchange of diplomatic relations between the United States and China as of January 1, 1979. Existing diplomatic relations with the Republic of China on Taiwan were to be ended, the remaining U.S. forces on Taiwan were to be withdrawn, and one year's notice was given to terminate the U.S.-ROC Mutual Defense Treaty of 1954. Taipei was abruptly informed of the U.S. break in diplomatic relations only a few hours before President Carter's December 15, 1978 announcement. The Carter Administration, fearing obstruction from Taiwan's friends in Congress, had kept secret its negotiations with the PRC, not only from the American public, but also from its allies.

U.S. national security considerations motivated the ending of long lasting U.S. diplomatic ties with the Republic of China on Taiwan. The Carter Administration was intent on improving U.S. relations with China in order to bring additional pressure on the Soviet Union. But there was another national security reason for the establishment of diplomatic relations with the PRC. Washington believed that the preservation of peace and security in East Asia required a workable, non-hostile relationship between Washington and Beijing. As noted in the Shanghai communique, the United

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States was convinced that improved U.S.-China ties would also contribute to the relaxation of tensions in Asia and the world.²

President Carter's December 15 statement and the three conditions affecting Taiwan (break in diplomatic relations, withdrawal of U.S. forces, termination of the defense treaty) hit like a shock wave in Taipei. The public on Taiwan, unprepared for this bombshell, was alarmed by the prospect of facing PRC military action after the mutual defense treaty was terminated. Taiwan could not believe their friend, patron and protector was deserting them. Businessmen worried about their contracts with U.S. companies and their exports to the United States, which was Taiwan's largest market. Government officials were concerned about the fifty-nine treaties and agreements already in force with the United States, covering everything from aviation to fishing rights. But the greatest worry was about Taiwan's security. Did the United States intend to abandon the Republic of China on Taiwan as it had earlier in 1949-50 before the outbreak of the Korean War forced a reconsideration of U.S. policy?

In mid-January 1979, Secretary of State Vance met with leading American businessmen, including members of the U.S.-ROC Economic Council, to reassure them about future U.S. unofficial ties with Taiwan. Vance said that President Carter had decided the United States would only establish diplomatic relations with Beijing if such an action could be accomplished in a way that did not damage the well-being of the people of Taiwan or reduce the chances of a peaceful settlement of the Taiwan question by the Chinese themselves.³ Vance stressed that the United States was taking practical steps to assure continuity of trade, cultural and other relations and he said the United States would continue arms sales to Taiwan.

Some Chinese officials on Taiwan were outraged by the abrupt U.S. unilateral break of diplomatic relations. Their strong feelings sparked a riot against Deputy Secretary Warren Christopher and his aides, who arrived in Taipei in late December 1978 to negotiate the new U.S. unofficial relationship with Taiwan. Crowds of protesting students and workers lined the streets near the airport. They assaulted Christopher's cavalcade with rocks and iron bars, smashing windows and crushing car roofs down onto the seat backs.

Christopher's mission withdrew without accomplishing its objectives.

President CHIANG Ching-kuo took a much different position from many of his angry countrymen. He decided that Taiwan's future safety and stability demanded continued good relations with the United States. He "swallowed the blood on his teeth" and worked tirelessly to restore as many aspects of Taiwan-U.S. relations as possible. On December 29, 1978 President Chiang stated that he believed ROC relations with the United States must rely on five points: reality, continuity, security, legality and governmental. In early 1979, President Chiang dispatched Vice Foreign Minister YANG Hsi-kun to Washington to negotiate Taiwan's future status with the United States.

YANG Hsi-kun was an astute choice as Taipei's envoy. He was an independent-minded, highly capable negotiator with an impressive reputation, who was well known to officials in the Department of State. To his credit, Vice Minister Yang, making something out of nothing, was able to obtain agreement on a practical structure for the new relationship, which went a long way towards meeting the needs of both sides. The United States was to be represented in Taipei by the unofficial and non-governmental American Institute in Taiwan (AIT). Taiwan was to be represented in Washington by the Coordination Council for North American Affairs (CCNAA). Taiwan's efforts to preserve as much substance as possible in its relations with the United States received strong Congressional support.

II. THE TAIWAN RELATIONS ACT

Washington's secret negotiations with Beijing on diplomatic recognition from July to early December 1978 had been conducted by Zbigniew Brzezinski and Michel Oksenberg in the U.S. National Security Council and Ambassador Leonard Woodcock and his deputy Stapleton Roy at the U.S. Liaison Office in Beijing. Few other American officials were informed about the progress of the negotiations. Some preparatory analytical work had been started in the mid-1970s at Harvard by Chas W. Freeman, Jr. on the complex legal, economic and other issues involved in maintaining non-diplomatic substantive relations with Taiwan after diplomatic recognition of the PRC. Nevertheless, most officials were not prepared. In

mid-December 1978, the State Department hurriedly established task forces to draw up guidelines to manage the new relations with China and Taipei. Draft legislation was sent to Congress in early 1979. But President Carter's White House staff had notoriously poor relations with both Democrats and Republicans in Congress and the Carter Administration's proposed draft of the Taiwan Relations Act (TRA) was severely criticized in the House and the Senate. The Senate Foreign Relations Committee's report on the TRA stated it was not opposed to normalization of relations with the PRC. However, it was concerned by the haste of the Administration's recognition of the PRC, the lack of consultation with Congress, and the lack of adequate consultation between the United States and its Asian allies.  

The Senate and House committees criticized the Administration's bill because it failed to address the issue of Taiwan's security and made no reference to the sale of defensive arms to Taiwan. It also failed to define the framework under which the private sector would continue its economic and other relations with Taiwan. This included the legal standing of the people on Taiwan to sue and be sued in U.S. courts, and the protection of property rights of entities and persons in both countries. The Administration's bill also made no mention of Congressional oversight or the privileges and immunities for the American Institute in Taiwan and its counterpart, the Coordination Council for North American Affairs.  

Congress redrafted the bill and made it clear that although Taiwan was no longer formally recognized, it would continue to be treated as the government of a friendly state for the purposes of American law. It would have standing in U.S. courts and its assets would be protected. For the purposes of the Immigration and Naturalization Act, it would be treated as a separate country, and treaties and agreements would continue in effect unless specific action was taken to end them. Congress passed the new TRA by overwhelming bipartisan margins in the House (339-50) and the Senate (85-4). President Carter signed the Taiwan Relations Act into law on April 10, 1979, even though he was concerned that many of the provisions added by Congress, including the language in the Act about Taiwan's security, would arouse strong PRC reactions.  

5. Wolff, Legislative History of the Taiwan Relations Act, supra note 1, p. 13.  
Initially both Taipei and Beijing sharply criticized the Taiwan Relations Act. Taiwan wanted relations with the United States to continue on a government to government basis but subsequently had to concede that future ties be handled by the non-governmental American Institute in Taiwan. Taipei continued to insist that its relations with the United States were of an official nature. The United States, for its part, described its new relations with Taiwan as unofficial.\(^8\) In subsequent years, however, Taipei found a source of strength and support in the Taiwan Relations Act. In 1995, for example, Foreign Minister Frederick CHIEN in a speech at Arizona State University, said “The Taiwan Relations Act of 1979 is one of the most remarkable and successful examples of legislation in the world. Clearly this statute has passed the test of time. It is an understatement to say that the Act has bolstered the morale of the people of my country and has helped us survive some troubled times with resilience and progress.”\(^9\)

Beijing opposed the Taiwan Relations Act because the Chinese believed it violated agreements reached during the negotiations over the establishment of diplomatic relations. China has consistently objected to various provisions of the Act, especially arms sales. President Carter, in a statement issued to meet some of China’s objections when he signed the TRA on April 10, 1979, said that, in a number of sections in the legislation, Congress had wisely granted discretion to the President. He added that he would exercise that discretion in a manner consistent with U.S. interests and with the understanding reached on the normalization of relations with the PRC.\(^10\)

### III. THE AMERICAN INSTITUTE IN TAIWAN

Prior to the break in U.S. diplomatic relations with Taiwan, many U.S. Government departments and agencies, including the Departments of State, Treasury, Defense, Commerce, Agriculture and Justice had frequent dealings directly with their counterparts in Taiwan. Now, all of their activities had to be funneled through the American Institute in Taiwan (AIT). This process was time consuming and difficult. U.S. military officers were not permitted to visit Taiwan and visits by most U.S. officials were severely limited,

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but members of the legislative branch and private citizens could travel to Taiwan. These restrictions in large part are still in effect. Some bureaucrats initially were unwilling to acknowledge the new guidelines, which forbade contact with Taiwan government officials except through the AIT. After several months, however, the new procedures were in place and operating with reasonable efficiency. Nevertheless, it was a critical time for both sides. The United States, having for the first time in its history broken relations with a long time friend and ally, was feeling guilty and ill at ease with Taiwan's government. The ROC on Taiwan believed its survival was at stake if it lost U.S. support. It was deeply worried about its future.

The American Institute in Taiwan was incorporated as a non-profit organization in the District of Columbia on January 16, 1979. It was staffed in Washington by three retired foreign service officers and a retired officer from the Department of Defense. All served without pay because no funding was available for the AIT until President Carter signed the Taiwan Relations Act in mid-April. The policy side of the State Department wanted the AIT to be as private and non-governmental as possible to emphasize the fact that relations with Taiwan were unofficial. But the Department's administrative side was not flexible enough to deal with this new entity. There was no precedent for an organization like the AIT. The United States Liaison Office in Beijing had official status and was headed by an ambassador. In other countries where the U.S. had broken diplomatic relations, special interest sections located in friendly embassies, like that in Cuba, were staffed by Foreign Service Officers. The State Department never before had a private contractor charged with representing U.S. interests abroad, especially a contractor whose employees, under the terms of the TRA, were separated from their parent agencies and legally were not U.S. employees. As a result, some State Department administrators considered the AIT as a completely private organization and initially refused even to forward mail to AIT employees in Taipei because there was no money to pay for the air pouches. Other administrators wanted the AIT to operate just like a foreign service post and were baffled by the AIT's charter and its contract. Several years later, administrative problems still plagued the AIT's relationships with the State Department. On the policy side, however, the AIT followed the Department's guidance and conducted the U.S. unofficial relationship with Taiwan in an effective and mutually beneficial manner.
At its Washington headquarters, the AIT, cutting through bureaucratic red tape, was able to bring together representatives from Departments such as Commerce, Agriculture, the USTR and State to facilitate and expedite agreements on trade and other matters. The AIT hosted the military procurement meetings and signed all the military sales agreements with Taiwan. Experts from government departments helped negotiate the aviation, fisheries and other agreements, which the AIT then signed. The AIT in Washington was the interface between Taiwan’s representatives and the U.S. government, convening meetings at its headquarters or at neutral ground, mostly hotels and restaurants. In Taipei, the AIT office carried out most of the functions of an embassy although it retained the legal status, under the TRA, of a private organization.

When the AIT was established almost twenty years ago, many observers believed that it would be a short-term solution for a difficult international issue. Now, twenty years later, it is likely that the AIT will continue to function for many years until some future agreement is reached by Beijing and Taipei concerning Taiwan’s status.

The Carter Administration was concerned that Taipei would try to disrupt U.S.-PRC relations by claiming its relationship with the United States was official, working with sympathetic Congressmen to restore relations, and seeking military arms in excess of those defensive arms the Administration was willing to sell. One example of U.S. sensitivity to Taiwan’s actions was the dispute over the functional privileges and immunities agreement called for in the Taiwan Relations Act. This agreement extended to Taiwan’s offices in the United States the equivalent of privileges and immunities extended to international organizations and foreign consulates by the United States. Taiwan’s press highlighted the agreement signed in October 1980 by the AIT and CCNA as the granting of diplomatic privileges and immunities. Beijing protested immediately and Assistant Secretary Richard Holbrooke, trying to establish smoother and less prickly relations with China, issued a sharply worded protest through Konsin SHAH, Taipei’s representative in Washington.

However, Taiwan found sympathetic ears in Congress. There had been overwhelming Congressional support for the revised Taiwan Relations Act. Many Congressmen and Senators believed that Taiwan had been treated unfairly, even though most approved of the establishment of diplomatic relations with the PRC. Taipei intensified its efforts to invite senators, congressmen and staffers to
visit Taiwan. Also invited were governors, mayors, members of state legislatures, leading journalists and other prominent Americans. In addition, Taipei dispatched several high-powered purchasing missions to tour the United States and to sign commercial contracts. Well-known public relations firms were hired to press Taiwan's interests in the United States. All of these efforts, which have continued, were designed to compensate for the absence of official relations by building other channels of communication.

**IV. ARMS SALES**

During the negotiations leading to the establishment of diplomatic relations President Carter rejected the PRC demand that U.S. arms sales to Taiwan be discontinued. Subsequently, Beijing agreed to proceed with normalization but reserved the right to raise the issue with the United States later. By agreement with the PRC, the Administration had decided on a moratorium on new arms sales to Taiwan during 1979, although arms already approved and in the pipeline were to be delivered. When arms sales talks resumed in Washington in 1980, Taiwan's military procurement negotiators pressed strongly for the purchase of advanced systems, including fighter aircraft, which the U.S. side was reluctant to approve. At the same time, the U.S. presidential elections were in full swing and candidate Ronald Reagan asserted that U.S. relations with Taiwan were official in many respects and said that, if elected, the United States would have government to government relations with Taiwan. Under pressure from his domestic opponents and the Chinese, Reagan clarified his position by saying he would adhere to the Taiwan Relations Act.  

Taipei had hoped and expected that relations with Washington would improve after President Reagan's election in November 1980. Many Republican visitors to Taiwan prior to the election had led Chinese officials to believe that there would be a dramatic improvement in U.S.-Taiwan relations. But Taiwan's high expectations were not realized. The first indication, even before President Reagan took office, was the PRC ambassador's protest against the invitation of a delegation from Taiwan, led by KMT Secretary General Y.S. TSIANG, to attend President Reagan's inauguration. The Chinese ambassador threatened to boycott the ceremony if Y.S. TSIANG attended. The Reagan Administration was unwilling to

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start with a major deterioration in U.S. relations with China. Leaders of the Taiwan delegation were asked not to attend the ceremony. Dr. Tsiang, diplomatically ill with the flu, was visited in the hospital by Assistant Secretary John Holdridge, James Lilley and the AIT’s Chairman, who expressed regrets about the situation.

Beijing, concerned that Reagan would not honor the 1979 recognition Communiqué which called for unofficial, non-governmental U.S. relations with Taiwan, started a relentless and effective campaign to press the United States to live up to its commitments, and to limit arms sales and especially to deny the sale of advanced fighter aircraft to Taiwan. As a result of China’s pressure, the Reagan Administration decided not to change its unofficial relationship with Taiwan. The Administration also decided not to sell advance fighter aircraft to Taipei.12 These decisions were followed by U.S.-Chinese negotiations culminating some months later in the August 17, 1982 Communiqué which called for the gradual reduction of U.S. arms sales to Taiwan based on the assumption that the Taiwan issue would be resolved by peaceful means.13

The 1982 Communiqué limiting arms sales marked another low point in U.S.-Taiwan relations. Hoping to reassure Taiwan about the long-term effects of the August 17, 1982 Communiqué, President Reagan sent a letter to President CHIANG Ching-kuo in July, prior to the signing of the Communiqué.14 His letter contained the following points: the United States

1. would not agree to set a date for ending arms sales to the Republic of China on Taiwan;
2. would not agree to hold prior consultations with the Chinese communists on arms sales to the Republic of China on Taiwan;
3. would not play any mediation role between Taipei and Beijing;
4. would not agree to revise the Taiwan Relations Act;
5. would not alter its position regarding sovereignty over Taiwan;
6. would not exert pressure on the Republic of China on Taiwan to enter into negotiations with the Chinese communists.

The Foreign Ministry in Taipei revealed these points to the press in an effort to calm public apprehensions about the consequences of the Communiqué.

The August 17, 1982 Communiqué caused a storm of controversy in Washington. Prominent pro-Taiwan conservatives, including Senator Goldwater and former Congressman Walter Judd, called on President Reagan to express their dismay. Earlier, Secretary of State Alexander Haig had resigned under conservative attack, partially because of his advocacy of the Communiqué. The Reagan Administration at this point, while still planning to improve relations with China, also decided to try to improve unofficial, non-governmental ties with Taiwan. To this end a more positive attitude was taken towards Taiwan. Various exceptions were made to allow visits by certain U.S. officials, mostly in the commerce and agriculture fields, to attend meetings sponsored by the US-ROC Economic Council in Taiwan. Technology transfer had not been ruled out by the 1982 arms sales Communiqué. Consequently, technology and private commercial training and assistance were authorized for the development of Taiwan’s Indigenous Defense Fighter aircraft, for the building of Perry class frigates in Kaohsiung, and for the development of hybrid M-48 tanks with advanced radar and fire control systems.

As the atmosphere for Washington-Beijing relations improved, so did the Washington-Taipei relationship. From 1982 to the Tien An Men massacre in 1989, the United States enjoyed positive and increasingly harmonious relations with both sides of the Taiwan Strait. Having won a victory with the signing of the 1982 Communiqué, DENG Xiao-ping seemed willing to put the Taiwan issue to one side and develop better relations with the United States, even though the PRC continued to express its opposition to arms sales on numerous occasions. Taiwan, for its part, had found that a low-key approach in foreign policy was paying off, not only in Washington, but also in Japan, Western Europe and Southeast Asia. Taiwan made considerable progress in those countries where it had no diplomatic relations by using patience and persistence and by preserving the confidentiality of its contacts with other governments rather than publicizing every advance. In Washington, the three main players in relations with Taiwan were the National Security Council and the State and Defense Departments. All three, with rare unanimity, worked together to promote U.S. interests with China while improving friendly relations with Taiwan. But serious human rights concerns affected U.S. relations with Taipei.
V. HUMAN RIGHTS

On Taiwan, the break in U.S. relations, while causing another tightening up by ROC security forces against political dissidents, also had the reverse effect of prompting oppositionists to speak out and express their concerns. Many used the Formosa Magazine as a rallying point. Avoiding the ban on political assembly, the Formosa Magazine staff sponsored a series of birthday parties with thousands of celebrants. In December 1979, they organized a rally in Kaoshiung, ostensibly in honor of Human Rights Day, but also to protest the delay in Legislative Yuan elections which had been postponed after the U.S. break in relations. The demonstration attracted over 10,000 participants. Clashes with the police left over one hundred eighty policemen and more than ninety demonstrators injured. The leaders of the Formosa Magazine were arrested and jailed. The U.S. Administration and many in Congress were alarmed by the riot and the arrests. Some were concerned about human rights violations, others by the prospect of further widespread violence and public demonstrations in Taiwan if the government crushed protests with increasing use of force, or if it were to execute any of the arrested leaders. As a consequence, the AIT was instructed in January 1980 to express U.S. views to President CHIANG Ching-kuo and other leaders. President Chiang conveyed assurances that while the Formosa Magazine leaders would be tried by military courts, others would be tried in civilian courts, and that the death penalty would not be requested by prosecutors.15

In U.S. eyes, the human rights situation became even more grave with the murder of LIN Yi-hsiung's mother and twin daughters while Lin was under arrest and interrogation as one of the Formosa Magazine leaders responsible for the Kaohsiung riot. There were public demands in Taiwan and the United States for an immediate investigation. To make matters worse, the General Secretary of the Presbyterian Church in Taiwan, Rev. C.M. Kao, was arrested and subsequently imprisoned for harboring Mr. SHIH Ming-teh, one of the leaders of the Kaoshiung riot.

During this time, some American Maryknoll missionaries and some Presbyterians became so involved with political oppositionists and dissidents that they were expelled by the ROC government or their visas were revoked when they left the island for home leave in

the United States. Earlier, the Presbyterian church in Taiwan had endorsed the World Council of Church's call for the entry of Mainland China into the United Nations. As a result, the church came under strong political pressure from the government. Subsequently, the Tainan Theological Seminary became a hotbed of oppositionist sentiment and some of its members participated in the Kaoshiung incident.

The Taiwan Associations of America, and other interested organizations such as the North American-Taiwan Professors' Association, Amnesty International and Asia Watch, became more involved in the issues of democracy and human rights in Taiwan. They kept the issue squarely before the eyes of Congress and the American public. U.S. attention was riveted again by the death on July 3, 1981 of CHEN Wen-cheng, a professor at Carnegie Mellon University in Pittsburgh. Professor Chen allegedly committed suicide by jumping off the roof of the four story Taiwan National University library in Taipei. He had just been interrogated for thirteen hours by the Taiwan Garrison Command. This tragedy caused a storm of U.S. protest. The President of Carnegie Mellon appealed to the White House as well as to Congress. He demanded that Washington take some action.

These events had a negative impact on Washington-Taipei relations and American public opinion. The repercussions from the incidents were so serious that they may have had some effect in dampening American public reaction to the August 17, 1982 Joint Communiqué between Washington and Beijing. Another repercussion in the United States was close Congressional scrutiny of human rights in Taiwan. The Taiwan Relations Act, drafted and passed by Congress in April 1979, contained the following passage on human rights:

> Nothing contained in this Act shall contravene the interest of the United States in human rights, especially with respect to the human rights of all the approximately eighteen million inhabitants of Taiwan. The preservation and enhancement of human rights of all the people on Taiwan are hereby reaffirmed an objective of the United States.16

This passage was cited frequently to justify a series of Congressional hearings and resolutions on Taiwan. In addition, the American Institute in Taiwan was required to report to Congress on these

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developments. The AIT drafted the Taiwan section of the annual Human Rights Report, which the State Department forwarded to Congress. Responding to the concern that the human rights issues described above could jeopardize attempts to improve bilateral relations, the AIT tried to convince government officials in Taipei that progress on human rights was vital to their future relationship. The AIT made repeated demarches in private to the Taiwan government concerning the health, treatment and release of the prisoners, and about the CHEN Wen-cheng investigation. At the same time, AIT officers were in frequent contact with oppositionist politicians and the families of Kaoshiung prisoners to obtain information requested by Congress and to make clear the U.S. interest in human rights.

The AIT also took the unusual step of inviting General WANG Sheng, head of the political arm of Taiwan’s military establishment to visit the United States. General Wang was invited because he was one of President CHIANG Ching-kuo’s most influential advisors, especially on internal security. In General Wang’s own words, the Taiwanese feared and hated him. Washington believed that General Wang’s visit would help him appreciate the depth of U.S. public opinion about human rights on Taiwan. AIT’s chairman escorted General Wang to meetings with congressmen and senators and with administration officials and academicians and journalists. At each meeting, the subject of U.S. views about the human rights situation in Taiwan was raised at length. General Wang certainly got the message. However, during his absence from Taipei several influential KMT elders had petitioned President CHIANG Ching-kuo about General Wang’s usurpation of power over the KMT and the government. As a result General Wang was dismissed and eventually assigned as ambassador to Paraguay. Newspapers in Taiwan claimed that General Wang had been invited to Washington because he was a potential successor to President Chiang. This speculation was unfounded. General Wang was invited because of U.S. concern about the treatment of political dissidents in Taiwan.

VI. CONGRESSIONAL HEARINGS ON TAIWAN

Congressman Steven Solarz, Chairman of the House Foreign Affairs Subcommittee on Asia and the Pacific, took an active interest in human rights on Taiwan. He visited Taiwan in early 1981, shortly after he had assumed the chairman's position in the Asia and Pacific Subcommittee. In Taiwan, he met with the relatives of the Kaohsiung prisoners. These meetings were highly publicized and were interpreted as a public sign of support of the oppositionist movement in Taiwan. Later, in August 1983, Solarz made a speech to a largely oppositionist audience calling for greater political freedom in Taiwan. The speech had the added result of giving the "opposition" some international recognition.

Congressman Solarz's Subcommittee held hearings in mid-1981 to examine the circumstances surrounding Professor Chen's death and to look into the activities of the KMT, which was accused of spying on overseas Chinese students from Taiwan in U.S. colleges and universities. Congressman Solarz stated that a pattern of intimidation by Taiwan would have an adverse effect on U.S. arms sales. A second hearing was held in May 1982 on martial law in Taiwan. There was continued discussion of the Kaohsiung prisoners and their military trial, the Lin murders and Professor Chen's death. There were subsequent hearings in the same forum in 1984, 1986 and 1988 concerning political developments and human rights on Taiwan. Letters from Congressmen Solarz and Leach and Senators Kennedy and Pell to President Chiang and others urged the release of the Kaohsiung prisoners and appealed for progress on human rights and other political freedoms.

Several Congressional resolutions were introduced by Congressman Solarz during this period. Among them, the Subcommittee reported out in 1984 a resolution calling for the end of martial law on Taiwan, but there was no further Congressional action on the resolution. In 1985, a Subcommittee resolution on the political situation on Taiwan only went as far as the full Committee. Later in 1985, Solarz and Pell were instrumental in introducing non-binding language in the State Department Authorization Bill, which called for greater political freedom and the formation of opposition political parties in Taiwan. The bill was enacted by Congress. In addition, the House of Representatives passed a resolution condemning the murder of Henry LIU.

Henry LIU was shot to death in the garage of his home in Daly City near San Francisco on October 15, 1984. He was killed by United Bamboo gang members. Subsequent investigations re-
revealed that the United Bamboo gang had been employed by the head of the ROC's Investigation Bureau of the Ministry of National Defense (IBMND), Admiral WANG Hsi-ling. Congressional outrage at the dispatch by Taiwan of a hit squad to kill an individual on American soil was extreme. The Washington Post, in a January 25, 1985 editorial, condemned the murder of Henry LIU as a savage act of terrorism. The editorial went on to declare that "a foreign government's assassination of an American citizen on American soil is a hostile act. Had this murder been committed by an avowed enemy of the United States, it would have provoked a national explosion. The Administration is plainly embarrassed at the spectacle of a favored friend's acting like a thug. . . ."

Some in Congress raised the question of continued arms sales to Taiwan. There was intensified criticism of Taiwan's record on human rights by prominent congressmen. The murder, the subsequent investigations; the dispatch of teams from the FBI and the Department of Justice to Taiwan to take statements from top military leaders and other leaders, and to actually use lie detector tests on some; the findings of involvement by the three top officials of the IBMND including its Chief; and, the imprisonment of those officials, together with members of the United Bamboo gang, preoccupied both American and Chinese officials and distracted attention in Washington from other more constructive aspects of the bilateral relationship.

VII. U.S. POLICY TOWARD TAIWAN

Five years after the break in diplomatic relations, there was a marked improvement in the atmosphere, style and substance of bilateral relations. Trade, cultural and other relations with Taiwan proceeded in a positive and mutually beneficial direction, but there was a continued debate about U.S. policy toward Taiwan and China. There were three opinion groups in Washington in the Administration, Congress and the press who had different concepts about the future of U.S. relations with Taiwan.18

The more conservative group felt that the United States had acted much too precipitously in breaking relations with Taipei, in

18. David Dean, "How Does Washington View Its Long Term Relationship with Taiwan?", talk presented at Harvard University East Asia Conference October 26-28, 1983. With few changes these same views are prevalent today even though there have been major developments since 1983, including the Tien An Men massacre, the collapse of the Soviet Union, the democratization of Taiwan and the rise of independence sentiment in Taiwan.
terminating the Mutual Defense Treaty, and in withdrawing the remaining United States forces from Taiwan. They believed that the U.S. had an obligation to live up to the letter and the spirit of the TRA. They maintained that the previous Administration, in negotiating diplomatic recognition, should have obtained better terms from Beijing concerning future U.S. relations with Taiwan. They asserted that the TRA, constituting legislation passed by Congress and signed by the President, took precedence over the joint Communiques with Beijing, which were only executive branch statements of policy. They were strongly in favor of selling advanced fighter aircraft and whatever other military equipment Taiwan wanted for its defense. They objected to the President’s 1982 decision not to sell the advanced FX aircraft to Taiwan, and they remained strongly opposed to the August 17, 1982 US-PRC Communiqué calling for a gradual reduction in arms sales to Taiwan.

Some members of this group wanted the Administration to invite top officials from Taiwan to visit Washington and to send high-ranking U.S. officials to Taipei, making use of these symbolic measures to reaffirm U.S. support for Taiwan, even at the expense of setbacks in U.S. relations with the PRC. Philosophically, they believed Taiwan’s political, social and economic values were more in tune with U.S. values than Beijing’s communist beliefs and practices. They felt that Taiwan was an old and valued ally and should be treated as such.

Some said that Taiwan occupied an important strategic position and was an important factor, (an unsinkable aircraft carrier), in controlling the sea lanes of communications in East Asia. They believed that Taiwan should be part of a security network aimed at stemming the spread of Soviet power in East Asia. Some of this group recognized the importance of US-PRC relations in coping with Soviet expansionism, but also wanted the United States to hang tough and refuse to make any further concessions on Taiwan. They thought China would be an unreliable ally in any U.S. confrontation with the Soviet Union. Members of this group hoped to see resumption of more official U.S. relations with Taiwan after Beijing found it could not have its own way. Some thought that, over a period of time, mainland China would plunge again into political disarray even more severe than that during the Cultural Revolution and that this internal turmoil would give Taiwan an opportunity to declare itself an independent country and then resume diplomatic relations with the United States and other countries.
The second group believed that good U.S. relations with the PRC were essential. They were inclined to agree with the PRC charge that the TRA contradicted the joint Communiqué on the establishment of diplomatic relations between the United States and the PRC. Some members of this group believed that after the break in official U.S.-Taiwan relations, Taipei deliberately sought to portray its new relationship as having an increasingly official character, with the hope that this course would strain U.S. relations with the PRC. Members of this group pointed to articles in the Taipei press, which stressed the official nature of various aspects of its relationship with the United States. They pointed to early statements by government officials in Taipei characterizing the relationship as official, and to Taipei’s efforts to keep its name and flag at the forefront wherever possible.

This school of opinion believed that Taiwan’s request for more military sales, including the FX aircraft, its pressure for additional CCNAA offices in the United States, and invitations to Congressmen, staffers and others to visit Taipei were designed to create the impression of growing official ties to the United States. Most believed Taiwan’s poor human rights record made it less worthy of support. They endorsed the President’s decision not to sell the FX advanced fighter planes to Taiwan, and Vice President Bush’s 1982 visit to Beijing, and the August 17 Communiqué, as being essential to preserve friendly relations with the PRC. They were worried that US-PRC relations were in bad shape because of Taiwan’s actions. They fully supported President Reagan’s 1984 trip to Beijing. Some felt that PRC Marshall YE Jianying’s 9-point Taiwan reunification proposal of 1981 and DENG Xiao-ping’s elaboration of that proposal should have received a better reception and more serious study in Taipei. They agreed with the PRC that Taiwan is part of China. Some in this group thought that negotiations could lead to a satisfactory outcome, which would grant Taiwan a large measure of autonomy. Such a solution, they felt, would permit U.S.-PRC relations to develop without the impediment of Taiwan.

The third, more loosely knit middle-of-the-road group, had a relatively pragmatic view of U.S. diplomatic relations with the PRC and U.S. unofficial relations with Taiwan. Fully aware of the possible conflicts in the TRA and the recognition Communiqué and the negotiating record for both, this group, which included most Executive branch policy makers, asserted that the recognition Communiqué and the TRA were not incompatible. They said the United States was living up to its agreement to have only unofficial rela-
tions with Taiwan and pointed to the procedures established for that purpose (including the AIT and CCNAA). They maintained that the United States would honor its commitments both in the recognition Communique and the August 17 Communique, as well as in the TRA. They stated that evidence of the U.S. desire for better relations with the PRC was represented by Secretary Weinberger's 1983 visit to Beijing, by the care and attention given to Foreign Minister Wu's visit to Washington in mid-October, and by the subsequent Premier ZHAO Ziyang and President Reagan visits. At the same time, they pointed out that arms sales to Taiwan continued at a high-level as did trade, investment, cultural exchanges and other aspects of the acknowledged unofficial relationship with Taiwan.

Some members of this group believed that Taipei, concerned about future U.S. support, was doing its best to maintain a low-key, unofficial image and that Taipei's initial statements and actions after the break in relations were not prompted by a desire to wreck US-PRC relations but by a deeper motive: its concern about political survival. Members of this group suspected that Beijing elevated the Taiwan issue to center stage for tactical reasons when it suited Beijing's purposes. But they also believed that Beijing's expressed objective of reunifying Taiwan with the Mainland was a serious and important policy objective and not merely a tactical device. This group believed that a good U.S. working relationship with Beijing was essential to U.S. national interests, and to peace and stability in Asia, and that a non-hostile U.S.-PRC relationship would also benefit Taiwan by further reducing tensions in the Taiwan Strait area. Most believed that the Taiwan issue was a matter for the Chinese themselves to resolve in a peaceful way, without the threat or use of force. They also believed that the United States should not be a mediator, nor should the United States seek to press Taipei into negotiations with Beijing.

Prime Minister Margaret Thatcher visited Washington following the signing in December 1984 of the UK-PRC agreement on Hong Kong. DENG Xiao-ping had asked Mrs. Thatcher to give President Reagan a message asking the United States to urge Taiwan to agree to contacts with the Mainland. PRC diplomats had repeatedly urged Washington to press Taipei to talk with Beijing. Washington again resisted this pressure regardless of Deng's personal message. Top U.S. policy makers were not inclined to give serious thought to any change in American policy towards Taiwan partially because the searing experience of the conservative reac-
tion to the 1982 Communiqué was too recent to invite renewed domestic political confrontation. In addition President Reagan, prior to the August 1982 Communiqué, had assured President CHIANG Ching-kuo that the United States would not press Taiwan into negotiations with the Mainland.

There was continuing discussion in the State Department about U.S. policy toward Taiwan and China. Secretary Schultz in a March 1987 banquet speech in Shanghai said, *inter alia*, that the United States supported a "continuing evolutionary process" toward a peaceful solution of the Taiwan issue. He added that the pace would be determined by the Chinese on either side of the Taiwan Strait without outside pressure. "Our steadfast policy seeks to foster an environment in which such developments can continue to take place."

Analysts in Taiwan believed these statements constituted a subtle shift in U.S. policy away from earlier support for Taiwan. However, U.S. policy did not change. Washington continued to maintain that a solution to the Taiwan issue was up to the Chinese on both sides of the Strait themselves and that U.S. interests lay in a peaceful solution. The United States was and is willing to accept any solution that is mutually acceptable to Taiwan and Mainland China.

**VIII. POLITICAL CHANGE IN TAIWAN**

On October 7, 1986, President CHIANG Ching-kuo gave an interview to Katherine Graham, publisher of *The Washington Post*. President Chiang told Mrs. Graham that his government intended to abolish martial law, which had been in force in Taiwan since 1949. He also stated that opposition parties would be permitted to register and that the Legislative Yuan, mostly populated by aging legislators elected on the Mainland in 1947, would be reformed. These momentous decisions would change Taiwan from an authoritarian, one party state to a democracy within ten years. The main opposition party, the Democratic Progressive Party, jumped the gun and established itself without waiting for the laws to be changed. Martial law was lifted in July 1987. Subsequent reforms were carried out by President LEE Teng-hui after President Chiang's death in 1988. As a result, Taiwan has become a democratic state with direct election of the president and members of the Legislative Yuan and the rising call for Taiwan independence has turned into an important domestic political factor. This peaceful

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transformation to democracy, in addition to its effect on the lives of the people in Taiwan, made a marked impression in the United States. The Administration and Congress warmly welcomed Taiwan's new democracy. Earlier, many Americans, although impressed by Taiwan's rapid economic progress since the early 1970s had been critical of its political system. Now, Taiwan was viewed with considerably more respect. In Congress, this translated into more U.S. support.

President Chiang, in another bold change from the past, moved to modify Taiwan's policy towards Mainland China. In 1987 he announced that military veterans would be given permission to visit their families in the Mainland for humanitarian reasons. This policy, which reversed forty years of "no contact" with the Mainland, led to a massive flow of tourists and businessmen to China. There have been over 13 million visits from Taiwan to Hong Kong and then on to China in the ten years since 1988. Travel was followed by Taiwan investment and trade with China. These investments have grown to an estimated $30 billion. Now almost 25 percent of Taiwan's exports go indirectly to mainland China through Hong Kong.

IX. U.S. COMMERCIAL, CULTURAL AND OTHER RELATIONS WITH TAIWAN

Ten years after the break in official U.S.-Taiwan diplomatic relations, the unofficial relationship was thriving. By 1988 there had been remarkable growth in substantive relations. Two-way trade had increased five-fold from $7.4 billion in 1978 to $35 billion in 1988. U.S. investment in Taiwan increased from $690 million to $2,680 million in the same period. Visa applications at the AIT increased from 40,000 in 1978 to 130,000 in 1988. Taiwan established sisterhood relations with 32 U.S. states and 107 cities. In addition, there were 138 cooperative academic programs between universities in Taiwan and those in the United States.

During this ten-year period, thirty bilateral agreements had been negotiated by the AIT and CCNAA in many fields, from agriculture to labor relations and safety of life at sea. Additional agreements were being considered in health and medicine,

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21. David Dean, remarks delivered at the American University Club, Taipei, Taiwan, Backgrounder, American Institute in Taiwan, Cultural and Information Section, Taipei, BG 89-18, October 8, 1989.
oceanography, and atmospheric science, geology, engineering and technology. In the nuclear field, Taiwan's six nuclear electric power generators had been purchased from U.S. suppliers. Taiwan was a signatory of the nuclear non-proliferation agreement and, through a bilateral agreement with the United States, its nuclear plants were subject to periodic inspections by the International Atomic Energy Administration. Taiwan had earlier agreed to dismantle its Canadian heavy water research reactor because of U.S. suspicion about diversion of its spent fuel. An AIT-CCNA agreeement concerning this reactor's fuel supply led to the shipment of the fuel to the United States. In early 1988, after pressure from the United States, Taiwan publicly affirmed that it did not intend to manufacture or produce nuclear weapons, even though it had the technical expertise to do so.

The rapid growth in bilateral trade led to an increasingly large U.S. trade deficit with Taiwan. In 1987 the U.S. deficit was approximately $19 billion. President LEE Teng-hui personally drafted the outline of a Trade Action Plan in 1988 to reduce this deficit by diversifying Taiwan's markets abroad and increasing U.S. imports. The plan was helpful in reducing the U.S. deficit, which in 1995 had fallen to $9 billion. In recent years, however, the U.S. trade deficit with Taiwan has again been increasing.

In 1987 and 1988, intensive bilateral negotiations on tariff reductions, currency appreciation, counterfeiting, patent protection and intellectual property rights made considerable progress. The U.S. Treasury's pressure on Taiwan's Central Bank to appreciate the New Taiwan Dollar as a means of dealing with the huge U.S. trade deficit was powerful and ultimately irresistible. The NT dollar to U.S. dollar exchange rate rose from 40 NT to 28 NT. This currency appreciation had an unplanned outcome. It was a major factor in changing Taiwan's economy from a low wage producer of shoes and textiles to a high wage producer of electronics and computers. After 1988, many of Taiwan's labor intensive industries moved to mainland China where wages were low. Taiwan was propelled into the modern high-tech, high-wage era.

X. INTERNATIONAL ORGANIZATIONS

Section 4(d) of the Taiwan Relations Act stated that "Nothing in this Act may be construed as a basis for supporting the exclusion or expulsion of Taiwan from continued membership in any international financial institution or any other international organization."
Taiwan lost its seat in the United Nations in 1971, but continued as a member of the World Bank until 1980 when China asserted its own readiness to take over its membership. Since the World Bank is a U.N. organization, there was no possibility of preserving Taiwan's position. Nevertheless, the United States did explore retaining some form of observer status for Taiwan in the World Bank and the International Monetary fund. Taiwan did have a residual relationship as a creditor to the World Bank. In addition, there was a possibility that Taiwan might follow Switzerland's example. Switzerland is not a member of the U.N. but it loaned money to the World Bank for various third world projects. The World Bank published Switzerland's economic statistics in its annual report. However, because of Chinese opposition at that time, the World Bank refused to publish Taiwan's statistics in its annual report, although Taiwan did lend funds for certain World Bank projects.

In 1984, China made its bid to enter the Asian Development Bank. Taiwan had been one of the founders of the ADB and the membership wanted to find some way to maintain Taiwan's membership while also admitting China. Finally, after much consultation back and forth it was decided that China would become a member and Taiwan would also retain its membership but with a different name. Instead of the Republic of China, Taiwan was to occupy its seat under the name of Taiwan, China. Taipei objected strenuously to this name change. It mobilized friendly congressmen and senators to protest the change but without success. Finally, Taipei suggested several other variations of its name such as Taipei-China or Taipei/China, but these were not accepted by the PRC. After the ADB's final decision, Taipei initially refused to send a delegation to the ADB's annual meeting. Subsequently, it did attend but with name cards saying "under protest." Eventually, Taipei did return to its normal role in the Bank. Finance Minister Shirley Kuo led Taiwan's official delegation to the ADB's annual meeting in Beijing in April 1989 accompanied by 100 newsmen and TV reporters who stayed to witness the student demonstrations in Tien An Men and the bloodshed on June 4. Shirley Kuo was the first cabinet-level official to visit Mainland China since CHIANG Kai-shek's retreat to Taiwan in 1949.

The United States also helped Taiwan secure memberships in the Asia Pacific Economic Cooperation (APEC). However, Taiwan was to be represented by an economic official rather than by its foreign minister. When APEC held meetings of heads of states,
Taiwan was usually represented by its Economic Minister or Chairman of the Council on Economic Planning and Development. Both the Asian Development Bank and APEC had granted membership to Hong Kong, which was not a sovereign state. This made it easier for China to accept Taiwan's membership.

In 1994, Washington's Taiwan Policy Review stated clearly that the United States would support Taiwan's membership in organizations where statehood is not a prerequisite. Following this policy, which was repeated by President Clinton during his July 1998 visit to China, the State Department has not supported Taiwan's bid to rejoin the U.N. However, moving in the opposite direction in July 1998, the Senate approved without dissent a non-binding resolution urging that Taiwan be admitted to multilateral economic institutions, including the International Monetary Fund and the World Bank.

Members of the General Agreement on Trade and Tariffs (GATT) were willing to grant Taiwan full membership as "The Customs Territory for Taiwan and the Penghu Islands," but only in conjunction with China's entry. China is still negotiating its entry into the World Trade Organization (GATT's successor) while Taiwan has completed most of its own negotiations for membership. Nevertheless, it is likely that both will enter (first China, then Taiwan) on the same day.

XI. TIEN AN MEN

In November 1988, George Bush was elected President. President Bush enjoyed good relations with Beijing where he had served in 1975 as Ambassador at the U.S. Liaison Office. Bush also had good relations with Taipei. He had been courteous to Taiwan industrial leaders, including KOO Chen-fu and Henry HSU, who called on him in Washington when he was Vice President. He had privately entertained TSAI Wei-ping and Frederick CHIEN who were Taiwan's representatives in charge of the CCNAA office in Washington. Earlier, George Bush, while Ambassador to the U.N. in 1971, had tried to keep Taiwan in the U.N. by means of a dual representation formula. At the beginning of 1989, the Bush Administration was looking forward to further improvement of U.S. ties with mainland China and to a continuation of the rapid growth in its substantive relations with Taiwan. At the same time Taiwan's tourism, trade and investment in mainland China were increasing rapidly and tensions in the Taiwan Strait were at their lowest point in decades. However, on June 4, 1989, the Chinese PLA, in an
overwhelming show of force, used tanks and troops to drive student protesters from Tien An Men Square, killing or wounding hundreds of young people.

Television coverage of the carnage spread like wild fire all over the world. U.S. - PRC relations plummeted to a new low. Many Americans, including China scholars, had expected DENG Xiaoping's reforms in China to lead to a gradual new democratic direction in its government and to continued improvement in relations with the United States. The American public had not been prepared for such a flagrant use of force. In Taiwan, however, the government was under no illusions about the readiness of the Mainland's Communist government to resort to force to defend its authority and preserve its rule. Consequently, the reaction in Taipei to the Tien An Men tragedy was considerably less extreme than U.S. reaction. Taiwan's assessment of the Mainland's rulers was more accurate and less emotional than that in the United States. Even after several years, the United States has not yet recovered from the effects of Tien An Men. But, after condemning the Chinese government's action, Taipei continued without interruption to increase its trade, travel and investment in the Mainland.

The PLA's brutal suppression of the student movement in Tien An Men Square was in vivid contrast to the peaceful progression towards democratic government in Taiwan. Many in Congress were quick to point to this contrast. Taiwan may have expected that the plunge in U.S.-PRC relations after Tien An Men would lead to an improvement in U.S.-Taiwan relations. But the Bush Administration did everything possible to prevent an even greater deterioration in relations with Beijing. To this end, Washington was careful to maintain only unofficial relations with Taipei and did not try to upgrade U.S.-Taiwan ties. For Taiwan, it may have seemed a bitter irony to find that a decline in U.S.-PRC relations also affected Taiwan adversely because the United States was unwilling to reduce relations with the PRC by acting on the recommendations of Taiwan's supporters in Congress.

XII. PRESIDENT CLINTON'S CHINA POLICY

Candidate Clinton, in the 1992 Presidential campaign, took every opportunity to criticize President Bush's China policy. Clinton claimed that the Bush Administration showed a flagrant disregard for human rights in China, referring repeatedly to the Tien An Men massacre. Clinton emphasized China's human rights abuses as a means of attacking Bush's foreign policy. The collapse of commu-
nism in eastern Europe and the disintegration of the Soviet Union had focused public attention on Russia and its future. But Clinton found that an attack on China's human rights abuses struck a responsive chord in the American people. When he won the election, Clinton found that he had created an even greater schism in Sino-American relations and U.S. public attitudes towards China. Later he found it difficult to shift course towards a more constructive policy. The new Administration was preoccupied with domestic concerns to the exclusion of most foreign policy issues and policy towards Taiwan and China was largely ignored, and did not receive top level attention.

Taiwan's policy towards the Mainland had evolved from a state of civil war in 1949, to the 1991 unilateral renunciation of its long-held goal of recovering the Mainland, and to the KOO Chen-fu-WANG Daohan Cross Strait talks in April 1993. Policy makers in Washington believed these talks between Taiwan and Mainland China, together with the increasing volume of Taiwan's travel, trade and investment in the Mainland, indicated that even if the cross-Strait talks did not result in any near-term political agreements, at least the danger of military conflict was materially lessened. Washington was content therefore to watch and wait.

During the 1992 presidential campaign, George Bush authorized the sale of 150 F-16s to Taiwan. He did this to obtain more Texan votes in the election, but his action drew strong criticism from Beijing. Some months earlier the Bush Administration had also authorized the sale of anti-submarine helicopters and the lease of five frigates to Taiwan. In addition, Bush sent Ambassador Carla Hills, U.S. Trade Representative, to Taiwan on an official visit. In contrast, the new Clinton Administration seemed uninterested in U.S. ties with Taiwan or China. Prodded by Congress, it did initiate a review of Taiwan policy in 1993. However, more than a year and a half passed before results of the review were released.

Increasingly dissatisfied and worried about relations with Washington and concerned about domestic politics, President Lee, in early 1994 decided to abandon Taiwan's low-key, gradual approach to relations with the United States in favor of a highly visible, well-publicized campaign to convince other nations that Taiwan had a right to international representation. The United States, since 1979, had favored low-key relations with Taiwan because this avoided confrontation with China. But Taipei felt that Washington was too sensitive to Beijing's constant complaints and believed that more could be accomplished in its bilateral relations with the
United States and others without triggering an unmanageable PRC reaction. In early 1994, President Lee began his vacation diplomacy, visiting several countries in Southeast Asia to play golf with heads of state. He co-opted a DPP-initiated campaign to regain a seat in the UNGA. He actively sought invitations to APEC meetings of heads of state. He tried to host the Asian Games, and to obtain diplomatic recognition from smaller states. He also employed a well-known lobbying firm in Washington to boost Congressional support for Taiwan. All of this "pragmatic diplomacy" infuriated the PRC.

Alarmed by these developments, the State Department urged President LEE Teng-hui not to transit Hawaii for his April 1994 visit to Nicaragua, Costa Rica and South Africa, primarily because the PRC had objected strongly to a transit visa. The State Department's efforts to block his trip alienated President Lee and reinforced his belief that the State Department was influenced too much by the PRC. Finally, President Lee did transit Hawaii, for 12 hours, but he refused to leave the plane while it was being refueled. This inhospitable treatment of President Lee led directly to overwhelming Congressional support for LEE Teng-hui's visit to Cornell University the following year.

The State Department's Taiwan Policy Review was finally released in September 1994. Washington told Taipei that Taiwan's offices in the United States could change their name to the Taipei Economic and Cultural Representative Office (TECRO). In addition, Taiwan's representatives could visit U.S. government offices, except the White House and the State Department, and certain high level U.S. economic and technical officials could receive permission to visit Taiwan for specific purposes. Assistant Secretary Winston Lord, describing the results of the review, also stated that "Recognizing Taiwan's important role in transnational issues, we will support its membership in organizations where statehood is not a prerequisite, and we will support opportunities for Taiwan's voice to be heard in organizations where its membership is not possible."22

Taipei was disgruntled with the results of the Taiwan Policy Review. Its expectations of a significant advance in bilateral relations, because of President Clinton's negative view towards China and his

earlier friendly visits to Taiwan as Governor of Arkansas, were
dashed. The State Department, reluctant to alienate China even
further, had advised against any significant change in unofficial U.S.
relations with Taiwan.

President Lee came to believe that the State Department re-
garded Taiwan as an obstacle to better U.S.-PRC relations. LEE
Teng-hui believed that Washington had adopted Beijing's definition
that Taiwan is part of the PRC rather than his definition that Tai-
wan is part of an entity named "China" and that the PRC is another
part of "China." In President Lee's view, each part of China was an
equal, separate, sovereign political entity.

Kissinger, during his secret journey to Beijing in 1971 to pre-
pare for President Nixon's 1972 visit, had told CHOU En Lai that
the United States did not seek two Chinas, a one China one Taiwan
solution, or an independent Taiwan.23 Kissinger, and then Brzezinski
in 1978, assured the Chinese that the United States acknowled-
ed the Chinese position that there was but one China and that
Taiwan was part of it and that the United States would not support
a Taiwan independence movement.

Taipei felt that the U.S. Administration's Taiwan policy was
locked in the past. Major events like the fall of the Soviet Union
and China's rapidly growing economic power had changed the stra-
getic picture. Taiwan itself since 1979 had become a major interna-
tional trader (ranking 14th in the world) with growing foreign
exchange reserves ($100 billion in 1995). Taiwan had also expe-
rienced a remarkably peaceful transition to democracy. Between
1988 and 1995, Taiwan established mutually beneficial trade with
the PRC, and Cross-Strait talks were making progress. Yet the only
changes in U.S.-Taiwan policy that Washington was willing to make
were the minor adjustments in 1994 described above. Had Wash-
ington's self-imposed 1979 tight guidelines been gradually loosened
step by step with regard to visits by officials back and forth and
higher level contacts, it is likely that over a twenty year period the
unofficial relationship would have prospered even more without se-
rious damage to U.S.-PRC relations. But after keeping a rigid set
of guidelines for such a long period of time any change, even a
slight modification, was criticized out of all proportion by the PRC.
In retrospect, it might have been better for Washington to make
practical adjustments, including treating Taiwan's representative of-

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23. John H. Holdridge, *Crossing the Divide*, Lanham, Maryland: Rowan and Little-
field, 1997, p.57.
fice as a private entity entitled from the outset to make appointments in the State Department, White House or any federal agency like any private organization.

Relations between Taipei and Beijing deteriorated as President Lee implemented his high visibility, pragmatic foreign policy. Seizing the initiative from the opposition Democratic Progressive Party in 1994, the KMT launched a strong effort to rejoin the United Nations. A major publicity campaign stressed Taiwan’s right to be represented in the United Nations. Taipei persuaded some of the twenty-nine countries with whom it maintained diplomatic relations to sponsor resolutions to put Taiwan’s entry on the U.N. Rules Committee’s agenda. Taiwan failed in 1994 and in subsequent years. The United States consistently refused to support Taiwan’s U.N. bid. The PRC launched an angry and vituperative campaign against any consideration of Taiwan’s entry, repeating its claim that Taiwan was a province of the PRC. In August 1994, Beijing issued a White Paper detailing Taiwan’s status as part of China and expressing its strong opposition to any consideration by the U.N. of Taiwan’s application. Despite the bitter tone of Beijing’s White Paper, JIANG Zemin, in January 1995, issued a moderately worded eight point proposal to Taiwan suggesting, *inter alia*, that both sides meet to negotiate the end of hostilities. But Taipei did not take advantage of this overture, and President Lee’s six-point response did not advance the dialogue.

President Lee had been determined to visit the United States ever since he assumed the presidency in 1988. He kept this idea in mind even after the State Department’s shabby treatment of his transit through Hawaii in 1994. Finally, through the efforts of the Cornell Alumni Association, the lobbying firm of Cassidy Associates, and Congress, President Lee visited the United States to give a speech at Cornell in June 1995.

The State Department, fully aware of Beijing’s anger at such a presidential visit, did everything possible to persuade President Lee not to come to the United States. The White House, the National Security Council and the State Department were unanimous in their decision to deny the visit. The Chinese Ambassador in Washington was informed of this decision. Secretary Christopher apparently gave Chinese Foreign Minister QIAN Qichen the impression that the United States would not admit President Lee. The Chinese, more sensitive to form than to substance, had been strongly opposed to any Taiwan effort to fly its flag, or use its name in the international diplomatic arena. There were countless PRC protests
over the Republic of China's efforts to use its flag or official name in the United States when purchasing missions, athletic teams, dance groups or others came to the United States from Taiwan. Even more than arms sales, Beijing was sensitive to these ROC symbols and lost no opportunity to complain bitterly to Washington. The prospects of a presidential visit from Taiwan aroused the PRC to a fever-pitch of anger. They considered such a presidential visit, regardless of its purpose, to be official in nature and were totally opposed to it. President Lee's speech at Cornell aroused more anger.

President Lee could not have found a more divisive issue. Both houses of Congress, influenced by Taiwan's high powered lobbying firm, passed overwhelmingly with only one dissenting vote a resolution calling on President Clinton to welcome President Lee.24 At the last minute, Clinton reversed his Administration's position and granted permission for the visit and President Lee journeyed to Cornell. The PRC went ballistic, withdrawing its ambassador from Washington, initiating nineteen days of military exercises in the Taiwan Strait, firing surface-to-surface missiles, and canceling the Koo-Wang cross-Strait talks. In addition, Beijing's propaganda machine denounced President Lee in the most bitter terms on an almost daily basis.

Washington's relations with Beijing hit a new low as a result of the visit. The Administration's relations with Taiwan were also deeply strained. The State Department blamed President Lee's visit for precipitating the crisis in relations with Beijing. Many in Congress did not understand the PRC's reaction to this visit. They asked why President Lee or any one else should be denied a visa to give a speech at his alma mater? After the visit, some Administration officials, including Assistant Secretary of State Winston Lord, initially refused to speak to Benjamin Lu, Taiwan's representative in Washington.

In the weeks and months leading up to President Lee's reelection in March 23, 1996, the PRC did everything possible to blacken his reputation. Beijing had convinced itself that LEE Teng-hui was a secret supporter of Taiwan independence. Finally, two weeks prior to the election, the PRC launched another series of naval exercises, firing surface-to-surface missiles close to Taiwan's main ports, Kaoshiung and Keelung. On March 18, additional naval ex-

ercises were conducted near the offshore islands of Kinmen and Matsu. The PRC claimed that these exercises were intended to warn Taiwan about China's deep-rooted opposition to any move by Taiwan towards independence. But the situation was so serious that Washington dispatched two U.S. Navy carrier groups to waters near Taiwan as a precautionary measure to prevent the outbreak of actual hostilities.25

The critical situation in the Taiwan Strait acted as a wake-up call to top-level policy makers in Washington. After years of neglect, the Administration was forced to work hard to improve relations with both China and Taiwan. High-level talks were held with both during and after the March military confrontation. The State Department drew up a schedule of top-level visits to China, including visits by Defense Secretary Cohen and Secretary of State Albright. In 1997, JIANG Zemin made a state visit to Washington. These visits and talks helped to reduce tensions between China and the United States. During this period, there was a gradual warming of the bilateral relationships. The Administration backed away from its previous single-minded emphasis on human rights in favor of cooperative relations with China. For its part, China released several prominent dissidents from prison and exiled them to the United States.

Taiwan benefited from this thaw in U.S.-PRC relations. A new representative, Jason HU, was appointed to head TECRO in Washington.26 Communications with the Administration were restored, the PRC moderated its propaganda attack on President Lee, and then in early 1998, Beijing signaled some interest in resuming the Koo-Wang talks, which it had suspended two years earlier.

Both during and after JIANG Zemin's visit, Taipei was reassured by Washington publicly and privately that no change had been made in U.S. policy toward Taiwan. Yet the State Department spokesman, after Jiang's visit, stated that the United States did not support Taiwan independence.27 This was the first time the United States had publicly and officially announced that it did not


26. After one year in Washington, Jason HU was appointed Foreign Minister in Taipei. He was replaced by Stephen CHEN, former Vice Minister of Foreign Affairs and Deputy Secretary General of the President's Office.

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support Taiwan independence. For some years, statements to the same effect had been made privately by the State Department, U.S. diplomats, and the AIT to Chinese officials and politicians in Beijing and Taipei. Subsequently, in late April 1998, Secretary Albright visited Beijing to prepare the way for President Clinton's June visit. When asked about U.S. policy towards Taiwan, Mrs. Albright said that "we have no change in our China policy - we have a "one-China" policy - not a "two China," not a one China and one Taiwan policy - and we do not support Taiwan independence or their membership in international organizations that are based on statehood."\textsuperscript{28}

This statement reiterated the U.S. policy of not supporting Taiwan independence. But Secretary Albright rephrased the 1994 Taiwan Policy Review statement that the United States would support Taiwan's membership in organizations where statehood was not a prerequisite with the more explicit statement quoted above. Despite the negative wording, the U.S. position remains as follows: the United States does not support Taiwan's entry into the U.N., which requires statehood, for example, as compared to U.S. support for Taiwan's entry into entities like the World Trade Organization.

In early 1998, former Secretary of Defense Perry, accompanied by the former Chairman of the Joint Chief of Staff General Shalikashvili, Brent Scowcroft and others, visited Beijing and Taipei. In Taipei, Perry urged Taiwan to resume the cross-Strait talks with mainland China, which Beijing had broken off in 1995 after President Lee's visit to Cornell. Subsequently, Joseph Nye, former Assistant Secretary of Defense for International Security Affairs, and Anthony Lake, former National Security Advisor to President Clinton, in separate visits to Taiwan, also pressed for resumption of the Cross-Strait dialogue. The U.S. and Taiwan press speculated that these visits were designed by the Clinton Administration to bring pressure on Taiwan to resume Cross-Strait talks with China. On March 5, Taiwan announced that it would send a delegation to China to restart technical-level talks, and a delegation was sent from Taipei to hold preliminary talks with the Chinese ARATS (Association for Relations Across the Taiwan Strait). Both sides agreed that Dr. KOO Chen-fu, Chairman of the Straits

Exchange Foundation, would visit China toward the end of the year.\textsuperscript{29}

In Taiwan, Joseph Nye stressed three points, which he claimed could preserve Taiwan’s economic and political freedoms. Nye said: (1) the U.S. should state plainly that its policy was for “one China” and opposed the use of force. In addition, the United States should say that if Taiwan were to declare independence the United States would not recognize or defend it. Moreover, the United States should work hard to discourage other countries from recognizing Taiwan independence. At the same time, the United States would repeat that it would not accept the use of force, since nothing would change as the result of any abortive declaration of independence by Taiwan; (2) the PRC should say that if Taiwan decisively rejected the idea of declaring independence, Beijing would not oppose the idea of more international living space for Taiwan and would broaden the Hong Kong one country- two systems formula to one country- three systems for Taiwan; (3) Taipei would explicitly express its decision to forswear any steps towards independence, intensify the cross-Strait dialogue and stimulate greater flows of investment and exchanges of people across the Strait. According to Nye, such a three-part package could be considered a dynamic status quo. No side would rock the boat politically, but political evolution, economic development and social change could improve the context of relations between Taiwan and the Mainland in the longer run.\textsuperscript{30}

Joseph Nye’s opposition to Taiwan independence was echoed by several prominent Americans on the occasion of Taipei Mayor CHEN Shui-bian’s visit to Washington in March 1998. Mayor Chen rejected the PRC’s China policy and emphasized that Taiwan was not part of China nor a province of the PRC. He stated that Taiwan was a sovereign country and said that he expected the United States to support Taiwan’s sovereignty claims. But the March 1996 Strait crisis, when China conducted missile firing, conducted exercises close to Taiwan’s ports and caused President Clinton to send two aircraft carrier groups to waters near Taiwan to help prevent the outbreak of war, was clearly on Washington policy makers’ minds.

\textsuperscript{29} Dr. KOO Chen-fu, Chairman of the Straits Exchange Foundation, speech at CSIS Conference on Taiwan at the Hyatt Regency Hotel, Washington, D.C., May 20, 1988.

when Mayor Chen made his visit.\textsuperscript{31} CHEN Shui-bian was a leading member of the major opposition party, which advocated independence. He was a likely candidate for President of Taiwan in the next election in March 2000. Washington was worried about his statements favoring independence, because a president of Taiwan who openly advocated independence could create a crisis in the Taiwan Strait. China had consistently and forcefully stated time and again that it would use military force to prevent Taiwan independence. U.S. policy makers believed this threat was credible. Many observers in Washington were concerned that ill-considered moves by Taiwan towards de jure independence could drag the United States unwillingly into a major conflict with China. Consequently, Washington would do everything possible to pressure Taiwan to refrain from any irrevocable moves towards an independent Republic of Taiwan.

Stanley Roth, Assistant Secretary of State for East Asia and the Pacific, in his testimony before the House Sub-committee on East Asian and Pacific Affairs on security goals in Asia, affirmed that U.S. policy on PRC-Taiwan relations remained unchanged: “The United States continues to support peaceful resolution of the Taiwan question and believes that cross-Strait dialogue provides the most promising mechanism through which to defuse tensions.” He welcomed steps towards the resumption of cross-Strait talks and said the United States firmly believes that improvement of cross-Strait relations will provide peace and stability in the entire region. “Any deterioration in Beijing-Taipei relations along the lines of what took place in 1995-96 would be costly and counterproductive for both sides and dangerous to the stability of the entire region.”\textsuperscript{32}

Under Secretary of Defense Slocombe, testifying the same day, echoed this view and said that a constructive and peaceful resumption of the cross-Strait dialogue served the interest of all the parties and was a major element in achieving long-term regional peace and stability. It is clear from these statements that the Administration continued to encourage the cross-Strait dialogue and hoped that the dialogue eventually would progress to a point where Taipei and Beijing could resolve some of their differences.

\textsuperscript{31} U.S. Taiwan Opposition Chart Collision Course; Defense News; Vol 13, No 12; March 22-29, 1998.

Slocombe summarized U.S. policy towards Taiwan in traditional terms. He stated that the policy of the United States towards Taiwan and the PRC was aimed at preserving peace and stability in the Asia-Pacific region.

Our strategy includes comprehensive engagement with the PRC in an effort to bring China firmly into the international system as a responsible participant, and maintaining our obligations toward Taiwan as stipulated in the Taiwan Relations Act. The Taiwan Relations Act (TRA) of 1979 and the three joint Communiques form the basis of U.S. policy regarding China, including the Taiwan issue. They have been followed by successive Administrations of both political parties. Our premise is that an adequate defense in Taiwan is conducive to maintaining peace and security while differences remain between Taiwan and the PRC. Slocombe spoke about U.S. arms sales to Taiwan and said:

We take our obligation to assist Taiwan in maintaining a self-defense capability very seriously. We do so not only because it is mandated by U.S. law in the TRA, but also because it is in our own national interest. While our arms sales policy aims to enhance Taiwan's self-defense capability, it also seeks to reinforce regional stability. We do not provide Taiwan with capabilities that might provoke an arms race with the PRC or other countries in the region. We understand that as long as Taiwan has a capable defense capacity, the environment will be more conducive to peaceful dialogue, and thus the whole region will be more stable.

XIII. PRESIDENT CLINTON'S VISIT TO CHINA

President Clinton's visit to China was preceded by a barrage of criticism. Over 150 congressmen signed a letter urging him to cancel his trip. Human rights activists expressed their opposition to Clinton's official reception at Tien An Men Square. Republican senators and congressmen demanded investigation of alleged Chinese campaign contributions to the Democratic National Committee in 1996 and investigation of national security information

34. Id.
allegedly passed to the Chinese by U.S. corporations. Many bills were pending in Congress, all seeking to sanction China for human rights, Tibet, trade or other abuses. The House of Representatives, voting 411 to 0, passed a resolution asking the President to urge Beijing to renounce the use of force against Taiwan. Taiwan was also active in expressing its concern that the PRC would try to pressure the United States to advocate positions detrimental to Taiwan. To meet these concerns, the Clinton Administration repeatedly informed Taiwan both privately and publicly that the Presidential visit to China would not harm Taiwan’s interests or unofficial U.S.- Taiwan ties. Deputy Assistant Secretary of State Susan Shirk in testimony before the House International Affairs Committee on May 20, 1998 described the flourishing U.S.-Taiwan relationship and emphasized that improvement in U.S.-PRC relations would not result in damage to U.S.-Taiwan relations or to cross-Strait relations and that improvement in U.S.-PRC relations would not come at the expense of Taiwan but would add to regional stability, which would benefit Taiwan. To put to rest Taiwan’s fears of a fourth communique, Assistant Secretary Shirk stated there would be no fourth communique on Taiwan arms sales or Taiwan issues at the summit.

The PRC for its part, convened a meeting of the Central Committee of the Chinese Communist Party in mid-May 1998 to discuss the Taiwan issue. The Central Committee concluded that active steps should be made to hold cross-Strait political talks under the one China principle. It called once again for unification under the one country, two systems formula.

At a joint press conference with President Clinton in Beijing on June 27, 1998, President Jiang stated that “The Taiwan question is the most important and the most sensitive issue at the core of China-U.S. relations. We hope that the U.S. side will adhere to the principles set forth in the three China-U.S. joint communiques and the joint China-U.S. statement, as well as the relevant commitments it has made in the interest of a smooth growth of China-U.S. relations.”35 The joint China-U.S. statement to which Jiang referred was issued during his state visit to Washington on October 29, 1997. That statement includes the following paragraph.

China stresses that the Taiwan question is the most important and sensitive central question in China-U.S. relations,

and that the proper handling of this question in strict compliance with the principles set forth in the three China-U.S. joint communiques holds the key to sound and stable growth of China-U.S. relations. The United States reiterates that it adheres to its “one China” policy and the principles set forth in the three U.S.-China joint communiques.\(^\text{36}\)

President Clinton, in his opening statement at the press conference in Beijing, included the following: “I reaffirmed our long standing one China policy to President Jiang and urged the pursuit of Cross-Straits discussions recently resumed as the best path to a peaceful resolution. In a similar vein, I urged President Jiang to assume a dialogue with the Dalai Lama in return for the recognition that Tibet is part of China . . .”\(^\text{37}\) This statement apparently was not enough for the Chinese and, by prior agreement, Clinton on June 30 in Shanghai, during a radio talk show, found an opportunity to say that during his summit meeting with Jiang in Beijing on June 27, “I had the chance to reiterate our Taiwan policy which is that we don’t support independence for Taiwan, or two Chinas, or one-Taiwan one-China. And we don’t believe that Taiwan should be a member of any organization for which statehood is a requirement.”\(^\text{38}\)

Jiang’s press conference statement on Taiwan also referred to the relevant commitments that the U.S. has made in the interest of a smooth growth of China-U.S. relations. President Clinton’s remarks on U.S.-Taiwan policy in Shanghai may have constituted one of these commitments. Although U.S. administration officials, including NSC advisor Berger and Secretary of State Albright, had made these same points repeatedly, the Chinese on both sides of the Taiwan Strait felt they were more official and authoritative coming from the President himself.

In a press conference prior to President Clinton’s departure for China, Stanley Roth, Assistant Secretary of State for East Asia and the Pacific, was asked if the United States was pushing Taiwan to come to the negotiating table with China and if that was the case was it contrary to one of the six assurances (by President Reagan to


\(^{37}\) Carol Giacomo, Clinton spells out Taiwan policy, Reuters, yahoo! news, June 30, 1998.

\(^{38}\) Id.
President CHIANG Ching-kuo, which stated that the United States will not exert pressure on the Republic of China on Taiwan to enter into negotiations with the Chinese Communists). Roth did not make a direct response to this question but he said:

I think . . . that the security of Taiwan ultimately depends on the state of cross-Straits relations. This is not an issue that is going to be resolved militarily. It is going to have to be resolved, I think, by virtue of the relationship between both sides of the Straits. And I think that United States policy has been very clear. We have urged both sides to resume a Cross-Straits dialogue that they themselves had initiated several years ago and which had gotten off to a promising start before it was disrupted in 1995. We have had many indications that dialogue is going to be resumed this year at the high level, the Wang-[Koo] level, and we are very encouraged by that. We think that is the path that might lead ultimately to the most progress and most help to Taiwan’s security.  

XIV. KOO-WANG TALKS

From October 14-19, 1998, Dr. KOO Chen-fu, Chairman of The Straits Exchange Foundation, led a 12 member delegation to visit Shanghai and Beijing. Besides meeting with his counterpart, ARATs Chairman WANG Daohan in Shanghai, Dr. Koo had talks with China’s President JIANG Zemin, Vice Premier QIAN Qichen and CHEN Yunlin, director of the Taiwan Affairs, office of the State Council. While both sides did not change their basic positions, they did agree to proceed with additional contacts and negotiations. WANG Daohan is to visit Taiwan, probably in 1999. Koo’s talks in Shanghai and Beijing received widespread publicity. In Washington, the Administration and Congress were pleased by the talks. No one expected any significant movement by either side during Dr. KOO Chen-fu’s visit, but his talks with President Jiang and others represented a reduction in tensions between both sides. The Geneva and Warsaw Talks from 1955 to 1970 between the United States and the Chinese resulted in only one minor agreement which was not carried out. Nevertheless the talks were useful as a channel of communications and did help over the years to reduce tensions. The Koo-Wang Talks may serve a similar purpose.

XV. CONCLUSION

For the past twenty years, Washington’s policy towards Taiwan has been based on its interpretation of the three Communiques with China and on the Taiwan Relations Act. The Carter, Reagan, Bush and Clinton Administrations have all tried to advance U.S. national interests by improving diplomatic relations with the PRC while maintaining friendly but unofficial relations with Taiwan. Washington has made every effort to ensure that relations with Taiwan remain unofficial as agreed during recognition negotiations with the PRC. From the Arms Sales Communique in 1982 until Tien An Men in 1989, Washington was able to maintain good relations with both Taipei and Beijing. Relations with Beijing suffered a serious downturn after June 4, 1989 and with Taipei after President Lee’s Cornell trip in 1995. The PRC’s naval exercise in the Taiwan Straits during President Lee’s reelection campaign was a watershed in Washington’s relations with both Taipei and Beijing. In retrospect, it seems that Beijing was the major beneficiary of this turning point because the Administration was compelled to give its full attention to improving U.S. relations with China.

Relations with Taiwan have also improved. President Jiang’s visit to Washington and President Clinton’s to Beijing are part of a continuing effort by both sides to advance bilateral relations. It is more than likely that there will be serious differences of opinion and unexpected setbacks. Some congressmen are strongly opposed to the Administration’s China policy. But the long-term trend is towards closer relations. In the past, while negotiating the three Communiques with China, the United States, in pursuit of its own national interests, tried to put the Taiwan issue to one side but the PRC always brought it back to the center of the dialogue. As China grows in economic, political and military strength and becomes more active in international affairs, Taiwan’s international position is likely to weaken by comparison. This presents a real challenge to Washington and Taipei to find ways to maintain close, albeit unofficial, relations.

Taiwan’s government hopes that in twenty or thirty years, mainland China will be transformed into a market economy with a moderate, democratic political system. Then China might be easier to deal with and more amenable to compromise. This expectation may not be realized. If history is a guide, mainland China’s domestic problems and unexpected circumstances may deny Taiwan, the United States, and other democracies, the long-range changes all hope to see. Professor Robert A. Scalopino writes that the achieve-
ment of democracy in China is a distant prospect. "The prospects are for a more open and diverse society capable of interacting with others on a broader front, but with its authoritarian features still clearly in evidence."\footnote{Robert A. Scalopino, "Will China Democratize: Current Trends and Future Prospects," \textit{Journal of Democracy}, Vol. 9, No. 1, January 1998.}

In recent years, serious proposals have been raised to help improve Taipei-Beijing relations. In 1994, Mr. YU Chi-chung, publisher of the \textit{China Times}, gave a speech concerning developing relations between the two sides of the Taiwan Strait.\footnote{YU Chi-chung, Chairman of the Board, \textit{China Times}, What We Can Learn from the Peaceful Transfer of Political Power in South Africa, speech delivered at National Central University, Chung-li, Taiwan, May 17, 1994.} Mr. Yu advocated the forming of a Chinese confederation. In early 1998, former DPP Chairman, Mr. SHIH Ming-Teh proposed the creation of a Greater Chinese Commonwealth similar to the British Commonwealth of Nations. Others in the United States and Taiwan have also advocated the concept of a commonwealth or a confederation or an intra-national entity.\footnote{SHIH Ming-Teh at Democratic Progressive Party Symposium on Mainland China Policy, Free China Journal, February 20, 1998, p.1.; David Dean, "2su'th'] International Conference on Asian Studies, St. John's University, September 10-11, 1994, paper entitled "Peace or War in the Taiwan Strait"; former legislator WEI Yung in April 28, 1998 speech at the Atlantic Council. Most advocates of confederation or commonwealth status envisage Taiwan as part of a Chinese Republic, in which it keeps the same separate, democratic government it now enjoys, as well as its own military, and as well as its own military, membership in the UN (two seats for the Chinese Republic) and international representation.}

Earlier, these ideas were dismissed by Beijing without much consideration. However, a confederation does offer a reasonable solution to a dangerous and difficult situation. China would gain more ground in its relations with the United States if it were to adopt a more flexible policy toward Taiwan. China would make more progress with Taiwan if it adopted a more far-sighted policy. China would also gain better relations and more influence with East Asian countries and internationally if its Taiwan policy was seen as more reasonable. Similarly, Taiwan would advance its own cause with the United States, China and other nations if it were to adopt a more pragmatic and supportable policy toward China and move toward more talks and direct contacts. The United States also would benefit by improving its official ties with Beijing and its informal links with Taipei if there is peace and stability in the Taiwan Strait.
At present, the burning desire for independence on Taiwan, regardless of China's predictable reaction, seems to transcend logic and common sense. But in many parts of the world, including the middle east, former Yugoslavia, and India and Pakistan, historical experience, prejudice and emotion overrides reason. It is likely that many Taiwanese will continue to pursue complete, legal independence regardless of the cost. If these Taiwanese gain power and cannot be dissuaded from this course then there is a real possibility of war in the Taiwan Strait. Foreseeing this eventuality, the United States will have to devise and implement policies, which will help to preserve peace and security in the Taiwan Strait while avoiding the temptations to restrict democratic developments on Taiwan for the sake of improved relations with Beijing. To guide it in meeting these requirements, the United States may have to develop, at least for its own internal use, a model of how confederation between Beijing and Taipei would really work.
CHAPTER 3


Charles T. Cross*

The first two years following the change in U.S. diplomatic relations with the People's Republic of China (PRC) and the Republic of China on Taiwan were critical to the success of American China policies overall. The United States needed to make clear to the PRC from the outset that it would scrupulously adhere to its promises to maintain only unofficial governmental-type relations with Taiwan; but at the same time it had to conduct itself in ways which would not disturb Taiwan's remarkable economic and social development. In short, it had to sustain the confidence of the people and leaders of Taiwan in a future which they could peacefully determine themselves.

The process of adjustment to new directions was complicated in the United States by strong domestic political and bureaucratic pressures between those who hoped to advance closer US/PRC ties to counter the Soviet Union in the Cold War and those who had long-standing emotional attachments to the ROC because of its opposition to the Chinese Communists. Therefore, the AIT would be closely watched by Beijing, Taipei and those in Washington concerned with China. I was honored to have been asked to be the first Director of the AIT's Taipei Office.

I entered on my unusual assignment with several pre-conceptions. These were strengthened and refined by the briefings and instructions I received in Washington and talks David Dean, the Washington Director of AIT, and I had with Senators and Congressmen who had participated in drafting the TRA. Although not all were confirmable State Department thinking at the time, they determined my own approach to the AIT and were useful in developing an operational style:

1) That productive, wide-ranging relations with the PRC were important to the United States and the rest of East Asia - including

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Taiwan - and that these were of the first priority. The Normalization Agreements of December 1978 provided adequate arrangements for good relations.

These two basic principles were firmly supported throughout Washington and were State Department policy. Instructions from Deputy Secretary of State Warren Christopher and Assistant Secretary for East Asian Affairs Richard Holbrooke were brief. Christopher was firm in his lawyerly way, "Taiwan shouldn't do anything that would obstruct our relationship with the PRC" and went on to express the hope that Taiwan would adjust to the new situation and take advantage of the opportunities inherent in the TRA to expand its trade. (Christopher was known to have a jaundiced view of Taiwan and its leaders, having been the victim of a government-permitted violent demonstration in December 1978 when he and a delegation from the State Department went to Taiwan to explain what the loss of American diplomatic relations would mean to Taiwan. However, in his short interview with David Dean and me, he was unemotional. It is important to bring this out because he was regularly attacked in the Taipei press although he had merely carried out national policy. Christopher really had little to do with Taiwan after 1978.) Holbrook was informal and more to the point, "Try to make the new set-up work but don't ask for anything [i.e., changes in the arrangements] because we can't help."

2) That, although Taiwan's formal international position had changed, the status quo had not really been altered. Taiwan would remain a completely self-governing part of China which its own Kuomintang leaders claimed it was: it would retain all its armed forces which the United States would continue to enhance through sales of arms; trade with the United States would continue and could expand without limits set by others; and, the vast array of cultural, business and personal ties between Americans and Chinese in Taiwan would be untouched.

I believed that these conditions would motivate the AIT and that they were fully understood and accepted in Washington.

3) That because the facts of life on Taiwan would not change, symbolism would be of paramount political importance for all three sides of the PRC/Taiwan/US triangle, and it would be American public behavior which counted most with the other parties. American press reactions to news stories in Taiwan about possible deviations in U.S. policies, especially those touching on relaxation of the rules of "unofficiality" or the sales of arms to Taiwan, the responses of State Department spokesmen to questions or complaints by the
PRC on these subjects, statements by members of Congress on anything to do with Taiwan, and the day-to-day workings of AIT in Taipei: all would be searched for hints of new American positions.

AIT's staff of career diplomats made the adjustment to nonofficial status quickly but no one was fully prepared for the multiplying administrative complexities, the required subtleties, the circumspection and the constant attention to the details of unofficiality. We were always conscious that we were setting precedents in a strange but important relationship.

4) That because symbols would be projected by AIT's operating style, it would be desirable for AIT to have some operating flexibility. I felt, in this connection, that good US/PRC relationships were valuable in their own right and that their validity in 1979 was no longer heavily dependent on their effect upon the Soviet Union - although, of course, the Cold War still had to be a factor in all policy considerations. This situation could give some maneuverability to an American Administration in dealing on Taiwan matters with the PRC.

There was little policy support for my view in either the Carter or Reagan Administrations during the first two years of the TRA. In fact, the latter Administration was especially responsive to PRC pressure over arms sales to Taiwan for what Secretary of State Haig called the "Soviet Imperative."

I. LIVING UNOFFICIALLY

Fortunately for AIT, the Taiwan Relations Act (TRA) provided a practical framework for AIT's symbolic behavior. It established the legal basis for AIT and it clearly defined the operational areas of the unofficial relationship: the durability of previous U.S. agreements with the ROC, the sales of defensive arms, the connection between arms sales and the U.S. insistence on a peaceful settlement of the Taiwan issue by the Chinese parties themselves, and our long-standing interest in human rights on Taiwan.

The PRC immediately objected strongly to the TRA because it openly defined how the United States would deal with a territory that it had agreed was a part of China. Especially disturbing to the PRC was the unequivocal statement at the beginning of the Act (Section 2(a)(3)) that diplomatic relations "rested upon the expectation that the future of Taiwan would be determined by peaceful means" (although this had always been the American position) and going on to say that the United States would provide Taiwan with defensive arms and would "retain the capacity of the U.S. to resist
any resort to force” which would jeopardize the security, or the social or economic system of the people on Taiwan. These articles directly challenged the PRC’s enduring principle that it had the right to deal with the Taiwan issue as it chose.

For its part, Taiwan worried about how the TRA obviously affected the change in Taiwan’s international status.

Some State Department policy officers regretted a loss of flexibility in adjusting American actions with Taiwan to our policies with the PRC. Nevertheless, this remarkable bipartisan legislation, produced after months of hearings in the Senate, was signed into law by President Carter on April 18, 1979 and has determined U.S. relations with the island and, therefore, in many ways with the PRC, ever since. Thus, it was expected that the AIT’s first years would be a period of constant testing of how well the U.S. government could adjust to such an oddity as a non-governmental “corporation” performing all the substantive functions of an embassy while trying not to look like one.

The initial secret planning in the State Department for an eventual AIT-like entity had been based on an active Japanese model, the Japan Interchange Association, established in the early 1970s, which had proved acceptable to the PRC and allowed a quiet, successful Japanese relationship with Taiwan. However, the Japanese style of simply insisting that Japan’s dealings with Taiwan were “unofficial” because they said so did not work for Americans who were forced by the close attention of Beijing, Taipei and the U.S. Congress to legalize the complicated relationship. However, the TRA turned out to be admirably suited both to forcing support from the back-up bureaucracy in Washington and to providing operational room for AIT in the field.

These aspects were important because there were many basically administrative problems involved in getting started, including: reducing the American staff to half the size of the former embassy and changing active government officers to a “temporarily separated” status whose salaries, allowances and ranks within their services would remain the same; acquiring new offices in Taipei and Washington to emphasize the AIT’s difference from a regular diplomatic post; setting-up a new personnel system for the AIT’s Chinese employees and reassuring them that they would not lose their U.S. government pensions; moving the State Department’s excellent Chinese Language School from Taichung in central Taiwan to Yang Ming Shan, in the hills above Taipei; and, helping the ex-ROC
Embassy in Washington to change itself unwillingly into an unofficial diplomatic entity.

Two senior Foreign Service officers were in charge of organizing the unprecedented set-up: Roger Sullivan, then a Deputy Assistant Secretary in the State Department's East Asian Bureau, and David Dean, who became the first Director of AIT in Washington and served in that capacity until 1987, when he went to Taipei. These officers, experienced in Chinese affairs, broke new ground every day, fending off criticism in Congress that the AIT was being too hard on Taiwan and obtaining interpretations within the U.S. Government as to how the TRA would be applied in the different agencies.

In Taipei, William Brown (later to become the American Ambassador in Thailand and Israel), whose title was switched from Charge d'Affaires of the American Embassy to Deputy Director of AIT/Taipei, assumed the load of finding new space for a non-embassy/embassy and reassuring Chinese and American employees that the new system would not hurt them personally. John S. Connolly, one of the State Department's most adept administrative officers, traveled back and forth across the Pacific, creating new "unofficial" machinery and procedures, smoothing the way at both ends. These and myriad other Americans and Chinese in Taiwan assured that the AIT was already well-established and working when my wife and I arrived there in June 1979.

My briefings in Washington had concentrated on the symbols of an "unofficial" U.S. relationship with Taiwan. Therefore, our discussions were about avoiding the appearance of doing "official" business while actually carrying it out in practice. Because the most observable diplomatic activities anywhere are meetings between diplomats and local government officials, it was decreed that all the AIT's essential business with Taiwan would be conducted through the latter's own unofficial Coordinating Council for North American Affairs (CCNAA), staffed by officers of the ROC Foreign Ministry in a separate building. An adjunct to this rule was a restriction on AIT officers calling on Taiwan government officials in their offices - with exceptions for emergencies, when we were required to avoid publicity if we could. The same rules applied to CCNAA officers in Washington.

In practical terms, these rules did not impede business. CCNAA officers were very efficient and always helpful. AIT's contacts with other officials were extensive but made at homes, restaurants, guest houses and quite often, at golf. In many cases, the
informal ways of earlier diplomacy were more useful to both sides than the stylized routines of full diplomatic relations, because they allowed for frankness and indirect approaches on many ticklish matters. The initial problems lay in the natural irritations Taiwan officials - indeed all Chinese in Taiwan - felt at the symbolic character of the rules. The more the people in Taiwan chafed at the symbols, the more publicity they attracted to the details of unofficiality, the more strictly AIT had to apply them and, consequently, the less chance there was to change them publicly - which was what Taiwan officials really were after. This situation also applied to efforts by American Chamber of Commerce in Taiwan (Amcham) members to complain publicly about the AIT's unofficiality. They were usually sharply told by State Department officers that attention to such details was what preserved the agreement with the PRC.

There were publicized complaints from other Americans, too. For example, “unofficiality” and the desire to prove symbolically that the United States had removed all its forces from Taiwan, caused Air Force pilots ferrying the droves of Congressional visits to stay on the ground in Taiwan only long enough to load and unload their passengers. This rule incited the inevitable TV cameras to concentrate on the “U.S. Air Force” logos on the planes. Travel by Executive Branch officials to Taiwan was prohibited during the first two years except in rare and unpublicized circumstances, causing pain among those who were accustomed to visiting the island regularly. In a noteworthy attention to detail, the State Department stopped an American scientist with some connection to the Department of Agriculture from attending a conference in Taiwan assembled to discuss “The Pig as a Model for Bio-medical Research” - a conference of such little interest to the general public that the Taiwan press only reported the reasons for the absence of the scientist. Stopovers in the United States by Taiwan officials enroute to ROC embassies in Latin America had to be carefully negotiated in advance to avoid publicity or the inadvertent appearance of “diplomatic relations.”

The Carter Administration set the rules for American “unofficiality.” After Carter's defeat, the people on Taiwan, sometimes forgetting that the opening to the PRC was engineered by President Nixon, assumed that there would be some quick changes when President Reagan came into power. They were misled by Reagan himself who had seemed to promise a return to “official” relations during the campaign in 1980 and by other Republicans, who publicly tried to encourage the Administration to loosen the rules.
It turned out to be the other way around. For example, a staggering disappointment was inflicted on the Taiwan leadership when some 53 “Taiwan personalities” were invited by Republican groups to attend Reagan’s inauguration festivities. The group included President CHIANG Ching-kuo’s son, members of Taiwan’s parliament, the Governor of Taiwan, LIN Yang-kang, and most controversial of all, Y.S. TSIANG, a former ROC Foreign Minister and then Secretary General of the Kuomintang. The latter two had specially been invited by Anna Chennault, the China-born widow of the famous “Flying Tiger” General Claire Chennault, a Republican National Committee member with close ties to Taiwan.

The PRC ambassador in Washington announced that he would not attend any ceremony where Tsiang might appear and the State Department and AIT reacted quickly and disinvited him. It was clear from the first day that whatever prominent Republicans might say, the Reagan Administration would not reverse the national policy of “unofficiality,” at least to the point where it would cause trouble with the PRC.

Despite such difficulties, the AIT and CCNAA together slowly drew the lines of “unofficiality” so that the new system could work. While the first Chairman of the CCNAA, Dr. TS’AI Wei-p’ing, a skilled ROC diplomat, regularly emphasized to me the Chinese belief that “form is substance,” I believe that the substance of US/Taiwan relations was continuing essentially undamaged at the end of those first two years.

II. ARMS SALES

The sale of arms to Taiwan produced even more tensions than “unofficiality.” That was because there were profound symbolic implications for the Chinese, which the U.S. could not maneuver around easily. For the PRC, selling arms to Taiwan’s well-equipped and efficient armed forces was a sign that the United States stood against the PRC’s ruling Taiwan on its own terms. For the Chinese on Taiwan, arms sales were an indication of moral support against the PRC. For both Chinese parties it was the U.S. responses to public Taiwan requests and to the PRC’s open opposition to specific items such as advanced aircraft, not the items themselves, which were significant.

Arms sales had been the chief obstacle to the normalization of relations with the PRC and has been a continually contentious issue ever since. It will be covered in authoritative detail by Ambassador
Lilley in another chapter but I should note three intractable aspects inherent in US/PRC arms sales disputes from the beginning:

1) The United States had no prior agreement with the PRC on the specifics of arms sales.

In the December 1978 joint communique on normalization, the United States announced that it was normalizing relations with the PRC on the understanding that the Chinese parties themselves would reach a peaceful settlement of the Taiwan issue - but added separately that it would continue to sell “carefully selected defensive” arms to Taiwan. The then Chairman of the Chinese Communist Party, HUA Guafeng, in the Chinese side of the communique, affirmed that the provision of arms to that part of China called Taiwan was not compatible with normalization but concluded “Our two sides had differences on this point. Nevertheless, we reached agreement on the joint communique,” i.e., normalization could proceed. This was never interpreted by either side as anything other than a way around a profound disagreement in the immediate interest of furthering US/PRC relations. Naturally, the question of arms sales became increasingly symbolic to Chinese on both sides of the Taiwan Strait of the U.S. commitment to the status quo. That publicly unexpressed symbolism guaranteed controversy.

2) The TRA reduced the State Department’s flexibility to use the sale of arms to Taiwan either as leverage against the latter or as incentives to the PRC in trying to shape a permanent peaceful settlement of the Taiwan issue.

The TRA’s arms sales provision firmly stated that decisions about weapons to be sold would be made “solely” on the basis of Taiwan’s “defensive needs” which would be determined by the United States. 1 Because the hundreds of millions of dollars worth of replacement parts and ground and naval force equipment the United States was selling to Taiwan each year were not really in

1. TRA Section 3(a) . . . the United States will make available to Taiwan such defense articles and defense services as may be necessary to enable Taiwan to maintain a sufficient self-defense capability; (b) the President and Congress shall determine the nature and quantity of such defense articles and services based solely upon their judgment of the needs of Taiwan [emphasis added] in accordance with procedures established by law. Such determination of Taiwan’s defense needs shall include a review by United States military authorities in connection with recommendations to the President and the Congress; and, (c) the President is directed to inform the Congress promptly of any threat to the security or the social and economic system of the people on Taiwan and any danger to the interests of the United States arising therefrom. The President and the Congress shall determine in accordance with constitutional processes, appropriate action by the United States in response to any such danger.
dispute, any concessions to the PRC had to be made on slanted policy-motivated assessments of Taiwan “needs” for advanced replacement aircraft. This assured continual disputes over aircraft within the U.S. government bureaucracy, Congress, academic circles and American aircraft companies.

3) Thus, the failure of the Carter Administration to settle the question of selling Taiwan a so-called “follow-on” fighter in the face of certain opposition by the PRC burdened US/PRC relations for the remainder of his term and extended on into the Reagan and Bush Administrations.

The U.S. government’s purposeful dithering over a long-foretold crucial issue gave Taiwan opportunities to play to its supporters in Congress and within the American military, and encouraged the intensely competitive American aircraft manufacturers to advertise their own products. In turn, publicity assured attention from the PRC, which made its concerns known formally in Washington and to the American Embassy in Beijing. As I said in various ways to the State Department, “the one thing we can be sure of is that until Taiwan gets some sort of assurance that it can eventually purchase a follow-on to the F-5E, the issue will stay alive to bedevil our China policy. Too many Americans think Taiwan should have an advanced fighter, too much money is involved and most of the participants in the aircraft business are too unscrupulous.”

Perhaps nothing would have worked short of a firm decision within the Carter Administration eventually to sell Taiwan an upgraded defensive aircraft, but it was a change in U.S. national aircraft sales regulations that prolonged the difficulties. In January 1980, President Carter informed Taiwan that he would continue the Nixon/Ford policy of denying the sale to Taiwan of the F-16, then a front-line American fighter, but at the same time came up with a new world-wide fighter aircraft export procedure which became known as the FX scheme. That allowed aircraft companies to develop, on their own, lower capability fighters for sale competitively to countries like Taiwan that were being denied the more advanced product. The U.S. government's role was thereby changed from developing, approving and marketing a single model for sale abroad to merely approving the sale of a privately-produced model. Such a program would allow the Government to get out of export aircraft production but retain control over the recipients.

Predictably, several aircraft companies immediately entered the competition, initially concentrating their efforts on selling their still undeveloped product to Taiwan as the wealthiest Asian country
and one which obviously needed to upgrade its fighter force. The companies figured that the FX-scheme made the Carter Administration vulnerable to influence by Taiwan's friends in Washington because a decision came at the end of the sale process and support could be built up in Congress. Therefore, it was impossible to stop publicity.

I remember reflecting sadly at the time that much trouble could have been avoided by simply licensing Northrup to sell its newly-developed F-5G as a mere upgrading of the F-5E already in Taiwan's inventory. It certainly would have been an aircraft with only defensive capabilities. It would have taken years before it would be ready and the symbolism of the sale might have dissipated. As it was, the issue would not go away because Taiwan doggedly pursued the principle of being allowed to purchase the F-X; the PRC in response raised the ante in terms of overall US/PRC relations. This cause the Reagan Administration to back down from the encouraging indications it had given Taiwan informally when it came into power. It finally disapproved the sale at the end of 1981.

III. TRADE

One of the purposes of the TRA was to "authorize the continuation of commercial, cultural and other relations between the Americans and the people of Taiwan." The trade ramifications of this flat statement were closely examined by Congress and were the subject of intensive testimony by American businessmen such as Robert Parker, the then President of the American Chamber of Commerce in Taiwan (Amcham), and David Kennedy, former Secretary of the Treasury, who at the time headed the U.S. side of the Joint U.S.-ROC Economic Council. The result was Section 4 of the Act, which assured that for all practical purposes there would be no legal obstacles to a vigorous trade with Taiwan nor to the continuation and expansion of the already enormous cultural and educational ties between the two countries and travel between them.

Parker, an international lawyer, based his well-planned presentation on the unexceptional rule that "business thrives on certainty" and expressed concern that the draft bill presented by the Carter Administration did not, in his view, provide for the continuity of a host of long existing US/ROC trade connected agree-

2. Hearings before the Committee on Foreign Relations, United States Senate, February 1979, pp. 442-452.
ments. Especially important he felt was the standard Treaty of Friendship, Commerce and Navigation (FCN) upon which the others depended. His representations were effective and were responsible in large part for the sharpened language of Section 4, which assured that the FCN and all other agreements would remain in force unless terminated according to their own terms and that future agreements between the United States and Taiwan would have the force of law in the two countries.

Also, at the urging of American business, the Overseas Private Investment Corporation was authorized in Section 5 of the Act to continue its operations in Taiwan as before. This was another confidence-building factor because OPIC insures investors against "political risk," and although there was little danger of political upheaval, this legislated U.S. government concern for American business in Taiwan was regarded as significant because it affected insurance and reinsurance rates. Clearly, it was important that AIT establish a good working relationship with Amcham because of its influential role in developing the TRA. This was actually the case from the beginning, but despite goodwill on both sides, it was not automatic or easy.

All Americans living on Taiwan on December 16 (Taiwan time), 1978, whether they approved of the American policy of normalization with the PRC or not, were distressed by the sudden break in diplomatic relations and the lack of warning to America's long time ally. They shared the bitterness of their Chinese friends at what appeared to them to be an unwarranted blow. Also, the American community as a whole had gained a privileged position in Taiwan during the 25 years that the Mutual Defense Treaty and its accompanying U.S. military presence had been in effect. The future of the American Club, the American-run International School, the remnants of the U.S. military PX system, and even such evidence of the American connection as the supply of the Stars and Stripes printed in Japan by the U.S. armed forces, seemed to be clouded. AIT, deliberately downplaying its similarities to the former prestigious American Embassy, initially did not inspire confidence that it could be helpful.

Moreover, over many years, Amcham had maintained a consistent policy of opposing American policy on China as carried out by the State Department, turning, as did the ROC lobbyists in Washington, to Republican elements in the Congress for support. Amcham joined them in criticizing the new arrangements which irritated the Carter Administration. This ingrained attitude could
have created an atmosphere where the American community and AIT appeared to be working at cross-purposes. However, despite some initial wariness on both sides, AIT, Amcham and, indeed, the American community as a whole, began to cooperate to insure that the overall American position in Taiwan would not suffer.

It was a matter of common sense. First, there was the understanding that neither the AIT nor the Americans on Taiwan could change the basic policy, nor in most cases the application of that policy to Taiwan. By being cautious and using some sophistication, however, convenient flexibility could be found. Second, the government in Taiwan early reassured the American community that the productive relationship between it and Taiwan would not change.

Most importantly, the American community began to see that the TRA provided adequate safeguards for Taiwan’s security and economic well-being; plans could be made for the long-haul. Naturally, being Americans, some Amcham members continued to take opportunities to complain to prominent Congressional visitors like Senator Goldwater about American China policy and its effects in Taiwan. However, suspicion of AIT’s own motives, obvious in the early days, turned into an understanding of its limits but also of the many areas where it could be helpful. Understanding developed quickly into cooperation. AIT and Amcham met regularly in formal briefings and joint business sessions where the problems of the community were discussed frankly.

The American Trade Center, supported by the U.S. Government, held six major trade exhibitions in 1980 and was instrumental in total sales by the companies of some $195,000,000 that year. The claimed ratio of total sales to U.S. tax dollars spent was a remarkable $2,173 to $1.3

Trade will be the subject of other chapters in this book so it is only necessary to point out that Taiwan’s trade with the rest of the world jumped from the beginning of the AIT: exports in 1979 were $16.7 billion, an increase of 27%, and imports of $14.8 billion, an increase of 34%, over 1978. In another sign of continued American confidence, American firms invested $70,700,000 in 1979, which grew to $200,000,000 in 1980, the second year of the TRA.4

IV. OTHER RELATIONS

Travel between Taiwan and America was perhaps the most significant "other" of the relations authorized by the TRA. American visas were never an easy matter anyway, but issuing them in Taipei was complicated by U.S. visa regulations and the needs for unofficially. The former embassy's Consular Section was re-labeled the Travel Services Section for the AIT because a consular section even with the same people performing the same functions does not exist without a consulate - an "official" entity. A Travel Services Section could well be part of an American Express office and was, therefore, acceptably unofficial.

The trouble was that U.S. regulations require that a commissioned consular officer sign visas; all such officers in Taipei had become "temporarily detached" under the TRA. These legal hurdles loomed high in the early days of the AIT but were cleverly jumped by having the visas issued in Hong Kong. All the rules were subtly met by using an American Consulate General Hong Kong visa plate and obtaining pro forma approval electronically from the officer whose name appeared on the form.

There were sad scenes of confusion and panic among the long lines of travelers and immigrants to the United States for a couple of months while these unique arrangements were being made. However, it was slowly straightened out and the Travel Services Section looked and acted like any other Consular Section in the world once it was moved from temporary quarters to its large office in the main AIT complex. Actually, it was busier and possibly more efficient than most because operating with a considerably smaller permanent staff, it ground out more visas than ever. In the peak travel month of July 1980, the AIT (ostensibly through Hong Kong) issued 10,025 visas, a 100% increase over the number issued in July 1978, the last year before the AIT took over. Altogether there was in 1980 a 60.6% increase over 1978 in non-immigrant visas processed by the Travel Services section. There were also substantial increases in services to American citizens during the same year.5

Increased travel between Taiwan and the United States was encouraging evidence of unbroken cultural ties. Taiwan's young people continued to seek higher education in the United States in record numbers as did professionals and scholars of all kinds.

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5. AIT, Taipei 568, February 2, 1981.
Equally important, the flow of Americans coming to Taiwan was unabated, many paying their way by teaching English. They came to study Chinese art and language, to lecture or teach at Taiwan’s universities. They came on business. They came as artists and performers of many kinds. They came there simply to live among Chinese and absorb life in a different culture. They came in droves at the invitation of the Taiwan government to observe how the change in Taiwan’s diplomatic status affected the island. Throughout, the dedicated Chinese and American staff of the Cultural and Information Section, formerly the United States Information Service, maintained all the former programs and student services, such as giving Scholastic Aptitude Tests and English language qualification exams necessary to study in the United States, and maintaining a large reference library for students to use in choosing their universities in America and to research papers on American subjects in Taiwan.

V. HUMAN RIGHTS

Article 2(c) of the TRA was a clear statement of the American interest in human rights on Taiwan. It concluded, “The preservation and enhancement of the human rights of all the people on Taiwan are hereby reaffirmed as objectives of the United States.” The use of “all” in this case was an understood reference to the Taiwanese majority of the population, whose influence was slowly growing within the KMT, but whose actual power was still limited. Taiwanese were also the major “oppositionists” who were the subjects of suspicion and harassment by the security services under the martial law regime of the KMT. They had not yet joined together in a political party (which would have been illegal anyway) and seemed to have unclear aims, ranging from an outright independence movement to general demands for democratization and relaxation of the controls on speech and organization. All AIT officers were engaged in trying to better this situation which was losing Taiwan valuable U.S. support.

Simultaneously, the AIT followed three mutually reinforcing lines of approach:

1) We assisted American human rights groups, Congressional oversight committees, journalists and private individuals with briefings and in arranging appointments. Besides hoping that the fact would become known in a balanced way - neither exaggerating nor excusing the real developments - the AIT tried to show the authori-
ties that there was a wide range of Americans tuning in to human rights issues on Taiwan.

Most of this was done privately, with the AIT facilitating the meetings but not conducting them, often using the AIT's own extensive information sources to clarify statements that had been made to visitors by Taiwan officials or by alleged victim groups. Ruth Ginsberg, who headed a group of women lawyers and was later to become an U.S. Supreme Court Justice, was a thoughtful observer, pointing out carefully that although the human rights situation was better on Taiwan than on the Mainland, much improvement was needed.

Several politicians who had been involved in the drafting of the TRA were active. Senator John Glenn went out of his way to talk with some Taiwanese Presbyterians who represented an especially persecuted group of 100,000 members and 1007 churches; Congressman James Leach of Iowa, Congressman Lester Wolf, the Democratic Chairman of the East Asian Subcommittee of the House Foreign Affairs Committee, and his successor Stephen Solarz, were always helpful because the authorities usually listened to them.

Staff assistants to dozens of Congressmen and Senators visited the island as guests of Taiwan, compelling more accurate accounts from their host briefers or checking their impressions with the AIT. Director David Dean made a special effort to raise human rights issues with Taiwan leaders whenever he came to the island and regularly with CCNAA in Washington. AIT officers pointed out to the foreign press where Taiwan's public statements did not accord with the facts as we knew them through our many contacts.

2) We made unofficial/official U.S. representations in Washington and Taipei, expressing concern over actions of the security services based on the human rights provisions in the TRA.

The arrests, trials and imprisonment of Taiwanese who had been involved in demonstrations in Kaohsiung in December 1979 focused American media attention on human rights in Taiwan. The immediate cause of the troubles there was the ROC Government's efforts to stop the publication of Mei Li Tao (Formosa), a small readership journal which was regarded as possible Taiwanese voice advocating independence. The AIT's Taiwanese contacts quickly characterized the severe security services reaction to Kaohsiung events as "kill the chicken to teach the monkey," meaning that if the treatment is not tough enough, the monkey dissenters would not learn.
The AIT became immediately involved, as relatives of the accused Taiwanese, mostly Presbyterians, appealed to it for help. At the same time, right-wing fanatics in Taiwan phoned threats to the AIT, accusing the United States of wild schemes against the KMT. One American citizen wife of a Taiwanese leader was expelled, another American was detained while security services attempted to divert attention from the murder of the mother of one of the detainees and two of his children. Tensions on the island grew as Taiwan Independence Movement elements in the United States were reported there as threatening CCNAA offices around the country.

3) We tried to strengthen the voices of the “moderates” within the top levels of the KMT and the “gradualists” among the prominent Taiwanese, i.e., those who were working for a more democratic, open system where Taiwanese influence would be in proportion to their numbers, but—this was important to American interests—did not advocate independence from China.

The Kaohsiung events sharpened the AIT’s understanding of the way Taiwan was led in those days. President CHIANG Ching-kuo stood above, and had to take into account, four different but sometimes intermixed power groups: 1) the several competing security services with which he had personal ties going back several decades; 2) the older KMT elements, mostly from the Mainland, whose strength lay in their dominating hold on the legislative functions of the ROC; 3) the regular military; and, 4) the “modernists” attuned to the needs of technology who were responsible for Taiwan’s rapid developments in education, the economic infrastructure, and the steady improvement in the standard of living for all. These were joined in many ways by the career military to produce its modern military forces.

The AIT quite naturally had the closest connections with this last very large group. Many had received their advanced degrees in United States and had worked with Americans in successful programs, such as the Joint Commission on Rural Reconstruction, which was internationally recognized as an outstanding example of Sino-American cooperation and responsible for the transforming land reform program in Taiwan—the beginnings of modernization. Many were Taiwanese “gradualists” like President LEE Teng-hui who were finding their way to the top via the KMT itself. Most of the military leaders had received training in the United States and were well versed in American methods and ways of thought after decades as U.S. allies. Significantly, the military was aware that Taiwan’s national service system precluded serious discrimination
against the Taiwanese, which thereby provided most of its strength. It was the "modernist" who most understand American concern over human rights and saw most clearly the connection between human rights and the modern, democratic future for Taiwan which they all wanted. AIT had only to maintain a continual, non-contentious dialogue with these elements. The results of this quiet, sustained effort were not apparent by the end of the AIT's first two years, but began becoming obvious a few years later.

VI. CONCLUSION

There was no discussion within the U.S. Government during the first two years of the TRA about Taiwan's long-range future under the normalization arrangements—at least with those in the AIT in charge of carrying out relations with the island. This was a defect in a carefully negotiated and planned effort by the Carter Administration, but there were logical and practical reasons why it was unavoidable.

Although the United States had agreed that Taiwan was part of China, it had not really agreed that Taiwan was part of the RPC: the questions of whether, how and when Taiwan would join the rest of China were left to be settled by the Chinese themselves within the one-China context. The United States could not gain in pre-judging the outcome, which the United States had indicated it would support, as long as it was arrived at peacefully. Furthermore, there was the danger that any American ideas, concrete enough to be interesting, would be rejected as biased by one side or the other.

On Taiwan, such ideas would be made to appear as evidence that the United States was attempting to push Taiwan into an agreement to its disadvantage to remove the "Taiwan Issue" from contention with the PRC. The certain Taiwan reaction would arouse Taiwan's supporters in Congress and threaten the whole China policy. Some of the early gestures of the PRC, especially the cease fire at Jinmen proclaimed by the PRC right after the normalization announcement in December 1978, and the later announcement that the PRC would not charge tariffs on Taiwan goods entering the Mainland because they are "internal trade," were designed as gestures to placate U.S. interests. Both of these gestures many have helped to alleviate tension, but were rejected out of hand by the Taiwan government as "communist trickery" or "United Front tactics" designed for American consumption. America praise of them was portrayed as pressure. The AIT had no direct role to play in PRC/Taiwan relations during the first two years of the TRA.
The AITs' indirect rule was significant. The heartening developments in Taiwan during the last few years, such as the major changes in human rights and the practices of democracy and the enormous expansion of trade with the Mainland, have been due to the efforts of the ROC Chinese. However, the groundwork for such improvements began during the first two years of the AIT. Taiwan's mostly smooth adjustment to the painful new situation resulted from the confidence the leaders drew from strong U.S. statements concerning Taiwan's security. These were combined in the TRA with practical, workable provisions solidifying the unofficial, but vigorous, connection with the United States. The AIT's task in this Chinese atmosphere was to preserve the symbols while advancing substance. It did so without harming the US/PRC relationship, which was the AIT's primary objective.
CHAPTER 4

TAIWAN'S DOMESTIC POLITICAL DEVELOPMENTS AND THEIR IMPACT ON U.S.-TAIWAN RELATIONS

Natale H. Bellochi*

I. POLITICAL DEVELOPMENTS

During the first few years of the unofficial U.S. relationship with Taiwan, domestic political developments were mainly a continuation of the authoritarian system of CHIANG Kai-shek, with the largely Mainlander KMT establishment keeping control of the central level government, politics, and security functions, while allowing native Taiwanese to participate politically at the local level and in the private sector of the economy. CHIANG Ching-kuo had been the de facto political leader of Taiwan for almost five years before the change in the relationship with the United States, maintaining the fundamental structure inherited from his father, with some loosening of the system to accommodate the needs of the growing economy. An election to fill some vacancies in the Legislative Yuan had been postponed when the break in U.S.-Taiwan relations occurred. Political activity of this kind was set aside as the regime felt its way through the new situation. Even when the election did take place in 1980, it made little difference in the profile and power of the Legislative Yuan, the central government or the ruling party.

Pressures were growing for political reform, however, generated by the loss of its membership in the U.N., and the external pressures for political reform from such sources as the important American annual human rights report. The growing number of rallies and lectures by various "tang wai" ("outside the Party," or opposition) groups ultimately led to the high profile "Kaohsiung Incident" on December 10, 1979, which resulted in the imprisonment of several tang wai leaders. This galvanized more support for the loosening of political restrictions and internal pressure for more participation by the Taiwanese grew. Some opposition represented by moderate but anti-KMT personalities such as Henry KAO and

KANG Ning-hsiang, were allowed to engage in political activity, but during this period no change was considered in government organization as it was believed that such action would loosen the hold of Mainlander and KMT power.

In 1984, CHIANG Ching-kuo was reelected by the National Assembly for a second term. One decision he took then was to become significant: his choice of LEE Teng-hui as his Vice-President. Tang wai activity continued to increase and apparently, at least in part, stimulated his thinking on the need to reform the political system. Presumably, his objective was to develop changes that would maintain stability while permitting continued Mainlander and KMT control of that system.

By 1986, CHIANG Ching-kuo had initiated several meetings with political opposition leaders to discourage them from forming a political party. The results were clearly not what he had hoped. In March, he informed the KMT that he had decided on political reform, and had a task force established in the Party Central Committee to recommend steps that would be needed to move toward a constitutional democracy. In June, the task force recommended elections for the Legislative Yuan, the Control Yuan, the National Assembly, and for the mayors of Taipei and Kaohsiung.

In the fall, tang wai leaders held a joint assembly and published a draft charter, even before opposition parties were legalized. CHIANG Ching-kuo did not oppose this and subsequently privately informed the visiting Katherine Graham, publisher of the Washington Post, that he had decided to lift martial law at an appropriate time. (In addition to continued U.S. pressures, that year saw the fall of Ferdinand Marcos in the Philippines and Chun Doo Hwan in Korea, which could have had some effect on his thinking as well). By December, in the supplemental Legislative Yuan elections for unfilled seats, a competitive party participated even though opposition parties were yet to be legalized. The KMT won 70 percent of the seats being contested, while the still illegal Democratic Progressive Party won 22 percent.

In July 1987, CHIANG Ching-kuo announced that martial law would be lifted after the passage of a new national security law. When the new law passed, it was criticized by some for covering many of the constraints that had been a part of the martial law, but it permitted the legalization of political parties and it clearly did not deter the opposition from gaining public attention through violent arguments in the Legislative Yuan, and demonstrations. The ban on travel to the Mainland was partially lifted and new laws regard-
ing freedom of speech, association and public assembly were drafted and passed in early 1988.

On January 13, 1988, CHIANG Ching-kuo passed away and LEE Teng-hui was sworn in as president. Two weeks later he was elected as the KMT Acting Party Chairman. As the first Taiwanese president, and an outsider in the inner core of KMT power elite, his hold on power was tenuous. To calm concern, and gain support, he paid calls on many of the politically important people in government and around the island, however, and by mid-year, at the 13th Party Congress, he overcame opposition and was elected Chairman. In the following year, he replaced Premier YU Kuo-hua with LI Huan (both mainland Party leaders) as he gradually consolidated his position within the Party and in government. Among other things, he supported a new law that would give generous retirement payments to national representatives in the elected bodies who voluntarily retired.

It was in 1990, however, that political activity heightened, within the ruling party and in competitive politics, demonstrating the direction in which Lee wanted to take the country. On February 11, President Lee announced his preference for a running mate in the upcoming election for president - LI Yuan-tsu. It was unexpected and clearly meant to co-opt efforts by some senior party officials to name a strong “establishment” vice-president candidate to keep Lee in check. The old guard within the Party wanted to maintain the system much as had been done when Vice-President YEN Chia-kang succeeded CHIANG Kai-shek. At that time, the constitution was observed, but it was clear President Yen was to be an interim figure only. Since Lee was not of that mind, and since there was no pre-appointed successor, the old guard within the Party made an attempt to nominate LIN Yang-kang (a conservative Taiwanese member), and CHIANG Wei-kuo (brother of CHIANG Ching-kuo), as the party ticket. After much debate, the two were eventually persuaded to withdraw. The Party, therefore, proposed only Lee and Li as candidates to the National Assembly.

The long-standing first National Assembly convened in March 1990, for the first time with some opposition members who had been elected to fill some of the empty seats contested in the election. The rejection of these members on the grounds of their refusal to take the oath to the ROC, and raucous actions intended to attract the media, as well as the effort by the National Assembly majority to assume more power, generated a protest by students that quickly grew to significant proportions.
As in most cases in these early days of opening the society to human rights long denied, the demonstrations by the students were unprecedented and caused shock and concern. LEE Teng-hui, through the media as well as personally, talked to the demonstrators, promised to convene an extraordinary National Affairs Conference made up of all segments of the political spectrum to discuss the nation’s problems, and succeeded in defusing the demonstration. On the 20th of March he replaced Premier LI Huan with HAU Pei-tsun, partially to assure the “non-mainstream” elements in the party, and partially to address the growing law and order problem on the island. Lee was elected president for a full term on March 21 by the National Assembly.

The National Affairs Conference (NAC), promised by Lee, formally met on June 28. All segments of society were represented, including opposition leaders from abroad who were on the “black list” and had not been permitted to return to Taiwan for years. The party “establishment,” and the media they largely controlled, were skeptical and concerned that the invitation to such elements elevated their status and threatened the kind of society that had been built.

In fact, the NAC did just that. Many of the agreements, or more accurately understandings, that resulted from the conference were later challenged by one side or the other. Nonetheless, the conference opened up public discussion of issues that previously had been either illegal or impolitic to debate. It was generally agreed that a new National Assembly would be elected entirely from the Taiwan constituency and that it would address constitutional revisions; that the special laws connected with the communist rebellion on the Mainland, which gave the president extraordinary power, would be lifted; that a new strategy would be developed regarding the Mainland; and, that dissidents would be allowed to return home, among many other things. The Taiwan Garrison Command, feared by many Taiwanese since its establishment after the reversion of Taiwan following World War II, was relocated, signaling a reduction in its status.

Later in the year, the Grand Justices announced an interpretation of the constitution that required all “first term” representatives (i.e., those elected on the Mainland to such elective bodies as the Legislative Yuan, the National Assembly and the Control Yuan) to retire by December 31, 1991. The president also issued a special amnesty pardoning many dissidents, including HSU Hsin-liang and
SHIH Ming-teh, both of whom subsequently served as chairman of their party.

On October 8, the National Unification Council was established, convened by the President. It produced the National Unification Guidelines, which represented for the first time a clear three-step strategy for eventual unification. The opposition party refused to participate as it objected to the word “unification” in the title. The Council, also for the first time, stated the new ROC position that two separate areas of China existed and that each was governed by two separate political entities. In effect, it recognized that the PRC was in control of the Mainland. It also laid out the policy it still pursues today, which is that government’s first priority was to assure the rights, interests, welfare, security and prosperity of the people on Taiwan; and that unification would take place only if the same human rights, democracy, and way of life that exists in Taiwan also existed on the Mainland. It was hoped that the establishment of the Council and this new strategy would not only demonstrate a commitment to unification, but also, be the base for a consensus on this sensitive subject in Taiwan.

A major political event of 1991 was the convening of a special meeting of the National Assembly to address elections for a new National Assembly and a new Legislative Yuan, and to remove the temporary articles ending the state of emergency with the mainland. On April 22, the motions were approved. This was quickly followed at the end of the year by an election for the new National Assembly. The KMT won 71% of the seats, almost the three-quarters required for passage of constitutional amendments.

During the year, in addition to the “Temporary Provisions” being repealed by the National Assembly, Article 100 of the criminal code, which included a provision that advocating independence was a crime, was revised, permitting the release of those still in prison for that activity, and generally restoring the constitutional protection of individuals. At the end of the year, all remaining “senior officials”, those who had been elected to their positions on the Mainland (and were called the “old thieves” by the opposition), retired with a generous pension.

The fast pace of democratization continued into 1992. Before the opening of the third plenum of the KMT, President Lee let it be known that the plenum should consider approving the direct election of the president. During the March 14-15 Central Committee meeting, now open to media coverage, the people of Taiwan witnessed a heated debate on this issue, however.
The non-mainstream faction, bitterly opposed to direct elections (because for one thing they thought this would favor Taiwanese nationalist sentiment), cleverly lined up to get on the speakers docket during the lunch period of the first day, and were able to monopolize the floor during the debate. Though he may have had sufficient votes, Lee agreed to postpone consideration of this issue until sometime before May 1995, fearing the deep division in the Party on this issue might cause a split.

The second National Assembly met in the spring and passed eight amendments, mostly specifying procedures for future appointments to the Judicial, Examination and Control Yuans. The criminal code was revised stipulating that a finding of treason must be based on action and not intention, in effect making it legal to advocate independence. The National Security law was revised to reduce the “black list” from 282 to 5, and the Taiwan Garrison Command was disbanded. The first election for the entire membership of the Legislative Yuan was held in December, with the KMT capturing 53 percent of the votes, and the DPP 31 percent.

Though there were differences over how the constitution was to be interpreted on this point, the election of a new Legislative Yuan, it was decided, called for confirmation by that Yuan of a new Executive Yuan. In early 1993, Premier Hau resigned under pressure and Lien Chan, then Governor of the Province, was appointed Premier. The two top political positions on the island were, for the first time, both in the hands of native Taiwanese.

In the early period of Hau’s premiership, he had done an excellent job of reestablishing law and order. The chemistry between the President and the Premier, never good, deteriorated, however. In addition, Hau, a strong military man who was not accustomed to being challenged, was easily goaded by the legislators, especially during interpolation periods. It was becoming increasingly clear that the Legislative Yuan would not confirm another term for Hau in any event. As the senior non-mainstream faction member in the Party, his departure from such a high position of power signaled the clear assumption of power by the Taiwanese.

Friction within the KMT, in the meantime, heightened and eventually, in August 1992, a small group of conservative non-mainstream, mostly Mainlander members split from the party and formed the New Party. Most non-mainstream faction members stayed in the Party, however, and continue to wield considerable influence. The 14th KMT Party Congress, which occurred almost immediately thereafter, elected Lee to another four-year term as
Chairman. Significantly, no military personnel were elected to the Standing Committee - evidence that the military had been taken out of politics.

The elections for county magistrates and city mayors took place toward the end of the year. The DPP received 41 percent of the vote, but the KMT still won a majority of the magistrates and mayors, not only through better organization and greater resources, but with the help of Lee's grass roots campaigning. It was clear that at that time the Party needed Lee more than Lee needed the Party.

During 1994, most attention was given to the new strategy of "vacation diplomacy," or better known as "pragmatic diplomacy." This was clear evidence that Taiwan's foreign policy was not going to be the same as that pursued in the past. The strategy for this more assertive policy emanated from the President's Office, not from the Foreign Ministry, which was opposed to it, and was driven by the domestic political need to show the government would move aggressively to pursue greater international recognition as it also tried to improve cross-Strait relations.

This was also behind the more frequent visits to countries recognizing the ROC by the senior political leadership, and not incidentally requiring transit stops in the United States. In transiting on a trip to Central America by Premier Lien Chan, elements of this new policy were seen in the efforts to expand the transit to appear more like a visit, e.g., a speech at a Hwachiao banquet, a round of golf and visiting Chinatown. Most were disallowed and a new set of rules governing these transits was developed. Transits by the Vice-President, however, had occurred in the past without causing a problem. The new Clinton Administration, not having experienced previous transits, was concerned that the United States was being targeted as another spot for "vacation diplomacy," and was more sensitive to PRC complaints than previous Administrations.

Even more evidence came with a request for a transit by President LEE Teng-hui for his trip to Central America and South Africa. This would be a precedent, which the Administration feared would get a strong reaction from Beijing. They let it be known informally that the U.S. government would prefer the President not transit the United States. It was requested, nonetheless, and the United States responded that only a refueling stop would be permitted at Hickam Field in Honolulu. En route from Taipei, Lee decided the party would not disembark, presumably, in part, because of the austerity and relative insecurity of the VIP accommodations.
The combination of resentment by the Taiwan side over this incident, and criticism by many on the U.S. side over what was seen as a discourtesy, was to influence a more ambitious event the following year. The transits should have underlined for the United States the changing character of Taiwan, and the need to adapt to a different situation there. The Taiwan Policy Review was in fact in process during this time, but it did not sufficiently address the broader issues affected by the quite different entity on Taiwan.

Important domestic events were also occurring. Most significant among them was the constitutional amendments passed by the 2nd National Assembly in July which included the direct election of the President and Vice-President, to begin with the elections of 1996. Another important development was the laws passed establishing the direct elections of the Governor of the province and the mayors of the two special municipalities - Taipei and Kaohsiung. With the support of President Lee, the appointed Governor, James SOONG, was elected by popular vote in the December elections; the appointed mayor of Kaohsiung, WU Den-yi was elected there. In Taipei, though, the DPP candidate, CHEN Shui-bien won over the incumbent KMT candidate.

The visit of President Lee to Cornell monopolized any attention given Taiwan by Americans during much of 1995. Following the unfortunate transit by President Lee through Honolulu, longstanding efforts by the president of Cornell to invite Lee to his alma mater gained momentum. Although the Administration subsequently blamed lobbying by Taiwan as the reason for overcoming resistance to the visit, there were other factors as well.

Influential individuals, organizations, the Overseas Chinese community, the Congress and the media, all weighed in heavily, arguing on the basis of principle (Lee was the President of a friendly country, he had led the change to a democracy there, he should be allowed to visit his alma mater, and the United States should not be dictated to about who could visit it). In any event, no amount of lobbying could have secured the strength of the vote on a congressional resolution favoring his visit: House: 396 to 0, Senate 97-1. Even after this combination of lobbying and principle gained momentum, compromise with Taiwan was possible but the Administration eschewed that option. The government made public its belief that there would be a strong reaction from Beijing, and took such a strong position for compromise that the result was inevitable.

The visit was a great triumph for LEE Teng-hui in Taiwan, and a broadening of the world community's awareness of Taiwan's cir-
cumstance, but its negative impact on U.S. China policy-makers lingers on, and the PRC was galvanized into a stronger effort to stop the trend it saw toward greater separatism taking place on the island. In America, some saw the result as reason for Taiwan to revert to the past policy of maintaining a low profile internationally, and some saw it as a wake up call that made such a policy no longer possible.

On the Taiwan domestic scene, in early 1995, the President, before his U.S. visit, made a formal and public apology to the families of the victims of the February 28, 1947 incident (a massacre of native Taiwanese by the recently installed Mainlander regime). After returning from his visit at the 14th Party Congress, Lee was nominated as the KMT candidate for the following year's presidential election, with Premier LIEN Chan as his running mate. At year's end, the election for the third Legislative Yuan took place. Although the KMT won a majority, it was a slim one. In the balloting within the Legislative Yuan for the President of the Yuan, the KMT incumbent won over the DPP challenger by one vote. Obviously, during the life of this third Legislative Yuan, continuous bargaining and bickering was going to be necessary to make even minimum progress.

In the first quarter of 1996, politics was riveted on the presidential election. It was the first direct election of the president, and it came amid the drama of missile "testing" by the PRC in waters close to Taiwan, and later the appearance of two U.S. carrier battle groups in the area. There were four contending candidates: LEE Teng-hui and LIEN Chan for the KMT; PENG Ming-min and HSIEH Chang-ting for the DPP; LIN Yang-kang and HAU Pau-tsun, as independents but with New Party support; and, CHEN Li-an and WANG Ching-feng, also as independents. In this field of four, Lee won 54% of the vote.

Another election that received much less attention was for the third National Assembly. The KMT retained a majority of seats, and for the first time, elected itself a speaker, the President of the National Assembly, CHIEN Fu. The assembly continued its raucous ways, but though the KMT gained a majority, it was not sufficient for the three-quarters vote needed to pass a constitutional amendment, making compromise necessary if any objectives were to be achieved.

At the end of the year, a National Development Conference (NDC), promised by Lee during the campaign, was convened. Like the National Affairs Conference of 1990, it was a meeting of repre-
sentatives of government, political parties, academics, experts and community leaders. It was meant to develop a consensus on political, economic and cross-strait issues. A total of 192 proposals, most of them dealing with economic issues, were adopted. There was a greater degree of consensus than expected, and though the proposals had no legal status, like its predecessor, the NAC, it did bring a focus to issues that had to be addressed by government, the legislature and the Assembly.

In 1997, several amendments originally proposed by the NDC were tabled in the National Assembly, but not all were considered. Given the make-up of the Assembly, each proposal had to be paired with a balancing proposal from the opposing party to gain passage. A consideration beyond partisan party objectives was that some articles of the constitution were not adaptable to the possibility that the Executive Yuan and the Legislative Yuan might one day be controlled by different parties. One accomplishment was the dropping of the need for the Legislative Yuan to confirm the President's nomination of a premier. This had been a convenient interpretation of the constitution when Lee had wanted to prevent a stalemate in the legislative process by dropping HAU Fei-tsun as Premier. But it was now causing a stalemate in selecting a new premier.

Another important result of the Assembly session was the "downsizing" (read eventual elimination) of the provincial government level of government. This change was justified by the KMT-led government in that it would reduce the economic burden of a redundant level of government. In fact, an important political factor was to resolve the problem of two elected officials (the president and the governor) governing almost the same territory, especially if they were of a different party. It was, however, also meant to be the quid pro quo with the opposition party for passing the first amendment (eliminating the Provincial Government was a long-standing objective of the DPP).

The differences generated within the KMT over the latter issue developed into the beginning of a struggle between Vice-President LIEN Chan and Governor James SOONG over control of the KMT and the nomination for president almost three years away. At the 15th KMT Party Congress, however, Lee was unchallenged for the Chairmanship of the party.

The election for magistrates and city mayors took place in late November. For the first time, the DPP received a higher percentage of the vote than the KMT. This time it was the DPP that took a
large majority of the magistrates and mayors. With the forthcoming change in government structure - a much smaller provincial level appointed by the central government - the magistrates and mayors were expected to assume greater responsibility.

In the first month of 1998, the election for village chiefs and county/city councils resulted in the usual high majority going to the KMT. These two local elections were significant for the KMT. President Lee is believed to have personally chosen several very competent candidates from the Legislative Yuan and the central government to run for magistrate, for example. The purpose was to upgrade the competency of government at that level, and improve the image of the KMT.

In the election for magistrates and city mayors, however, many of the candidates were not native to the districts they ran in, and were defeated. In addition, Party discipline disintegrated with many KMT mavericks running and in two districts two KMT supported candidates competed with each other. At the village and city council level, on the other hand, President Lee had proposed temporarily canceling elections at that level to rid the Party of the bad image of the Party activists who have dominated politics there for decades. The Party, however, did not approve, fearing the loss of this very dependable base of power. The result was the normal victory for the KMT at this level, but the cost to the KMT's image must await the upcoming elections to be adequately assessed.

As Taiwan heads into two very important elections - for the Legislative Yuan in late 1998 and for the president in 2000 - the major parties have serious internal problems, making forecasts almost impossible. The DPP still lacks the resources and organization of the ruling party, has several recognized factions, and has two leaders - Mayor CHEN Shui-bien and Chairman HSU Hsin-liang - with different strategies for gaining national power. The KMT has not been able to change its image problem, has not regained its discipline of the past, and has two strong rivals for future power in Vice-President LIEN Chan and Governor James SOONG.

In addition, while the two major parties have little differences on security issues or foreign policy, and some differences on economic issues, the important consensus on Taiwan's identity and cross-Straits relations, though improved, is far from resolved.

II. THE DOMESTIC IMPACT OF DEMOCRATIZATION

The above chronology highlights some of the more important political developments in Taiwan over the past two decades. It does
not describe the profound effects of these developments, especially those over the last decade, on the people of Taiwan, and their attitude toward the outside world, especially toward the PRC and the United States. There is insufficient understanding among the general American public and to a lesser extent even among policy makers and those with some responsibilities for the U.S.-Taiwan relationship, about the extent to which these profound changes in Taiwan impact on our own objectives and interests regarding the island and the PRC.

With the coming of a democratic system imposed on an authoritarian one, the constitution had to be revised and the laws changed in order to distribute political power differently, not only at the national level but also at the local government level. The possibility of different political parties in control of different institutions and different levels of government also had to be addressed. The style of a democratic government inevitably is different, resulting in many precedents being established for various activities as they take place. For example, the President, as head of his party, now participates in campaigns openly, and at the grass roots level. Other national leaders of course follow. The National Affairs Conference of 1990 established, among many other issues, that consensus would be sought from all segments of society, not just the ruling party as in the past.

As a democracy, with political leaders competing for power, domestic concerns weigh more heavily on external matters than they did in the authoritarian past. Any policy or action that will at some point require legislative action, for example, must take the profile and the posture of the now empowered Legislative Yuan into account. In a democracy where the ruling party does not have a significant majority, issues become highly politicized and progress is possible only with substantial compromise. These all apply to the domestic political scene on Taiwan, no more so than on cross-Strait relations. The practical economic need to expand the relationship with the PRC must be balanced not only by security interests but by the sentiments of a majority of the voters. The issue of national identity was not allowed to be developed under the old regime but is now not only legal but vigorously debated. There are strong sentiments, perhaps by a majority, who would like independence, but relatively few who would press for it now. There are those who want or think it is best for Taiwan to unify with the PRC, but among them few want it now. There is overwhelming agreement that any effort at resolution of the relationship with the PRC should be put
off to a more propitious time in the future. Whatever debate there is, therefore, is not how to resolve the issue now, but how best to assure the future outcome as they would like to see it. The overarching need to maintain stability in this open and prosperous society, and the sensitivity of this relationship, places constraints on any bold initiatives by the leadership.

The highly competitive politics of Taiwan require the President to govern through a process of delicate balancing: first, between the increasingly evenly divided ruling and opposition party; second, in government, between what the Executive Branch wants and what the Legislative Branch will accept; and third, on cross-Strait matters, between moves toward improving relations with the Mainland to satisfy some constituencies, and moves to demonstrate Taiwan is a separate entity to satisfy others.

The most recent efforts to amend the constitution were an example of the checks and balances that are observed not only in the political arena but in government structure, as well. The opposition gained a much sought after elimination of the provincial government in return for giving the president more power in dealing with the legislature. A proposal that was left for another day was the requirement of a majority vote to be elected president (wanted by the KMT) in exchange for the right of referendum (wanted by the opposition).

One of the fears many had with the coming of democracy to Taiwan is that the open advocacy of such sensitive subjects as independence would generate destabilizing actions, if not outright military intervention, by the PRC. There are several actions that have been taken that fall into this category. Yet, one of the results of public discussion and debate inherent in the new democratic atmosphere has been to actually lower the likelihood of such reaction.

When HAU Pao-tsun, the personification of the strong Mainlander leader upholding the aspirations and objectives of the mainlander elite, was dismissed as premier, for example, there was concern that there would be a reaction from Beijing. There was none. When the proposal for the direct election of the president was being debated, the argument against it was that it favored Taiwanese nationalism and would draw a reaction from the PRC. It did not. (The missile “exercise” by the PRC was meant to curb nationalist sentiment on Taiwan, not to thwart a direct election.) When the National Assembly voted to abolish (for all practical purposes) the provincial government, many predicted a strong reaction from Beijing. There was none.
Before any of these actions were taken, they were preceded by a substantial period of open, public debate. The result was that it was clear in each case that the purpose had more to do with domestic politics than with cross-Strait relations. In an authoritarian regime, such actions could more likely be a part of some long-term strategy; in a democracy they are more likely to be responsive to the domestic requirements of the present.

Some other changes that have resulted from democratization have had various degrees of influence on U.S.-Taiwan relations. The military, for example, has been taken out of politics. There is no organized political activity in the military: KMT offices and cadres have been removed, block voting no longer takes place, and there are no military members in any of the central organizations of political parties. The military budget is submitted to the legislature and its defense committee. In the new, democratic Taiwan, oversight from there and the media now exist. This openness impacts on how the United States manages its arms sales program - a subject that has been especially sensitive in the past.

The once-feared Taiwan Garrison Command with its political security apparatus, is gone. The residue of the atmosphere engendered by that organization took longer to dispel, however. In the early 1990s, pollsters were often frustrated by the unwillingness of many to state their political views. Most people, out of habit, perhaps, felt constrained to openly take part in anti-government or opposition organizations or events. This reticence now seems to be gradually disappearing.

NGOs have grown rapidly, focusing on community activities as well as broad international issues such as environment. Some are cultural-oriented, promoting Taiwanese, Hakka or other minority culture and language. In the larger political sense, this has supported the growth of Taiwan’s distinct identity, which pleases the majority on the island but leads to concern by those on the island and in the PRC who fear it detracts from a sense of unification.

In the past, a bureaucratic career through the ruling party was sought by the best and the brightest. It brought power, paid well and one could rise to the top of government. With democracy and an open market economy, the status of a bureaucracy changes. A philosophy of control changes to one of service, for example. Many positions at the senior levels of government, such as cabinet ministers, are now not given to senior bureaucrats but to a greater degree than previously, to leaders in other fields such as academia, business, or professionals. And when they leave the cabinet they return
to the private sector. The transition at this senior level has begun, but the changes in attitude needed in the bureaucracy underneath it will take much longer.

Democracy in Taiwan has also brought with it the difficulty of coping with problems common to most democracies: law and order, money politics and the power of the media. A spate of kidnappings and murders generated an unprecedented, spontaneous demonstration that came near to toppling the premier. Corruption is another complaint that gnaws at the social fabric and undermines respect for political leaders and the bureaucracy. Democratization has eliminated the repressive laws of the past but has made abuse of those remaining easier.

Political campaigns in Taiwan have become very expensive. Political parties and individuals seeking office spend an enormous sum of money to get elected. Thereafter, individuals must spend much of their time paying off debts and accumulating funds for the next campaign. In campaigns, banquets of hundreds of tables, many not used but paid for nonetheless, are common. The red envelopes, long the standard for buying votes, is still prevalent at local level elections but at the national level more sophisticated methods are used.

With the opening of society, the media has rapidly expanded. A fourth television station, owned in part by opposition leaders, was granted a license, and cable TV has been legitimized and covers the island. Small local newspapers are finding it difficult to remain competitive, but the long-standing press leaders - the United Daily News, and the China Times - have been joined by a third, more Taiwan news oriented paper- the Liberty Times - which claims the highest circulation.

Self-discipline of the media, on the other hand, has largely evaporated. The intense competition has caused the standards for reliable reporting to drop. Television cameras can intrude on the formal questioning of criminals or victims, and can almost suffocate a political leader leaving a meeting. At the same time, political leaders of all persuasions must use the media to reach the people, and what is printed or photographed is read most carefully not only on the island but by the PRC across the Strait.

The changes in the political parties parallel those of the country. The KMT has moved from a Leninist structure considered by many as a foreign import, to a largely Taiwan political party but with an historical legacy that includes both its Mainland past, its early behavior on the island, and its accomplishments on Taiwan.
While political reform has had much to do with the change in the KMT, so has economics. In the past, the path to a successful career was through the party. Now it is just as likely to be through the private sector. It retains a better organization than any other party, and of course retains its superior resources, but it has little of the renowned discipline of the past. Despite its unquestioned accomplishments in developing Taiwan to the point it is today, its long tenure as a ruling party inevitably has eroded its image. It retains its hold on votes at the village level, established during the authoritarian period, for example, but it is often criticized even within the party that it does so through corrupt practices. At the national level, at least up to this point, it has held a majority of the elected officials. In between, at the city/county level, however, the DPP has made broad inroads. Serious disunity is evident at the top of the party structure and should this persist, the party's ability to hold national level offices will become tenuous at best.

The main opposition, the DPP, has several factions, some with widely divergent views on where the party and the country should go. Yet, it is gradually moving to a more moderate stance, challenging the KMT in the broad center of the political spectrum. It is remarkable that a party as young as the DPP, many of whose leaders had spent many years in jail for political activity, and whose long held objective is independence, could moderate as quickly as it has. Still, as experience in elections, and more recently in holding the responsibility of office, has shown, the Taiwan electorate seeks stability. Increasing numbers of the DPP leaders have come to understand this and moderate their position accordingly.

The result is that DPP elected officials at the city/county level outnumber the KMT by a substantial margin. To some degree this is due to the electorate's natural wish for change and for new faces. The DPP does not have the organization or the resources of the KMT, nor does it have a unified platform. It does have a better system for choosing its candidates, however, and its record of clean government in jurisdictions it holds has been relatively good. Still, its discipline, compared to even the present day KMT, is much looser, and its ability to formulate broad party objectives remains undeveloped.

What we have witnessed is a Taiwan that has gone through a peaceful revolution, and is very substantially different than the Taiwan that existed when the United States shaped its policies toward the island in 1979. The difference began about ten years after that. It was clear that the extent of the changes would have an impact on
cross-Strait relations, and therefore on U.S.-Taiwan and U.S.-PRC relations. It took some time, however, before the PRC and the United States, each in its own way, came to recognize the changed situation. Neither has developed an effective strategy to accommodate it, however.

A study on U.S. policy toward Taiwan, in fact, was started in the State Department toward the end of the Bush Administration. It never got beyond initial drafts and was dropped after the U.S. elections in 1992. The idea was revived by the Clinton Administration, took an agonizingly long time and countless drafts, during which time it became public knowledge that a review was under way. The Congress insisted on being informed when it was completed, and of course, the PRC made its thoughts known. Under such circumstances, any meaningful change in policy that would address the new realities of a democratic Taiwan carried with it a cost in U.S.-PRC relations, which the Administration was unwilling to pay. In the end, only minor changes in policy were made. By then, events made it clear that the results of the policy review were inadequate. That remains the case.

The people of Taiwan, however, more conscious of their own identity, and now more able to express it, will continue to generate greater assertiveness on the part of their leaders. Democratization, in addition to opening the society to free speech and assembly, also has bestowed on the leadership, through open direct elections, a much greater legitimacy. It is not now adequate to dismiss initiatives made by the government in Taipei as merely strategic moves in a geopolitical game. They are just as often based on the mood, the attitudes, or the needs of a broad constituency.

III. IMPACT ON THE CONDUCT OF
U.S.-TAIWAN RELATIONS

In addition to the broad impact democratization has made, there is also the effect on the everyday conduct of the U.S.-Taiwan relationship. A fundamental understanding that existed for many years in this unofficial relationship was that Taiwan should maintain a low profile and avoid raising tensions with the PRC. Conventional wisdom was that this permitted the United States to improve its relationship with the PRC without the complication of the Taiwan "problem." "Low profile," however, and "democracy" are practically a contradiction in terms. With the now active oversight function of the Legislative Yuan, and the open media that ferrets out even the most sensitive of issues, low profile is no longer possi-
ble. Thus, meetings that include officials from both sides are reported in the press. The sensitive subject of arms sales is now fair game not only for the Legislative Yuan through hearings in its Defense Committee, but by the media as well. The PRC feels compelled to complain, making the whole process of the unofficial relationship more complicated.

Some important restraints on senior official contacts remain. They were marginally relaxed by the policy review in 1994, permitting calls by Taiwan representatives on senior officials in U.S. Government buildings, except the State Department and the White House. Given the large number of issues that must be addressed between the two sides; the volume of business, both government and private sector, that must be conducted; the sensitivity of some of the issues; and, the limited time busy senior officials have, even the remaining restraints hamper dialogue between the two sides.

There is a need for a much more comprehensive liaison between senior officials on both sides, in the United States as well as in Taiwan. That this is a prime objective of the Taiwan government, and opposed by the PRC, does not negate the fact that it is in our own interests to do so. In the security realm, for example, the lack of contact between the military on the two sides means that communications, and familiarity with each other’s operations and doctrines do not exist. In the face of a crisis, of whatever kind and from whatever source, this could be dangerous and costly even for U.S. forces.

In financial terms, the Asian Financial Crisis that occurred late in this decade was an example of the need for financial leaders to communicate with each other and with the international financial community without the political obstacle to this that now exists. Both in security and financial cases, much of this could be done in an international context, but this would require a change in the U.S. policy that avoids supporting Taiwan’s participation in appropriate international organizations.

The necessary liaison by the AIT with opposition parties in Taiwan has been good. On the Washington end, however, there has been a tendency to lecture about American interests rather than encourage the trend toward moderation. Extremists on both sides of the political spectrum in Taiwan exist and are vocal, much as similar elements are in the United States. But the mainstream in both major parties increasingly competes in the broad middle ground. Changes in ruling parties, inevitable in a democracy, will not bring revolution when they occur. That bodes well for internal
stability – a fundamental interest of the United States as well as Taiwan.

The democratization of Taiwan as well as the larger changes taking place in the world - the globalization of economies, the effect on nations of the information and technological revolution - will continue to press the United States to do more in adapting present Taiwan policy to the new realities.

As in every facet of this unusual relationship, abrupt changes risk destabilizing reaction, whereas gradual change provides an opportunity for all sides to manage the effects. To support moderation by all parties on Taiwan, a gradual change in the U.S. conduct of the Taiwan relationship would reduce the risk of sharp reaction from the PRC, while making adaptation to the changed circumstances more realistic.

At this writing, the impact of President Clinton’s statement on the “Three Nos,” made in Shanghai during his visit there, is still not clear. The administration claims it represents no change in policy, while many in the United States and Taiwan claim it has put the United States in a position of accepting China’s Taiwan policy. On Taiwan, although the DPP seems to have been more affected by the statement, both parties are in fact reviewing their present policies.

IV. THE LONGER TERM

It will be difficult for history to assess if there was a broad strategy that brought about the democratization of Taiwan. CHIANG Ching-kuo started a process of political reform, but it is not known what his long-term vision for a political system for Taiwan really was. Realistically, it is unlikely that he had in mind establishing a system that would allow the KMT, or perhaps even the Mainlander establishment, to lose power. His roots were in the Mainland, and his vision for Taiwan’s future was shaped accordingly.

LEE Teng-hui’s presidency has steered Taiwan in a direction that it is unlikely CHIANG Ching-kuo ever would have done. Lee has a broad vision of where he thinks Taiwan should go, but like any sitting leader, his actions often reflect the needs or the constraints of the moment. What is amazing is how quickly very fundamental changes were made, including a transfer of power peacefully from one community with a strong sense of mission, to another with a different perspective. One could not imagine CHIANG Ching-kuo opening up the political system to the extent that has been done. It may even have been different if Premier Hau had re-
mained in office longer than he did. One must come to the conclusion that, though the Mainlanders and those among the native Taiwan community with like mind retain considerable influence in very important segments of Taiwan’s society, LEE Teng-hui has thoroughly “taiwanized” the politics of Taiwan.

Whatever accommodations are made in the future for Taiwan’s relationship with the PRC, the distinct identity that is being shaped and strengthened almost daily is already irreversible. The PRC missed its opportunity in the past, when offers of some form of loose association might have been negotiable. Now however, with democracy, and given the enormous difference in size, education levels of the people, international outlook and history, Taiwan’s increasingly distinct political system would be unworkable on the Mainland; and short of the use of severe repression, even should the kind of democracy that is practical for the Mainland emerge there, it would very likely be unacceptable on Taiwan. If this is true, then much more innovative thinking will be needed to fashion the future relationship between the two sides of the Strait, and our relations with both.
CHAPTER 5

U.S.-TAIWAN SECURITY RELATIONS AND THE
PEOPLE'S REPUBLIC OF CHINA (PRC):
A PERSONAL RETROSPECTIVE

James R. Lilley*

I. PREFACE

When my good friend and trusted Colleague, David Dean, first asked me to write an article for him on the 20th Anniversary of the Taiwan Relations Act (TRA), I demurred, pleading insufficient time to do the massive research necessary to do a credible job on the issue of security and arms sales to Taiwan. David then asked me to write an article giving my personal views and my role in the process. He did not want a footnoted essay covering the whole subject, but one man’s perspective. I agreed; it is hard to say “no” to David and I believed the 20th anniversary of the TRA was important. It should be recognized and respected as a cornerstone of U.S.-Asia policy. It was based on principle, it took cognizance of our new relationship with China, but more important, it has worked successfully.

The American Institute in Taiwan was legally established, money was allocated, good people were assigned, treaties and obligations were sustained, and goods flowed back and forth, goods such as commercial products, insurance, letters of credit, air agreements and, finally, defensive military items, which are the subject of this essay.

But security is much larger than hardware, although good hardware is indispensable. Security is a commitment to defend against violence. It is shared values. It is the will to fight. It is common strategic and tactical objectives, and it is the intangibles of friendship, respect and even love. It is people working with people to get good things done. This has happened for the most part in the

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case of the security relationship between the United States and Taiwan.

As an old cynical colleague told me once when I went off to Asia in 1951, security and virginity are not congruent concepts. Security, unlike virginity, is relative, you can be half secure. Other outside factors impinge on any bilateral security relationship. In the case of the United States and Taiwan, it is the ubiquitous looming presence of the People's Republic of China (PRC). The PRC has to be understood and factored into almost every decision, whether we like it or not. Our lives are complicated by China's forceful, sometime relevant, sometimes capricious interventions. We have to know what is real and what is bluff, what is rhetoric and what is dangerous. What are the real sensitivities of China and what is the real bottom line as opposed to what is ploy, manipulation and propaganda. What is said for internal Chinese consumption and what are simply arguments to galvanize American supporters into action.

So this becomes a personal memoir, limited in scope and accuracy because I kept no personal notes and have not asked for access to classified data. As a personal memoir, it reflects biases and is colored by personal experiences, good and bad. If my facts are flawed, I apologize in advance.

Finally, I have indulged in some historic reminiscences that go back well beyond the TRA. I do this because the history of our security relationship with the Republic of China (ROC) really started as early as 1911. I only became aware of it in the 1930s as a youngster in China, but those experiences are indelible. I believe they influenced not only what I did in 1979, my involvement limited as it was in the passage of the TRA and the security provisions therein, but those impressions I gained as a youth influenced me as a maturing actor, as well.

Aircraft, whether used symbolically as leverage or as a power balancer, have played an extraordinary role in the U.S.-PRC Taiwan Security interaction: Chance Vought aircraft in the 1930s, P-40s and ZEROS in the 1940s, Migs and Sabrejets in the 1950s, IDF and F-16 versus F-8 and Sukhoi-27s in the 1980s and 1990s. That is why planes figure so largely in this essay. I am continually struck by the coincidences of history. Speaking of aircraft, I cannot help but mention that three Americans whom I have known in the context of China - George Bush, David Dean, and my brother Jack - were all naval pilots in World War II. Key players in the security arrangements were air force men: WANG Hai of China, Tang Fei
and Konsin Shah of Taiwan; and, Generals Chennault, Gabriel and Welch of the United States.

II. AN HISTORICAL PERSPECTIVE

In January 1940 at the age of 12, I was put on the American gunboat Luzon, flagship of the Yangtse River Fleet, at Chuchiang (Jiujiang, Jiangxi) to go to school in Shanghai. Admiral Glassford was the commander of this river fleet with a staff including a young marine major, named James McHugh, and Commander “swede” Overesch, both of whom were to achieve considerable recognition later. The Panay, another American river gunboat, had been sunk by the Japanese at Nanking in 1937.

The presence of these small indefensible gunboats was symbolic, but they were also platforms for intelligence collection. So I was exposed to that business at a very early age. As we went down the river, Chinese nationalist artillery pieces started firing at Japanese freighters that were near us. They missed wildly and some of the shells landed perilously close to us. As a young fly on the wall, I listened to the American officer’s comments in the wardroom, including these: “a poor show put on for us,” “it’s good to know they are still able to fight,” “these Chinese guerrillas really need our help but what can we do?”

In fact, the United States was already occupied in helping the ROC with military aircraft well before the outbreak of war with Japan in December 1941. As far back as 1930, twelve U.S. Chance Vought fighters were delivered to Shanghai, with 20 more arriving later. Thirty additional Douglas bombers arrived in 1930-31, so in terms of aircraft, the United States became the main supplier to the ROC. In 1937, in fact, 60% of Chinese aircraft were from the United States. These were sold to the ROC and were primarily used in the early stages to suppress warlords, but later they were used against the Japanese in 1932 at Shanghai. Then the United States began to train Chinese cadets in 1932 and also helped the ROC set up a factory to produce modern aircraft in Hangchow in 1934. Hence, the pattern of hardware, training and transfer of technology began long before World War II and was aimed at strengthening the ROC’s capability to resist aggression, a pattern which still persists today. Americans like Newman Shumaker, Colonel John Jouett and George Reinburg bonded with Chinese officers such as General CHANG Wei-chang who was a powerful and patriotic leader and pioneer of the Chinese Air Force. This new ROC air force was tested and was used to suppress successfully a
communist revolt in Fujian province in 1932. These were U.S. built aircraft and flown by U.S.-trained pilots.

But in September 1937, the United States imposed a partial embargo on arms to China and Japan in order to avoid being drawn into hostilities which had erupted that July at Marco Polo bridge. The Soviet Union appeared on the scene, took advantage of this situation, and for a short time came to dominate the Chinese Air Force of CHIANG Kai-Shek. (The Soviet Union was there again in 1989-90 when the United States had suspended arms shipments to the PRC after Tiananmen, the Soviets sold the Sukhoi-27 to the PRC in 1991.)

In 1940, the United States started again to train Chinese pilots and maintenance personnel en masse and in 1941, before the outbreak of war, the United States took the major step of allowing the American Volunteer Group (Flying Tigers) under General Cheng-nault to fly for the ROC. They provided an effective air defense for southwest China. (Note: in 1990, while Ambassador to China, I offered the PRC military a chance to view a documentary on the Flying Tigers - later known as the 14th Air Force Group - and their exploits in China. The Chinese declined, but as an American, I proudly note that in September 1998, Defense Secretary Cohen, in the presence of General ZHANG Wannian, Vice Chairman of the Central Military Commission, paid tribute to Chinese-U.S. air force cooperation against the Japanese in World War II.)

During World War I, the United States had helped build the supply roads from Burma. Supplies poured in by land and by air. The China theater was second to Europe in priority, but still the arms inputs to the ROC were massive. The United States sent General Stilwell to China to organize the ROC army into fighting divisions. Colonel David Barrett later led the Dixie Mission to Yenan, the Chinese Communist bastion. Our goals were to defeat Japan by all means possible and to bring the warring Chinese factions together in peace. We succeeded on the first but failed on the second. We are, however, still trying in new ways to rule out violence as a solution to China’s problems.

My personal involvement reemerged during World War II when my oldest brother, Frank, a Lieutenant in the Field Artillery and a Yale Chinese language student, went to China in 1944 as part of the Y operations force to train and equip ROC army units in Yunnan. Frank had always been my idol, and what he did and experienced, I felt personally. He wrote of the poverty of the people and corruption in Yunnan. He looked for solutions and found
none. Torture of prisoners scarred him. His early life in China in the 1930s in foreign enclaves was tranquil, but his life as a soldier shattered his youthful idealism, which was soiled by the realities of war and corruption. I read his painful letters as an impressionable high school student. China was changing before my young eyes.

After World War II the United States, under orders from General Marshall who was leading a peace delegation to China, did withdraw U.S. air division teams advising Chinese fighter groups in order to avoid further involvement in the Chinese civil war. Although at the beginning of the civil war, the Chinese Air Force had 500 U.S.-trained pilots, in the end, because of poor organization, doctrine and leadership, they could do little to turn the tide of civil war. In the same general time frame, President Roosevelt had decided that the United States would not arm the Communists in Yenan as long as they were bent on the destruction of CHIANG Kai-Shek’s government, which the United States recognized. This was based on the recommendation of General Wedemeyer, the U.S. senior representative in China.

However, American military aid to the ROC was considerable during the civil war. Chinese troops were air lifted by U.S. planes, and U.S. Marines occupied coastal areas and guarded railroads. American advisors were present and there was a large U.S. intelligence contingent, ESD-44, headquartered in Shanghai. But by 1948, all appeared to be lost in the civil war. The State Department issued a White Paper in August 1948, which placed responsibility for failure on the ROC. American military aid was cut-off. The ROC then fled to Taiwan and the U.S. administration was predicting that Taiwan would be in Communist hands by the end of 1950. The United States would not intervene. This position was actually reiterated as late as June 23, 1950.

North Korea’s Kim Il-Sung changed all that. His invasion of South Korea on June 25, 1950 with Soviet and Chinese blessings in advance, pulled the Americans into the Taiwan Strait. The 7th Fleet intervened there, and China’s plans to take over Taiwan were blocked. Taiwan had survived. In October 1950, Chinese volunteers entered Korea and for the first time, United States and PRC forces were directly engaged in battle on a massive scale. Soviet arms poured into the PRC including 2,000 modern fighter aircraft, among which were MIG-15s and 17s. The PRC was linked to the Soviet Union by treaty and the PRC had, as Mao said, “leaned to one side.” It was clear that the U.S. security role had veered back
and forth, buffeted by external events, and this directly affected the policy towards supply of arms to the ROC.¹

The first U.S. military mission under General William Chase arrived in Taiwan in 1951. A mutual security treaty was signed in 1954, signaling formally that the United States and Taiwan were in a full-fledged cooperative venture against the Chinese Communists. Political, economic and military support flowed to Taiwan, which was making tentative moves towards political reform. Some U.S.-educated Taiwan leaders were put into high positions. Political reform has always been an ingredient in the American approach to Taiwan.

One event in 1958 involved me indirectly. It was the launching of a China military and political assault on the island of Quemoy (Jinmen). Taiwan pilots flying F-86 Sabrejets armed with air to air missiles shot the PRC air force out of the air. It was no contest. In support of Taiwan, the United States moved the 7th Fleet in to help supply Quemoy. The PRC backed off, adopting the face saving device of artillery bombardment of Quemoy every other day for 11 years. We brought the pilots who did the shoot downs to Manila where I was serving in the U.S. Embassy, and they received a thunderous welcome from the Chinese community after documentary photos of the air clashes were shown.

### III. THE TAIWAN RELATIONS ACT, PRELUDE AND AFTERMATH

Taiwan gave the United States full support during the ill-fated Vietnam War. U.S. F-4s were based at CCK airfield in central Taiwan. The U.S. MAAG grew to over 10,000 men, and Taiwan became a major depot for aircraft repair and maintenance. U-2 Flights over China were run by the United States, but were flown by Taiwan pilots. The Taiwan Defense Command was set up under a U.S. Naval Admiral. Naval port calls were frequent, and U.S. military and hardware poured in from the United States. Arms sales orders to Taiwan were roughly $200 million in 1973, and by 1978 they were about $330 million. The period 1971-72 began to alter this flourishing arrangement when President Nixon and Henry Kissinger opened up U.S. relations with the PRC (in a dramatic and

¹ For much of the information in this section, I am indebted to the excellent article *The Chinese Air Force with American Wings* by Guangxi XU which appeared in *War and Society*, Volume 16, Number 1 (May 1998), the University of New South Wales.
secret move.) This opening received large scale popular support in the United States. Normalization inevitably followed in 1978 under President Carter. It was not handled well and engendered nowhere near the popular support of the earlier overture by Nixon and Kissinger.

China split with the Soviet Union in 1960 and since 1965 was, in fact, militarily threatened by Russia, with hostile relations leading to violent border clashes in 1969. Once again, the United States was there in China's hour of need, and the U.S.-PRC relationship developed a military and security dimension based on a common resistance to Soviet hegemony. As a consequence, Taiwan began to lose out, at least politically. The last major arms program before normalization was the Northrup F-5E assembly in Taiwan in 1974. This was a fighter aircraft superior to anything China possessed, especially after the Russian cut-off in the early 1960s. The United States did realize, as it moved to establish full diplomatic relations with China, that it still had to keep the Taiwan security relationship strong, both to reassure Taiwan and to deter China from military attack. This successful formula was restored in the 1980s.

The initial drafts of a Taiwan Relations Act after normalization were, however, short on support for Taiwan. The security aspect was largely ignored, unofficiality was a mantra, and there was a general lack of respect in the treatment of Taiwan by the United States, which engendered resentment that at times bordered on antagonism.

My role during this period was limited, but on occasion was not insignificant. Between 1961-63, when I was posted in Cambodia, we had identified and reported on the disastrous effects of the Great Leap Forward. Starvation, dislocation and exploitation were part of the madness that resulted from Chairman Mao's plan to have a Great Leap Forward (GLF) to communism in 15 years. Thousands of Chinese refugees smashed down the fences of Hong Kong in 1962 to escape this hell on earth.²

What the United States also realized was that there was no advantage to be gained in paramilitary actions against China. Armed raids from Taiwan to exploit this tragedy between 1959-62 failed. The United States had learned this lesson earlier in the 1950s when

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² My old friend, Professor Richard L. Walker, published in June 1959 a special supplement for the New Leader in which based on letters from Chinese he described the horrors of the Great Leap Forward. Walker was savaged by pro-China Americans for his exaggeration and "mere journalism." Walker's only mistake was to underestimate the negative impact of the GLF.
it had tried, without success, to stage operations through western enterprises in Taipei, through LI Mi's irregular forces in Burma and during the Korean War in Manchuria. The Chinese mainland population, desperate as it was, would not support these external efforts, in fact, it was more likely to work against any force from the outside. A curious and somewhat contradictory event, however, took place in 1962 when the PRC moved major forces into Fujian province. At first, this was perceived as an invasion scare against Taiwan, but later it turned out to be a defensive paranoia about a possible U.S.-Taiwan invasion. The PRC did not fear pinpricks, it was concerned about a major attack.

In 1968-70, when I served in Hong Kong, my role was limited. I was in intelligence, not policy-making. We were able to describe, probe and explain the increasing crescendo of Chinese efforts to reach out to the United States, especially after the border incidents with the Soviet Union in 1969. The Vietnam War dominated American policy but there was this thin ray of light emerging from the PRC, which struck us as important and worth pursuing. We did not, however, lose sight of the madness of the Cultural Revolution that was then underway. Hundreds of bodies, arms tied behind their backs, floated down the Pearl River into Hong Kong from Wuzhou, and reminded us of the bitter factional fighting taking place.

When I got back to the United States in 1970, my only real involvement was as a CIA representative on NSSM-106, an interagency group chaired by Al Jenkins of the NSC, designed to examine the possibility of an opening to China. Large groups of people met and argued over how, when and where to do it. To the chagrin of some of my CIA colleagues and a few at the Department of State, I raised the Taiwan dimension as important in any rapprochement with China. Arms sales, Taiwan defense command, diplomatic derecognition, the concept of one China - all of these factors had to be considered.

As it turned out, our deliberations were largely irrelevant. Secret diplomacy was underway at the highest level, and we were unaware of it. In the end, I had the feeling we were a diversion to attract public and media attention, while the real work was done behind closed doors.

In 1973, I was scheduled to go to Romania to work there in a "denied area environment" to prepare me eventually to go to Beijing when relations were established. This changed in February in
1973 when the announcement was made of the establishment of liaison offices in Beijing and Washington.

I decided I would go for a position in this first liaison office. So I had to abandon the Romanian option, but faced strong resistance from the Department of State. With some luck, good contacts and persistence, I succeeded and ended up in Beijing in July 1973 as the sole outsider in an otherwise purely State Department personnel structure. I was told to be passive as the Chinese were informed of my true affiliation. My job was to help USLO in the mission and I tried to do just that. It was harder on my family then on me, but they were tough. Taiwan authorities knew I was there but we did not, as far as I know, officially inform them. Taiwan cooperated in concealing my true affiliation but the American media did not. I was, so to speak, exposed in the international press and after a decent interval and at my own request, I quietly left Beijing. The Chinese authorities were also cooperative during this difficult period. One great advantage of my first Beijing tour was that I met and befriended George Bush, our second chief of USLO. This was a relationship which would affect the rest of my life.

In 1975, I became National Intelligence Officer for China, a new job in the intelligence community. I knew I was through with clandestine operations, and I would try the analytical side. Also, the same George Bush I had met in Beijing was named Director of Central Intelligence in late 1975, and we again established a good working and personal relationship. I must add that during the difficult period in early 1975 in Beijing, George Bush showed those qualities which I continue to admire: loyalty to subordinates in personal relationships, as well as an incredible instinct for what are key issues and who are the important people. My brother Frank died in 1946, I met George Bush in 1974. These two extraordinary men - both from Yale, both achievers, both heroic and both involved in China - were, and are, the inspirations of my life.

The NIO experience was mixed. Analysis without action was frustrating. Inter-agency meetings were laborious, contentious and even boring. But I was able to do a few things which impacted on U.S. relations with China and Taiwan. In 1975, we conceptualized and proposed a new security relationship with China, which would strengthen our common efforts against the Soviet Union in concrete ways. This was not done, however, at the expense of Taiwan. In 1976, accompanying Director Bush, I briefed candidate Jimmy Carter in Plains, Georgia on Chinese leadership, Chinese military exercises in the Taiwan Strait, and the evolving political situation in
Candidate Carter was an intent listener, well-informed and very complimentary. In fact, I was so impressed, I voted for him in 1976.

In 1977, while still at CIA, I accompanied private citizen George Bush to China, over strong objections from State. We had an extraordinary trip. I met DENG Xiaoping for the first time and observed first hand the unusual chemistry developing between Bush and Deng. It was on this occasion that Bush proposed broad-based cooperation on offshore oil. The PRC offshore oil program was floundering in waste and inefficiency, and Bush outlined the risk contract system whereby the United States would absorb the risks and the pay off would be in shared production. Deng was clearly interested, and I believe this was at least a factor in his later reform proposals at the 3rd plenum of the 11th Party Congress in December 1978.

In 1978, in the lead up to normalization (I was not a party to the secret proceeding), I prepared two inter-agency memoranda on China and Taiwan. These were my two worthwhile contributions on China and Taiwan during my tenure at NIO. In addition, I participated in one earlier estimate on the Chinese military. The first of these papers dealt primarily with the impact of normalization, under certain terms, on the rest of Asia and on Taiwan. We outlined objectively the pluses and minuses and received high praise from the Intelligence Board. Admiral Turner, the DCI and Robert Bowie, my immediate boss, were of great help.

Many of the points we made on Taiwan were later covered in the Taiwan Relations Act. I hope this was deliberate, but I cannot rule out coincidence. The second inter-agency paper analyzed U.S. and other countries' arms sales to Taiwan. It was clear that the United States was the only reliable supplier, and this implied a continuing involvement. We could not shift responsibilities to other countries and still carry out our obligations to Taiwan. This too may have influenced the TRA.

But I must add that we were also drafting papers for the NSC on how the United States could help build up PRC military strength so it could deal more effectively with the Soviet Union. First, this would be done through Europe as the United States could not become directly involved prior to normalization. But an eventual outgrowth of this, I believe, were the cooperative military programs with the PRC, which developed during the Reagan Administration. It was always a careful balancing act between our military relation-
ships with PRC and with Taiwan. Managed skillfully, our interests could be advanced by a dual-track relationship.

I retired from government in January 1979, not because I was disgusted with normalization as some still contend, but because I wanted to breathe the fresh air of the outside world, get involved in business, teach and make enough money to put three sons through schools in the United States, without going into debt for the rest of my life. I also left government because I wanted to be involved in politics on the side of George Bush, who was running for President in 1980.

But just before I left government, DCI Admiral Turner took me to see President Carter in 1978 to brief him on DENG Xiaoping who was coming to the United States the next month, and also to brief the President on the upcoming invasion of Cambodia by Vietnam. We also briefed the President on the hard evidence of a North Korean military build-up. I noted how much the President had aged since the briefing in Plains in 1976. He was alert but almost laconic in some of his comments.

I had the advantage of another meeting between George Bush and DENG Xiaoping in Houston in February 1979. Deng, at this meeting, suggested to Bush that he get actively involved in bringing Taiwan and China together. Bush was intrigued, but I recommended caution on his part. The debate on the TRA was coming up and I sensed there would be a bi-partisan drive for closer and more extensive U.S. security support for Taiwan. This drive had strong Republican support. Getting in the middle of a Chinese dispute was questionable in any case, but the timing was particularly inappropriate. Bush did pursue this role, but only carefully, after he left the Presidency in 1993.

In the actual hearings for the TRA in 1979, I played only an indirect role. I did watch with pleasure Rob Parker's superb performance as President of the American Chamber of Commerce in Taiwan, in contrast to that of Leonard Woodcock and Ken Lieberthal. I did insert the idea of a peaceful solution of differences between Taiwan and China and the need for some kind of renunciation of force. The PRC had suggested this orally to the United States in 1955 at Geneva. Non-use of force was eventually linked to our security guarantees for Taiwan in the TRA.3

3. The essence of the debate on the TRA has been captured in the important book A Legislative History of the Taiwan Relations Act with Supplement edited by Lester Wolff, former Democratic Congressman of New York.
Congress was understandably concerned that the Administration had terminated the Mutual Security Treaty of 1954, suspended arms sales to Taiwan for a year under pressure from the PRC, and not provided security guarantees that would reassure the people of Taiwan. Congress wanted to continue arms sales of a defensive nature. (Actually this “defensive” concept had been in effect in the 1970s. For instance, the United States sold the F-5E to be assembled in Taiwan. This was a short-range interceptor which in no way could threaten this mainland. We would not, however, sell the F-4 phantom, which had an attack capability amply demonstrated in the bombing of North Vietnam.) Preserving the human rights of the People of Taiwan was a clear objective in the TRA and this remains especially important today, as Taiwan has achieved a working democracy. The Congress also came out strongly against non-peaceful means, including blockades, which could be used to determine the future of Taiwan. This would be of “grave concern” to the United States and the United States would maintain the capacity to resist any resort to the use of force that would jeopardize the security of the people of Taiwan. The concept showed a certain clairvoyance, in anticipating future contingencies and challenges. For instance, when challenged with missile coercion by the PRC in March 1996, the Administration dispatched two carrier battle groups off Taiwan, which was consistent with spirit and the letter of the law in the Taiwan Relations Act. American revisionists in the United States have since tried to make any U.S. military intervention contingent on Taiwan’s political behavior. This is not in the TRA and can only be deduced indirectly from the Three Communiques. The Congress and the Judiciary, by historic precedents, place the TRA over any agreement with a foreign power that is not subject to the consent of Congress.

The TRA was a brilliant piece of legislation, and it sustained the substance of our relationship with Taiwan while moving the symbols over to the PRC. As a side benefit, as Director of AIT (1982-84), I was blessed by not having to attend numerous national days, an obligation that inundated me while in Seoul and Beijing. I was never much on the rituals of diplomacy in any case.

The TRA was passed overwhelmingly by Congress and signed into law as Public Law 96-8, becoming effective on April 10, 1979. Names like: Ed Derwinski, Lester Wolff, Clem Zablocki and Dante Fascell in the House; Church, Glenn, Biden, Stone, Javits, Percy and Helms in the Senate were heroes then, and remain heroes today. Their law has stood the test of time. Some of these men are still in
the Congress, some have passed on, but their strength and their wi-
dom, their legacy and their persistence are still needed. Hopefully,
the new generation of law makers will measure up when they are
tested.

By 1980, U.S.-Taiwan relations had begun to stabilize after a
rocky start. The PRC, after some initial grumbling about the TRA,
was turning to other things in the challenges of 1981-82. The 1980
U.S. Presidential campaign was heating up, and an American politi-
cal giant was emerging from the West. Ronald Reagan was a strong
conservative with core values and a pragmatic touch. He liked Tai-
wan and was not afraid to say so. He had never been to mainland
China and lumped the PRC leadership in with his distaste for com-
munism in general. He was sweeping all before him in the prim-
aries and in a grand gesture brought George Bush, his most serious
rival into his camp, by offering him the Vice-Presidency. Bush
wisely accepted. A series of events then began to unfold which
would get us off to a difficult start in our relationships with the PRC
and with Taiwan. I will cite only a few of them, some of them
personal.

Vice-Presidential candidate Bush went to China in August of
1980 and I went with him. Candidate Reagan, on the eve of our
departure for China, made a reference in a public statement that he
was looking forward to reestablishing official relations with Taiwan.
The PRC leaders were upset, to say the least. We tried to reassure
them that U.S. policy would not change and that American political
campaigns were unique. The PRC remained suspicious, but still
seemed to have confidence in Bush. During this visit, we saw
DENG Xiaoping, and he was both acerbic and sarcastic, but
seemed to have a certain confidence that things would stabilize. It
was clear he believed in the U.S.-PRC relationship and was not go-
ing to let verbiage tear it apart.

On the way back from China with Dick Allen, a Reagan man,
and Pete Teeley, a Bush man, I drafted a combined statement for
Reagan and Bush to deliver on August 25th in Los Angeles. It was
a bold compromise that permitted Reagan to reach out to all Chi-
nese, including the PRC, and put his remarks on “officiality” into
what we believed was an acceptable context. The PRC attacks on
Reagan did diminish, especially after I took their representatives to
Republican Headquarters where they reviewed the latest polling
data, which put Reagan way ahead of any rivals.

During that same summer of 1980, I visited Taiwan again after
an absence of about 10 years. This was to attend the annual confer-
ence on mainland China. Many of my old friends were there, including Dixie Walker, Gaston Sigur and Bob Scalapino. I took a trip around the island, talked to people and discussed the extraordinary changes that had taken place. Normalization with China did not seem to have significantly affected Taiwan's generally upbeat attitude. Security was a worry, but there was a sense in Taiwan that conservatives were going to come back in the United States and this augured well for Taiwan.

The 1980 campaign was exciting, full of life, fun and hard work. The best of all, we won, and won big. Dick Allen asked me to be on his NSC staff and I accepted without hesitation. The first thing I was hit with was a long list of arms requests from Taiwan, which were still on hold almost two years after normalization. Among them was the fighter aircraft called the FX-should Taiwan get it, and did Taiwan actually need a new fighter aircraft? The choice was between the F-16 AB or the Northrup F-5G, a prototype designed to supply our friends with a short range defensive aircraft. The F-16 was to be largely reserved for only our closest friends and allies. Lobbying for and against the FX heated up immediately. Doak Barnett, an eminent scholar of China at Brookings wrote a powerful polemic against the sale. The New York Times weighed in, saying Taiwan did not need another fighter, that an advanced F-5E, which Taiwan already had, would do. I decided the only fair thing to do was to have a study done by the Defense Department which would, in accordance with the TRA, establish whether there was a need for a new fighter in the context of the defense of Taiwan.

I did not ask CIA to do it because I believed, on the basis of extensive exposure there, that a study by them would not be objective, and objectivity was the key. The Department of Defense (DOD) came to the conclusion that Taiwan did not need the fighter. The PRC air force was backward and confined largely to antiquated Soviet MIGs. The PRC was also on a charm offensive, having offered a 9-point program for unification, not liberation (the old term), emphasizing peaceful means. Although the DOD study was classified, it was immediately leaked to the Washington Post by the State Department, which was against the sale. The tide was running against the sale, especially as there was a strong group at State, which considered China a “Strategic Imperative” and any obstacle to that process had to be neutralized. What was unfortunate, but probably contrived, was the timing of the announcement denying the sale, which coincided with my arrival in Taipei in January.
1982 as the new director of AIT. I was landing at an awkward time, but I give credit to my Taiwan friends for not holding it against me personally. Far from that, I was welcomed with open arms.

One other event gave me confidence to get through the first difficult eight months in Taipei as we inevitably moved towards the August 1982 joint communique on arm sales to Taiwan. Before I went to Taiwan, my good friend Dick Allen arranged, over strong objections from State, that I be included in a group of twelve Ambassadors paying there obligatory call on the President who had appointed them. I was not appointed by the President, was not confirmed by the Senate and was not an Ambassador, but a director. With my family, I stood at the end of the line behind Ambassadors to such grand countries as India. Each Ambassador met the President for about 3 minutes and a photo. The President worked them all with 3x5 cards. When I straggled in last, the President had been at it for half hour and it was obviously not interesting work. He looked at my card, then at me, and said, “sit down, I want to talk to you.” Vice-President Bush came in, Mrs. Reagan joined us, and we started to talk. My family was bowled over by this warm, generous and unusual treatment. The President was in superb form, recalling among other anecdotes his last talk with CHIANG Kai-Shek. As I was leaving, he pulled my aside and said looking right into my eyes, “You remember, I like those people. Do not ever forget it.” He was of course referring to Taiwan. I did not forget it and, like so many things about Reagan, it mattered where it was important.

In 1982, the PRC intensified a major campaign to limit and, if possible, to terminate by a date certain arms sales to Taiwan. They sensed give in the U.S. position after the negative FX decision. They believed there were sympathetic groups at State, in academia and in Congress, who might support their position. They also wanted to dilute the TRA and thus undercut American support for Taiwan. The PRC referred to a commitment from the Carter Administration to end arms sales. We checked with all key members of Carter’s team. We searched the Carter library files in Plains, Georgia. We could not find any reference to this alleged commitment. There were gaps in the reporting, but the issue died completely when former President Carter said he had made no such commitment.

But the Chinese pressed hard, and they got the quality and quantity provisions accepted by the State Department at the highest level. This was then slipped through the White House by subter-
fuge. It then became part of the record. I had been alerted that White House should look carefully at this provision. A good and loyal friend at State had tipped me off that they were going to try to slip it through, but it was too late.

At the end, in early 1982, the President was faced with the prospect of either risking a downturn in US-PRC relations or agreeing to a date certain for termination of arms sales. He put his foot down and would not agree to the termination, as I understand it, and this word was conveyed to the Chinese through a unique channel. The result was the somewhat ambiguous communiqué that was eventually issued on August 17, 1982.

Officers in the State Department and a few others had me brought home to Washington from Taipei before the August Communiqué, and in a long and somewhat liquid evening worked on me to go along with the idea that a cut-off date for arms sales would be feasible if I could sell it in Taipei. I was somewhat equivocal but said I would look into it. Once back in Taipei, I became convinced it would not work either in Taipei, or in Washington. I said as much in a telegram that basically supported the President's inclination.

Another awkward moment came when Vice-President Bush traveled to China in May 1982 and presented three letters, one each to DENG Xiaoping, ZHAO Ziyang and HU Yaobang. The letters had a slightly ingratiating tone and were designed, I was told, to ward off a coming crisis with China. I was not told of the letters in advance, and their contents rapidly leaked in the media, revealing some Keystone Cops routines in the PRC. The result for me in Taipei was a very unpleasant time with the Foreign Ministry officials, who were also blind-sided, and reminded me that my "alleged" close association with Vice-President Bush had been of little avail in this case. But diplomats and pseudo-diplomats are paid to take this sort of abuse.

Gaston Sigur (who was then on the NSC staff) worked to ameliorate the effects of the Communiqué by inserting a last paragraph on Taiwan. This was in line with President Reagan's own feelings, but, more important, Gaston told me that the President interpreted the Communiqué in the following way: it was important to calm the PRC down, but he saw "balance" as the determining factor. If the PRC changed the balance of power then Taiwan would have to have an equivalent upgrading of its own military capabilities. Also, the Taiwan people could not be subjugated by force. These were simple marching orders.
How did this all play out in the upcoming years? There were three aspects: the hardware, the numbers and the people.

A. The Hardware

Following the 1982 Communique, the real groundbreaker was the Indigenous Defense Fighter (IDF). The August Communiqué had been condemned by many influential U.S. leaders as an unprincipled cave-in. The people who had managed it were subsequently removed and it was necessary to think about the next step. That step was to transfer technology to Taiwan so it could build its own fighter. This started for the United States in 1983 when a team of DOD and State Department medium-level personnel visited Taiwan to determine what it would need. The thinking was that Taiwan needed a fighter that could take on the PRC’s huge numbers of obsolete fighters - a first line of defense in the air (Quemoy 1958 was the precedent).

Resistance to this technical cooperation was still wide-spread in the Department of State, especially in the Intelligence and Research component and among certain mid-level bureaucrats in the Bureau of Political and Military Affairs as well as a few in the East Asia bureau. Their basic argument was that it breached the August Communiqué and the PRC would be upset if we supported this. A former Washington Post correspondent, perhaps coincidentally, went to the PRC and asked Party General Secretary HU Yaobang if the sort of technical cooperation envisaged in the IDF program would violate the Communiqué. Hu gave the anticipated response as he railed against this so-called open breach. This was incorporated in the arguments against the program. The focus actually became the radar, the APG-67, a product of General Electric, which was then standard on U.S. military planes.

Taiwan had good engineers, but many components at AIDC were still not up to par. They needed U.S. input for a workable IDF, but it could not be perceived as a U.S. program. General Dynamics would function as technical consultants and it would be handled to the extent possible as a commercial deal. This argument prevailed in Washington and the IDF was approved.

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4. The United States had a military assistance program (MAP) for Taiwan, which started in 1951 with roughly $80 million. This aid program reached its high point in 1955 with roughly $350 million and decreased to $32 million in 1974. By 1978, it was down to $83,000 and was gone by 1979, according to DSAA fiscal data for MAP drawdowns.
In roughly the same time frame, the United States was proceeding with the Peace Pearl program with the PRC. This program basically provided U.S. avionics for the PRC’s F-8 aircraft. Fifty-five PRC planes would be equipped at a cost of $550 million. The PRC would get the APG-66 Radar, which was manufactured by Westinghouse and was standard on the F-16. It was roughly equivalent to the APG-67.

Conservative Senators complained about this PRC program and I went to the hill to explain that Taiwan would have the equivalent. This seemed to mute some of the opposition and so we went ahead with Peace Pearl. I might note here that both the F-8 and IDF were seriously underpowered and some question remains whether either program has ever worked.

In the mid and late 1980s, we proceeded with a number of programs for Taiwan, the PFG Frigates to be built in Taiwan, the commercial version of the Black Hawk S-70 helicopter (PRC also got the same version), the commercial version of the C-130 (PRC also got the C-130s), and a hybrid tank, the M-48A5. Taiwan wanted the M-60 tank but we arranged to sell them a toned-down version. This was really troubling for us as it was both time consuming and less efficient, but it was done to placate the PRC. There was also some belief in the United States that a good modern tank might be better at domestic crowd suppression. I left the fray in 1986 for Korea with a sense that we were managing our relations well enough with what was a superb team at Defense, State, CIA and the NSC. Our efforts were partially rewarded when, with a sense of confidence in U.S. support, President CHIANG Ching-kuo of Taiwan opened up to China in 1987, ending martial law in Taiwan and liberalizing the political process. Although there were clearly other reasons, I believe our solid support was a key ingredient in lowering tension between the PRC and Taiwan.

B. Numbers

Numbers were always a factor. The August Communiqué stated that the United States would gradually reduce arms sales to Taiwan. This was interpreted by the United States as total arms sales figures. The State Department recommended $50 million reduction a year. Others who perhaps were more understanding of Taiwan’s problems recommended $5 million. A compromise was reached to settle on roughly $20 million, but that was not to be a steady reduction of $20 million a year. The reduction could be less or more each year depending on the circumstances. This meant
that the numbers could even go up sometimes. This was consistent with the important Reagan interpretation that the balance of forces could not be allowed to get out of hand. If the PRC grew rapidly and became belligerent, more would have to be done for Taiwan. A quick look at the numbers tells us this: in 1978, total sales Agreements (FMS) were $324 million and commercial exports were $73 million. Deliveries, however, were much less. Inflation was also factored in and the numbers were increased on a one-time basis to reflect this. Total military sales agreement (FMS) went from $630 million in 1983 to roughly $500 million in 1988. In 1993, it jumped to $6 billion with the sale of 150 F-16s to Taiwan, but in 1994 it dropped to $360 million. (See annex two.)

A brief note on the controversial F-16 sale. It came about when the Peace Pearl program was suspended after Tiananmen. The PRC then went to the Soviet Union and commenced a major program of arms acquisitions, including the advanced fighter Sukhoi-27 that was roughly equivalent to our F-15. At the same time, the Taiwan Air Force was falling apart. The IDF program was not going well following a serious of lethal accidents and attrition was causing a serious loss of pilots and maintenance personnel. In addition, the PRC leadership had made several public belligerent references to Taiwan and were backing this up with acquiring a power projection capability. President Bush, who may have acted for personal reasons, approved the F-16 sale in September 1992. PRC reaction was harsh and sharp, but appeared not to be dangerously threatening.

Creative book-keeping also helped keep the arms sales numbers down. Straight commercial sales of dual use items were not factored in. Certain items were classified and not included in published figures. Taiwan's problems were in fact increasingly becoming software-related, not hardware-related. Taiwan needed to retain trained personnel, develop new doctrines of modern defensive warfare, get with the revolution in military affairs and with information warfare, and think more strategically in calculating defensive needs, rather than simply submitting a wish list at annual military meetings. (See annex one for a summary of major Taiwan procurement programs.)

One of the key issues for the future is Theater Missile Defense (TMD) for Taiwan. Taiwan has faced PRC missile diplomacy in 1995 and 1996, when missiles were used for coercive purposes to influence Taiwan domestic politics. It was a sobering experience for both the PRC and Taiwan. For the PRC, it meant strong U.S. inter-
vention in the dispatch of two carrier battle groups. For Taiwan, it meant there were limits on how far the PRC could be pushed before risking a violent reaction. In reality, TMD remains in the R&D phase. It has not been tested successfully and is a major U.S. domestic political issue. The outcome remains unclear. The PRC has stridently denounced TMD as a first strike capability and a political factor encouraging Taiwan independence. The North Koreans, however, have weakened the PRC argument against TMD by firing its own 3-stage rocket threatening Japan, South Korea and even Taiwan. TMD remains an option for Taiwan in the context of overall deployment in East Asia. It would be premature to speculate further at this time.

C. People

Secretary Dick Cheney said to me when I joined him in the Pentagon in 1991 that it’s not the organization per se, but the people that really count. As usual, he was right, especially when applied to our security relationship with Taiwan and the PRC. After a initial turbulent start in 1981, a group of competent, talented and congenial people took over running our PRC/Taiwan policy: at the State Department, Paul Wolfowitz, Bill Brown and General Jack Chain at PM; at the NSC, Gaston Sigur and David Laux; at the Pentagon, Rich Armitage and Jim Kelly; at CIA/NIO, David Gries. They all had the confidence of their superiors. They knew the system, they shared objectives and they got things done in a balanced and skillful way. The principals named above met quietly once a month for long detailed policy discussion. Their immediate deputies - Brown, Laux and KellyBmet more frequently and often included the indispensable David Dean. I was privileged to be the point man in the field, first in Taiwan, then in Korea.

Rich Armitage and his China specialist, Lieutenant Colonel Bob Young, put the PRC military programs together and got on excellent personal terms with the younger military leaders in the PRC, including HE Pengfei and ZHANG Ping. Wolfowitz and Sigur saw their Taiwan friends in Washington frequently; frank discussions, bargaining, confidence building moves were part of this intricate bonding process. These kinds of personal relationships were absent in 1981-82 and deteriorated after 1989 when Gaston and Rich both left government and others also moved on. These halcyon days reminded me of Camelot, and I was privileged to be part of it.
As I said earlier, a rapprochement took place between the PRC and Taiwan in 1987 and has lasted until today in part because the men of the hour in Washington understood and acted wisely. During the two difficult years I was in the PRC (1989-91), I was not harassed on Taiwan, unlike my successors. The United States had managed earlier in 1985-86 to have both Taiwan and China in the Asian Development Bank, an official international organization. Without a stable policy and skilled negotiators, this would not have happened. Since then, Taiwan and the PRC are both in APEC and both should eventually become members of the WTO. As President Reagan said on August 25, 1980, we hold out the hand of friendship to all Chinese, but nobody tells us what to do.

As for the future, we have to learn from the past. The past goes back much further than the TRA-patterns of cooperation that were set in the 1930s. Actual conditions in China were critical to what the United States did, whether the United States moved in and helped, or withdrew. The United States has sought continuously to have a democratic, united and strong China as a friend, but the Chinese themselves are, of course, the principal actors in figuring out how to achieve this. Unity and democracy can sometimes become contradictory, especially under present circumstances. But the Chinese themselves must figure this out. The realization is coming that commerce, trade and investment contacts should lead to greater interdependence and stability, and money spent in escalating the respective militaries detracts from this and could be better spent in building prosperous Chinese societies, and helping Asia out of its financial mess.

In fact, the most effective way to reduce Taiwan arms sales by the United States would be for the PRC to reduce convincingly and make more transparent its own military modernization program which now seems both ambitious and gives priority to power projection against Taiwan. As for Taiwan’s response, the TRA remains about peace, stability and a commitment to friendship and respect. This Act also is an integral part of the peace process as balancer and guarantor.

What the PRC does with its military will influence the future of the U.S.-Taiwan security relationship. As China modernizes its forces, the big question is how capable would they be were China to choose belligerency over peaceful means? Will China continue to apply moderation in Hong Kong? Will it compromise with its neighbors in the South China Seas? Will it reach a stable modus vivendi with Japan? Taiwan is part of the island chain surrounding
the PRC's most prosperous areas of its coast. These Chinese coastal areas historically have been threatened by sea power, as in the Opium War of 1839 and the Japanese invasions of the 1930s. China has legitimate concerns about its security. The best guarantee would be peaceful and harmonious relations with its neighbors and with the United States. After a long struggle, Western Europe and North America have achieved this. But until that state of affairs in East Asia is realized, a balance of forces will be necessary.

As for renunciation of force, China has stated that to do this would be a violation of its sovereign right. It is interesting to note that this was not always its position. In December 1955 at Geneva, PRC delegate WANG Bingnan suggested orally that the PRC was prepared to offer a joint statement with the United States renouncing force in the Taiwan area. The United States did not aggressively pursue this offer. Currently, President JIANG Zemin has called for a cessation of hostilities in the Taiwan Strait area as has President LEE Teng-hui. There seems to be room for progress and compromise here.

The TRA has been a major force in preserving the peace for its first 20 years. Let us hope that the faith and confidence wise men put into this piece of unprecedented legislation will be justified, and that the future friendship of the Chinese and American people will be promoted and assured by this Act of Congress.
ANNEX 1

A summary of major Taiwan procurement programs:

ARMY PROGRAMS:

AH-1W and OH-58D Helicopters: In mid-1991, the Taiwan Army (TA) signed FMS cases for 42 AH-1W Super Cobra and 26 OH-58D Kiowa Warrior (w/Mast Mounted Sight) helicopters as a joint USN/USA program. A follow-on purchase of 21 Cobras and 13 Kiowa Warriors has been approved by the USG and is in progress. The helicopters will be used by the TA in an anti-amphibious landing role; armaments include the HELLFIRE missile and the aircraft are fitted with an Automatic Target Handoff System. All 26 OH-58Ds and 42 AH-1Ws under the initial case have been delivered, but support items and services are continuing.

Modified Air Defense System (MADS): This PATRIOT-like system was approved as a commercial program in late 1991. A contract was signed with Raytheon in 1994, and the first of these systems is in the process of being deployed in Taiwan. The system will have a PACII-plus capability. The U.S. Army will provide support and engineering services while Raytheon provides major hardware and missiles. The overall program is currently estimated at $657 million.

AVENGER Air Defense System and Dual Mounted Stinger (DMS): AVENGER and DMS were approved for release to Taiwan in 1993 and 1996, respectively. Congressional notifications have been accomplished for both. Taiwan signed an FMS case in September 1996 for 74 AVENGER fire units (1236 missiles), and an initial FMA case for 465 DMS missiles has been implemented. These systems will significantly enhance Taiwan's low-altitude air defense capability.

M60A3TTS Main Battle Tanks: M60A3 MBTs from the U.S. Army inventory were approved for release to Taiwan in August 1989. A total of 460 have been requested by the TA. Of these, 160 (valued at $86 million) had been delivered to Taiwan by September 1996. Of the remainder, 136 are now at Anniston Army Depot for reconditioning/overhaul. This sale includes support equipment and is valued at $88.2 million. An amendment for an additional 164 tanks and support equipment (value $150 million) was implemented October 20, 1997. These tanks will supplement or replace old U.S.-origin M-48 tanks.

IMSE: The Improved Mobile Subscriber Equipment program began with the deployment of a U.S. Army survey team to Taiwan in May 1994. This program, with a $1 billion potential value, is being accomplished in multiple phases; Phase 1, implemented in December 1996, is still underway (value $153 million). The program, when complete, will provide Taiwan with much improved tactical communications and more robust command and control capability.
Electronic Warfare: Taiwan has expressed formal interest in acquiring U.S. electronic warfare (EW) capability. A U.S. Army pre-site survey team visited Taiwan in November 1996 to assist in determining requirements. P&A was provided in May 1997; the formal site survey will comprise two visits, with the first currently underway, and the second scheduled to take place in the second quarter, FY98.

AIR FORCE PROGRAMS:

Indigenous Defense Fighter (IDF): Under development since the early 1980s with substantial U.S. government and industry support, this small two-engine fly-by-wire jet fighter is in production and the first wing of 70 aircraft has just been commissioned in the air force. A total of 130 IDFs will be produced by the Aeronautical Industry Development Corporation (AIDC). Due to initial USG policy constraints, the IDF is smaller than the F-16 and has limited combat radius. It therefore has not been a popular program with the Taiwan Air Force (TAF). The TAF intends to use the IDF as a low-to-medium altitude air defense fighter, optimized for close-in defense of the island.

F-16A/B MLU Fighters: The Bush Administration approved the sale of 150 F-16A/B fighters in mid-1992. The Block 20 F-16 will be equipped with the Mid-Life Upgrade (MLU), developed in concert with the EPG. The first two of these fighters was delivered to Chiayi Airbase on April 14, 1997, and at present, over 50 A and B models are at MOB#1. Deliveries will continue on the order of 3-4 per month until completed in late 1999. Pilot training has been under way at Luke AFB for some time, and the pilots trained there will constitute the initial instructor cadre in Taiwan. A Taiwan request for a continuation flight training program for the F-16 has received USG approval and will commence at Luke AFB in 2000 after deliveries are completed. The F-16s armament will include the AIM-7 Sparrow and AIM-9M Sidewinder AAMs. Additionally, the USG recently approved release of the air-launched HARPOON for use with the F-16. A version of Pathfinder/Sharpshooter also has been approved for release. Taiwan's requests for AMRAAM and AGM-65G MAVERICK have to date not been approved, but they continue to be high on their requirements list.

E-2T AEW Aircraft: E-2T ("T" signifying Taiwan) aircraft were approved for sale to Taiwan in late 1988. Under a direct commercial contract with Grumman, with limited FMS content, Taiwan subsequently procured four E-2T aircraft. Delivery was completed
in 1994, and training has been underway since then. One of these aircraft sustained major damage during a training flight last year because of a wheels-up landing. This system, when fully operational, has the potential for providing Taiwan with a significant “force multiplier” capability in the air defense arena.

**C-130H Transport Aircraft:** Taiwan has 20 C-130H aircraft in a transport configuration; another is configured for ELINT operations. These aircraft have slowly been replacing the extremely old C-119 “Flying Boxcars” that have been in the TAF inventory for decades.

**T-38 Lease and AT-38 Training:** In June 1993, we approved the lease of 40 T-38 jet aircraft to be used by the TAF in Taiwan for proficiency flight training purposes. Lease of the T-38, which is very similar to the F-5 fighter, still the mainstay of the TAF fighter force, was driven by the obsolescence and virtual grounding of the TAF F-104 fighter fleet, and continuing problems with corrosion and structural fatigue in the F-5 fleet. We are in the process of returning these aircraft to the United States. Relatedly, we concluded early last year a Continuation Flight Training Program at Holloman AFB involving AT-38 training aircraft. This program, underway since the early 1990s, was extremely successful and provided the TAF with an opportunity to train with USAF instructor pilots. The graduates of this program constituted the initial student cadre for F-16 transition training at Luke AFB.

**NAVY PROGRAMS:**

**PFG-2 Guided Missile Frigate:** The PFG-2 is based on the FFG-7 Perry Class Frigate Technical Data Package and is being built by China Shipbuilding Corporation in Kaohsiung, Taiwan. Significant USG and U.S. industry support is involved. At least five of a planned total of eight ships have successfully been delivered to the Taiwan Navy (TN). Standard U.S. armaments suite is included, such as Mk 75 gun, PHALANX CIWS, Standard Missile (SM1) and Mk 46 torpedoes. An indigenously developed anti-ship missile (Hsiung Geng) is being deployed with the PFG-2. A USG approved commercial effort to design an “Advanced Combat System” for the PFG-2, incorporating 3-D, phased array radar technology was canceled by the Taiwan Navy and MND last year due to concerns about cost.
S-70C(M)-1 ASW Helicopters These helicopters were procured under a commercial program concluded with Sikorsky Aircraft in mid-1987. The original contract was for 10 helicopters. The aircraft configuration is virtually identical to the USN SH-60F CV Helo. All ten have been delivered and have been in operation with the TN for some time, although one was lost in an accident several years ago. They are equipped to operate with the RAST recovery system on the PFG-2 frigates. The TN is procuring a follow-on buy of 11 aircraft from Sikorsky.

KNOX Class ASW Frigates: Lease of excess USN KNOX Class frigates was approved, subject to availability, in August 1990. Since that time, the TN has acquired six (6) of these ships. The first three underwent restricted availability at Long Beach Naval Shipyard in 1991-92, and sailed for Taiwan in late 1993. A second lot of three sailed away in mid-1995. The final two are to undergo overhaul at Detjen Shipyard, Charleston, South Carolina. This frigate, although difficult to operate and maintain due to its high pressure steam plant, provides the TN with a much improved ASW capability. It is equipped with the HARPOON anti-ship missile system and Phalanx CIWS. We are aware that Taiwan is encountering difficulties maintaining/operating these ships.

NEWPORT Class LSTs: Enabling legislation to provide Taiwan with the Newport Class LST was approved in October 1994. The first two of these ships completed restricted availability at Newport News Shipbuilding and Drydock, and were delivered to the Taiwan Navy early last year. These LSTs will replace the extremely old U.S.-origin, WWII-vintage LSTs now in the TN inventory.

This information is courtesy of the American Institute in Taiwan.
## ANNEX 2

### TAIWAN ARMS SALES—DSAA FISCAL YEAR SERIES
(DOLLARS IN THOUSANDS)

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CHAPTER 6

THE U.S. CONGRESS AND TAIWAN

Robert Sutter*

The history of legislative-executive relations over U.S. policy toward Taiwan and the implementation of the Taiwan Relations Act (TRA) reflects often competing priorities of Congress and the Administration in managing this unique area of U.S. foreign policy. Because of the checks and balances system of government powers set forth in the U.S. Constitution, U.S. foreign policy is often a focal point of struggle for dominance between executive and legislative leaders, and policy toward Taiwan is no exception.

I. THE CONTROVERSY OVER THE "THREE NOS" – 1998

The controversy over President Clinton's public affirmation on June 30, 1998 of the so-called "three nos" regarding U.S. policy toward Taiwan represented the latest round in a long series of arguments, often between the Administration and critics in the Congress, over appropriate U.S. policy in the U.S.-People's Republic of China (PRC)-Taiwan relationship. During a roundtable discussion in Shanghai following his summit meeting with Chinese leaders in Beijing, President Clinton said that "we don't support independence for Taiwan, or two Chinas, or one Taiwan-one China. And we don't believe that Taiwan should be a member in any organization for which statehood is a requirement."1

This marked the first time a U.S. President had publicly affirmed the "three nos," though Clinton Administration officials had been saying them publicly and in private conversations with Chi-

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1. For more extensive coverage of the issues noted in this memorandum, see, Taiwan: Recent Developments and U.S. Policy Choices, CRS Issue Brief 98034; Taiwan: Texts of the Taiwan Relations Act and the China Communiques, CRS Report 96-246; China: Pending Legislation in the 105th Congress, CRS Report 97-933; China: Interest Groups and Recent U.S. Policy, CRS Report 97-48; China-U.S.-Taiwan Economic Relations, CRS Report 96-498; and Taiwan's Economy in Transition, CRS Report 96-251.
nese leaders publicized by Chinese media since at least 1996. Earlier U.S. statements, including some made privately by senior Administration officials to Chinese counterparts going back as far as 1971 provide a basis for the current "three nos," according to Clinton Administration officials. In particular, the Administration maintains that the "three nos" are consistent with the one China affirmations contained in the communiques of 1972, 1979 and 1982 that provide the framework for U.S.-PRC relations.

Critics in Congress, the media and elsewhere assert that the Administration is buckling under PRC pressure, sacrificing Taiwan interests and U.S. interests in relations with Taiwan for the sake of assuring a smoother U.S. relationship with Beijing. In particular, the critics underline Taiwan government claims that the "three nos" restrict Taiwan government efforts to seek a greater role in world affairs as a government separate from the PRC. Some also are sympathetic with non-government advocates of self-determination in Taiwan, who charge that the "three nos" effectively curb the right of the people of Taiwan to decide whether or not they want to be independent of China.  

II. PAST CONTROVERSIES IN THE EVOLUTION OF U.S. POLICY TOWARD TAIWAN

Past episodes of controversy over appropriate U.S. policy toward Taiwan and mainland China included:

- major debate in the Congress during the 1970s over the pros and cons of breaking all official U.S. ties with Taiwan for the sake of establishing normal diplomatic relations with Beijing;

- sharp and bipartisan congressional criticism of the Carter Administration's handling of the normalization with Beijing in 1978 and 1979, leading notably to a total congressional rewrite of the draft legislation proposed by the Administration that ultimately became law as the Taiwan Relations Act in April 1979; and,

- controversy surrounding the Reagan Administration's decision to sign the August 1982 Communique with the PRC, which restricted U.S. arms sales to Taiwan so long as Beijing followed a peaceful policy toward the territory.

The end of the Cold War and the 1989 Tiananmen crackdown in China coincided with Taiwan's rise as a newly emerging democracy with a vibrant free market economy, prompting many in the

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2. See inter alia, Taiwan Communique, 81, June 1998, pp. 1-8.
Congress, as well as the U.S. media and elsewhere, to press the Administration to upgrade U.S. relations with Taiwan despite strong PRC opposition. Congress was almost unanimous in 1995 in urging President Clinton to reverse Administration policy and allow Taiwan's President LEE Teng-hui to make a private visit to Cornell University, his alma mater. President Clinton acceded and the visit took place. Beijing reacted strongly and with repeated shows of force in the Taiwan Strait. After several months of PRC military demonstrations in the Strait, the Clinton Administration, with strong congressional support, deployed two aircraft carrier battle groups to the area. The potentially dangerous face-off of U.S. and PRC forces ended quietly, but was widely seen to have added incentive to ongoing private Clinton Administration efforts to reassure Chinese leaders of U.S. intentions while building an Administration policy of U.S. "constructive engagement" with China. Statements by Clinton Administration officials affirming the "three nos" regarding U.S. policy toward Taiwan were part of those Clinton Administration efforts to reassure the PRC over American intentions and open the way to smoother U.S. relations with mainland China.3

III. REASONS FOR EXECUTIVE-LEGISLATIVE FRICTION OVER U.S. POLICY TOWARD TAIWAN

The controversy between congressional critics and the Administration over the "three nos" mirrored past episodes of legislative-executive friction over policy toward Taiwan. As in the past, the Administration's priority appeared to focus on managing the U.S. relationship with Taiwan in ways that would not unduly complicate or upset the important U.S. relationship with the PRC on the mainland. From the perspective of congressional critics, this approach at times, including the most recent episode, has prompted the Administration to go too far in accommodating the PRC by cutting back, restricting or otherwise defining U.S. interaction with Taiwan in ways favored by Beijing. More receptive to the entreaties of Taiwan representatives and their supporters in the United States, and sensitive to the many tangible U.S. benefits derived from relations with Taiwan, Congress has repeatedly taken steps at many junctures over the past decades to adjust U.S. policies in ways more supportive of Taiwan interests and less favorable to Beijing.

3. For background, see CRS Report 97-48, supra note 2.
From the Clinton Administration's perspective, Congress can afford to lean in this direction, which complicates and sometimes endangers the relationship with Beijing, because it does not bear primary responsibility for managing U.S. foreign policy. At times, Administration officials see congressional actions in support of Taiwan as irresponsible. In turn, congressional observers for their part sometimes see Administration officers as being so anxious to preserve a smooth relationship with Beijing that they are prepared to make unwarranted sacrifices of U.S. interests in relations with Taiwan.4

**PRC-Taiwan Rivalry:** An underlying fact that defines the frequent legislative-executive struggle over U.S. policy toward Taiwan is the ongoing rivalry between Beijing and Taipei. Although the rivalry waxes and wanes, leaders in both capitals see their competition, especially for international support, largely in zero-sum terms. Thus, a gain for one side in international support is seen as a loss for the other. Both sides agree that by far the most important arena for their competition for international support is Washington, D.C. For Taiwan, U.S. support in arms sales, statements of strategic concern, political backing and in other ways is critical - Taiwan would not survive as a separate entity without U.S. support. Thus, Taiwan officials work hard with many channels of influence in the United States - including national and local governments; media; business; non-government, non-profit organizations; and, academic groups and universities - to foster positive U.S. government approaches toward Taiwan. For Beijing, Chinese officials use their often strong importance in U.S. strategic, economic or political calculus as leverage to persuade, pressure or coerce the U.S. government to curb its support for Taiwan and thereby help smooth the way toward PRC efforts to reunify Taiwan with the Mainland - a top goal of PRC leaders.5

**U.S. Policy Ambiguity:** The U.S. policy debate also is grounded in prevailing U.S. policy ambiguity about relations with Taiwan. On the one hand, the U.S. government, in the process of establishing and improving relations with Beijing, has issued three

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communiques and other statements (most recently the "three nos") that often appear supportive of the PRC position on the Taiwan issue. The communiques call for breaking all U.S. official ties with Taiwan; acknowledging the Chinese position that there is but one China and Taiwan is part of China; recognizing the PRC as the government of China; and, agreeing to limit U.S. arms sales to Taiwan provided Beijing pursues a peaceful approach toward the island.

Clinton Administration public statements in recent years explicitly rule out U.S. support for an independent Taiwan or Taiwan's membership in the UN or other such international organizations where statehood is a requirement. These two issues were not of primary importance in the 1970s and most of the 1980s when the authoritarian Taiwan government was ruled by CHIANG Kai-shek and his son CHIANG Ching-kuo, who strongly opposed Taiwan independence and largely eschewed Taiwan's participation in international organizations where Beijing was a member. The Chiangs maintained that the Republic of China on Taiwan was the legitimate government of all of China. Since democracy took hold in Taiwan in the late 1980s, the Administration of LEE Teng-hui has responded to popular pressure in Taiwan by soft-pedaling past commitments to reunify one China; it has asserted Taiwan's international legitimacy as one of two legitimate governments in China, and sought greater international recognition through membership in international organizations and high-level contacts with governments that already have relations with Beijing.6

On the other hand, U.S. leaders have repeatedly taken positions and policy actions designed to shore up important U.S. relationships with Taiwan. The Taiwan Relations Act is replete with expressions of U.S. concern with Taiwan's security and determination to continue to provide arms to the island government. The Reagan Administration endeavored to balance its signing of the 1982 Communiqué restricting U.S. arms to Taiwan with six pledges to Taiwan leaders, including assurances that the U.S. would not set a date to stop arms to Taiwan, would not amend the Taiwan Relations Act, and would not negotiate with Beijing over arms sales to Taiwan. The Bush Administration resumed cabinet-level contacts with Taiwan in 1992, and also agreed to a $5 billion transfer of 150 F-16 fighters, despite existing restrictions stemming from the 1982 communiqué. The Clinton Administration released in 1994 the re-

sults of a Taiwan policy review that called for modest upgrading of U.S. interchange with Taiwan. Taiwan media also have reported on five supposedly secret meetings held in the past few years between Taiwan's National Security Adviser and U.S. officials led by the Deputy National Security Adviser and the Under-Secretary of State.7

The U.S. government has also been ambiguous about the U.S. commitment to Taiwan's security. Following the termination of the U.S. defense treaty one year after the agreement to establish diplomatic relations with the PRC in 1979, U.S. officials have refused to say what actions the United States might take in the event of a PRC military threat to the island. The U.S. government made clear that arms sales would continue and that the United States expected the Taiwan issue to be dealt with peacefully. The Taiwan Relations Act affirmed that the United States would maintain sufficient forces to deal with contingencies in the Taiwan area.

After the U.S.-PRC military face-off in the Taiwan area in early 1996, the Clinton Administration strongly and repeatedly affirmed U.S. interest in seeing the PRC and Taiwan ease cross-Strait tensions and resume cross-Strait negotiations. The latter were being carried out by ostensibly unofficial representatives of the PRC and Taiwan, but were suspended in the wake of the LEE Teng-hui visit to the United States. The two sides agreed in early 1998 to resume the high level dialogue of their ostensibly unofficial representatives later in the year. Meanwhile, several former Clinton Administration officials, including Secretary of Defense William Perry and Assistant Secretary of Defense Joseph Nye, were notably active in 1998 promoting cross-Strait dialogue; some have warned Taiwan that U.S. support might not be forthcoming if Taiwan were to provoke a PRC attack by declaring Taiwan to be independent; others have called for a possible settlement of the Taiwan issue which could involve Beijing disavowing the use of force, Taiwan disavowing the option to declare independence, and the U.S. curbing arms sales to the island.8 In Congress, some members have examined the formidable PRC ballistic missile capability against Taiwan to argue

7. For recent coverage of Taiwan developments, see inter alia, the weekly coverage in the Free China Journal, published by Taiwan's Government Information Office.
that the United States should work with Taiwan to provide a theater missile defense for the island.9

IV. CONGRESSIONAL-ADMINISTRATION FRICITION OVER TAIWAN DURING THE CARTER AND REAGAN ADMINISTRATIONS

At the time of the Carter Administration’s decision to establish formal diplomatic relations with Beijing in late 1978, it was not at all clear whether Congress would take any significant steps to adjust the Administration’s actions as they affected Taiwan. Congress had passed legislation earlier in the year saying that it expected to be consulted on any Administration decision to end the U.S. defense treaty with Taiwan. Yet, the Administration moved ahead in secret negotiations with Beijing, announcing an agreement on December 15, 1978 that established diplomatic relations and required an end to all official U.S. ties with Taiwan, including the U.S. defense treaty.10

9. Congressional action is reviewed in CRS Issue Brief 98033, op. cit.

The announcement was made when Congress was out of session. In the day before the announcement, key Congressional committee and subcommittee chairs had heard rumors and news reports that some Administration action on China was imminent, but they were not briefed beforehand on what the action would be. When one subcommittee chairman was in contact with the State Department for information, he was told to watch the President on television that evening.

Such behavior clearly angered and alienated many in Congress, notably members of the President’s own party. But the Administration took several steps that appeared effective for a time in winning positive congressional attention. Most notably, they hosted Chinese leader DENG Xiaoping on a whirlwind tour of Washington and other U.S. stops. Deng was the “toast of the town.” Even many adamant critics of China in the U.S. Congress appeared to be clamoring to meet and be seen with this remarkable Chinese celebrity.

Meanwhile, Taiwan’s lobbying efforts appeared passive and ineffective. Taiwan officers claimed to be resigned to the changeover and focused on such housekeeping issues as assuring that the valuable property at Twin Oaks did not transfer to PRC control.

As a result, I was initially surprised when I sat in on planning meetings in late January and early February 1979 with Senate and House staff members who would deal with the legislation (subsequently called the Taiwan Relations Act) needed to support continued U.S. unofficial relations with Taiwan. The committee and other staffers were basically dismissive of the Administration’s initial efforts to draft legislation; perplexed at the apparent myopia of Administration leaders in alienating congressional committee and subcommittee chairs who were now needed to support the legislation; and, unsure of the competence of Administration leaders to strike an appropriate balance in the triangular U.S.-PRC-Taiwan relationship. The result was a bipartisan congressional effort, culminating in extensive additions and amendments to the draft legislation that President Carter signed as the Taiwan Relations Act in April 1979.11

The congressional-executive wrangling over the TRA was only one round in a struggle over an appropriate balance in U.S. policy toward Beijing and Taipei that continued well into the Reagan Ad-

ministration. U.S. policymakers in the Administration and the Congress disagreed about the proper U.S. posture in this triangular relationship. As in the case of many such international triangles, the participants often tended to view it as a kind of zero-sum game.

Thus, whenever the U.S. Administration attempted to interpret the TRA or take other actions designed to foster good relations with the PRC, such action often was seen by U.S. supporters of Taiwan in Congress as having an indirect but strong negative effect on U.S. interests vis-a-vis Taiwan. Similarly, whenever the U.S. Administration - often pressured by Congress - attempted to implement the TRA or take other steps designed to consolidate or improve relations with Taiwan, this often was seen by supporters of closer U.S.-PRC relations in the Administration as having a strong negative effect on U.S. relations with the PRC.

The stakes in this U.S. policy debate were high. Supporters of Taiwan often demonstrated considerable anxiety that U.S. cutbacks in relations with Taiwan would reach a point where Taiwan's security, stability and economic prosperity were endangered. Other U.S. officials stressed the need to implement the TRA so as to cut back U.S.-Taiwan relationships in order to improve U.S.-PRC relations. In particular, they warned that to do otherwise would call into question the U.S. position in a larger and strategically more important triangular relationship, namely, the U.S.-Soviet-Chinese great power triangle. Not surprisingly, they tended to view relations within this great power triangle as a zero-sum game. They argued that U.S.-PRC friction over Taiwan and other issues blocked the ability of the United States to move ahead with relations with the PRC and thereby gain a perceived advantage against the Soviet Union.

In 1979, there was much anxiety in the United States that the PRC might become alienated from the United States and seek to improve ties with the Soviet Union. Many perceived the United States as being in a comparatively weak strategic position vis-a-vis the Soviet Union. In the late 1970s, the Soviet Union was repeatedly expanding its influence in the Third World through military and other means. The United States was having considerable difficulty in meeting the Soviet challenge, and U.S. allies were less than effective in supplementing U.S. efforts to meet the challenge. Given these developments, many argued that the United States should have closer relations with the PRC to compensate for the United States' decline relative to the Soviet Union.
The division between the Carter Administration and the Congress on the appropriate U.S. position in these two triangular relationships was not clear-cut. However, Congress generally opposed Carter Administration efforts that were seen to cut back U.S. ties with Taiwan and improve relations with the PRC for the sake of a perceived advantage in U.S. relations in the Sino-Soviet-U.S. triangle.

During the early Reagan years, the policy debate shifted to groups focused within the Administration, where strong advocates of a position favoring the PRC in both triangular relationships encountered strong opposition, especially from supporters of President Reagan who felt that the United States should sustain ties with and strong backing for Taiwan. Members of Congress with close ties to the President and his conservative constituency also played an important role in mid-1982 in tipping the policy debate away from positions favoring the PRC at Taiwan’s expense.

**U.S. Policy on Taiwan: 1983–1989:** From 1983 until the Tiananmen incident of June 1989, U.S. policymakers in both the Administration and Congress showed much less contention and urgency over implementation of the TRA. In large measure this was because they were less worried over Taiwan issues and the two triangular relationships. Of course, policymakers remained sensitive to these relationships, and some still viewed them as largely zero-sum games. But the consequences of possible shifts in these triangular relationships generally were seen to have much less urgent or profound consequences for U.S. interests than in the recent past. Indeed, certain aspects of these triangular relationships began to look more like a positive sum game than a zero sum game. This new view paved the way for a general consensus on U.S. policy toward China and Taiwan and implementation of the TRA. Even strong supporters of Taiwan in the U.S. Congress were less concerned that the United States would try to improve relations with the PRC at the expense of Taiwan’s security, stability or economic prosperity. They also conceded that the TRA dealt effectively with new problems in U.S.-Taiwan relations—the large U.S. trade deficit with Taiwan, possible political instability following the death of President CHIANG Ching-kuo, and prospects for political liberalization and democracy on the island.

Even on more sensitive political and military issues in U.S.-PRC Taiwan relations, many believed that U.S. policy had achieved an appropriate balance. The United States offered to sell advanced
fighter aircraft equipment to the PRC without causing a major stir among Taiwan supporters in the United States. At the same time, the United States allowed U.S. companies to provide technology, advice and support to Taiwan’s development of an advanced fighter aircraft without prompting much reaction from those who feared that such a step would alienate the PRC and jeopardize developing closer U.S.-PRC ties to counter Soviet international expansion.

Developments that prompted a less urgent and contentious climate for U.S. policy toward China and Taiwan included:  

1. Increased U.S. confidence in dealing with the Soviet Union and recognition that China had less strategic importance for the United States. U.S. policymakers acquired more confidence in their ability to deal with the geopolitical challenges posed by the Soviet Union without having to encourage the more active cooperation of China. The United States improved its military and political capability to match the Soviet Union’s power, this happened largely because of the large-scale build-up of the U.S. military during the Regan Administration, and the internal and international difficulties faced by the Soviet Union. U.S. allies became more united in their willingness to work closely with the United States to counter the Soviet Union, especially in Asia, where Japanese Prime Minister Nakasone took initiatives to strengthen Japan’s defenses. Japan and other U.S. allies and friends along the periphery of Asia became more important to the United States in protecting the Western Pacific and Indian Ocean communications routes from a new Soviet military challenge. China became less important in dealing with the perceived Soviet danger.

Meanwhile, the PRC’s leadership expressed satisfaction with the existing balance in Asian and world affairs and was less interested in having closer strategic ties with the United States against the Soviet Union. Instead, the PRC favored an independent posture in foreign affairs, preferring to ease tensions with the Soviet Union while maintaining close ties with the United States, Japan, and other important noncommunist countries. Consequently, U.S. policymakers in the Administration and Congress no longer believed it necessary to press for a cutback in U.S. ties with Taiwan to keep Beijing on the U.S. side to oppose the USSR.

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13. See review of this period in Harry Harding, A Fragile Relationship, supra note 11.
2. Increased U.S. confidence in Asian stability. During the 1970s, many in Washington worried that Asian peace and stability were in jeopardy. The U.S.-backed governments in Cambodia and South Vietnam had collapsed; U.S. forces might be withdrawn from South Korea; bitter controversy surrounded the U.S. decision to normalize diplomatic relations with Beijing and break official ties with Taiwan; and, the United States responded weakly to the Soviet-backed Vietnamese invasion of Cambodia and the Soviet invasion of Afghanistan.

By the late 1980s, however, U.S. observers saw Asia as stable and more at peace. The United States had more confidence in its ability to check Soviet expansion. The PRC leaders remained committed to political and economic reforms to promote economic modernization and national development. Chinese relations with Japan and other noncommunist Asian states had improved, and Beijing seemed less inclined to revert to past practice of disrupting Asian stability and threatening its noncommunist neighbors. Beijing had even moderated its policy toward Taiwan. After demanding in vain more U.S. concessions concerning Taiwan following the release of the August 1982 U.S.-PRC communique on U.S. arms sales to Taiwan, Beijing decided to move forward in other areas of U.S.-PRC relations while guarding against any U.S. backsliding on existing commitments regarding Taiwan.

Taiwan, for its part, had weathered the political difficulties of the 1970s and had become a new power in international trade. It was now one of the top five U.S. trading partners and held one of the world's largest foreign exchange reserves. Its authoritarian government had eased political control and allowed more interchange with the mainland.

These trends reduced the zero-sum quality of the U.S.-PRC-Taiwan triangular relationship. In fact, the Beijing-Taipei leg of the triangle became less tense as trade, travel and other communications developed across the Taiwan Strait. In this context, the United States had greater leeway to develop relations with Taiwan under the auspices of the TRA without prompting a negative reaction from the PRC.

3. Maturity in the formulation of U.S. China policy. One result of the tense U.S. interactions with PRC and Taiwan officials during the late 1970s and early 1980s was that U.S. policymakers were repeatedly exposed to strong demands from both Beijing and Taipei. Gradually, those in the Administration and Congress who had tended to strongly favor either the PRC or Taiwan side of the
U.S.-PRC-Taiwan triangle moderated their positions and sought a middle course.

Taiwan demanded that the Regan Administration provide U.S. F-16 aircraft. That fighter was among the most advanced in the U.S. Air Force inventory. Selling that fighter would not only have enraged the PRC but also upset the prevailing military balance in the Taiwan Strait. Many U.S. policymakers believed Taiwan’s demand for the F-16 to be excessive; in fact, that demand even alienated some U.S. policymakers who were pushing to upgrade the quality of the U.S. fighters provided to Taiwan. In the end, Taiwan was granted access only to the same fighter (the F-5E) it had previously received.

The PRC, meanwhile, demanded that the United States limit U.S. arms sales to Taiwan, based on its interpretation of the August 17, 1982, U.S.-PRC joint communique. The PRC also complained about U.S. economic, trade and other policies. In response, U.S. policymakers recoiled from these demands; they called Beijing’s bluff to threaten to downgrade the U.S.-PRC relationship. The PRC then backed away from its threats and sought to consolidate relations with the United States.

4. Increased continuity and a better understanding of U.S. China policy. U.S. China policy stabilized in this period, as compared with the often abrupt moves forward in the late 1970s and early 1980s. The changes in China policy that marked the late 1970s and early 1980s proved to be too abrupt for many in the United States. The policy also was conducted in secrecy. This added to acrimony between Congress and the Executive branch over how these two branches should formulate China policy. By contrast, U.S. policymakers in the Reagan Administration were able to consult with relevant U.S. interest groups, including those represented in the Congress, to build a better understanding of their more slowly moving and generally consistent policy. These developments made it easier to build a policy consensus on China and Taiwan and to implement the TRA.

V. IMPLICATIONS

The consensus that emerged in Administration-congressional policy toward the PRC and Taiwan in the mid-1980s lasted only a few years. Its foundation rested on U.S. power and confidence in world affairs. By the mid-1980s, the United States was well on its way toward winning the Cold War. It had the backing of strong and resolute allies who shared U.S. interests and values and who saw
their interests as closely tied to an international world order led by the United States. The American people were prepared to back their leaders with the resources needed to sustain a leading position in the world.

Under these circumstances, U.S. Administration officials did not fall into the practice of earlier years and exaggerate the importance of the PRC for U.S. security and other interests. In contrast, when I spoke recently with retired Carter Administration Defense Secretary Harold Brown in 1981 on why he and other Administration officials placed such strong emphasis on the strategic importance of China and U.S.-China relations in 1979 and 1980, he replied that “it was the only thing we had.” He explained that the Administration was anxious to show resolve in the face of Soviet and Soviet-backed expansion in the Third World. But they did not increase U.S. military spending until after the Soviet invasion of Afghanistan in late 1979, and they had little to point to - other than improved U.S. ties with China - to show that they were doing much to counter Soviet third world gains.14

As result of the fixation with maintaining the close U.S. relationship with Beijing, Carter Administration leaders were prepared to cut back and curb U.S. support for Taiwan. More sensitive to U.S.-Taiwan interests and often in disagreement with the Administration “tilt” toward China in the U.S.-Soviet-China triangular relationship, many in Congress resisted. They included liberals as well as conservatives. For instance, one of the cosponsors of congressional efforts in 1979 and 1980 to press the Administration to move ahead with planned sales of more advanced U.S. fighters to Taiwan was the eminent South Dakota liberal George McGovern.

Early Reagan Administration officials, notably Secretary of State Alexander Haig and Assistant Secretary of State John Holdridge were also widely seen in Congress as overemphasizing the importance of U.S. strategic relations with Beijing and their alleged utility against the USSR. This proclivity was widely viewed in Congress as providing fertile ground for PRC efforts to pressure the Administration to compromise on U.S. arms sales policy toward Taiwan or face a decline in the U.S.-China relationship viewed by Haig, Holdridge and others as central to the U.S. strategic policy against the USSR. The result were the U.S. compromises seen in the August 17, 1982 Communique on U.S. arms sales to Taiwan.

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It was only after Haig resigned and Holdridge was reassigned that U.S. Policy, under Secretary George Schultz, his Assistant Secretary for East Asia, Paul Wolfowitz and other key Administration leaders (Gaston Sigur at the National Security Council; Richard Armitage at the Defense Department), began to show greater U.S. confidence in dealing with the USSR and in dealing with Asian matters, without buckling to Chinese pressure over Taiwan and other issues. Greater American confidence also was effective in dealing with pressures from Taiwan, whether coming through congressional or other channels. The result was the most advantageous balance, for the United States, in U.S.-PRC-Taiwan relations in the past 20 years.15

VI. CONGRESSIONAL-ADMINISTRATION FRICITION OVER TAIWAN DURING THE BUSH AND CLINTON ADMINISTRATIONS

The Tiananmen incident of June 1989 and the end of the Cold War shattered the rough consensus that then prevailed in U.S. China policy. The Bush Administration endeavored to balance some sanctions against Beijing with continued diplomatic contacts and exhortations that U.S. interests were best served by a close and collaborative policy of "engagement" with the PRC. Beijing leaders were beleaguered at home and abroad and anxious to avoid major deterioration in U.S.-China relations, especially the granting of U.S. most-favored-nation (MFN) tariff treatment to Chinese imports. Many in the U.S. Congress, media and elsewhere were calling on the Bush Administration to use trade ties as leverage to press for changes in Chinese human rights, weapons proliferation and trade practices. President Bush held the line against these pressures, though he expended considerable political capital in doing so and set himself up for successful attacks by Governor Bill Clinton in the 1992 presidential campaign where the Democratic challenger accused the President of "coddling dictators."16

The new U.S. debate over China policy at first resulted in little Congressional-Administration friction over policy toward Taiwan. For one thing, Taiwan was worried about stability in the Taiwan Strait and its burgeoning investments on the Mainland. A cutoff of U.S. MFN tariff status would have posed major security and eco-

nomic problems for Taiwan, and Taiwan officials quietly argued for its continuance. Second, Bush Administration officials were able to promote major gains in U.S.-Taiwan relations and in Taiwan’s international status at a time when Beijing was anxious to work with the President to preserve its MFN status. Thus, the U.S.-supported agreement among the PRC, Taiwan and Hong Kong allowing the latter two to enter the Asian Pacific Economic Cooperation (APEC) forum, was a major breakthrough for Taiwan. The Bush Administration also resumed U.S. cabinet-level contacts with Taipei. And most notably, the President agreed to sell 150 F-16 fighters to Taiwan. All these steps were warmly welcome by Taiwan officials and Taiwan supporters in the U.S. Congress, helping to avoid significant controversy between the Administration and Congress over U.S. relations with Taiwan.

Debate between the Administration and Congress over China policy continued during the Clinton Administration. The Clinton Administration and the Congress were unable to reach a consensus on important issues in U.S.-Chinese relations. For much of the first two years of the Administration, policymakers wrestled with the issue of whether or not to place conditions on the annual U.S. presidential waiver granting MFN tariff treatment to Chinese imports. The Administration’s decision in May 1994 to “delink” U.S. MFN tariff treatment and Beijing’s authoritarian human rights practices temporarily eased the debate in the United States over China policy. By the end of 1994, the previous wide-ranging differences within the Administration were narrowed as President Clinton and his advisers pursued “engagement” with Beijing, especially in commercial and defense relations. Prominent examples of engagement were the visits to Beijing by Commerce Secretary Brown (September 1994) and Defense Secretary Perry (October 1994).

But just as the Administration appeared to be settling on its China policy, the 1994 congressional elections brought forth the Republican-led 104th Congress. Republican congressional leaders proved to be more inclined than their predecessors to question the Administration’s emphasis on “engagement” and to press for more assertive policies on such sensitive issues as Taiwan, Tibet, arms proliferation and human rights.

Perhaps of more importance, the Clinton Administration decision to change its previous stance and “delink” MFN and human rights concerns reflected competing political pressures. Particularly influential was the growing perception among U.S. business circles and their supporters within the government of the opportunities the
Chinese economy held for U.S. business. They argued that by conditioning or withdrawing MFN, the Administration would invite Chinese retaliation that would undercut U.S. economic interests in this “Big Emerging Market” - as the Department of Commerce referred to significant international markets. Closer economic relations were also said to promote a long-term interest in greater Chinese interdependence with the world economy and in economic, social and ultimately political change in China. On the other hand, they argued that cutting off MFN would have prompted a hardening of Chinese official policy on human rights questions - in effect producing the opposite result desired by the Administration.17

Behind the business interests lobbying for the decision to delink was the People’s Republic of China as well as the governments of Hong Kong and, more discreetly, Taiwan, that would have been adversely affected by a U.S. decision to condition or withdraw MFN. PRC authorities made no bones about their firm stance during Secretary of State Warren Christopher’s visit to China in April 1994. They apparently believed that a tough stance would add to the pressure on the Administration to end linkage between MFN and Chinese human rights practices.

Mustered against these forces was an array of Americans advocating a tougher U.S. approach toward Chinese human rights violations. Although some in the Clinton Administration were sympathetic to their views, they found themselves defeated in the face of the arguments and power of those pushing for the decision to delink.

The experience over MFN and China policy was a graphic illustration that the Clinton Administration had not established a firm China policy, and that it would reconsider policy in the face of strong pressure. Policy advocates were quick to recognize that if the Administration’s policy was not to their liking, there was a chance that the policy could be changed given enough persuasive arguments and political pressure. Following de-linkage, the President’s reputation for vacillation contributed to a crisis when pressure on the Administration compelled it to switch positions on a sensitive aspect of U.S. policy toward Taiwan - it permitted President LEE Teng-hui from Taiwan to travel to Cornell University.

The pressure for change had been growing for some time. Indeed, Taiwan’s supporters in the 103rd Congress had forced the Ad-

ministration to sign a law requiring that the Taiwan President be granted a visa to visit the United States. The Administration had side-stepped this challenge, but growing pressure from an increasingly assertive Taiwan and an increasingly assertive China, along with contending pressures in the United States, set the stage for a policy change of considerable significance. In effect, the background to the decision was defined by emerging challenges to the U.S.-PRC-Taiwan triangular relationship that had existed up to that time, reinforced by domestic determinants in each capital.

Challenges to the status quo came from a variety of directions. Several years of remarkable Chinese economic growth were followed by predictions of continued development well into the next century. This gave PRC leaders a growing sense of confidence in their ability to survive the trauma of the Tiananmen incident and the collapse of international communism to become an increasingly influential player on the world stage. It also allowed for an increase in China's military capabilities and reluctance on the part of Chinese leaders to defer to U.S. pressures.

Second, Taiwan was also more assertive. Fed by impressive economic growth and rapidly changing social conditions, Taiwan moved quickly to democratize its political system. This led to debates of such long-repressed issues as the identity of the people on Taiwan and the role of Taiwan in world affairs. Democratization led Taiwan to seek greater stature in international organizations and to move away from rigorous adherence to a one-China policy, implicitly but unmistakably challenging China's stance regarding sovereignty and reunification with Taiwan.

Third, U.S. uncertainty has destabilized U.S.-China-Taiwan relations. The end of the Cold War, generational change in the U.S. leadership, and a more pluralistic foreign policy-making process produced confusion about the American role in world affairs, and policy toward China and Taiwan in particular. Washington seemed to lack a clear sense of priorities.

The politics of foreign policy in the United States contributed to U.S. policy vacillation. The Republican-controlled Congress vied with the Democratic President for leadership on important policy issues. On the issue of President Lee's visit, President Clinton be-

18. Reviewed in CRS Issue Brief 94006, Taiwan: Recent Developments and U.S. Policy Choices (updated monthly).

19. For a discussion of the background and determinants, see China Policy: Managing U.S.-PRC-Taiwan Relations After President Lee's Visit to the U.S., CRS 95-727S, p. 5.
came isolated from almost all members of his own party, as well. This situation complicated Administration efforts to reach a consensus response to Lee's request for a visa before reaching a decision. Moreover, broader questions of U.S. policy toward Taiwan and China became embroiled in the 1996 congressional and presidential election campaigns.

Domestic politics in China and Taiwan also influenced relations among the three actors. Chinese leaders were embroiled in a succession struggle. In such circumstances, it was politically expedient to support policies expressing suspicion or even hostility to challenges to Beijing's nationalistic goals. It was widely reported that the prevailing view among Chinese senior leaders was that the United States was hostile to China, and that Taiwan was moving slowly but surely to a more autonomous and independent posture. LEE Teng-hui's visit to the United States was seen as the capstone of these sinister U.S. and Taiwan efforts. As a result, Beijing reacted with frustration and hostility to defend itself from U.S. pressure and to halt Taiwan's drive toward autonomy.

Taiwan was cowed but not dissuaded by Beijing's actions. Pressed by a widespread domestic demand that policymakers seek greater stature for Taiwan in world politics, the ruling Nationalist Party and the main opposition party were active in seeking opportunities to enhance Taiwan's international role. They focused their efforts on the United States, especially on the Congress. Visits by senior leaders from Taiwan to Congress in the first half of 1995 were among the most numerous of any country. In many cases, these leaders sought support for Taiwan's growing role in world affairs and used congressional support to enhance their position in Taiwan domestic politics. The atmosphere in Taiwan remained politically charged, as politicians prepared themselves for the elections of a new legislature at the end of 1995 and for Taiwan's first popular Presidential election in early 1996.

Clinton Administration officials and many in Congress acknowledged that Beijing's harsh response to the LEE Teng-hui visit - especially the several rounds of ballistic missile and other provocative military exercises near Taiwan - took them by surprise, and that the United States needed to exercise greater care with Taiwan-related issues. Some congressional officials acknowledged that in the aftermath of the PRC's 1995 military maneuvers, Congress had "pulled back" on Taiwan-related issues. In part, this reflected greater discretion by Taiwan, which adopted a lower profile on Capitol Hill in the second half of 1995 than it did in the first half. It
also reflected the wish of many members of Congress to avoid difficulties in the U.S.-PRC-Taiwan triangular relationship. Thus, H. Res. 63, expressing support for Taiwan's representation in the U.N., was delayed because some members of Congress believed that raising and passing the resolution would undermine U.S. interests in relations with China and Taiwan. Such resolutions had passed previously.

On the other hand, some members of Congress not normally associated with a hard-line policy became more rigid after Beijing's mid-1995 provocations. They suspected that Beijing was using military force not only to intimidate Taiwan but also to intimidate the United States into weakening ties with Taiwan, and that it was testing the resolve of an Administration seen by some as less than resolute in foreign policy. This bipartisan group wanted the United States to stand firmly on Taiwan and related issues and urged the President not to "reward" PRC "temper tantrums." They also believed that the United States was within its rights under agreements with the PRC to allow LEE Teng-hui to visit Cornell University in a private capacity. Some members asserted that the Administration did not respond strongly enough to the PRC military exercises in the Taiwan Strait.

Despite the avowed interest of some Chinese officials to maintain smooth U.S.-China relations during the 1996 election year, renewed PRC military pressure on Taiwan and rigid PRC economic policies prompted a sharply negative reaction in the United States during 1996. Press reports in late January 1996 that Chinese officials were accompanying intimidation tactics toward Taiwan with threats to attack U.S. cities in the event U.S. forces intervened in the Taiwan Strait strongly affected media and Congressional attitudes. 20

China's even more provocative use of force in the Taiwan Strait in March 1996, timed to coincide with Taiwan's first presidential election, headed the list of U.S. grievances against Chinese leaders. Other major issues included the estimated $2 billion in annual losses U.S. firms suffered as a result of China's violations of U.S. intellectual property rights, despite past Chinese agreement to halt such violations; China's reported continued cooperation with Pakistan's effort to build a nuclear weapons capability; reports of China's sale of surface-to-surface missiles and related technology to

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such troubled areas as Iran and Pakistan; and, Beijing's hard-line stance toward any signs of political dissent.\textsuperscript{21}

Against the backdrop of a deluge of media criticism and congressional and interest group pressures on the Clinton Administration's comprehensive engagement policy, the White House toughened its stance. During PRC military exercises near Taiwan in March 1996 it deployed two U.S. carrier battle groups to the area, postponed the visit of China's defense minister to the United States, and suspended approval of Export-Import Bank financing for new projects in China, pending a review of options to deal with reported Chinese export of nuclear technologies. But the Administration also tried to sustain long-term engagement through dialogue between U.S. and Chinese leaders. President Clinton reportedly gave newly-appointed U.S. Ambassador James Sasser a letter for China's leaders requesting such a dialogue. China responded by sending to Washington in March 1996 LIU Huagu, the State Council's senior foreign policy expert, for discussions with White House and congressional leaders.\textsuperscript{22}

Congress was not assuaged by the Administration's action and it sought additional measures to reinforce the U.S. posture. The House and Senate passed separate non-binding resolutions expressing support for Taiwan in the face of PRC intimidation. Many members were also adamant that the Administration should adopt a stronger response to reported Chinese nuclear and missile proliferation and to violations of the intellectual property rights of U.S. businesses. The House and the Senate also passed the 1996-1997 State Department authorization bill (HR 1561) that contained over one dozen provisions targeted directly or indirectly at strengthening U.S. policy on Taiwan, Tibet, human rights and Chinese membership in the World Trade Organization.

Following LEE Teng-hui's election, with a strong showing that garnered 54% of the vote in a field of four candidates, both Taipei and Beijing took steps to ease bilateral tensions. However, the U.S. show of naval power in the face of PRC military exercises brought the situation in the Strait, and in U.S.-PRC relations, to a new and important juncture. In particular, the United States was now once again of central and immediate importance in PRC policy toward Taiwan.

\textsuperscript{21} For background, see Kerry Dumbaugh, \textit{China-U.S. Relations}, CRS Issue Brief 94002.

There were many critical factors in China and the United States that needed to be considered to assess U.S.-China relations and U.S. policy in the aftermath of the crisis. On the U.S. side, the Clinton Administration used a series of high-level meetings with Chinese leaders both in the United States and in Beijing to sustain its engagement policy. These meetings were notably accompanied by assurances on U.S. policy toward Taiwan, which later were publicly noted by U.S. leaders as the so-called "three nos," that is, U.S. non-support of "one China-one Taiwan"; Taiwan independence; and, Taiwan membership in an international organization requiring statehood.

The Administration hoped that the U.S. show of force in the Taiwan area would deter Beijing while cooling U.S. domestic pressure to take a tougher line toward the PRC. Some in the Administration wanted to continue engagement because they believed it was in U.S. interests. Others wanted smooth relations with China so that the issue did not rise prominently in the 1996 U.S. presidential campaign. They worried that Republican candidate Senator Bob Dole could do to President Clinton what candidate Clinton did to President Bush over China in 1992 - use the China issue to weaken the incumbent. Still others in the Administration really did not believe in the policy of engagement. Press reports suggested that the State Department's Human Rights Office opposed engagement.23

Many in the Congress, backed by a wide variety of media and anti-PRC interest groups, sensed weakness in the Administration's policy. They also argued that China's leadership sensed the Administration's weakness and pressed the U.S. hard, especially on Taiwan. Therefore, these Americans pressed hard in the opposite direction, trying to make sure that the Administration did not accommodate Chinese pressure on Taiwan and other issues.

Taiwan was temporarily cowed by PRC pressure. It avoided egregious efforts to gain international recognition for the rest of 1996, but over the longer term it appeared determined to seek international "space." This not only reflected a strong desire on the part of the Taiwan electorate that their leaders do more to gain Taiwan greater respect and recognition in world politics. It also reflected the private calculus of Taiwan leaders of their strong need for the international political support that comes from recognition. They believed that the PRC would become stronger economically.

and politically than Taiwan, and that Taiwan would become more dependent on the PRC economy. To safeguard Taiwan in the face of these trends, Taiwan needed broader and deeper political contacts to reinforce its strong economic contacts with much of the world, especially with the United States and key developed countries.

The Clinton Administration continued to develop its engagement policy with the PRC, culminating in summits in Washington in October 1997 and Beijing in 1998. The reaction in Congress was mixed, with many in both parties attacking aspects of the U.S. policy for a variety of reasons, including partisan reasons. As it became clearer in 1997 and 1998 that the Clinton Administration was compelled by PRC pressure to issue increasingly higher-level and authoritative statements limiting U.S. support for Taiwan, congressional supporters of Taiwan took steps to counter this trend.

H. Con. Res. 270, urging U.S. support for Taiwan's security, unanimously passed the House of Representatives two weeks before President Clinton's departure for the summit in Beijing in June 1998. Amid considerable congressional criticism of President Clinton's statements on Taiwan during his China trip, the Senate on July 10, 1998 passed resolutions (S. Con. Res. 107, S. Con. Res. 30) in support of Taiwan; and the House of Representatives on July 20, 1998 passed a resolution (H. Con. Res. 301) in support of Taiwan. 24

VII. OUTLOOK

It appears unlikely that the United States will soon restore a broad consensus on its foreign policy in general or its policy toward China and Taiwan in particular. The fluidity of U.S. foreign policy concerns after the collapse of the USSR and end of the Cold War suggest that setting clear and sustainable foreign policy priorities will be difficult.

As a result, U.S. policy over the Taiwan issue appears likely to depend in considerable part on the policies of the PRC and Taiwan. Administration officials, by and large, can be expected to follow past practice and give pride of place to maintaining smooth relations with Beijing. As a result, they will be very attentive to pressure from Beijing. By contrast, congressional representatives, more open to Taiwan lobbying and more sensitive to issues of values in U.S. foreign policy and less concerned with maintaining smooth

diplomatic ties, can be expected to respond to requests from Taipei to counter perceived Administration tilting toward Beijing and against Taipei.

Over the next few years, at least, it appears that PRC-Taiwan competition for international support will continue and perhaps intensify. Leaders in Taipei and Beijing have strong political and strategic reasons to maintain assertive policies. For Taiwan, the search for international space is central to efforts to seek to secure Taiwan’s separate status at a time of growing PRC economic and military power. For their part, PRC leaders are said to recognize that China needs to control Taiwan’s diplomatic posture if it expects to play a great power role in Asian and world affairs. A China preoccupied with an unfriendly or uncooperative Taiwan along its seaward periphery will be constrained in Asian and world politics. Taiwan under the influence of another great power can undermine PRC security.

As in the past, the main international arena for this competition will be Washington, D.C. Greater coherence in U.S. policy may ultimately allow U.S. leaders to deal more effectively with the tug-of-war for influence that has characterized U.S. policy on the U.S.-Taiwan-PRC triangular relationship in recent years. The President may be able to define a clear policy reflecting broadly accepted U.S. interests and stick to it. He may also be more willing to employ positive and negative incentives on interest groups, lobbyists and others that might otherwise be prompted to push hard for change in the President’s policy. But, if recent practice is any guide, U.S. policy could also be a muddled drift, moving in one direction or another depending on the shifting relative strength of international and domestic forces pushing U.S. policy.

White House policymakers and other Administration leaders can be expected to continue to argue that China is an important country, that U.S.-China relations are at a delicate stage, and that U.S. policy should strive to keep relations “on track.” In so doing, U.S. policy is said to foster tendencies in China toward economic, social and political change advantageous to the United States, and to foster greater Chinese interdependence in world affairs. U.S. Administration leaders add that Taiwan officials sometimes privately aver that Taiwan is dependent on the United States, so that the United States does not have to assuage feelings in Taiwan with actions sure to antagonize the PRC. U.S. Administration officials tend to argue that the United States should maintain the status quo in its relations with Taiwan and build relations with the PRC.
Opposed to this view will be many members of Congress, the media and various interest groups who emphasize Taiwan's positive features. Close U.S.-Taiwan relations provide trade and investment opportunities for U.S. businesses and campaign contributions and votes of blocs of Taiwanese-Americans for American politicians. Taiwan's competitive economic system and its recent democratization have attracted American ideological and moral support. In contrast, members of this group tend to doubt that there will be any rapid PRC movement toward political pluralism or international interdependence. They also emphasize the asymmetry of power between the United States and China. China will press the United States on Taiwan or other questions only when it senses U.S. weakness. If the United States is strong and demonstrates negative consequences for Beijing if it adopts confrontational policies, PRC leaders will pull back to protect Chinese interest in stable relations with the United States.

Which side will win in this debate in U.S. policy? Since Richard Nixon's opening to the PRC, the PRC has won the big decisions. This was evident in the U.S. policy choices in Nixon's initial visit to China, U.S. inability to maintain Taiwan's seat in the U.N., the U.S. decision to normalize diplomatic relations with Beijing, and the U.S. decision to sign the 1982 Communiqué limiting U.S. arms sales to Taiwan. And yet, for the most part, these developments were heavily influenced by an overriding strategic rationale that drove U.S. policy toward the PRC and against the Soviet Union.

Even during the Cold War, when the PRC was winning the big U.S. decisions, Taiwan made important gains. Since 1978, when the United States broke relations with Taiwan to establish relations with the PRC, Americans have increased the breadth and scope of relations with Taiwan. The U.S. Taiwan Relations Act expressed support for Taiwan security. Washington protected Taiwan's membership in the Asian Development Bank and has supported its membership in the World Trade Organization (WTO). It aided Taiwan's development of a new jet fighter and in 1992 sold it 150 F-16 fighters. In 1994, it upgraded the protocol level of exchanges, and in 1995 it issued a visa for LEE Teng-hui to visit Cornell University.

The end of the Cold War eliminated the strategic rationale for the pro-PRC decisions in U.S. policy in the 1970s and 1980s. A new strategic rationale emerged. U.S. policymakers recognize that China is a growing power and possesses the strategic importance of a great power. But Chinese power does not guarantee that U.S.
policy will tilt toward China. China’s importance, strength and assertiveness may also strengthen U.S. resolve to support Taiwan against Beijing’s threat.

This assessment of U.S. Administration-congressional interaction on the Taiwan issue reveals that whatever Administration exists in Washington, it is going to feel strong pressure from members of the media, Congress and interests groups who feel that Washington should do more to help Taiwan. If Taiwan maintains its close and cooperative relationship with the U.S. and avoids provocative actions that unnecessarily exacerbate cross-Strait relations, U.S. policy will likely tilt toward Taiwan.

If Taipei, Beijing and Washington pursue pragmatic and moderate policies as they did in the mid-late 1980, this may encourage domestic convergence in all three capitals on policy concerning China and Taiwan, and allow policymakers to reinforce tendencies toward policy coherence, perhaps leading to U.S. policies that provide an appropriate balance between Taipei and Beijing. Moderation and pragmatism by one party can reinforce trends toward moderation and pragmatism by the other, leading to a pattern of realistic but mutually beneficial contacts and reduced tensions. U.S., PRC and Taiwan actions would then focus on the common ground all three share in avoiding war and promoting regional development, goals shared by other East Asian nations and powers with an interest in the region. Past practice suggests that such pragmatism will not come from Beijing or Taipei. It will require U.S. leaders who are confident in U.S. power in the world, are able to build and sustain support for U.S. leadership among the American people, their representatives in Congress and important U.S. allies, and thus who can deal with China-Taiwan squabbles from a position of strength.
CHAPTER 7

TAIWAN-MAINLAND RELATIONS

Ralph Clough*

The evolution of Taiwan's relationship with mainland China during the twenty years of the Taiwan Relations Act (TRA) was heavily influenced by developments that occurred much earlier: Taiwan's experience as a Japanese colony from 1895 to 1945, the civil war between the Kuomintang (KMT) and the Chinese Communist Party (CCP) that began in the 1920s and finally forced CHIANG Kai-shek to withdraw to Taiwan in 1949, the Sino-Soviet alliance and U.S. involvement in anti-communist wars in Korea and Vietnam, and efforts by the governments in Beijing and Taipei begun in 1919 to modernize their societies.

Colonization by Japan created a society in Taiwan that was more advanced in public health, education, technology, transportation and communication than provinces in mainland China. Long separation from the Mainland and close association with rapidly modernizing Japan caused the people of Taiwan to consider themselves different from and in some respects superior to the Chinese on the Mainland. While admiring Japan's modernization, they resented the domination of their island by the Japanese, who reserved all the higher offices for themselves and regarded the Taiwanese as second-class citizens of the Japanese empire.

The people of Taiwan initially welcomed the expulsion of the Japanese in 1945 and the reattachment of Taiwan to mainland China. However, their welcome soon soured when they discovered that they had exchanged one set of rulers for another that was less disciplined and more corrupt. The result was the uprising of February 28, 1947, which the KMT military governor brutally suppressed, killing some 20,000 Taiwanese. This bloody affair created lasting animosity among the Taiwanese toward the ruling KMT.

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After CHIANG Kai-shek and his forces had been driven off the Mainland, the CCP began to prepare for the invasion of Taiwan in order to bring down the government of the Republic of China (ROC) and gain control of this piece of "unliberated" Chinese territory. Only the intervention of the United States at the outbreak of the Korean War in 1950 brought to a halt the invasion preparations. The governments in Beijing and Taipei did not consider the civil war over, however. CHIANG Kai-shek vowed to recover the Mainland and MAO Zedong was committed to "liberating" Taiwan. Major military clashes occurred at the offshore islands in 1954-1955 and 1958 and small-scale commando raids against the Mainland continued into the 1960s.

Taiwan's role as a Cold War ally of the United States in opposing the Soviet Union and the People's Republic of China (PRC) ensured U.S. military protection, large amounts of military and economic aid, and, for more than twenty years, the preservation of a seat for the ROC in the United Nations. The United States, engaged in anti-communist military conflict on the Asian Mainland in the 1950s and 1960s, came to view Taiwan under CHIANG Kai-shek as a vital link in the chain of alliances running from South Korea through Japan, the Philippines, South Vietnam and Thailand to Australia and New Zealand. In spite of the authoritarian and repressive nature of Chiang's rule, the U.S. government regarded Taiwan as part of the "free world" in the global struggle against communism. Congress annually by unanimous vote resolved that "Red China" should be kept out of the United Nations.

By the 1970s, it had become evident that the PRC could no longer be excluded from the UN and that the United States must establish an official relationship with the most populous country on earth. The process of normalization of relations, begun by President Richard M. Nixon in 1972, was completed by President Jimmy Carter in 1979. Because normalization of relations with the PRC required the United States to remove its military personnel from Taiwan, end its security treaty, and sever diplomatic relations with the ROC, PRC authorities felt that the road had been cleared for the reunification of Taiwan with Mainland China.

Few people in Taiwan, however, were disposed to see the island come under the control of the communist rulers in Beijing and the U.S. Congress reassured them by providing in the Taiwan Relations Act that the United States would view with grave concern any attempt to force them to agree to unification. The TRA also provided for an effective mechanism for maintaining extensive unoffi-
cial relations between Taiwan and the United States and for continuing to supply defensive weapons.

Since 1949, the governments in Beijing and Taipei have engaged in a competition to modernize their societies. In the early years, the CCP followed the Soviet model and received substantial economic aid from the Soviet Union. The KMT, although it also maintained a one-party political system and had a sizeable state sector in its economy, chose to move toward a free enterprise economic system and received a large amount of economic aid from the United States. By 1979 Taiwan had achieved recognition as one of the world’s fastest growing developing economies. It had made great strides toward catching up with the advanced industrial states.

The PRC had made progress, too, but it had been hamstrung by the split with the Soviet Union, the disastrous Great Leap Forward, the chaos of the Cultural Revolution and the inhibiting effect of central planning. Only after DENG Xiaoping took charge in 1978 did Mainland China begin a process of rapid modernization by adopting economic reforms and opening its economy to outside trade and investment.

I. PRC OVERTURES TO TAIWAN

As soon as the United States had ended its official relationship with Taiwan, the PRC made overtures to the authorities and the people of the island aimed at reunifying it with China. On January 1, 1979 the Standing Committee of the National People’s Congress (NPC) announced that bombardment of the offshore islands would halt and appealed for negotiations to end the military confrontation. The announcement also proposed that the two sides set up direct transportation and postal services, develop two-way trade, permit travel back and forth, and promote technological, cultural, sports and academic exchanges. The ROC flatly rejected the PRC proposals, declaring that it would have “no contact, no negotiation, and no compromise” with the Beijing authorities.

On September 30, 1981, the PRC renewed and expanded its overtures to Taiwan. YE Jianying, chairman of the Standing Committee of the NPC, in a statement later referred to as “Ye’s Nine Points,” reiterated proposals for talks, for the establishment of trade, mail, air and shipping services between Taiwan and the Mainland, and for tourist and cultural exchanges. He assured the people of Taiwan that the island’s socioeconomic system, way of life, and economic and cultural relations with foreign countries would remain unchanged after reunification. DENG Xiaoping later put for-
ward the concept of "one country, two systems." to be applied to Hong Kong and Macao as well as Taiwan, that would allow the people of these territories to enjoy autonomy and to maintain political and economic systems different from those in the rest of China. This concept was institutionalized in Article 31 of the PRC's 1982 Constitution, which authorized the establishment of "special economic regions."

II. CROSS-Straits TRAVEL

ROC leaders rejected the concept of one country, two systems for Taiwan, insisting that its situation differed fundamentally from those of foreign colonies such as Hong Kong and Macau. They also refused to approve travel, trade and communication between Taiwan and Mainland China. Total isolation of Taiwan from the Mainland proved difficult, however; illegal trade and travel developed and popular pressure on the government to legalize cross-strait travel increased. In 1987, President CHANG Ching-kuo authorized travel to the Mainland by an indirect route (usually through Hong Kong) in order to visit relatives. Government spokesmen stressed the humanitarian motivation for the decision, as aging retired servicemen who wanted to see their relatives before they died had been in the forefront of those demanding a change in policy. Political calculations also played a part. SHAW Yu-ming, director of the Government Information Office, declared: "The battle between the two sides is now over the hearts and minds of the people. If we allow our people to go to the Mainland, they can bring tidings of democracy and freedom to the Mainland."

People in Taiwan responded enthusiastically to the opportunity to visit the Mainland. Within a few years the number of annual Mainland visits exceeded one million. The government no longer attempted to restrict the purpose of the trips to visiting relatives; people went to do business, to visit academic institutions, to take part in athletic competitions, and, as ordinary tourists, to view China's historic and scenic sites. The government in Taipei, fearful that Taiwan would be overwhelmed by China's millions, tightly restricted travel from the Mainland to Taiwan. Nevertheless, by the 1990s, annual visits from the Mainland to Taiwan were in the tens of thousands.

III. TRADE AND INVESTMENT

CHANG Ching-kuo's authorization of travel to the Mainland coincided with a radical restructuring of Taiwan's economy. In the
1980s the rising cost of labor and land, combined with a 40 percent appreciation of Taiwan's currency, undermined the competitiveness of the island's labor-intensive industries on the world market. Moreover, Taiwan's successful entrepreneurs had accumulated a large amount of funds available for investment abroad and the government, in 1987, had lifted restrictions on the export of capital. Consequently, manufacturers of footwear, textiles and other labor-intensive products began to transfer their operations to Southeast Asia, where wages were lower and land cheaper.

After the government legalized travel to Mainland China, the provinces of Fujian and Guangdong, across the Taiwan Strait, soon became the preferred destinations for Taiwan's sunset industries. The China Mainland was nearby, land was relatively cheap, and wages were only one-tenth of those on Taiwan. The familiarity of Taiwan's entrepreneurs with Chinese language and culture made investment there easier than in Southeast Asia.

At first, investments were small and limited to the most labor-intensive products. As industrialists gained experience on the Mainland, however, firms increased their investments, began to manufacture more high-tech, capital-intensive products on the Mainland, and expanded their operations beyond Fujian and Guangdong to other parts of China. By 1998, Taiwan firms had contracted to invest $38 billion in some 38,000 projects on the Mainland, $18 billion of which had been expended.¹

Trade followed investment. Machinery, components and other materials used in the Mainland Taiwan factories constituted a sizeable proportion of trade with the Mainland. During 1997 Taiwan exported to the PRC $16.44 billion worth of goods and imported $3.39 billion.² Thus, trade with Mainland China had become the principal source of Taiwan's overall trade surplus.

The economies of Taiwan and the PRC were complementary. The Mainland possessed natural resources, land, a huge market and a plentiful supply of cheap labor. Taiwan firms supplied capital, technology, and managerial and marketing skills. By 1995, 37 percent of Taiwan's large "blue chip" companies had invested in the Mainland and 54 percent did business there.³

1. Xinhua, July 12, 1998 via World News Connection [FBIS].
2. Zhongguo Xinwen She, March 13, 1998, quoting Li Bincai, Deputy Director of the Taiwan Affairs Office under the State Council, via World News Connection [FBIS].
Taiwan’s large, transnational corporations increasingly began to view Mainland China as a principal base for their worldwide operations. For example, Taiwan’s leading computer company, Acer, had several plants on the Mainland, manufacturing motherboards, keyboards, monitors and software for its computers. It also had an arrangement with the Mainland’s largest computer company, Legend, to assemble and distribute Acer’s basic computer there. An Acer executive told the press that the company hoped to increase its operations on the Mainland from 1 percent to 10 to 15 percent of its global business.

Taiwan’s two biggest foodstuff companies, the Ting Hsin Group and the President Enterprises Group, have invested heavily on the Mainland in their competition to become the largest food distributor among the world’s Chinese population. By 1998, a Ting Hsin subsidiary had captured nearly one-third of the Mainland’s market for instant noodles, and President Enterprises 23 percent. Taiwan’s largest bicycle and motorcycle manufacturers have also made substantial investments in the PRC, attracted both by the size of the China market and by the advantages of the Mainland as an efficient manufacturing base from which to supply the world market.

Government leaders became concerned at the growing dependence of Taiwan’s industry on the Mainland as a market and manufacturing base. In 1996, LEE Teng-hui called on Taiwan’s businessmen to “avoid haste, be patient” (jie ji yong ren) in their cross-strait activities. In July 1997 the government banned investments in infrastructure on the Mainland and limited investments in single projects to $50 million.

Business circles criticized the government’s “go slow” admonitions and, despite the concern expressed by the political leadership, the bureaucracy continued to approve investments on the Mainland, expanded the categories of authorized investments, enlarged the list of approved imports and added to the categories of Mainland professionals allowed to visit Taiwan.

The government-owned China Petroleum Corporation reached agreement with its opposite number in Beijing to jointly conduct exploration for oil in the South China Sea between Taiwan and the Guangdong coast. Pressures to take advantage of the complementarities of the two economies were strong and trade and investment continued briskly during 1996 and 1997. By late 1998, however, the increasing seriousness of the financial crisis in East Asia was beginning to affect economic growth in both Mainland China and Taiwan.
and seemed likely to cause a slowdown in cross-strait trade and investment.

IV. OFFICIAL POLICIES TOWARD TAIWAN-PRC RELATIONS

The proliferation of mutually beneficial people-to-people relations between the two sides of the strait was not paralleled by improvement in government-to-government relations. The ROC flatly rejected all PRC proposals for negotiations. President CHI-ANG Ching-kuo warned that the Chinese Communists had never changed their aim of subjugating the people of Taiwan to communist rule. Refusing to talk with them, he said, would foil their plot and constitute "a positive and powerful counterblow against their united front tactics."\(^4\)

During the 1980s, ROC officials expressed only a vague, long-term commitment to unifying China under SUN Yat-sen's Three People's Principles, as practiced on Taiwan. In May 1990, however, President LEE Teng-hui, in his first inaugural address, spelled out the conditions under which negotiations with the PRC on reunification could be undertaken. The PRC would first have to adopt political democracy and a free economic system, renounce the use of force against Taiwan and not interfere with the ROC's development of foreign relations on the basis of a one-China policy. He stressed that the ROC was an independent and sovereign nation that would negotiate with Beijing only on an equal basis.\(^5\)

Later in the year, Lee established a National Unification Council (NUC) to advise him on policy toward Mainland China and in February 1991 the NUC announced a set of guidelines for national unification. The guidelines envisaged a three-phase process for gradually attaining the goal of "a democratic, free, and equitably prosperous China." During the first, or short-term, phase, the two sides would promote exchanges, not deny each others' existence as a political entity, end the state of hostility between them, and respect each other in the international community. On the Mainland, democracy and the rule of law would be implemented.

During the second, medium-term, phase, the two sides would establish direct postal, transportation and commercial links, work together to narrow the gap in living conditions between the two

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sides, exchange high-level official visits, and cooperate in interna-
tional organizations.

In the third, long-term, phase, the two sides would consult on
establishing a constitutional system for a unified China with nation-
alized armed forces.\textsuperscript{6}

PRC commentators expressed satisfaction with the commit-
tment of the Taiwan authorities to reunification of the motherland,
but they denounced those parts of the guidelines that called for
transformation of the Mainland's political system and for the two
sides to recognize each other as political entities.

In August 1993, the PRC's Taiwan Affairs Office under the
State Council issued an authoritative statement of the PRC's posi-
tion regarding Taiwan.\textsuperscript{7}

In brief, the PRC declared that there is only one China and
that Taiwan is a province of China that should be reunified with the
Mainland as soon as possible as a "special administrative region"
(SAR) with its own political and economic system and its own
armed forces. It would be granted greater autonomy than the Hong
Kong SAR. Only the PRC had the right to represent China in in-
ternational affairs; the PRC did not object to unofficial relations
between Taiwan and independent states, but it opposed Taiwan's
having diplomatic or official relations with such states and opposed
Taiwan's participation in international organizations of which only
states could be members. It opposed the sale of arms to Taiwan. It
encouraged the expansion of economic, personal and institutional
exchange between Taiwan and Mainland China and urged the early
opening of direct communication, travel and shipping (the "three
links"). It reserved the right to use military force against Taiwan to
prevent the establishment of an independent state of Taiwan.

In July 1994, the ROC issued a formal statement of its posi-
tion.\textsuperscript{8} It agreed that there was only one China, but since 1949 China
had been divided into two separate political entities. The ROC had
been a sovereign, independent state since 1912, but since 1949 had
had jurisdiction over only Taiwan, Penghu and the offshore islands.
As a de facto, sovereign, independent state, however, the ROC had
the right to have official relations with any state and to be a mem-
ber of intergovernmental organizations. The PRC had never gov-

\textsuperscript{7} State Council, Taiwan Affairs Office and Information Office, \textit{The Taiwan Questi-
\textsuperscript{8} Mainland Affairs Council, Taipei, "Explanation of Relations Across the Taiwan
erned Taiwan and could not represent the people of Taiwan in the United Nations or other international organizations. The temporary presence of two Chinese governments in the UN, like the presence of the two Germanys or the two Koreas, would facilitate, not obstruct reunification. The ROC favored expanding travel to Mainland China and trade and investment there, but required that it be indirect and applied other restrictions as necessary to protect Taiwan's security and prosperity.

The political impasse represented by these contrasting positions remained firmly in place throughout the early 1990s. In January 1995, JIANG Zemin made an important speech on cross-strait relations, later to become known as "Jiang's eight points." For the most part, Jiang reiterated the fundamental positions taken in the PRC's statement of August 1993. ROC spokesmen dismissed it as containing nothing new.

PRC spokesmen, however, contended that the speech did indeed contain something new. They pointed particularly to Jiang's proposal that "as a first step, negotiations should be held and an agreement reached on officially ending the state of hostility between the two sides in accordance with the principle of one China." They also highlighted Jiang's willingness to welcome visits by Taiwan authorities "in appropriate capacities" and his readiness to accept an invitation to visit Taiwan.

LEE Teng-hui's formal six-point response to Jiang's proposals failed to narrow the distance between the two sides. Although Lee concurred with Jiang's desire to increase bilateral economic and cultural exchanges, and even declared that Taiwan should make Mainland China its economic hinterland, he continued to stress that the two sides were governed by two separate governments and should be able to join international organizations on an equal footing. He expressed willingness to meet with JIANG Zemin, but only at an international meeting, and he called on the PRC to follow the ROC's example of unilaterally renouncing the use of force against the other side in order to pave the way for negotiations on ending the state of hostility.

PRC commentators expressed disappointment at Lee's response to Jiang's eight points. They found little new in his statement, which they regarded as further evidence of Lee's plot to create two Chinas.

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After Lee's visit to Cornell in June 1995, the exchange of position statements by the two sides was supplanted by the PRC's missile firings of July-August 1995 and March 1996. Beijing's propaganda excoriated Lee in the harshest terms and urged the people on both sides of the strait to sweep him into "the trash bin of history." Lee, however, bolstered by the sizeable majority he received in the March 1996 presidential election, moderated his position significantly. In his inaugural address of May 20, 1996, he offered to make a "journey of peace" to Mainland China to meet with Chinese Communist leaders. He no longer insisted on meeting them only on an "international occasion," nor did he demand a unilateral renunciation of force by the PRC as a condition for negotiating an end to the state of hostility. Lee declared that Taiwan independence was "totally unnecessary and impossible," but he did not alter his position that the ROC had always been a sovereign state, nor his determination to improve the ROC's international position through pragmatic diplomacy.

PRC commentators condemned Lee's claim to ROC sovereignty and his insistence on continuing pragmatic diplomacy. They glossed over or explained away his rejection of Taiwan independence and his offer to travel to the Mainland to negotiate an end to the state of hostility.

Thus, during the twenty years after the passage of the Taiwan Relations Act, Beijing and Taipei made little progress in narrowing the differences between them concerning the status of Taiwan. Although the government of the ROC formally subscribed to the principle of one China and adopted a set of guidelines aimed at eventual reunification of Taiwan with Mainland China, the conditions that it prescribed for unification seemed to project that goal into the distant future. Moreover, the growing political power of the pro-independence Democratic Progressive Party in Taiwan, which will be discussed later, raised fears in Beijing that the workings of Taiwan's young democracy might dim still further the prospects for reunification.

V. CONFRONTATION IN THE INTERNATIONAL ARENA

In the community of nations, the PRC sought international support for its view that only its government had the right to represent China, including Taiwan. The ROC struggled to maintain its claim to be a sovereign, independent state, but the PRC was in a

far more powerful position, exercising jurisdiction over nearly all Chinese territory and all but 21 million of China's 1.2 billion people. Once it succeeded to the ROC's position in the United Nations as one of the five permanent members of the UN Security Council, one country after another shifted its diplomatic relations from Taipei to Beijing.

The PRC firmly rejected diplomatic relations with any government that maintained diplomatic relations with Taipei, thus forcing governments to choose, and nearly all chose to have diplomatic relations with the big China. By 1998, the ROC had only 27 diplomatic partners, all of them small states in Latin America, the Caribbean, Africa and the Pacific Ocean.

The PRC also took advantage of its membership in the United Nations to compel all UN-affiliated intergovernmental organizations to exclude the government of the ROC. Strong international pressure compelled the PRC to accept Taiwan's membership in two intergovernmental organizations, the Asian Development Bank and the Asia-Pacific Economic Cooperation group (APEC), but even in these organizations the ROC could not use its official name. It was designated "Taipei, China" or "Chinese-Taipei." Moreover, PRC opposition prevented LEE Teng-hui from attending APEC summit meetings; Taipei had to send a lesser official to represent him.

The PRC acquiesced in Taiwan's application to join the World Trade Organization as "the customs territory of Taiwan, Penghu, Chinmen and Matsu," but demanded that it be referred to as "Chinese-Taipei," and that it not be admitted before the PRC, even though by late 1998 the ROC had met nearly all the requirements for membership and the PRC was not yet close to meeting them.

Since 1993, the ROC has mounted a high-profile challenge to the PRC by demanding a place in the United Nations. Each September a few of the ROC's diplomatic allies have asked that the issue of the ROC's U.N. participation be included in the U.N. General Assembly's agenda. The ROC has carried on a worldwide propaganda campaign, contending that the ROC on Taiwan meets all the requirements for U.N. membership and that the 21 million people in Taiwan, who have never been governed by the PRC, should not be denied representation in the world body. The PRC, however, as a permanent member of the Security Council, has the power to veto any new member and has been successful each year in keeping the Taiwan participation issue off the UNGA agenda.
The PRC was unsuccessful in most of its attempts to exclude representatives from Taiwan from international nongovernmental organizations, the members of which were not states, but individuals or unofficial organizations. It was generally able, however, to prevent representatives from Taiwan from designating their homeland as "the Republic of China." For example, in the Olympic Games, after a struggle lasting many years, Beijing forced teams from Taiwan to participate as "Chinese-Taipei," and to adopt a substitute for the ROC's official flag and national anthem. Thereafter, the international federations in various sports followed the example of the Olympic Games, referring to teams from Taiwan as representing "Chinese-Taipei." Compromises on nomenclature enabled individuals and organizations in Taiwan to belong to 695 international nongovernmental organizations in 1992, compared to 865 for the PRC.\textsuperscript{12}

Although the ROC was denied the right to have formal, official relations with most nations, it found ways to function effectively in the world community as a de facto sovereign state. The PRC itself stated that it did not oppose Taiwan's having economic and cultural relations with other countries. Consequently, the ROC relied on its growing economic influence in the world to strengthen its international relations. It signed economic and cultural agreements with dozens of countries, where governments had authorized quasi-official organizations to sign on their behalf.

Taipei has exchanged representative offices with many countries. As of 1995, 47 countries maintained offices in Taipei and the ROC had established 65 quasi-official offices in countries with which it had no diplomatic relations. These offices, often headed by retired ambassadors, served in most respects as surrogate embassies. Over the years, they have gradually increased the size of their staff and the functions they perform.

The PRC has objected strenuously to the exchange of high-level official visits between Taiwan and countries with which the PRC has diplomatic relations, especially visits by heads of state and premiers. Its militant reaction to LEE Teng-hui's Cornell visit has made states hesitant to receive Lee, but many of Taiwan's principal trading partners have been willing to exchange visits by premiers or cabinet ministers, when they consider it in their interest to do so.

fending off Beijing’s protests by describing the visits as “unofficial.” Thus, the ROC has been able to compensate to a considerable extent for its lack of formal diplomatic relations. The PRC has been unable to prevent states from contributing to a gradual increase in Taiwan’s international stature, a process that it has condemned as “creeping officiality.”

VI. POLITICAL REFORM IN TAIWAN

From 1949 to 1986, the ROC on Taiwan was governed by the Kuomintang as a one-party state. Formation of opposition parties was strictly forbidden and attempts to form one were harshly suppressed. CHIANG Kai-shek recognized, however, that the native Taiwanese, who constituted 85 percent of the population, would have to be granted some means of participating in the political system. Consequently, from 1951 on, elections were held for mayors, county magistrates, city and county councils, and the provincial assembly. The KMT recruited Taiwanese to run as KMT candidates in these local elections and individual Taiwanese were permitted to run as independents, although they could not form political parties.

KMT candidates won most of these elections, because they had the benefit of the KMT organization, with ample funding and control over the media. Independent candidates sometimes won, however, taking advantage of the antipathy toward the KMT stemming from the brutal suppression of the 1947 uprising. In the early 1960s, for example, independent candidates won election in Taiwan’s three principal cities. KMT embarrassment over the defeat of its candidate in Taipei caused CHIANG Kai-shek to abolish elections there, making it a centrally-administered city with an appointed mayor. Later, the second largest city, Kaohsiung, was also made a centrally-administered city.

Until 1969, no elections were held for the principal national elective bodies in Taiwan, the Legislative Yuan, which passed the laws, and the National Assembly, which elected the president and vice president. Members of these bodies had been elected on the China Mainland in 1947 and their terms had been extended indefinitely after the government had withdrawn to Taiwan. From 1969 on, however, additional members were elected periodically from Taiwan, resulting in a gradual, although small, increase in the numbers of independents in these bodies.

During the 1970s and early 1980s, independents (referred to collectively as tangwai, or “outside the party”) increasingly coordinated their activities. They demanded abolition of martial law
(under which political dissidents were tried in military courts), the right to organize opposition parties, the replacement of the Mainland-elected members of the Legislative Yuan and National Assembly by members elected in Taiwan, and the direct popular election of the mayors of Taipei and Kaohsiung, the governor of Taiwan, and the president and vice president. In general, the opposition was pressing for self-determination, the right of the people of Taiwan to form their own government, rather than be ruled by a government imposed by outsiders.

The evolution of politics in Taiwan was strongly influenced by the declining position of the ROC in the international arena. The loss of the U.N. seat and most of its diplomatic partners, culminating with the severance of diplomatic relations with Taipei by the United States in 1979, severely undermined the ROC’s claim to be the legitimate government of China and its aspiration to recover the Mainland. Opposition leaders increasingly came to view Taiwan as a separate state, although the government punished public advocacy of Taiwan independence with a jail term.

President CHIANG Ching-kuo, influenced by American-trained moderates in the ruling party, realized that in order to maintain popular support for KMT rule, he would have to advance Taiwanese to higher positions in the party and government, respond to opposition demands to move toward a more democratic system, and yield to popular pressures to allow travel to Mainland China. Even before he became president in 1978, CHIANG Ching-kuo began the process of promoting Taiwanese. In 1984, he selected LEE Teng-hui, a Taiwanese, as vice presidential candidate. In 1986, he authorized the abolition of martial law and the organization of opposition parties, and in 1987 he permitted travel by individuals to Mainland China.

After LEE Teng-hui succeeded to the presidency upon CHIANG Ching-kuo’s death in 1988, he continued to promote the “Taiwanization” of the KMT, to make it more representative of the people of Taiwan. He presided over a series of democratic reforms, resulting in the retirement of the Mainland-elected national assemblymen and legislators and their replacement by politicians elected in Taiwan in 1991 and 1992. In 1994, the governor of Taiwan and the mayors of Taipei and Kaohsiung were elected. In 1996 Lee was elected in the first popular presidential election in Chinese history.

The Democratic Progressive Party (DPP), formally registered as a political party in 1987, pressed for and benefited from these domestic reforms. Its party charter, adopted in 1991, called for a
plebiscite on the establishment of an independent "Republic of Taiwan." In 1997, it collaborated with the KMT in constitutional revisions to end elections for governor and to greatly reduce the role of the provincial government, in order to reduce its extensive overlap with the national government. In November 1997, the DPP won an impressive victory in local elections. DPP officials thus became the local administrators of 72 percent of Taiwan's population.

PRC leaders viewed with alarm the Taiwanization of the KMT, LEE Teng-hui's insistence that the ROC was a sovereign, independent state, and his efforts to boost its international status. The virtual elimination of Taiwan's provincial government and the growing political success of the DPP provided additional evidence, in the eyes of Beijing leaders, that Taiwan was moving in the direction of a permanent independent status.

The warning administered by the missile firings of 1995-96 had been countered to some extent by the U.S. deployment of aircraft carriers near Taiwan in March 1996 and the continued sale of arms to Taiwan. A serious risk existed that the DPP might replace the KMT as the ruling party as the result of the December 1998 elections for the mayors of Taipei and Kaohsiung and the Legislative Yuan, and the presidential election scheduled for March 2000. Consequently, the PRC stepped up pressures on the Taiwan authorities to engage in political talks, as proposed by JIANG Zemin in January 1995, to end the state of hostilities between the two sides.

VII. CROSS-STRAIT DIALOGUE

The proliferation of cross-strait, people-to-people interaction had given rise to problems that could not be resolved by the two governments, as long as Taipei maintained its policy of rejecting official contacts and negotiation with Beijing. Therefore, quasi-official channels had to be devised to deal with such problems. In 1990, the Red Cross societies of the two sides agreed on a method of repatriating persons who had sneaked into Taiwan illegally from the Mainland. By the end of 1997, more than 35,000 illegal immigrants had been repatriated through this procedure.

In 1991, the two governments established a quasi-official channel through which to cooperate in resolving a broad range of problems. These included incidents of hijacking of aircraft, smuggling, piracy, murder and other crimes against individuals, fishing disputes, and the arrest and return of criminals who had fled to the other side of the strait. The ROC set up the Straits Exchange Foundation (SEF), which was authorized by the government's Mainland
Affairs Council to negotiate with Mainland officials on practical problems involving people on the two sides of the strait. It was not authorized to negotiate on political issues between the two governments.

The PRC established the Association for Relations Across the Taiwan Strait (ARATS) to be SEF's negotiating partner. These new bodies provided a useful channel for exchanging information and they successfully resolved some problems. They ran into difficulties, however, in cases that required a determination as to which government had jurisdiction. The PRC wanted to avoid recognizing the ROC as a separate political entity and SEF could not accept the PRC's claim to sovereignty over Taiwan.

Despite the difficulties, sufficient progress was made to warrant a meeting of the chairmen of the two organizations in Singapore in April 1993. The meeting attracted much international attention as the first high-level contact between the two sides of the strait. KOO Chen-fu, the chairman of SEF, was a prominent businessman, a senior adviser to President LEE Teng-hui and a member of the Standing Committee of the KMT's Central Committee. Wang Daohan, the chairman of ARATS, was a former mayor of Shanghai, closely associated with JIANG Zemin, General Secretary of the Chinese Communist Party. Koo and Wang signed agreements on the authentication of documents, on the handling of registered mail, and on a regular schedule for meetings of SEF and ARATS officials.

During the next two years, SEF and ARATS made slow but encouraging progress in reaching agreement on how to handle fishing disputes, the hijacking of aircraft and other problems. In May 1995, ARATS Vice Chairman TANG Shubei reached agreement in Taipei with SEF Vice Chairman CHIAO Jen-ho on a second Koo-Wang meeting to be held in Beijing in July. Although Tang said in Taipei that "the two sides' political differences should not affect the two associations' operations," political leaders in Beijing decided to react strongly to LEE Teng-hui's Cornell visit. They called off the Koo-Wang meeting scheduled for July and suspended the regular meetings between SEF and ARATS officials that had been agreed on in Singapore.

For nearly three years, these meetings of SEF and ARATS officials remained suspended. ROC authorities repeatedly urged their resumption, but the PRC was unwilling to limit the talks to the

resolution of functional problems. Pointing out that even the resolution of functional problems often raised political issues, Beijing insisted on holding political talks. The ROC government did not totally reject political talks, but continued to stress that renewed meetings should begin with discussion of functional problems, particularly difficulties encountered on the Mainland by Taiwan businessmen.

Finally, after a series of proposals and counterproposals beginning in late 1997 and continuing into the summer of 1998, the two sides agreed that KOO Chen-fu would meet again with WANG Daohan in October 1998. The meeting did not have a fixed agenda and did not envisage specific agreements. However, after Koo and Wang met in Shanghai, they announced agreement on four general points: (1) the dialogue will continue and will include political, economic and other issues; (2) SEF and ARATS will step up exchanges of their responsible officials; (3) SEF and ARATS will increase their cooperation in regard to the security of the lives and property of Taiwan compatriots; and, (4) Wang accepted Koo’s invitation to visit Taiwan.

KOO Chen-fu also went to Beijing, where he met with Vice Premier QIAN Qichen and President JIANG Zemin, the first time that an authorized representative of the ROC government met with top PRC officials. From the public reports of the meetings and the comments made about them by the two governments, it was evident that no progress had been made in narrowing the political differences between the two sides. Nevertheless, the fact that the meetings occurred and that agreement had been reached to continue the dialogue had the effect of warming the atmosphere of cross-strait relations.

PRC spokesmen portrayed the meetings as the beginning of political talks, while KOO Chen-fu reported that in much of his conversation with Jiang he had stressed the need for the democratization of China as a key to reunification, a process to which Taiwan could contribute its own experience. Jiang pointed out that through village level elections the PRC was on its way toward establishing “socialist democracy,” which could differ from that in Taiwan.

VIII. CONCLUSION

Passage of the TRA, with its provisions expressing U.S. concern for the security of Taiwan, provided a measure of reassurance to the people of Taiwan, who had been dismayed by the severance of diplomatic relations with Washington and the abrogation of the
security treaty. The PRC, however, denounced the passage of the TRA. DENG Xiaoping told visiting U.S. Senator Frank Church that its passage had come close to nullifying the normalization of relations between the United States and China.\(^{14}\)

During the twenty years since the passage of the TRA, the governments of the PRC and the ROC made little progress toward resolving the political differences between them, but relations between the economies and the people on the two sides of the strait changed dramatically. By 1998, 38,000 Taiwan firms had invested $38 billion in Mainland China. Trade with China had become the principal source of Taiwan’s trade surplus. People from Taiwan made one and one-half million visits to the Mainland in 1997. Although the government in Taipei worried about becoming too dependent on economic relations with Mainland China, entrepreneurs in Taiwan continued to profit from investments there. The complementarity of the two economies was hard to resist.

Most striking was the rise of Taiwan to become the world’s third largest producer of information products, after the United States and Japan, with one-third of these products turned out by plants on Mainland China.\(^{15}\) In 1998, Taiwan became the world’s leading producer of notebook computers, ahead of both the United States and Japan. It was also the world leader in the production of many computer parts, such as keyboards, monitors, circuit boards and cases.\(^{16}\)

Although both governments favored the continued expansion of economic relations, they disagreed on some issues. Taipei prohibited Mainland investment in Taiwan, placed restrictions on imports and travel from the Mainland and on investments on the Mainland by firms in Taiwan. Taipei also banned direct travel, communication and shipping between Taiwan and the Mainland. Beijing wanted all these restrictions lifted. Taipei, for its part, urged Beijing to enter into an investment protection agreement covering Taiwan investors on the Mainland, but the PRC has held off, presumably because the signing of such an agreement would enhance the status of the ROC as a separate political entity.

Beijing’s strategy for bringing about the reunification of Taiwan with the Mainland has consisted of carrots—primarily incen-


\(^{15}\) Institute of Information Technology, Taipei, quoted in *Free China Journal*, December 5, 1997.

\(^{16}\) *The Economist*, November 7, 1998.
tives promoting economic integration—and sticks—the threat of military force and pressures to reduce the ROC's formal diplomatic status. As of 1998, PRC strategy had been unsuccessful in persuading the people in Taiwan that they would be better off if they agreed to the PRC's "one country, two systems" proposal. Public opinion polls showed that the great majority of Taiwan's people preferred the status quo; few were willing to acknowledge that the PRC had sovereignty over Taiwan, and few were willing to risk a PRC military attack by declaring formal independence.

De facto independence, while not permitting the people of Taiwan to enjoy the dignity and status in the international community that they felt they deserved, did enable them to survive and prosper for twenty years as a discrete political entity. PRC leaders, while frustrated by the unwillingness of the Taiwan authorities to engage in political talks leading toward unification, and disturbed by actions and rhetoric that they interpreted as a drift toward independence, were reluctant to undergo the costs and risks of using force against Taiwan. The language of the TRA, the pledges by the U.S. administration and Congress to carry out the provisions of the TRA, and the dispatch of aircraft carriers to the vicinity of Taiwan in 1996, raised the possibility of U.S. intervention to prevent the military subjugation of Taiwan.

Thus, as the year 2000 approaches, the future of Taiwan and of cross-strait relations remained uncertain. The cross-strait dialogue will probably continue, but significant progress in resolving political differences is unlikely, at least until the presidential election of March 2000 in Taiwan makes political trends there clearer. If both sides are patient and willing to live with the status quo of no reunification and no formal independence, the proliferation and strengthening of people-to-people relations could diminish mistrust and enable progress to be made toward an eventual political settlement, but judging from the history of cross-strait relations over the past twenty years, progress probably will be slow.
CHAPTER 8

TAIWAN'S ECONOMIC DEVELOPMENT, AND TRADE AND BUSINESS RELATIONS WITH THE UNITED STATES

David N. Laux*

I. TAIWAN'S ECONOMY TODAY

Taiwan’s Importance and Accomplishments: Taiwan’s reputation as an “economic miracle” and one of the four “tigers” of Asia is well known, but few realize the spectacular statistics behind this achievement. The Republic of China on Taiwan has the world’s third largest foreign exchange reserves - about $88 billion at the moment - and about 60% of this is invested in U.S. dollar instruments. With almost $53 billion in two-way trade for 1997, Taiwan is the U.S.'s seventh largest trading partner, behind Canada, Japan, Mexico, China, Great Britain and Germany, and ahead of Korea and France (see Table 1), and is our second largest market in Asia, following Japan. Taiwan buys almost twice as much from the United States as does China, which has 55 times as many people and 270 times its geographical size.

Table 1. Top U.S. Trading Partners
(Data for Calendar 1997)

<table>
<thead>
<tr>
<th>Top U.S. Export Markets</th>
<th>Top U.S. Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Canada</td>
<td>1 Canada</td>
</tr>
<tr>
<td>2 Mexico</td>
<td>2 Japan</td>
</tr>
<tr>
<td>3 Japan</td>
<td>3 Mexico</td>
</tr>
<tr>
<td>4 United Kingdom</td>
<td>4 China</td>
</tr>
<tr>
<td>5 South Korea</td>
<td>5 Germany</td>
</tr>
<tr>
<td>6 Germany</td>
<td>6 United Kingdom</td>
</tr>
<tr>
<td>7 Taiwan</td>
<td>7 Taiwan</td>
</tr>
<tr>
<td>14 China</td>
<td>8 South Korea</td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
</tr>
</tbody>
</table>

151,767 168,201
71,388 121,663
65,549 85,938
36,425 62,558
25,046 43,122
24,458 32,659
20,366 32,629
12,862 23,173
394,999 546,770


(221)
### Top Partners in Total Trade

<table>
<thead>
<tr>
<th>Rank</th>
<th>Partner</th>
<th>Total Trade</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Canada</td>
<td>319,968</td>
<td>-16,434</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>187,212</td>
<td>-56,114</td>
</tr>
<tr>
<td>3</td>
<td>Mexico</td>
<td>157,326</td>
<td>-14,550</td>
</tr>
<tr>
<td>4</td>
<td>China</td>
<td>75,420</td>
<td>-49,696</td>
</tr>
<tr>
<td>5</td>
<td>United Kingdom</td>
<td>69,084</td>
<td>3,766</td>
</tr>
<tr>
<td>6</td>
<td>Germany</td>
<td>67,580</td>
<td>-18,664</td>
</tr>
<tr>
<td>7</td>
<td>Taiwan</td>
<td>52,995</td>
<td>-12,263</td>
</tr>
<tr>
<td>8</td>
<td>South Korea</td>
<td>48,219</td>
<td>1,873</td>
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<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>977,804</strong></td>
<td><strong>-162,082</strong></td>
</tr>
</tbody>
</table>

The United States still has a large trade deficit with Taiwan, after a decline over more than six years, which has grown alarmingly in the last three years (see Table 2). On the positive side, however, we need to put Taiwan’s purchase of over $20 billion of U.S. goods in 1997 in its proper perspective. This is enormously important. It is half as much as all of South America buys from the United States, twice as much as all of Africa buys from the United States, and six times as much as either India or Russia buys from the United States. And on a per capita basis, Taiwan’s purchase of U.S. goods is even more extraordinary.

In short, superlatives are in order in describing Taiwan’s economic importance. With only 21 million people in an area one and a half times the size of Maryland, Taiwan has emerged in recent years as the world’s fourteenth largest trading economy and the world’s twelfth largest exporter. Taiwan is the world’s seventh largest foreign investor and is the largest or second largest foreign investor in Vietnam, Thailand, Malaysia, the Philippines and China. With a GNP of $285 billion in 1997 (See Table 3), Taiwan ranks 18th in the world in the size of its economy. Taiwan’s per capita GNP has been one of the fastest growing in the world in the past few years and now stands at well over $13,000. Moreover, Taiwan’s economy has survived the Asian crisis better than almost any other, and is expected to have a growth in GNP of 5% or more for both 1998 and 1999, while almost every other country in Asia will show “negative growth.” In short, little Taiwan has developed its way from virtual obscurity during World War II, into one of the major economic, financial and trading powers in today’s world.
### Table 2. U.S.-Taiwan Trade
(Figures in billions of U.S. Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>U.S. Exports</th>
<th>U.S. Imports</th>
<th>U.S. Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>9.2</td>
<td>3.3</td>
<td>5.9</td>
<td>2.6</td>
</tr>
<tr>
<td>1980</td>
<td>11.2</td>
<td>4.3</td>
<td>6.9</td>
<td>2.6</td>
</tr>
<tr>
<td>1981</td>
<td>12.4</td>
<td>4.3</td>
<td>8.1</td>
<td>3.8</td>
</tr>
<tr>
<td>1982</td>
<td>13.3</td>
<td>4.4</td>
<td>8.9</td>
<td>4.5</td>
</tr>
<tr>
<td>1983</td>
<td>15.9</td>
<td>4.7</td>
<td>11.2</td>
<td>6.5</td>
</tr>
<tr>
<td>1984</td>
<td>19.8</td>
<td>5.0</td>
<td>14.8</td>
<td>9.8</td>
</tr>
<tr>
<td>1985</td>
<td>22.4</td>
<td>4.7</td>
<td>17.7</td>
<td>13.0</td>
</tr>
<tr>
<td>1986</td>
<td>26.8</td>
<td>5.5</td>
<td>21.3</td>
<td>15.8</td>
</tr>
<tr>
<td>1987</td>
<td>33.8</td>
<td>7.4</td>
<td>26.4</td>
<td>19.0</td>
</tr>
<tr>
<td>1988</td>
<td>38.4</td>
<td>12.1</td>
<td>26.3</td>
<td>14.2</td>
</tr>
<tr>
<td>1989</td>
<td>35.6</td>
<td>11.3</td>
<td>24.3</td>
<td>13.0</td>
</tr>
<tr>
<td>1990</td>
<td>34.2</td>
<td>11.5</td>
<td>22.7</td>
<td>11.2</td>
</tr>
<tr>
<td>1991</td>
<td>24.2</td>
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<td>1992</td>
<td>39.9</td>
<td>15.3</td>
<td>24.6</td>
<td>9.3</td>
</tr>
<tr>
<td>1993</td>
<td>41.3</td>
<td>16.2</td>
<td>25.1</td>
<td>8.9</td>
</tr>
<tr>
<td>1994</td>
<td>43.8</td>
<td>17.1</td>
<td>26.7</td>
<td>9.6</td>
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<tr>
<td>1995</td>
<td>48.2</td>
<td>19.3</td>
<td>28.9</td>
<td>9.6</td>
</tr>
<tr>
<td>1996</td>
<td>48.4</td>
<td>18.5</td>
<td>29.9</td>
<td>11.4</td>
</tr>
<tr>
<td>1997</td>
<td>53.0</td>
<td>20.4</td>
<td>32.6</td>
<td>12.2</td>
</tr>
</tbody>
</table>

### Table 3. Taiwan's Gross National Product in US$ Million at Current Prices

<table>
<thead>
<tr>
<th>Period</th>
<th>GNP</th>
<th>Period</th>
<th>GNP</th>
<th>Period</th>
<th>GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>1,674</td>
<td>1976</td>
<td>18,492</td>
<td>1987</td>
<td>103,641</td>
</tr>
<tr>
<td>1955</td>
<td>1,928</td>
<td>1977</td>
<td>21,681</td>
<td>1988</td>
<td>126,233</td>
</tr>
<tr>
<td>1960</td>
<td>1,717</td>
<td>1978</td>
<td>26,773</td>
<td>1989</td>
<td>152,565</td>
</tr>
<tr>
<td>1965</td>
<td>2,811</td>
<td>1979</td>
<td>33,229</td>
<td>1990</td>
<td>164,076</td>
</tr>
<tr>
<td>1971</td>
<td>6,589</td>
<td>1982</td>
<td>48,550</td>
<td>1993</td>
<td>226,243</td>
</tr>
<tr>
<td>1972</td>
<td>7,906</td>
<td>1983</td>
<td>52,503</td>
<td>1994</td>
<td>243,934</td>
</tr>
<tr>
<td>1974</td>
<td>14,458</td>
<td>1985</td>
<td>63,097</td>
<td>1996</td>
<td>274,568</td>
</tr>
</tbody>
</table>
II. HOW TAIWAN GOT THERE

The U.S. Role: Taiwan was able to accomplish its “miracle” partly because it enjoyed an environment made relatively safe by U.S. military power, partly because of a significant U.S. AID program from 1951 to 1965, and partly because it had easy access to the world’s largest and most lucrative market - the United States. Even after the shock of U.S. “de-recognition” in January 1979, the United States has continued to play the dominant role, in terms of outside influence. The United States has been Taiwan’s largest foreign market, and has also been the strongest outside “persuader” in getting Taiwan to open up its own markets, lower tariffs, remove administrative barriers to trade and generally become a responsible member of the world economic community.

Taiwan’s own Actions: Primarily, however, Taiwan’s prosperity was accomplished by its own determination, energy and enlightened economic policies. Taiwan’s macroeconomic policies were formulated by men who remembered the terrible inflation during the last days of the Republic of China regime on the Mainland from 1946-49, which contributed to the people’s lack of confidence in the government and to its downfall. So they have been driven by an overriding concern that they must never again allow inflation to get out of control. Their financial policies, therefore, have been very conservative. They have not borrowed (Taiwan has one of the lowest foreign debt levels in the world - less than $100 million), and they have managed the economy cautiously. From a banker’s point of view, Taiwan is “a loan officer’s dream.”

In the early 1950s, Taiwan instituted a very successful land reform program in which the government compensated the power elite for the land taken from them with stock in the state-owned industrial enterprises, thereby giving the elite a vested interest in seeing the industrialization of Taiwan succeed. In the 1950s, Taiwan also followed a policy of import substitution, which was not terribly successful. In 1958-59, Taiwan switched to an export orientation policy, and its economy took off. The resulting economic boom was helped by two periods of major infrastructure projects-one in the 1970s with “ten major projects,” and another in the 1980s with fourteen more major projects and a movement from labor-intensive light industry to more capital intensive, high-tech industries.

In the 45 years between 1952 and 1997, Taiwan’s GNP increased almost 200 times, its per capita GNP over 50 times, and its industrial production more than 80 times. Taiwan has had a trade surplus since the mid-1970s, and since 1985 this has averaged more
than $10 billion per year. Real GNP growth has averaged about 8% per year for the period. After growth rates of almost 12% per year in 1986 and 1987, and over 7% in 1988 and 1989, Taiwan viewed its 1990 growth of about 5% as a “recession.” From 1991 through 1997, real growth rates were 7.6%, 6.2%, 6.0%, 6.1%, 5.9%, 5.9%, and 6.6%, respectively. Even with the Asian financial crisis, the outlook for 1998, as of this writing, is 5.2% for 1998 and 5.1% for 1999. The private savings rate is high, and inflation is low. Unemployment is only about 1.5% and Taiwan is suffering labor shortages.

III. 1950-1979: THE ECONOMIC “TRANSFORMATION” OF TAIWAN

The Departure from the Mainland and its Impact on Economic Planning: When the Communists swept through China in 1949, a total of some two million mainland Chinese, including military forces, government officials and others who wanted to escape the Communists went to Taiwan between 1948 and early 1950 to swell the island’s population from 6 million to 8 million.

One of the factors which contributed to the downfall of the Nationalist Government in China was the hyperinflation that drove the prices of everything up to ridiculous levels, most importantly food. The government had run a budget deficit every year since 1928 as a result of the cost of military operations and the decline of the tax base because of the ravages which the war brought to the private sector. The money supply in China increased by 500 times between 1937 and 1945 and retail prices of daily necessities were so inflated that even middle-class families were on the brink of poverty. The Communists made the most of this in their propaganda, telling the people that the Nationalist government was corrupt and irresponsible and could not be trusted, and that even their money was no good. This experience had a profound effect on the Nationalist leaders who survived and escaped to Taiwan, and who determined that in managing the economy they would never again allow inflation to get out of control.

The Inherited Economy was in Poor Shape: At the time the Japanese returned the island of Taiwan to the Chinese Nationalist government in 1945, the island was in poor economic condition. Japan’s heavy wartime demands had left both the industrial economy and the agricultural sector in poor shape, and allied bombing had caused considerable destruction. The Japanese had given Taiwan a basic infrastructure of roads, railroads, ports and power plants, but
Taiwan’s economy in 1949 could only be classified as agricultural and “pre-industrial.” Most of Taiwan’s laborers were farmers raising rice, sugar cane, camphor oil and vegetables and few were educated beyond the third grade.

The Government’s Assets: Following the Nationalists exodus from the Mainland, they faced the daunting task of developing Taiwan’s economy, but they had some significant assets: an enlightened group of talented economic thinkers and leaders who had learned some tough lessons about the importance of inflation, corruption, mismanagement and the importance of maintaining peasant support; the Nationalist Treasury, which brought with it from the Mainland significant assets, including 500,000 ounces of gold; and overseas Chinese colonies around the world, which were relatively affluent and mostly supportive of the Nationalist regime as the rightful heir to China’s cultural heritage.

Interest Rates: The need to build the economy was imperative, but Taiwan also needed a large military and so it appeared that a balanced budget would be impossible. This was aggravated by the government’s desire to keep interest rates low to ensure a supply of cheap credit for Taiwan’s infant industries. High inflation was the inevitable result, and the government was unwilling to accept it for long because the memories of the hyperinflation on the Mainland. So in March 1950, the government reversed course and raised interest rates substantially. This immediately brought down inflation and swelled national savings. In three months, savings quadrupled. Ever since then, Taiwan has consistently had realistic interest rates, low inflation and a comparatively stable exchange rate. These factors have been responsible for Taiwan’s high savings rate, a critical factor in providing funds for Taiwan’s development.

Land Reform: The government also recognized the need to institute land reform. In 1950, tenant farmers were paying up to 70% of the total yield of their crops to absentee landlords. The government cut this virtually in half by decree, setting a ceiling of 37.5%. Then in 1953, the government instituted a land reform program. The government compelled absentee landlords to sell their land to the national government, which was then sold back to the tenants on the installment plan. Compensation to the landlords was in cash and in stocks or bonds in former Japanese industrial enterprises, which became state-owned enterprises of the Nationalist government. The program was a huge success. Farmers’ incomes doubled from 1952 to 1967 and farmers’ loyalty to the government was secure. Second, the elite former landowners now had a vested inter-
est in seeing industrialization succeed, so as to see their “investment” in state enterprises grow.

*U.S. Attitude and Increasing Involvement:* Immediately following the Chinese Nationalists flight to Taiwan, the situation in Taiwan was quite uncertain, and the United States, disillusioned with Nationalist corruption and inefficiency, adopted a “hands off” policy with respect to Taiwan. However, this soon changed. Following the outbreak of the Korean War in June 1950, President Harry Truman ordered the United States Seventh Fleet to protect Taiwan against attack by the Chinese Communists. After Chinese Communist troops entered the Korean War in September 1950, the U.S. economic and military aid programs to Taiwan were greatly expanded, and U.S. air, logistics and advisory units were stationed in Taiwan. Later, during the Vietnam War in the 1960s and early 1970s, Taiwan was serving for the United States as a logistics base, a repair center for aircraft, a base for families of soldiers in Vietnam and a rest and recreation center for U.S. troops. These developments helped build a skilled work force in Taiwan that was to be an important factor in the rapid growth of the economy and its conversion to a hi-tech one.

*U.S. Aid Program and Investment:* The U.S. Aid Program started in 1950 when Taiwan was short of capital and ended in 1965 when Taiwan no longer needed it. Almost $2 billion was pumped into Taiwan along with more than $4 billion in military aid which also helped the economy. During much of this period (1952-1960), inflows of foreign capital, largely U.S. aid, financed over 40% of Taiwan’s gross domestic investment. In the 1960s, the United States was the largest foreign investor in Taiwan (33%) with companies like Ford, General Instruments, RCA, Gulf Oil, Union Carbide and IBM leading the way in establishing plants and subsidiaries.

*A Change in Strategy - to Export Promotion and Attraction of Foreign Investment: The Dynamo Picks up Speed:* In the early 1950s, import substitution was the government’s main economic policy. While progress was made in some areas of the economy, import substitution was causing problems. In 1958 and 1959, the government, under the leadership of economic czar K. T. Li, took a bold new tack and switched to an emphasis on export promotion and the attraction of foreign investment by reducing government “red tape.” The New Taiwan Dollar was devalued to a level equivalent to its real international market value and trade restrictions were liberalized. An all-out campaign to encourage savings so
as to speed capital formation was launched. A series of 6-year plans were established and in 1963 a Cabinet Economic Planning Agency was formed. Originally called the Council for International Economic Cooperation and Development, it was reorganized in 1974 and later renamed the Council for Economic Planning and Development (CPED). This Council was responsible for central economic planning and the coordination of all implementation of plans and programs by the economic ministries and agencies. Its Chairman is “first among equals” of Cabinet rank and chairs the meetings of Council members, who consist of the Cabinet officials heading ministries with economic responsibilities. It has been a very effective organization in planning and “driving” the application of Taiwan’s economic policies and the development of the economy. In 1966, duty free export processing zones were established, import controls further liberalized and incentives to foreign investors were established in the form of tax breaks and other concessions.

In 1972 CHIANG Ching-kuo, CHIANG Kai-shek’s son, known as “CCK,” became Premier and chose a Cabinet that was younger, better educated and contained more native Taiwanese than ever before. In 1973 and 1974, CCK announced “Ten National Development Projects” to expand Taiwan’s infrastructure and speed its industrial modernization. These included the Chiang Kai-shek international airport, a north-south expressway running the length of the island, a new rail line, electrification of existing rail lines, the expansion of Taichung and Suao harbors, the establishment of a steel mill and shipyard in Kaohsiung, and the building of petrochemical plants and nuclear power plants. Following CHIANG Kai-shek’s death in April, 1975, C. K. YEN, the Vice President, succeeded to the Presidency, according to the Constitution, and CCK was elected Chairman of the Nationalist Party. In March 1978, CCK was elected President by the National Assembly.

Results: The policies adopted in the 1960s and 1970s were enormously successful. Inflation was reduced and kept low and there was a rapid increase in productivity. The Taiwan economy took off and for the next 20 years trade grew rapidly, with exports growing faster than imports. After 1966, Taiwan had a consistent trade surplus rather than the deficits they had had in earlier years (except for 1974-75 where deficits resulted from the first “international oil price shock”). Moreover, Taiwan’s industrialization program was succeeding. In the early 1950s, Taiwan’s exports were rice, sugar, tea and bananas and trade constituted no more than
10% of the GNP. By the late 1970s, Taiwan’s exports were comprised of textiles, machinery, electrical equipment (such as appliances and TV’s), lumber and plastics, and trade amounted for more than 90% of the GNP. In 1978, the economic growth rate was 12%; it had averaged over 9% since 1960. The ROC also managed to ride out the effects of the 1972 U.S. dollar devaluation (when it was decoupled from gold) and two global recessions sparked by the two oil embargoes in 1973 and 1978. Moreover, by the end of 1978, 4 out of 5 capitalists were native Taiwanese, and the native Taiwan population, which comprised 86% of the total, not only owned the farms and most of the private industry, but also held positions of influence in the Nationalist Party, the government (especially at local levels), and dominated the junior officer corps in the military.

In sum, by the end of 1978, Taiwan had made enormous economic progress, and under the enlightened leadership of the new President, CHIANG Ching-kuo, the island had become a dynamo, and was poised to go forward with its further ambitious economic programs.

Overall, the policy of the 1950-1979 period was marked by several dominant imperatives:

1) overall dependence on the United States for security;
2) a powerful effort to build and strengthen Taiwan’s own military forces in order to be able to defend itself if necessary;
3) a tremendous drive to build a strong economy, which would provide the industrial and financial base for its military forces and which would create prosperity and a strong middle class necessary for democracy.


A. United States Recognition of the People’s Republic of China

Following National Security Advisor Zbigniew Brzezinski’s trip to Beijing in late May 1978, secret negotiations were conducted between the head of the U.S. Liaison Office in Beijing, Leonard Woodcock, and DENG Xiaoping, to establish the terms for full diplomatic recognition between the two countries. Agreement was finally reached in mid-December. On December 15, 1978, the United States and China announced a second “Joint Communique,” which stated “the United States of America and the People’s Republic of China have agreed to recognize each other and to es-
tablish diplomatic relations as of January 1, 1979.” The Communique was short but it made some key points, among them that the United States recognized the PRC as “the sole legal Government of China” but that “within this context, the people of the United States will maintain cultural, commercial, and other unofficial relations with the people of Taiwan.” It further stated that the United States “acknowledges the Chinese position that there is but one China and Taiwan is part of China.” Concurrently, the United States announced it would terminate the Mutual Defense Treaty with Taiwan in one year, thus removing the guarantee of security which the ROC had had for 25 years.

The shock was a brutal one for Taiwan, and the people were stunned. Moreover, the United States badly handled notification of the ROC leadership in Taipei. President CHIANG Ching-kuo was given only seven hours advance notice of the announcement to be made by President Carter. On December 16, President CHIANG Ching-kuo issued the strongest statement in the history of U.S. relations with the Republic of China, in which he accused the United States of breaking its assurances and abrogating the Mutual Defense Treaty. He said, “the move by the United States constitutes a great setback to human freedom and democratic institutions,” and further that “for all the consequences that might arise as a result of this move, the Government of the United States alone should bear the full responsibility.”

The United States gave the required one year notice to terminate the Mutual Defense Treaty, effective December 31, 1979, but also made the statement that it would not consider any arms sales to Taiwan for one year. Otherwise, Taiwan was assured that the more than fifty treaties and agreements between the United States and Taiwan would continue in force. At the time of the break, the Republic of China had an embassy and 14 consulates in the United States. They were told that an unofficial administrative entity would have to be created to replace these and that they would be allowed a Washington, D.C. headquarters and 8 other U.S. offices - a reduction of 6 representational offices. Taiwan complied and the new entity was called the Coordination Council for North American Affairs (CCNAA). (The name was changed to the Taipei Economic and Cultural Representative Office - TECRO - in 1995.)

On January 26, 1979, the Carter Administration submitted a draft bill to the Congress with plans for the administrative apparatus that would replace the U.S. Embassy and “conduct the programs and transactions with the people on Taiwan.” The supporters
of the Republic of China in the Congress found it far too weak for
their tastes, and there ensued hearings and some hard work to re-
place it with something stronger. The resulting "Taiwan Relations
Act," which was signed by President Carter on April 10, 1979, was
much more forceful in terms of its support of Taiwan. It designated
the American Institute in Taiwan (AIT) - the private corporation in
Washington, D.C., which had already been established and placed
under contract to the State Department - as the instrument to do
what the United States government could no longer do officially,
namely to conduct "the commercial, cultural, and other relations
between the people of the United States and the people on Tai-
wan." The U.S. Embassy and other official buildings in Taipei were
disposed of and the new Taipei office of the American Institute in
Taiwan was placed in a separate location. Today, its headquarters
are in Arlington, Virginia, and its offices in Taipei and Kaohsiung
on Taiwan function much like an embassy and a consulate, respec-
tively, although there are no flags or titles and many of the offices
have different names than would be found in a regular embassy
(consular matters are handled by a "Travel Services Section" and
political matters covered by "General Administrative Services").

B. Taiwan’s Adaptation to U.S. “De-recognition”

The suddenness of the U.S. “de-recognition” and the style in
which the message was delivered to Taiwan not only caused great
shock but considerable bitterness. This abated somewhat, however,
as the Taiwanese saw the reaction of the U.S. Congress, which was
sympathetic to Taiwan. Moreover, the passage of the Taiwan Rela-
tions Act in April 1979 buoyed their spirits. After reflection and
discussion in policy circles, there emerged a consensus that was
strongly endorsed personally by CHIANG Ching-kuo: that they
should concentrate on a two-pronged program of 1) becoming as
self-reliant as possible, while 2) continuing to develop as close rela-
tions with the United States as possible under new unofficial guide-
lines. President CHIANG Ching-kuo had a vision for Taiwan. He
did not want to dwell on the misfortunes of the past; he wanted to
move forward. He wanted to create on Taiwan a China that would
work efficiently and competently and have an honest government
that would bring increased productivity and benefits to the people.
He was seized with focusing on “improving the people’s livelihood”
- the third principle of SUN Yat-sen, the founder of the Republic of
China. CCK wanted Taiwan-born and Mainland Chinese to come
together and work cooperatively in politics. CCK was dedicated to promoting democracy and the free enterprise system.

CCK surrounded himself with good people, and he gave them the authority to function well. He was not an economist himself but had the wisdom to select top-notch economists for key economic posts and to take their advice. One of his fundamental objectives was to create a successful economy with a strong industrial base to give Taiwan the wherewithal to afford a strong military establishment and to provide prosperity for the people. CCK wanted the Republic of China on Taiwan to be a model for the one billion Chinese living under Communism on the Mainland. He wanted Taiwan to be a “beacon of freedom” for the people of China - an example to show that democracy and prosperity could be achieved by the Chinese people.

Steps toward greater self-reliance: CCK decided to continue concentrating on the spectacular growth of Taiwan’s economy. In this, he was fortunate in having talented macroeconomic leaders like K. T. Li, YU Kuo-hua and others, who managed Taiwan’s growth wisely without heavy borrowing. They were helped by the people’s hard work ethic, high savings rate, intelligence and entrepreneurial spirit. The government relied heavily on the promulgation of national construction projects to improve the infrastructure, the continued focus on exports to drive the economy, and the attraction of foreign investment because of the island’s abundance of skilled but inexpensive labor for manufacturing enterprises. The island had (and still has) few natural resources besides its people. One of its major weaknesses has been the reliance on foreign oil for much of its energy. Taiwan was shaken by the U.S. devaluation of the dollar in 1972 when the United States came off the gold standard, and by the two oil crises in 1973-74 and 1979-80, when the price of oil jumped spectacularly. While these crises had an impact on many countries around the world, they were felt even more sharply in Taiwan because its increasing diplomatic isolation heightened Taiwan’s sense of insecurity. This caused Taiwan to focus on the development of its energy sector and to diversify its sources of electric power, i.e., to build nuclear power plants and to rely more on coal.

Steps to strengthen U.S. ties: Despite the psychological shock that came with the U.S. formal diplomatic recognition of the People’s Republic of China in Beijing, CCK knew that in the end the security and survival of the Republic of China on Taiwan rested on its dependence on the United States. Therefore, CCK determined
that it should be a national strategy to improve, widen and deepen the ties with the United States in every possible area in order to develop constituencies of friends in every walk of American life. He decided that Taiwan should not rely just on its ties to the Executive branch of the U.S. government which, in his view, had demonstrated, if not its fickleness, at least its tendency to bend with the winds of political and strategic opportunism in its alliances. Therefore, programs were established to cultivate the Congress of the United States, the state governments, the business community, the academic world and the cultural world. The emphasis was to be on "people to people" diplomacy, and to cultivate as many U.S. friends as possible.

*Cultivation of Congress, the States and Business:* With respect to the Congress, the Congressional Liaison Section of CCNA in Washington, D.C. was strengthened, programs were established to invite or encourage visits to Taiwan by Senators, Congressmen and their staffs. From 1979 to 1988 (when CCK died), 391 members of Congress (69 Senators and 322 Congressmen) (222 Republicans and 169 Democrats) visited Taiwan. In addition, some 1,101 Congressional staffers visited Taiwan in the same 10-year period. Many of these visits were paid for by sponsoring organizations in Taiwan. A similar program was launched with respect to the state governors and their offices and the state legislators. In one two-year period in the mid-1980's, twenty-two U.S. governors led trade delegations to Taiwan. Taiwan also fostered the establishment of a number of "sister city" relationships between cities in Taiwan and cities in the United States and "sister state/province" relationships to promote friendly business relationships.

In business, a policy of "buy American" was established, where possible. During these years, Taiwan's economy was still dominated by the large state-owned enterprises like China Steel, China Petroleum and China Shipbuilding, and the government could control to a considerable extent where these firms established their supplier relationships. Taiwan has long ranked as our sixth to tenth largest foreign market for U.S. exports and the fourth or fifth largest foreign market for U.S. agricultural products. Taiwan established "purchasing delegations" which would travel to the United States, visit a number of states, and consciously and with great publicity sign contracts for the purchase of agricultural and other products.

*The U.S.-ROC (Taiwan) Business Council:* The U.S.-ROC (Taiwan) Business Council where I now serve as President, played a
role in this process. It was established in 1976 as the USA-ROC Economic Council (the name was changed in 1997 to the U.S.-ROC (Taiwan) Business Council) together with a counterpart organization in Taiwan, the ROC-USA Economic Council (now called the ROC-USA Business Council). At that time, we still had formal diplomatic relations, and the driving personalities behind the establishment of these two organizations were the former U.S. Secretary of the Treasury, David M. Kennedy, and on Taiwan, Y.S. SUN, the Minister of Economic Affairs, who became Premier in 1978. These two organizations have since their inception co-sponsored an “Annual Joint Business Conference” which has been held alternately one year in the United States and the next year in Taiwan. In the United States it is held in a different state each year to expose the 250-300 Chinese who come from Taiwan to a different part of the United States, and to promote business with Taiwan in that region. The Conference, in the years 1979-88, was frequently either the springboard or the final destination for large ROC “buying missions” sent to the United States which traveled about the country, signing major purchasing contracts. An important factor in the placing of many of these contracts was the desire to develop a constituency of friends in the governments and legislatures of the states selected. “Buying missions” are much less common today, partly because of the decreased role of the government and the increased role of the private sector in making buying decisions. Taiwan also made it attractive for U.S. states to set up trade offices in Taiwan, and more than twenty are located there.

Throughout the 1980s it had generally been an unspoken guideline that the Annual Joint Business Conference of the two Councils would be attended by a U.S. government official no higher than Assistant Secretary, when the Conference was in Taiwan, and an Under-Secretary when it was in the United States. These were usually officials from the Department of Commerce because of their primary role in promoting trade, especially U.S. exports. In 1991, however, when the Conference was in Salt Lake City, it was attended by two U.S. Cabinet-level officials, the Secretary of Transportation and the Secretary for Veterans Affairs. In 1992, U.S. Trade Representative Carla Hills attended the Conference in Taipei, the first United States cabinet official to visit there in 14 years. Pressure to have United States Cabinet-level officials visit Taiwan had been mounting for several years, because of increasing demands from the U.S. business community. They were observing a steady march of cabinet officials from European countries visit
Taiwan to promote the interests of their businessmen and felt that U.S. business was losing out in the competition because of a lack of similar support by the U.S. government. Since that time, the presence at the Annual Joint Business Conference of a cabinet-level official from a U.S. economic department or agency has been routine both here and in Taiwan. This policy was reaffirmed in the "Taiwan Policy Review" conducted by the Clinton Administration in 1994, which stipulated that cabinet level officials from economic and technical agencies of the United States would visit Taiwan on a routine basis.

Taiwan has established cooperating business councils with a number of other countries since the late 1970s, such as Canada, Australia and a number of European countries, not only to promote business and trade, but as a means of establishing useful private relationships that can help circumvent the increasing diplomatic isolation, which is so stifling and frustrating for them.

*Education in the United States: Impact on the Development of Taiwan's Economy:* In the educational field, college students from Taiwan were sent to or allowed to study in the United States in ever increasing numbers, especially in graduate programs. At any one time in recent years some 30,000 to 40,000 young Chinese from Taiwan have been studying in the United States. The natural by-products of these efforts were the friendships they established in the United States and the influences they wielded in colleges, universities and corporations where they took jobs, and could thereby help explain what Taiwan was all about and foster friendship and sympathy for Taiwan. Those who returned to Taiwan after completion of their study have contributed remarkably to the development of Taiwan's high-technology industry.

**V. NEW PROBLEMS IN TRADE AND FINANCE IN THE 1980'S**

*The Trade Deficit:* In the 1980s, the biggest problem in U.S. economic relations with Taiwan was the growing trade deficit (see Table 3). It jumped from $6.5 billion (U.S.) in 1983 to $9.8 billion in 1984, $13 billion in 1985, $15.8 billion in 1986, and peaked at $19 billion in 1987, second only to our trade deficit with Japan. U.S. concern skyrocketed and resulted in a multi-pronged effort on the U.S. side to correct the problem. When I took my appointed position as Chairman of the American Institute in Taiwan in Washington, D.C., on January 1, 1987, at the head of the short list of tasks I was given to focus on was this problem: "fix the trade deficit." On
my first visit to Taiwan in March 1987, the trade deficit was top priority and it dominated all my discussions. In October 1987, when I made my second visit, and had my second (and last) visit with President CHIANG Ching-kuo (before he died in January 1988), it was the first subject he raised. He said it was Taiwan's top priority in relations with the United States and that the government was mobilizing forces to deal with it.

*Trade Action Plan:* After LEE Teng-hui ascended to the Presidency, following CHIANG Ching-kuo's death, he promulgated what began as a 4-year "Action Plan" in May 1989 to reduce Taiwan's trade surplus with the United States. Initially conceived as an idea of reducing the surplus to zero by the end of 1992, it was quickly scaled back to a more realistic goal of reducing the surplus by 10% a year, which it did achieve for several years. The U.S. trade deficit, which peaked at $19 billion in 1987, dropped to $8.9 billion in 1993. However, in 1994 it began to climb again; it reached $12.2 billion in 1997 and, as of this writing, looks as though it could exceed that for 1998.

### Table 4. Top 10 Imports from Taiwan & Exports to Taiwan in 1997
(Figures in U.S. Dollars)

**Top 10 Imports from Taiwan**

1. Automatic Data Processing Machines  5,141,871,125
2. Parts and Accessories For Typewriters and Other  4,485,388,936
3. Electronic Integrated Circuits and Microassemblies  2,944,294,187
4. Screws, Bolts, Nuts  740,424,966
5. Printed Circuits  592,419,475
6. Electrical Transformers, Static Converters or Inductor  590,682,420
7. Transmission Apparatus for Radiotelephony  571,422,198
8. Furniture  559,287,495
9. Articles and Equipment for General Physical Exercise  549,125,657
10. Parts and Accessories For Tractors, Public Transport  456,522,840

**Top 10 Exports to Taiwan**

1. Electronic Integrated Circuits and Microassemblies  3,030,938,744
2. Aircraft  1,616,047,568
3. Machines  924,114,181
4. Corn (Maize)  692,643,427
5. Soybeans  649,243,657
6. Parts and Accessories for Typewriters  535,155,064
7. Parts of Balloons, Dirigibles, Gliders, Airplanes  511,055,368
8. Automatic Data Processing Machines  487,581,328
9. Motor Cars and Other Motor Vehicles  420,800,298
10. Machine Tools  406,028,266
The Exchange Rate: One of the reasons the trade deficit was so great in the 1980s is that Taiwan's currency was simply under-valued and this made Taiwan's products very, very cheap in comparison to others. On the U.S. side, mostly through quiet contacts and messages from a concerned U.S. Treasury, enormous pressure was put on Taiwan to strengthen its currency. As you can see from Table 5 (Taiwan's foreign exchange rate), pressure brought at the beginning of 1986 led to a revaluation of the New Taiwan Dollar (NTD) from 39.80 to $1 (U.S.) at the end of 1985 to 26.16 by the end of 1989. (The rate remained in the 25-27 range for some years, before weakening in the past year under the strains of the Asian financial crisis to its current rate, as of this writing, of about 32.5.)

### Table 5. Foreign Exchange Rates
(Number of New Taiwan Dollar to One US Dollar)

<table>
<thead>
<tr>
<th>End of Month</th>
<th>Foreign Exchange Rates (NT$/US$)</th>
<th>End of Month</th>
<th>Foreign Exchange Rates (NT$/US$)</th>
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<tbody>
<tr>
<td></td>
<td>Buying</td>
<td>Selling</td>
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<tr>
<td>Dec-68</td>
<td>40.00</td>
<td>40.10</td>
<td>Dec-83</td>
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<tr>
<td>Dec-69</td>
<td>40.00</td>
<td>40.10</td>
<td>Dec-84</td>
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<tr>
<td>Dec-70</td>
<td>40.00</td>
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<td>Dec-71</td>
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<td>Dec-86</td>
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<td>Dec-72</td>
<td>40.00</td>
<td>40.10</td>
<td>Dec-87</td>
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<tr>
<td>Dec-73</td>
<td>37.90</td>
<td>38.10</td>
<td>Dec-88</td>
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<td>Dec-74</td>
<td>37.95</td>
<td>38.05</td>
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<td>Dec-75</td>
<td>37.95</td>
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<td>Dec-76</td>
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<tr>
<td>Dec-82</td>
<td>39.86</td>
<td>39.96</td>
<td>Dec-97</td>
</tr>
</tbody>
</table>

* Interbank closing rates.

Tariffs: Second, the United States decided to mount a full-fledged campaign to open up Taiwan's market, which was overly protected by high tariffs, and reduce other administrative barriers to foreign goods entering Taiwan. In October 1987, Taiwan announced the reduction of tariffs on 3400 items. Work has continued steadily in this area over the years and with the completion of the U.S. bilateral negotiations for Taiwan's entry into the WTO, not much more remains to be done (except that many of the concessions negotiated do not go into effect until Taiwan actually enters
the WTO). The main agent for this work was the U.S. Trade Representative's Office, which has done a superb job of developing healthy, frank and tough relationships to get the job done over the years.

Trade Promotion: Third, the Department of Commerce stepped up its trade promotion and business support activities to help U.S. businesses in Taiwan, especially in pursuing major projects. This effort was given a boost by the establishment of an independent commercial section, not just a combined economic/commercial section, in late 1990. This commercial section has grown steadily since then and is now a full fledged unit, providing useful assistance to American business.

Diversification of Exports: Another part of Taiwan's effort to reduce its surplus with us was a concerted program to diversify its exports to other markets, especially Europe, and reduce dependency on the U.S. market. The U.S. share of Taiwan's exports declined from a high of 48% in 1984 and 1985 to 28% in 1992, while Europe's share increased from 10% to 18% in the same period. Taiwan also increased the level of its exports to Southeast Asia, from 14% in 1986 to 28% in 1990 and its two-way trade from 12% to 20% in the same period. Taiwan also expanded its trade into new markets in Latin America and Africa.

VI. ISSUES OF THE 1990'S AND OTHER FACTORS IN UNITED STATES-TAIWAN ECONOMIC RELATIONS

The main economic and trade issues of the 1990s between the United States and Taiwan have been U.S. efforts to continue to get Taiwan to reduce its tariffs and eliminate administrative barriers in opening up its markets. These negotiations have been conducted in large part in connection with negotiations of bilateral issues with respect to Taiwan's entry into the WTO. But many have been conducted independently, especially those having to do with troublesome intellectual property rights (IPR) issues. In this area, the threat of "Section 301" sanctions has been an effective weapon. Because of publicity for infractions and lack of enforcement, the threat of this kind of international embarrassment has been an effective device in pressuring Taiwan (and others) to deal with unfair trade practices. Finally, as mentioned above, the mounting U.S. trade deficit with Taiwan has reintroduced it as a major concern in our economic and trade relations.
Agreements Between AIT and TECRO: Whatever issues are negotiated, the end result is usually a signed agreement between the two private organizations of the American Institute in Taiwan (AIT) and the Taipei Economic and Cultural Representative Office (TECRO). In the absence of diplomatic relations, the agreements signed between these two entities have, by the terms of the Taiwan Relations Act, almost the same validity as government-to-government agreements. Some 89 such agreements have been signed between 1979 and 1997 on subjects such as agriculture, aviation, conservation, customs, education, energy, environment, health, intellectual property, judicial matters, labor, mapping, maritime matters, postal agreements, scientific and technical cooperation, taxation and trade. The pace of these agreements has picked up steadily. From 1979 through 1984 an average of two per year were made. From 1985 through 1988 the average was 5. From 1989 through 1996 the average was 7 and in 1997 it was 9 agreements. This is a testimony to the institutions of the AIT and TECRO as machinery that was set up to deal with problems normally handled by government institutions. It is also testimony to the dedication of the people on both sides who have been determined to solve problems and settle issues despite the lack of official government organizations that would normally handle them.

The Role of the USTR in the United States-Taiwan Relationship: At the time of the break in diplomatic relations between the United States and the ROC, USTR trade negotiators were in the midst of a major negotiation with their counterparts from Taiwan. Both sides were working out the details of how the Tokyo Round of the GATT would be applied to Taiwan. Since Taiwan was not a member of the GATT, this bilateral agreement with the United States was the only way for Taiwan to secure the benefits (and obligations) of the Tokyo Round and to ensure the continuation of its most favored nation (MFN) trading status with all the other members of the GATT. Thus, while all the other agencies of the United States were actively disengaging themselves from Taiwan, USTR was broadening the U.S.-Taiwan economic relationship. The unintended symbolism of this circumstance was not lost on the U.S. and Taiwan trade negotiators that day, one of whom was Vincent SIEW, then the Deputy Director General of the Board of Foreign Trade and now Premier of Taiwan.

Over the last 20 years, the relationship between the USTR and its Taiwan counterparts - especially the Board of Foreign Trade, Ministry of Economic Affairs and Council for Economic Planning
and Development - has been among the most important and enduring of all the connections between Taiwan and the United States. Despite the contentiousness of a wide range of trade disputes over tobacco, distilled spirits, beer, wine, machine tools, textiles, frozen turkeys, driftnet fishing and every form of intellectual property violation, the relationships forged at the negotiating tables at the AIT, USTR and BOFT have been the strong foundation of overall U.S.-Taiwan economic and commercial relations.

The imperatives of resolving trade problems has generated a pragmatic, open and professional relationship between the representatives of USTR and the negotiators from the Ministry of Economic Affairs and the Board of Foreign Trade. The trade negotiators from both sides have achieved relationships remarkably free of the protocol constraints which characterize some of the other relationships between the United States Government and the Taiwan authorities.

*GATT and WTO*: In 1990, Taiwan applied for membership in GATT, the world's club of trading nations, which sets the rules of the international trading regime. Taiwan became an observer in 1992, and since then has been negotiating with the GATT (now the WTO) "working party" established to consider Taiwan's application. Taiwan will enter as a "developed country," which means meeting more rigorous and demanding requirements than those for a "developing country." Negotiations have been under way for several years and this year Taiwan completed its bilateral negotiations with the United States, the European community and all other interested nations. Taiwan has now to complete some multilateral negotiations and its negotiations with the WTO "working party." This is expected to be completed by the summer of 1999.

*Taiwan's WTO Accession*: If ever there was an ideal candidate for membership in a multilateral trade organization, it has to be Taiwan. Few economies are more committed and dependent upon trade for their economic well-being. Few economies have the far-flung network of trading flows that Taiwan has developed. Few economies are dominated like Taiwan by small and medium businesses, which are capable of niche and "re-niche" world marketing. Few economies have the cadre of well-educated, internationally savvy entrepreneurs, as does Taiwan. Few economies have been as forward leaning in their efforts to reform and liberalize their financial and trade regimes, as has Taiwan.

Yet after nearly a decade of attempting to qualify for membership in the GATT and in its successor, the World Trade Organiza-
tion (WTO), Taiwan is still only an "observer" in the WTO. Thus Taiwan, one of the most active participants in world trading, still sits on the sidelines in Geneva while the policies and rules that govern world trade are made. While Taiwan's efforts to participate in many international organizations are precluded by others' lack of political recognition of Taiwan as a country, the WTO has a specific provision that sidesteps this barrier by allowing "separate customs territories" to become WTO members.

WTO membership is important to Taiwan and Taiwan could make significant contributions to the WTO. For Taiwan, WTO membership will be its most significant participation in an international organization. It could be the opening for Taiwan's membership in other economic and commercial international organizations. Along with its membership in the Asian Development Bank and the APEC, Taiwan's entrance into the WTO will validate Taiwan as one of the world's leading economies.

The magnitude and scope of Taiwan's WTO offer amply demonstrate that Taiwan is prepared to meet all of the obligations of the WTO's other developed economies. Taiwan's leadership has assessed the advantages of WTO membership and has embarked on a major educational effort to convince the general populace, the business community and farmers that the sacrifices which will be made are necessary for Taiwan's continued prosperity. Taiwan's WTO commitments for market access, services and financial liberalization, and government procurement transparency will continue the transformation of Taiwan's economy begun decades ago. Once implemented, these reforms will make the Taiwan market even more attractive to world traders. The new trade regime will also enable Taiwan to be even more internationally competitive.

The Persistent Problem of IPR: Given the magnitude of the trading relationship between the United States and Taiwan, it is understandable that trade disputes will occur. However, no issue has been as consistently the source of problems between the United States and Taiwan as has the protection of intellectual property rights (IPR). At every level of Taiwan's economic development, IPR violations have been present. Yesterday's counterfeit books and toys have been replaced by today's pirated software and DVDs. The same entrepreneurial spirit that has made Taiwan a great economy has, when misdirected by IPR thieves, made Taiwan a center for IPR piracy.

Since the early 1980s, the United States has been engaged in a broad range of activities to improve IPR protection in Taiwan.
Through a series of Special 301 reviews, threats of trade action and negotiations, the United States has attempted to make IPR protection a priority for the Taiwan government, business community and the public. By first establishing a legal framework of IPR related laws, e.g., copyright, trademark, patent, trade secrets, U.S. officials hoped that IPR thus could be protected. However, as long as the issue remained primarily the protection of foreign IPR, the level and intensity of IPR protection was weak. Once IPR became an issue for Taiwan-owned firms, IPR awareness and enforcement became more vigorous.

While IPR protection remains an active issue on the United States-Taiwan trade agenda, Taiwan’s overall IPR record has improved markedly. The implementation of existing laws and the enforcement efforts of Taiwan authorities will determine if Taiwan can fully shed its reputation for IPR piracy.

*The American Chamber of Commerce*: The American Chamber of Commerce in Taiwan has played an increasingly important role in dealing with business issues and problems. The AMCHAM was founded on September 13, 1951 with six American companies as members. By the 1970s it had around 600 members, in the 1980s 750 to 850, and today it has about 950 members representing 450 companies in the American Chamber of Commerce in Taipei. From the early days into the 1980s most companies were manufacturing companies; in the 1990s, service companies have come to dominate the membership. The American Chamber of Commerce members in Kaohsiung formed their own separate Chamber in 1991. It continues to remain small with about 50 members. A China Business Committee of the AMCHAM/Taipei was formed in 1993, as an outgrowth of meetings of the AMCHAM Presidents and Executive Directors from the AMCHAMs in Taipei, Beijing, Shanghai and Hong Kong. Additional AMCHAMs in Guangzhou, Wuhan and Tianjin have been formed in recent years and representatives of all the groups meet together in China, Hong Kong or Taiwan at least once each year, to discuss common problems of doing business in a Chinese cultural environment.

The AMCHAM/Taipei has become a strong and effective organization with a first class magazine published ten times a year, and a number of industry-specific committees that are quite active in producing position papers on important business issues and problems. The AMCHAM publishes an annual “White Paper” with recommendations to the ROC government, and the AMCHAM sends an annual “doorknock” delegation to Washing-
ton, D.C., to call on leaders in the executive and congressional branches of government to press positions for which they seek U.S. government support in doing business with Taiwan.

In sum, the growth in size and effectiveness of the AMCHAM community in Taiwan reflects the growth and maturing of our overall trade and commercial relations. It also reflects the increasing globalization of business and the growing integration of Taiwan's economy into the world trading system.

**VII. MAJOR ECONOMIC FORCES AT WORK IN TAIWAN TODAY**

A variety of new forces are at work, which will affect the future direction of Taiwan's economy.

*The National Development Plan:* Despite its cutbacks, this plan, which was launched with great publicity in 1991, is still one of the largest infrastructure development programs in the world and will be a major stimulus in driving Taiwan's economy for the next few years. It includes a new north-south expressway and a high-speed railway the length of the island, improvements and expansion of airports, harbors and the road network, and rapid transit systems in the two major cities. The plan also envisages expanding the power system, addressing air and water pollution, and dividing Taiwan into 18 districts where schools, shopping centers, medical facilities and housing projects will be built. Improving the quality of life is an important objective.

*Privatization:* The government did own and operate 39 large "state" enterprises and some 80 other businesses not structured as companies. The government has begun to privatize these. This will open up a number of interesting opportunities for U.S. investors and for companies interested in establishing joint ventures.

*Taiwan as a Regional Hub for Business:* Possibly moved by what they saw as an opportunity for Taiwan to play a more important regional business role after the integration of Hong Kong into China in June 1997, and spurred by the competition of Singapore and Tokyo, business interests in Taiwan launched a campaign to make Taiwan attractive to U.S. and other foreign companies as a location for Asia-Pacific Regional Operations Center (APROC) for business. This campaign received further impetus from the meteoric rise in Hong Kong office and residential rents in 1995-96. This concept is also, in a sense, a part of Taiwan's National Development Plan, and the completion of the infrastructure projects in that plan will certainly make Taiwan more attractive to transnational busi-
nesses as a regional "hub." The sectors targeted for special attention are transportation, telecommunications, finance, manufacturing and Chinese language media. Prospects for success are best for transportation because of Taiwan’s ideal geographic location approximately midway between Japan and Korea on the north and the 350 million people of Southeast Asia on the south, as well as its position right off the central China coast. When direct travel between Taiwan and the Mainland opens up, Taipei is closer to Beijing and Tianjin than Tokyo or Hong Kong are, and much closer to Shanghai. To date, Singapore has been more successful than Taipei in attracting U.S. companies regional operations or headquarters, and recently Shanghai has increasingly become a center. However, Taiwan still has an opportunity to become an important regional business center if it will adopt some of the steps taken in Hong Kong and Singapore to make itself attractive as a place for foreign multinational employees to work and live.

Strategic Business Alliances: Taiwan is trying to overcome the shortcomings described above by providing special incentives for U.S. and other foreign companies to enter into "strategic business alliances" with Chinese firms in Taiwan to do business together. Taiwan is especially trying to attract high-tech companies to establish joint ventures in "66 critical technologies" and to establish R&D bases in Hsin-chu Science Park outside of Taipei and a new science park in Tainan. This idea has considerable appeal. Many major companies, as they review their long-range strategy for the huge markets in China and Southeast Asia, see advantages in teaming up with Chinese companies in Taiwan either in joint ventures or "strategic alliances" or other forms of partnership. Taiwan companies have capital, highly talented engineers and skilled labor at rates still considerably less than the United States, and they have the advantage of family and friend connections, language and cultural "know-how" in doing business in China and in Southeast Asia through the ethnic Chinese communities there that dominate the business sector. At the same time, U.S. companies bring technology, large scale organization and world-wide marketing know-how to the table and they can provide some additional guarantees against expropriation of assets in China, where Taiwan firms have no government representation to help protect them. Moreover, all Taiwan Chinese speak the national Chinese dialect of Mandarin, which is not the case for all Hong Kong Chinese, who are able to get by in southern China with their Cantonese dialect but have
Taiwan's Economic Development and Trade

some problems elsewhere. Of the 50-odd strategic alliances signed so far, some 30 are with United States companies.

The Increase in Personal Purchasing Power: The rapidly rising per capita income in Taiwan has led to a new level of individual prosperity and a surge of interest in high quality consumer goods such as fashionable clothes, gourmet foods, accessories, cosmetics and automobiles. The demand for travel and tourism is skyrocketing and air travel to Hong Kong, China, Japan and the United States is soaring. The affluent Chinese have an appetite for foreign luxury goods and their brand name loyalties are not yet firmly established. This market is in its embryonic stages.

VIII. OTHER IMPORTANT FACTORS IMPACTING ECONOMIC DEVELOPMENT

Democratization and Politics: The development and maintenance of a reasonably adequate defense establishment and an overall abatement of tensions in the Taiwan Strait has led to a sense of security and self-confidence. And the growth of economic prosperity which is widely shared throughout the society has led to the establishment of a strong middle class. These two preconditions led former President CHIANG Ching-kuo to begin, and President LEE Teng-hui to continue, a rapid conversion from a military dictatorship to almost full democracy. Opposition parties have been allowed to form; martial law has been lifted; controls on newspapers and other media have been removed; the legislature and the national assembly have become more truly representative; and, several national and local elections have been held. One of the most important consequences of all this for the economy is that the executive branch of the government cannot ram through its economic programs as simply and speedily as in the past. As in the United States, government proposals are subject to criticism, analysis and delay by a strong legislature, a growing opposition party and an active and inquisitive media.

International Objectives: The Republic of China on Taiwan today is granted formal diplomatic recognition by only 29 countries, most of them small and relatively unimportant. Despite this, because of its economic strength and growing international trade, Taiwan has been able to expand its unofficial relationships with many nations over the past few years. By changing its name to "Taipei, China," Taiwan was able to remain in the Asian Development Bank (ADB) when the People's Republic of China entered that organization. Taiwan has been a member of two important private regional
organizations, the Pacific Basin Economic Council (PBEC) and the Pacific Economic Cooperation Conference (PECC), and in the fall of 1991, Taiwan (under the name "Chinese Taipei") was admitted - along with China and Hong Kong - to the Asia Pacific Economic Cooperation (APEC) organization. This membership in APEC is especially important to Taiwan as it provides regular and frequent opportunities to meet with cabinet-level counterparts from every country in Asia, including China.

In short, despite its awkward lack of an international diplomatic identity, Taiwan is managing to play an important regional and international economic role and has positioned itself to press for entry into the IMF and World Bank where, with its huge foreign exchange reserves, it could play a significant role as a donor. One of the main impacts of this drive for a more acceptable international identity on the economy will be to intensify Taiwan's export orientation and to diversify its trade.

*Relations with Mainland China:* Since the ban on travel to the Mainland was lifted by Chiang Ching-kuo in the fall of 1987, over 10,000,000 visits have been made by Taiwan residents to the Mainland. The rate is approximately 100,000 per month, mostly through Hong Kong. The average visitor from Taiwan spends $3,000 to $10,000 in China, so an enormous transfer of wealth has taken place. This travel has contributed enormously to the burgeoning Taiwan trade with, and investment in, the Mainland. Most is channeled through Hong Kong but some takes place through Japan, the Philippines, Singapore and elsewhere. Solid statistics are not readily available, but the generally accepted figures are that Taiwan now has $30 to $35 billion (U.S.) invested in China in about 30,000 different enterprises, and that annual trade now exceeds $20 billion, mostly Taiwan goods being sold in China.

The ROC government is steadily expanding the list of goods that can be sold to China or imported from it, and the types of investments that can be made there, although some controls and limits are maintained. At the same time, the government is concerned about becoming too dependent on the Mainland market and thereby making its economy vulnerable to any sudden shutoff of trade by China. The ROC wanted, therefore, to set a limit of 10% of its total exports on its exports to China. However, this barrier has already been breached because of the "Mainland fever" that has gripped most businessmen and investors in Taiwan.

Most importantly, pressure to allow direct travel and trade between Taiwan and the Mainland has been increasing. The current
routes through Hong Kong, while appropriate for dealing with nearby areas in Guangdong, simply add inefficient time and cost to trade with Fujian and other parts of China. Businessmen in Taiwan want direct air and sea links as soon as possible to reduce the costs of doing business with the Mainland, and travelers or tourists visiting relatives want it for similar reasons. A direct flight from Taipei to Xiamen in Fujian would take only 40 minutes and eliminate the need for getting a transit visa from Hong Kong. China also wants direct travel for all kinds of reasons. The ROC government, however, views this issue as one of the last and most important bits of leverage it has in its long-range strategic negotiations with China. Officially, Taiwan’s position is that direct air and sea links will come in “phase two” of the unification process, i.e., after Beijing has accepted Taiwan in an equal, not subordinate role, and renounced the possible use of force against Taiwan to achieve its objectives. Critics point out that Taiwan has little chance of becoming a significant regional business hub as long as no direct travel to the Mainland is possible. Taiwan expects to provide for the direct travel of its own citizens, and to become an important transit point for travelers to China from the United States and elsewhere.

When direct travel does come, it will have a significant impact on Taiwan-Mainland relations. It will also have a substantial adverse impact on Hong Kong. Maritime shipments from Taiwan to China via Hong Kong account for 20% to 25% of Hong Kong’s port activity, and the loss of more than 100,000 Taiwan travelers per month through Hong Kong would be significant. But Hong Kong has shown great resilience to sudden change in the past and would likely adapt again after a period of readjustment.

The “Go South” Campaign: In late 1993, the ROC government, disturbed by burgeoning trade and investment with the Mainland, and fearing the dependency and vulnerability that would flow from its continuation, launched a “go South” policy to encourage trade and investment in Southeast Asia and divert it from China. The program was further formalized in May 1994 by the Ministry of Economic Affairs, which announced plans to help private companies explore business opportunities in Southeast Asia by enhancing information services and organizing commercial exhibits in and business delegations to those countries. The government points out that Taiwan has been able to sign investment guarantee agreements with most southeast Asian countries and is working on agreements to prevent double taxation, thereby providing better protection for Taiwan investors than is possible for them on the Mainland.
wan's Export-Import Bank will also guarantee loans for companies involved in construction projects in the region and be more liberal with respect to joining syndicated loans.

IX. CONCLUSIONS AND OUTLOOK

Taiwan has come a long way in its economic development since it was an underdeveloped colonial island tied to the economy of the Japanese motherland in 1945. U.S.-Taiwan relations have come a long way from the essentially military protector and aid donor role the United States played in the 1950s to the role of equal partners in economic and business relationships that it occupies today.

What are the highlights since 1979? To reiterate some points made earlier, Taiwan has become an economic power of considerable importance, especially in the areas of finance, high technology and trade. With the world's third largest foreign exchange reserves and status as the world's seventh largest foreign investor (and the largest or second largest in several Asian countries), Taiwan is a significant financial force. Second, Taiwan has recently surpassed Germany to become the world's third largest manufacturer of computers and computer-related equipment after the United States and Japan. It is realizing its objective of becoming known as "hi-tech island." Third, as the United States' seventh largest trading partner, the world's 12th largest exporter, and 14th largest overall trader, with the world's 18th largest economy, Taiwan is in the top rank of the world's trading and economic powers.

Have these achievements found formal recognition in terms of Taiwan's international economic status? Hardly. Taiwan is not a member of the United Nations, the World Bank or the International Monetary Fund, and is not yet a member of the WTO. What formal status Taiwan has was bitterly fought for and achieved only with the support and influence of the United States. One watershed development was the retention of Taiwan's seat in the Asian Development Bank, albeit under a name uncomfortably adopted by Taiwan at the time the settlement was made. It established an important precedent and has enabled Taiwan to play a useful regional role in providing financial assistance to others in the region. Another was the U.S. decision to back Taiwan's entry into APEC in the fall of 1991. This has provided Taiwan a venue for regular and frequent contact at the ministerial level to counterparts in almost every country in Asia. And finally, the acquisition of observer status in the WTO, and the conclusion of the marathon bilateral negotiations leading up to full accession to the WTO have helped
Taiwan increase the number of its trading partners and educated its economic leadership to the issues it must deal with internationally in order to establish some kind of international economic status.

X. LOOKING AHEAD: WHAT REMAINS TO BE DONE

Clearly, in our bilateral relationship with Taiwan, we still have a major trade deficit to deal with. In the past two years it has once again grown to alarming proportions—$11.4 billion in 1996 and $12.2 billion in 1997, and possibly even higher in 1998. The United States simply has to find a way to sell more U.S. goods and services to Taiwan. Second, we have some nagging trade issues to be dealt with, primarily in IPR matters, as discussed earlier.

In the international arena, we are probably going to face a political and economic issue of considerable importance in late 1999 in facing up to whether to push for Taiwan’s accession into the WTO once all its multilateral and working party negotiations are completed, rather than wait around for a simultaneous entry with China. China has gone strongly on record that it does not want to see Taiwan enter the WTO before it does. Yet China has made little progress toward qualification for entry in the past two years, despite the fact that the requirements it must meet as a developing economy are considerably easier than those of a developed economy, which is the category that Taiwan is in. The WTO is not a political organization. It is an organization established to deal with economic and trade problems. Moreover, the WTO does not have “countries” as members. The WTO is a framework of rights and obligations among economies which have, through negotiations, undertaken mutual economic commitments. For decades, the various economies were legally known as “contracting parties” rather than as member governments. The “right” path on this issue is clear.
APPENDIX I

TAIWAN RELATIONS ACT

93 STAT. 14

PUBLIC LAW 96–8—APR. 10, 1979

Public Law 96–8
96th Congress

An Act

To help maintain peace, security, and stability in the Western Pacific and to promote the foreign policy of the United States by authorizing the continuation of commercial, cultural, and other relations between the people of the United States and the people on Taiwan, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Taiwan Relations Act".

FINDINGS AND DECLARATION OF POLICY

Sec. 2. (a) The President having terminated governmental relations between the United States and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, the Congress finds that the enactment of this Act is necessary—

(1) to help maintain peace, security, and stability in the Western Pacific; and

(2) to promote the foreign policy of the United States by authorizing the continuation of commercial, cultural, and other relations between the people of the United States and the people on Taiwan.

(b) It is the policy of the United States—

(1) 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;

(2) to declare that peace and stability in the area are in the political, security, and economic interests of the United States, and are matters of international concern;

(3) to make 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;

(4) 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;

(5) to provide Taiwan with arms of a defensive character; and

(6) 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.

(c) Nothing contained in this Act shall contravene the interest of the United States in human rights, especially with respect to the
human rights of all the approximately eighteen million inhabitants of Taiwan. The preservation and enhancement of the human rights of all the people on Taiwan are hereby reaffirmed as objectives of the United States.

IMPLEMENTATION OF UNITED STATES POLICY WITH REGARD TO TAIWAN

Sec. 3. (a) In furtherance of the policy set forth in section 2 of this Act, the United States will make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability.

(b) The President and the Congress shall determine the nature and quantity of such defense articles and services based solely upon their judgment of the needs of Taiwan, in accordance with procedures established by law. Such determination of Taiwan's defense needs shall include review by United States military authorities in connection with recommendations to the President and the Congress.

(c) The President is directed to inform the Congress promptly of any threat to the security or the social or economic system of the people on Taiwan and any danger to the interests of the United States arising therefrom. The President and the Congress shall determine, in accordance with constitutional processes, appropriate action by the United States in response to any such danger.

APPLICATION OF LAWS; INTERNATIONAL AGREEMENTS

Sec. 4. (a) The absence of diplomatic relations or recognition shall not affect the application of the laws of the United States with respect to Taiwan, and the laws of the United States shall apply with respect to Taiwan in the manner that the laws of the United States applied with respect to Taiwan prior to January 1, 1979.

(b) The application of subsection (a) of this section shall include, but shall not be limited to, the following:

1. Whenever the laws of the United States refer or relate to foreign countries, nations, states, governments, or similar entities, such terms shall include and such laws shall apply with respect to Taiwan.

2. Whenever authorized by or pursuant to the laws of the United States to conduct or carry out programs, transactions, or other relations with respect to foreign countries, nations, states, governments, or similar entities, the President or any agency of the United States Government is authorized to conduct and carry out, in accordance with section 6 of this Act, such programs, transactions, and other relations with respect to Taiwan (including, but not limited to, the performance of services for the United States through contracts with commercial entities on Taiwan), in accordance with the applicable laws of the United States.

3(A) The absence of diplomatic relations and recognition with respect to Taiwan shall not abrogate, infringe, modify, deny, or otherwise affect in any way any rights or obligations (including but not limited to those involving contracts, debts, or property interests of any kind) under the laws of the United States heretofore or hereafter acquired by or with respect to Taiwan.

(B) For all purposes under the laws of the United States, including actions in any court in the United States, recognition of the People's Republic of China shall not affect in any way the ownership of or other rights or interests in properties, tangible
and intangible, and other things of value, owned or held on or prior to December 31, 1978, or thereafter acquired or earned by the governing authorities on Taiwan.

(4) Whenever the application of the laws of the United States depends upon the law that is or was applicable on Taiwan or compliance therewith, the law applied by the people on Taiwan shall be considered the applicable law for that purpose.

(5) Nothing in this Act, nor the facts of the President's action in extending diplomatic recognition to the People's Republic of China, the absence of diplomatic relations between the people on Taiwan and the United States, or the lack of recognition by the United States, and attendant circumstances thereto, shall be construed in any administrative or judicial proceeding as a basis for any United States Government agency, commission, or department to make a finding of fact or determination of law, under the Atomic Energy Act of 1954 and the Nuclear Non-Proliferation Act of 1978, to deny an export license application or to revoke an existing export license for nuclear exports to Taiwan.

(6) For purposes of the Immigration and Nationality Act, Taiwan may be treated in the manner specified in the first sentence of section 202(b) of that Act.

(7) The capacity of Taiwan to sue and be sued in courts in the United States, in accordance with the laws of the United States, shall not be abrogated, infringed, modified, denied, or otherwise affected in any way by the absence of diplomatic relations or recognition.

(8) No requirement, whether expressed or implied, under the laws of the United States with respect to maintenance of diplomatic relations or recognition shall be applicable with respect to Taiwan.

(c) For all purposes, including actions in any court in the United States, the Congress approves the continuation in force of all treaties and other international agreements, including multilateral conventions, entered into by the United States and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, and in force between them on December 31, 1978, unless and until terminated in accordance with law.

(d) Nothing in this Act may be construed as a basis for supporting the exclusion or expulsion of Taiwan from continued membership in any international financial institution or any other international organization.

OVERSEAS PRIVATE INVESTMENT CORPORATION

Sec. 5. (a) During the three-year period beginning on the date of enactment of this Act, the $1,000 per capita income restriction in clause (2) of the second undesignated paragraph of section 231 of the Foreign Assistance Act of 1961 shall not restrict the activities of the Overseas Private Investment Corporation in determining whether to provide any insurance, reinsurance, loans, or guarantees with respect to investment projects on Taiwan.

(b) Except as provided in subsection (a) of this section, in issuing insurance, reinsurance, loans, or guarantees with respect to investment projects on Taiwan, the Overseas Private Insurance Corporation shall apply the same criteria as those applicable in other parts of the world.
THE AMERICAN INSTITUTE OF TAIWAN

Sec. 6. (a) Programs, transactions, and other relations conducted or carried out by the President or any agency of the United States Government with respect to Taiwan shall, in the manner and to the extent directed by the President, be conducted and carried out by or through—

(1) The American Institute in Taiwan, a nonprofit corporation incorporated under the laws of the District of Columbia, or

(2) such comparable successor nongovernmental entity as the President may designate.

(b) Whenever the President or any agency of the United States Government is authorized or required by or pursuant to the laws of the United States to enter into, perform, enforce, or have in force an agreement or transaction relative to Taiwan, such agreement or transaction shall be entered into, performed, and enforced, in the manner and to the extent directed by the President, by or through the Institute.

(c) To the extent that any law, rule, regulation, or ordinance of the District of Columbia, or of any State or political subdivision thereof in which the Institute is incorporated or doing business, impedes or otherwise interferes with the performance of the functions of the Institute pursuant to this Act, such law, rule, regulation, or ordinance shall be deemed to be preempted by this Act.

SERVICES BY THE INSTITUTE TO UNITED STATES CITIZENS ON TAIWAN

Sec. 7. (a) The Institute may authorize any of its employees on Taiwan—

(1) to administer to or take from any person an oath, affirmation, affidavit, or deposition, and to perform any notarial act which any notary public is required or authorized by law to perform within the United States;

(2) to act as provisional conservator of the personal estates of deceased United States citizens; and

(3) to assist and protect the interests of United States persons by performing other acts such as are authorized to be performed outside the United States for consular purposes by such laws of the United States as the President may specify.

(b) Acts performed by authorized employees of the Institute under this section shall be valid, and of like force and effect within the United States, as if performed by any other person authorized under the laws of the United States to perform such acts.

TAX EXEMPT STATUS OF THE INSTITUTE

Sec. 8. (a) The Institute, its property, and its income are exempt from all taxation now or hereafter imposed by the United States (except to the extent that section 11(a)(9) of this Act requires the imposition of taxes imposed under chapter 21 of the Internal Revenue Code of 1954, relating to the Federal Insurance Contributions Act) or by any State or local taxing authority of the United States.

(b) For purposes of the Internal Revenue Code of 1954, the Institute shall be treated as an organization described in sections 170(b)(1)(A), 170(c), 2055(a), 2106(a)(2)(A), 2522(a), and 2522(b).

22 USC 3305.
22 USC 3306.
22 USC 3307.
26 USC 401.
26 USC 170, 2055, 2106, 2522.
THE AMERICAN INSTITUTE OF TAIWAN

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(1) The American Institute in Taiwan, a nonprofit corporation incorporated under the laws of the District of Columbia, or

(2) such comparable successor nongovernmental entity as the President may designate, (hereafter in this Act referred to as the "Institute").

(b) Whenever the President or any agency of the United States Government is authorized or required by or pursuant to the laws of the United States to enter into, perform, enforce, or have in force an agreement or transaction relative to Taiwan, such agreement or transaction shall be entered into, performed, and enforced, in the manner and to the extent directed by the President, by or through the Institute.

(c) To the extent that any law, rule, regulation, or ordinance of the District of Columbia, or of any State or political subdivision thereof in which the Institute is incorporated or doing business, impedes or otherwise interferes with the performance of the functions of the Institute pursuant to this Act, such law, rule, regulation, or ordinance shall be deemed to be preempted by this Act.

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(3) to assist and protect the interests of United States persons by performing other acts such as are authorized to be performed outside the United States for consular purposes by such laws of the United States as the President may specify.

(b) Acts performed by authorized employees of the Institute under this section shall be valid, and of like force and effect within the United States, as if performed by any other person authorized under the laws of the United States to perform such acts.

TAX EXEMPT STATUS OF THE INSTITUTE

Sec. 8. (a) The Institute, its property, and its income are exempt from all taxation now or hereafter imposed by the United States (except to the extent that section 11(a)(3) of this Act requires the imposition of taxes imposed under chapter 21 of the Internal Revenue Code of 1954, relating to the Federal Insurance Contributions Act) or by any State or local taxing authority of the United States.

(b) For purposes of the Internal Revenue Code of 1954, the Institute shall be treated as an organization described in sections 170(b)(1)(A), 170(c), 2055(a), 2106(a)(2)(A), 2522(a), and 2522(b).
entitled upon termination of such employment to reemployment or reinstatement with such agency (or a successor agency) in an appropriate position with the attendant rights, privileges, and benefits with the officer or employee would have had or acquired had he or she not been so separated, subject to such time period and other conditions as the President may prescribe.

(3) An officer or employee entitled to reemployment or reinstatement rights under paragraph (2) of this subsection shall, while continuously employed by the Institute with no break in continuity of service, continue to participate in any benefit program in which such officer or employee was participating prior to employment by the Institute, including programs for compensation for job-related death, injury, or illness; programs for health and life insurance; programs for annual, sick, and other statutory leave; and programs for retirement under any system established by the laws of the United States; except that employment with the Institute shall be the basis for participation in such programs only to the extent that employee deductions and employer contributions, as required, in payment for such participation for the period of employment with the Institute, are currently deposited in the program's or system's fund or depository. Death or retirement of any such officer or employee during approved service with the Institute and prior to reemployment or reinstatement shall be considered a death in or retirement from Government service for purposes of any employee or survivor benefits acquired by reason of service with an agency of the United States Government.

(4) Any officer or employee of an agency of the United States Government who entered into service with the Institute on approved leave of absence without pay prior to the enactment of this Act shall receive the benefits of this section for the period of such service.

(b) Any agency of the United States Government employing alien personnel on Taiwan may transfer such personnel, with accrued allowances, benefits, and rights, to the Institute without a break in service for purposes of retirement and other benefits, including continued participation in any system established by the laws of the United States for the retirement of employees in which the alien was participating prior to the transfer to the Institute, except that employment with the Institute shall be creditable for retirement purposes only to the extent that employee deductions and employer contributions, as required, in payment for such participation for the period of employment with the Institute, are currently deposited in the system's fund or depository.

(c) Employees of the Institute shall not be employees of the United States and, in representing the Institute, shall be exempt from section 207 of title 18, United States Code.

(d)(1) For purposes of sections 911 and 913 of the Internal Revenue Code of 1954, amounts paid by the Institute to its employees shall not be treated as earned income. Amounts received by employees of the Institute shall not be included in gross income, and shall be exempt from taxation, to the extent that they are equivalent to amounts received by civilian officers and employees of the Government of the United States as allowances and benefits which are exempt from taxation under section 912 of such Code.

(2) Except to the extent required by subsection (a)(3) of this section, service performed in the employ of the Institute shall not constitute employment for purposes of chapter 21 of such Code and title II of the Social Security Act.

26 USC 911, 913.
26 USC 912.
26 USC 3101.
42 USC 401.
Sec. 12. (a) The Secretary of State shall transmit to the Congress the text of any agreement to which the Institute is a party. However, any such agreement the immediate public disclosure of which would, in the opinion of the President, be prejudicial to the national security of the United States shall not be so transmitted to the Congress but shall be transmitted to the Committee on Foreign Relations of the Senate and the Committee on Foreign Affairs of the House of Representatives under an appropriate injunction of secrecy to be removed only upon due notice from the President.

(b) For purposes of subsection (a), the term "agreement" includes—

(1) any agreement entered into between the Institute and the governing authorities on Taiwan or the instrumentality established by Taiwan; and

(2) any agreement entered into between the Institute and an agency of the United States Government.

(c) Agreements and transactions made or to be made by or through the Institute shall be subject to the same congressional notification, review, and approval requirements and procedures as if such agreements and transactions were made by or through the agency of the United States Government on behalf of which the Institute is acting.

(d) During the two-year period beginning on the effective date of this Act, the Secretary of State shall transmit to the Speaker of the House of Representatives and the Committee on Foreign Relations of the Senate, every six months, a report describing and reviewing economic relations between the United States and Taiwan, noting any interference with normal commercial relations.

Sec. 13. The President is authorized to prescribe such rules and regulations as he may deem appropriate to carry out the purposes of this Act. During the three-year period beginning on the effective date of this Act, such rules and regulations shall be transmitted promptly to the Speaker of the House of Representatives and to the Committee on Foreign Relations of the Senate. Such action shall not, however, relieve the Institute of the responsibilities placed upon it by this Act.

Sec. 14. (a) The Committee on Foreign Affairs of the House of Representatives, the Committee on Foreign Relations of the Senate, and other appropriate committees of the Congress shall monitor—

(1) the implementation of the provisions of this Act;

(2) the operation and procedures of the Institute;

(3) the legal and technical aspects of the continuing relationship between the United States and Taiwan; and

(4) the implementation of the policies of the United States concerning security and cooperation in East Asia.

(b) Such committees shall report, as appropriate, to their respective Houses on the results of their monitoring.

Sec. 15. For purposes of this Act—
PUBLIC LAW 96-8—APR. 10, 1979

(1) the term “laws of the United States” includes any statute, rule, regulation, ordinance, order, or judicial rule of decision of the United States or any political subdivision thereof; and
(2) the term “Taiwan” includes, as the context may require, the islands of Taiwan and the Pescadores, the people on those islands, corporations and other entities and associations created or organized under the laws applied on those islands, and the governing authorities on Taiwan recognized by the United States as the Republic of China prior to January 1, 1979, and any successor governing authorities (including political subdivisions, agencies, and instrumentalities thereof).

AUTHORIZATION OF APPROPRIATIONS

Sec. 16. In addition to funds otherwise available to carry out the provisions of this Act, there are authorized to be appropriated to the Secretary of State for the fiscal year 1980 such funds as may be necessary to carry out such provisions. Such funds are authorized to remain available until expended.

SEVERABILITY OF PROVISIONS

Sec. 17. If any provision of this Act or the application thereof to any person or circumstance is held invalid, the remainder of the Act and the application of such provision to any other person or circumstance shall not be affected thereby.

EFFECTIVE DATE

Sec. 18. This Act shall be effective as of January 1, 1979.

Approved April 10, 1979.

LEGISLATIVE HISTORY:

HOUSE REPORTS: No. 96-26 (Comm. on Foreign Affairs) and No. 96-71 (Comm. of Conference).

SENATE REPORT No. 96-7 (Comm. on Foreign Relations).

CONGRESSIONAL RECORD, Vol. 125 (1979):
Mar. 8, 15, considered and passed House.
Mar. 7, R. 12, 13, S. 245 considered and passed Senate.
Mar. 14, proceedings vitiated; H.R. 2479, amended, passed in lieu.
Mar. 28, House agreed to conference report.
Mar. 29, Senate agreed to conference report.

WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS, Vol. 15, No. 15:
Apr. 10, Presidential statement.
APPENDIX II

PRESIDENTIAL EXECUTIVE ORDER 12143
OF JUNE 22, 1979

MAINTAINING UNOFFICIAL RELATIONS WITH
THE PEOPLE ON TAIWAN

In light of the recognition of the People's Republic of China by the United States of America as the sole legal government of China, and by the authority vested in me as President of the United States of America, by the Taiwan Relations Act (Public Law 96-8, 93 Stat. 14, 22 U.S.C. 3301 et seq., hereinafter referred to as "the Act"), and Section 301 of Title 3 of the United States Code, in order to facilitate the maintenance of commercial, cultural and other relations between the people of the United States and the people on Taiwan without official representation or diplomatic relations, it is hereby ordered as follows:

1-1. Delegation and Reservation of Functions.

1-101. Exclusive of the functions otherwise delegated, or reserved to the President, by this Order, there are delegated to the Secretary of State all functions conferred upon the President by the Act. In carrying out these functions, the Secretary of State shall consult with other departments and agencies as appropriate.

1-102. There are delegated to the Director of the Office of Personnel Management the functions conferred upon the President by paragraphs (1) and (2) of Section 11(a) of the Act. These functions shall be exercised in consultation with the Secretary of State.

1-103. There are reserved to the President the functions conferred upon the President by Section 3, Section 7(a)(3), and the second sentence of Section 9(b), and the determination specified in Section 10(a) of the Act.


1-201. Pursuant to Section 7(a) of the Act, I specify the following provisions of law:

(a) Section 4082 of the Revised Statutes (22 U.S.C. 1172):

§ 1172. Solemnization of marriages

Marriages in presence of any consular officer of the United States in a foreign country, between persons who
would be authorized to marry if residing in the District of Columbia, shall be valid to all intents and purposes, and shall have the same effect as if solemnized within the United States. And such consular officer shall, in all cases, give to the parties married before them a certificate of such marriage, and shall send another certificate thereof to the Department of State, there to be kept; such certificate shall specify the names of the parties, their ages, places of birth, and residence.

(b) Section 1707 of the Revised Statutes (22 U.S.C. 1173):

§ 1173. Protests

Consuls and vice consuls shall have the right, in the ports or places to which they are severally appointed, of receiving the protests or declarations which captains, masters, crews, passengers, or merchants, who are citizens of the United States, may respectively choose to make there; and also such as any foreigner may choose to make before them relative to the personal interest of any citizen of the United States.

(c) Section 1708 of the Revised Statutes (22 U.S.C. 1174):

§ 1174. Lists and returns of seamen and vessels, etc.

Every consular officer shall keep a detailed list of all seamen and mariners shipped and discharged by him, specifying their names and the names of the vessels on which they are shipped and from which they are discharged, and the payments, if any, made on account of each so discharged; also of the number of the vessels arrived and departed, the amounts of their registered tonnage, and the number of their seamen and mariners, and of those who are protected, and whether citizens of the United States or not, and as nearly as possible the nature and value of their cargoes, and where produced, and shall make returns of the same, with their accounts and other returns, to the Secretary of Commerce.
§ 1175. Estates of decedents generally; General Accounting Office as conservator

It shall be the duty of a consular officer, or, if no consular officer is present, a diplomatic officer, under such procedural regulations as the Secretary of State may prescribe—

First. To take possession and to dispose of the personal estate left by any citizen of the United States, except a seaman who is a member of the crew of an American vessel, who shall die within or is domiciled at time of death within his jurisdiction: Provided, That such procedure is authorized by treaty provisions or permitted by the laws or authorities of the country wherein the death occurs, or the decedent is domiciled, or that such privilege is accorded by established usage: Provided further, That the decedent shall leave in the country where the death occurred or where he was domiciled, no legal representative, partner in trade, or trustee by him appointed to take care of his personal estate. A consular officer or, in his absence, a diplomatic officer shall act as the provisional conservator of the personal property within his jurisdiction of a deceased citizen of the United States but, unless authorized by treaty provisions, local law, or usage, he shall not act as administrator of such personal property. He shall render assistance in guarding, collecting, and transmitting the property to the United States to be disposed of according to the law of the decedent's domicile.

Second. After having taken possession of the personal property, as provisional conservator, to inventory and carefully appraise the effects, article by article, with the assistance of two competent persons who, together with such officer, shall sign the inventory and annex thereto an appropriate certificate as to the accuracy of the appraised value of each article.

Third. To collect the debts due to the decedent in his jurisdiction and pay from the estate the obligations owed there by the decedent.

Fourth. To sell at auction, after reasonable public notice, unless the amount involved does not justify such expenditure, such part of the estate as shall be of a perishable nature, and after reasonable public notice and
notice to next of kin if they can be ascertained by reasonable
diligence such further part, if any, as shall be necessary for
the payment of the decedent’s debts incurred in such country,
and funeral expenses, and expenses incident to the disposi-
tion of the estate. If, at the expiration of one year from the
date of death (or for such additional period as may be
required for final settlement of the estate), no claimant shall
appear, the residue of the estate, with the exception of
investments of bonds, shares of stocks, notes of indebted-
ness, jewelry or heirlooms, or other articles having a
sentimental value, shall be sold.

Fifth. To transmit to the General Accounting Office the
proceeds of the sale (and any unsold effects, such as
investments of bonds, shares of stocks, notes of indebted-
ness, jewelry or heirlooms, or other articles having a
sentimental value), there to be held in trust for the legal
claimant. If, however, at any time prior to such transmission,
the decedent’s legal representative should appear and
demand the proceeds and effects in the officer’s hands, he
shall deliver them to such representative after having
collected the prescribed fee therefor.

The Comptroller General of the United States, or such
member of the General Accounting Office as he may duly
empower to act as his representative for the purpose, shall
act as conservator of such parts of these estates as may be
received by the General Accounting Office or are in its
possession, and may, when deemed to be in the interest of the
estate, sell such effects, including bonds, shares of stock,
notes of indebtedness, jewelry, or other articles, which have
heretofore or may hereafter be so received, and pay the
expenses of such sale out of the proceeds: Provided, That
application for such effects shall not have been made by the
legal claimant within six years after their receipt. The
Comptroller General is authorized, for and in behalf of the
estate of the deceased, to receive any balances due to such
estates, to draw therefor on banks, safe deposits, trust or loan
companies; or other like institutions, to endorse all checks,
bills of exchange, promissory notes, and other evidences of
indebtedness due to such estates, and take such other action
as may be deemed necessary for the conservation of such
estates. The net proceeds of such sales, together with such
other moneys as may be collected by him, shall be deposited
into the Treasury to a fund in trust for the legal claimant and
reported to the Secretary of State.
If no claim to the effects the proceeds of which have been so deposited shall have been received from a legal claimant of the deceased within six years from the date of the receipt of the effects by the General Accounting Office, the funds so deposited, with any remaining unsold effects, less transmittal charges, shall be transmitted by that office to the proper officer of the State or Territory of the last domicile in the United States of the deceased citizen, if known, or, if not, such funds shall be covered into the general fund of the Treasury as miscellaneous receipts on account of proceeds of deceased citizens, and any such remaining unsold effects shall be disposed of by the General Accounting Office in such manner as, in the judgment of the Comptroller General, is deemed appropriate, or they may be destroyed if considered no longer possessed of any value: Provided, That when the estate shall be valued in excess of $500, and no claim therefor has been presented to the General Accounting Office by a legal claimant within the period specified in this paragraph or the legal claimant is unknown, before disposition of the estate as provided herein, notice shall be given by publishing once a week for four consecutive weeks in a newspaper published in the county of the last known domicile of the deceased, in the United States, the expense thereof to be deducted from the proceeds of such estate, and any lawful claim received as the result of such advertisement shall be adjusted and settled as provided for herein.

(e) Section 1710 of the Revised Statutes, as amended (22 U.S.C. 1176):

§ 1176. Notification of death of decedent; transmission of inventory of effects

For the information of the representative of the deceased, the consular officer, or, if no consular officer is present, a diplomatic officer, in the settlement of his estate shall immediately notify his death in one of the gazettes published in the consular district, and also to the Secretary of State, that the same may be notified in the State to which the deceased belonged; and he shall, as soon as may be, transmit to the Secretary of State an inventory of the effects of the deceased taken as before directed.
(f) Section 1711 of the Revised Statutes, as amended (22 U.S.C. 1177):

§ 1177. Following testamentary directions; assistance to testamentary appointee

When a citizen of the United States dies in a foreign country and leaves, by any lawful testamentary disposition, special directions for the custody and management, by the consular officer, or in his absence a diplomatic officer, within whose jurisdiction the death occurred, of the personal property in the foreign country which he possessed at the time of death, such officer shall, so far as the laws of the foreign country permit, strictly observe such directions if not contrary to the laws of the United States. If such citizen has named, by any lawful testamentary disposition, any other person than a consular officer or diplomatic officer to take charge of and manage such property, it shall be the duty of the officer, whenever required by the person so named, to give his official aid in whatever way may be practicable to facilitate the proceedings of such person in the lawful execution of his trust, and, so far as the laws of the country or treaty provisions permit, to protect the property of the deceased from any interference by the authorities of the country where such citizen died. To this end it shall be the duty of the consular officer, or if no consular officer is present a diplomatic officer, to safeguard the decedent’s property by placing thereon his official seal and to break and remove such seal only upon the request of the person designated by the deceased to take charge of and manage his property.

(g) Section 1718 of the Revised Statutes (22 U.S.C. 1185); and

§ 1185. Retention of papers of American vessels until payment of demands and wages

All consular officers are authorized and required to retain in their possession all the papers of vessels of the United States, which shall be deposited with them as directed by law, till payment shall be made of all demands and wages on account of such vessels.
(h) Section 7 of the Act of April 5, 1906 (22 U.S.C. 1195).

§ 1195. Notarial acts, oaths, affirmations, affidavits, and depositions; fees

Every consular officer of the United States is required, whenever application is made to him therefor, within the limits of his consulate, to administer to or take from any person any oath, affirmation, affidavit, or deposition, and to perform any other notarial act which any notary public is required or authorized by law to do within the United States; and for every such notarial act performed he shall charge in each instance the appropriate fee prescribed by the President under section 1201 of this title.

1-202. Pursuant to Section 9(b) of the Act, and in furtherance of the purposes of the Act, the procurement of services may be effected without regard to the following provisions of law and limitations of authority:

(a) Section 3648 of the Revised Statutes, as amended (31 U.S.C. 529);

(b) Section 9 of the Act of June 30, 1906 (31 U.S.C. 627), and Section 3679 and 3732 of the Revised Statutes (31 U.S.C. 665; 41 U.S.C. 11), to the extent necessary to permit the indemnification of contractors against unusually hazardous risks, as defined in Institute contracts, consistent, to the extent practicable, with regulations prescribed by the Department of Defense pursuant to the provisions of the Act of August 28, 1958 (50 U.S.C. 1431 et seq.), and Executive Order No. 10789 of November 14, 1958, as amended;

(c) Section 3709 of the Revised Statutes and Section 302 of the Federal Property and Administrative Services Act of 1949 (41 U.S.C. 5, 252);

(d) Section 3710 of the Revised Statutes (41 U.S.C. 8);

(e) Section 2 of Title III of the Act of March 3, 1933 (41 U.S.C. 10a);

(f) Section 3735 of the Revised Statutes (41 U.S.C. 13);

(g) Section 304(b) of the Federal Property and Administrative Services Act of 1949 (41 U.S.C. 254(b)), so as to permit the payment of fees in excess of the prescribed fee limitations, but
nothing herein shall be construed as authorizing the use of the cost-plus-a-percentage-of-cost system of contracting;

(h) Section 305 of the Federal Property and Administrative Services Act of 1949 (41 U.S.C. 255);

(i) Sections 2 through 16 of the Contract Disputes Act of 1978 (41 U.S.C. 601-613);

(j) Sections 2304, 2305 and 2306(a) through (f) of Title 10 of the United States Code, but nothing herein shall be construed as authorizing the use of the cost-plus-a-percentage-of-cost system of contracting; and


1-203. (a) With respect to cost-type contracts with the American Institute in Taiwan under which no fee is charged or paid, amendments and modifications of such contracts may be made with or without consideration and may be utilized to accomplish the same things as any original contract could have accomplished, irrespective of the time or circumstances of the making, or the form of the contract amended or modified, or of the amending or modifying contract and irrespective of rights which may have accrued under the contract or the amendments or modifications thereof.

(b) With respect to contracts heretofore or hereafter made under the Act, other than those described in subsection (a) of this Section, amendments and modifications of such contracts may be made with or without consideration and may be utilized to accomplish the same things as any original contract could have accomplished, irrespective of the time or circumstances of the making, or the form of the contract amended or modified, or of the amending or modifying contract, and irrespective of rights which may have accrued under the contract or the amendments or modifications thereof, if the Secretary of State determines in each case that such action is necessary to protect the foreign policy interests of the United States.

1-204. Pursuant to Section 10(a) of the Act, the Coordination Council for North American Affairs is determined to be the unofficial instrumentality established by the people on Taiwan having the necessary authority under the laws applied by the people on Taiwan to provide assurances and take other actions on behalf of Taiwan in accordance with the Act.

1-301. This Order supersedes my memorandum of December 30, 1978 for all departments and agencies entitled "Relations With the People on Taiwan" (44 FR 1075). Agreements and arrangements referred to in paragraph (B) of that memorandum shall continue in force and shall be performed in accordance with the Act and this Order.

JIMMY CARTER

THE WHITE HOUSE,
June 22, 1979
(Federal Registrar, Vol. 44, No. 124
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