

SECTION 3: CHINA AND TAIWAN

Key Findings

- Taiwan President Tsai Ing-wen continues to pursue a cross-Strait policy of maintaining the status quo in the face of actions by Beijing that have increased pressure on Taiwan and instability in the Strait. Over the past year, Beijing increased actions to pressure and isolate Taiwan, while advancing unilateral efforts to deepen cross-Strait economic and social integration, including actions that Taiwan viewed as threatening to its sovereignty. To these ends, Beijing enticed three of Taiwan's diplomatic partners to terminate official relations with Taiwan, pressured U.S. and other foreign companies to identify Taiwan as part of the People's Republic of China (PRC) on their websites, and treated Taiwan as PRC-governed territory by unilaterally activating new flight routes near the island.
- China is also intensifying its political warfare activities in Taiwan. Beijing has employed a variety of tactics seeking to undermine Taiwan's democracy, and the Tsai Administration, in particular including supporting opposition political parties and spreading disinformation using social media and other online tools.
- The threat to Taiwan from China's military posture and modernization continues to grow, and Beijing has increased coercive military activities to intimidate Taipei. In response, Taiwan has taken initial, but significant, steps to enhance its defensive capabilities by adopting a new defense strategy, increasing its emphasis on asymmetric capabilities, and increasing procurement from its domestic defense industries and the United States. It also continues its decade-long transition to an all-volunteer force.
- As part of a strategy of "resolute defense, multi-layered deterrence" introduced by the Tsai Administration, Taiwan's new Overall Defense Concept aims to exploit Chinese military vulnerabilities and capitalize on Taiwan's defensive strengths by focusing on three areas: (1) preservation of warfighting capability, (2) pursuing decisive victory in the littoral area, and (3) annihilating the enemy on the beach. However, the success of the new strategy faces a major challenge from the scale and speed of China's People's Liberation Army's continued growth.
- Taiwan remains reliant on China as its largest trading partner and destination for foreign investment, making it vulnerable to economic coercion and political pressure from Beijing. President Tsai has prioritized several domestic initiatives—including the "5+2" Innovative Industries program and Forward-looking In-

frastructure Program—to strengthen key engines of Taiwan’s economy and spur innovation and job creation. Meanwhile, Taiwan continues to pursue the New Southbound Policy to diversify its economic ties in South and Southeast Asia and reduce its reliance on the Chinese economy.

- U.S.-Taiwan relations are strong, with the unanimous passage and presidential signing of the Taiwan Travel Act, a public visit to Taiwan by a senior official from the U.S. Department of State’s Bureau of East Asian and Pacific Affairs, and the dedication of the American Institute in Taiwan’s new office complex in Taipei. Although Taiwan continues to prioritize economic relations with the United States, discussions over longstanding issues in the relationship (such as beef and pork market access restrictions) remain stalled.

Recommendations

The Commission recommends:

- Congress direct the Office of the U.S. Trade Representative to resume meetings under the U.S.-Taiwan Trade and Investment Framework Agreement in 2019 and to identify enhanced negotiating procedures to resolve outstanding issues.
- Congress direct the Administration to produce an interagency report on a whole-of-government strategy for supporting Taiwan’s engagement with the international community, including consideration of, but not limited to, the following actions:
 - Explore opportunities for providing proactive development and security assistance to Taiwan’s diplomatic partners in an effort to encourage them to maintain ties with Taipei.
 - Identify adjustments the United States could take in its relations with Taiwan in response to Beijing altering the cross-strait status quo and taking coercive action to pressure Taipei.
 - Discuss cross-strait relations and U.S. policy regarding Taiwan in meetings with U.S. allied and partner governments and support an expansion of commercial, cultural, and other exchanges between Taiwan and those countries.
 - Establish a high-level bilateral U.S.-Taiwan development dialogue to encourage Taiwan’s role in promoting sustainable global development.
 - Identify key international organizations that would benefit from Taiwan’s expertise and participation, and focus high-level U.S. advocacy efforts to secure Taiwan’s membership or participation in these organizations.
- Congress consider amending antiboycott laws under the Export Administration Act or pass new legislation to prohibit U.S. companies from complying with China’s efforts to apply pressure on Taiwan. Such legislation could include measures authorizing reciprocal sanctions on Chinese entities in the event of Chinese government retaliation against U.S. companies.

- Congress direct the U.S. Department of Defense to support the implementation of Taiwan's new Overall Defense Concept and take actions that support Taiwan's ability to maintain a sufficient self-defense capability by including Taiwan military personnel as participants or observers in U.S. and U.S.-led multilateral military exercises; conducting regular high-level exchanges of military planning and other advisory personnel pursuant to the Taiwan Travel Act; and considering the potential for assisting Taiwan with the creative acquisition of critical defense articles, including through coproduction of defense technology between U.S. and Taiwan companies.
- Congress consider raising the threshold of congressional notification on sales of defense articles and services to Taiwan to those set for major U.S. allies, and terminating any requirement to provide notification of maintenance and sustainment of Taiwan's existing capabilities.
- Congress express support for the Tsai Administration's approach to maintaining the status quo in the Taiwan Strait.

Introduction

Following the election of President Tsai Ing-wen of the Democratic Progressive Party (DPP) in 2016,* Beijing has dramatically increased its coercion against Taiwan. A major reason for China's increased coercive efforts is the DPP administration's unwillingness to explicitly endorse the exact verbiage of the "one China" formulation† that Beijing demands for maintaining cross-strait relations, despite President Tsai's use of another framework that includes a number of elements that contain the idea of "one China."¹ As part of this framework, during her inaugural address President Tsai said her administration would conduct cross-strait affairs "in accordance with the Republic of China Constitution [and] the Act Governing Relations Between the People of the Taiwan Area and the Mainland Area,"‡ while recognizing and praising the benefits of the two sides' historical efforts to set aside differences and find common ground.² Since her inauguration, President Tsai has persisted in seeking to maintain stability in cross-strait relations and rejecting a "return to the old path of confrontation."³ She has followed a cross-strait policy of maintaining the status quo, pursuing neither formal in-

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

† Beijing insists that cross-strait communication and talks be based on the "one China" principle. Taipei and Beijing endorsed the so-called "1992 Consensus"—a tacit understanding reached between representatives of Taiwan and China in 1992 that there is only "one China" and that effectively allowed each side to maintain its own interpretation of the meaning of "one China"—during the administration of President Tsai's predecessor, Ma Ying-jeou of the Chinese Nationalist Party (Kuomintang). The DPP fears that by endorsing the "1992 Consensus" Beijing could trap the party into accepting its interpretation of "one China," and as a principle rejects Beijing's insistence on preconditions for pursuing peace and stability in the Taiwan Strait. J. Michael Cole, "Who's to Blame for the '1992 Consensus' Impasse?" *Taiwan Sentinel*, March 9, 2018; Richard C. Bush, "Taiwan's January 2016 Elections and Their Implications for Relations with China and the United States," *Brookings Institution*, December 2015, 5–6, 17.

‡ This law—which was passed in 1982 and has been amended many times—pertains to travel, employment, marriage, and other legal matters.

dependence for Taiwan nor unification of Taiwan and China, and has repeatedly demonstrated goodwill toward Beijing and sought to reassure her counterparts across the Taiwan Strait.⁴ During a May 2018 meeting with the Commission in Taiwan, one Taiwan government official stated that Taipei has “strategic tenacity.” The official explained that Taipei will “maintain a predictable policy” and not provoke Beijing.⁵

In contrast, Beijing has taken significant actions to alter the status quo in the Taiwan Strait and advance its broader goal of eventual cross-Strait unification. The coercive measures Beijing is employing against Taiwan include suspending official and semi-official cross-Strait communication and meetings,* and the use of economic pressure such as reducing Chinese tourism to Taiwan. Additionally, Beijing has ended the cross-Strait “diplomatic truce” and returned to enticing Taiwan’s remaining diplomatic partners to cut off official relations with Taiwan, put pressure on Taiwan’s presence in countries with which it has unofficial relations, and intervened in the repatriation of Taiwan citizens from abroad. In the latter case, Beijing demanded that Taiwan citizens accused of telecommunications fraud in countries with which Taiwan does not have diplomatic relations be sent to China, and refused to honor Taipei’s request that they be sent to Taiwan.⁶ Other coercive measures Beijing has taken include blocking Taiwan’s participation in certain international fora in which it could previously participate, pressuring U.S. and other foreign companies to change the way they characterize Taiwan on their websites and products, and expanding and intensifying Chinese military training activities near Taiwan.

As Beijing has reduced contact with and sought to isolate President Tsai and her administration, who Beijing views as seeking independence through both formal and “soft” means,† it has continued its outreach to opposition politicians at the party and local government levels as a way to constrain the DPP and promote China’s preferred cross-Strait policy. Beijing’s approach also includes efforts to undermine Taiwan’s democracy through collaboration with various individuals and groups in Taiwan, such as organizations that support cross-Strait unification, and spreading disinformation through social media and other online tools.‡

To respond to Beijing’s increasing pressure, President Tsai has continued her efforts to pursue economic growth, find new markets and trade partnerships, and support new innovative and job-creating industries. Simultaneously, Taiwan is seeking to enhance its defensive capabilities to counter China’s military coercion. To aid in these efforts, Taiwan is looking to strengthen its partnership with the United States.

*A Taiwan official told the Commission during its trip to Taiwan in May 2018 that there continues to be Track 1.5 and Track 2 contact between the two sides. Taiwan official, meeting with Commission, Taipei, Taiwan, May 22, 2018.

†“Soft” independence refers to the Chinese government’s suspicion that certain developments in Taiwan, such as changes to history text books and other actions to emphasize Taiwan’s uniqueness, may strengthen the view of people in Taiwan that they are historically and culturally distinct from China. *Xinhua*, “Taiwan Affairs Office: For the DPP, the Only Way out on Cross-Strait Relations Is By Abandoning Taiwan Independence,” June 28, 2017. Translation. http://www.xinhuanet.com/2017-06/28/c_1121227430.htm.

‡For more information about these developments see U.S.-China Economic and Security Review Commission, *2017 Annual Report to Congress*, November 2017, 371–413.

This section explores recent developments in cross-Strait relations, cross-Strait trade and investment, Taiwan's international engagement, the cross-Strait military balance, and U.S.-Taiwan relations. It is based on consultations with experts on Taiwan and cross-Strait relations, the Commission's fact-finding trip to Taiwan in May 2018, and open source research and analysis.

Beijing Formalizes Increasingly Hardline Policy

In his remarks on Taiwan at the 19th National Congress of the Chinese Communist Party (CCP) held in October 2017, Chinese President and General Secretary of the CCP Xi Jinping signaled that the hardline approach the CCP has taken toward Taiwan and cross-Strait unification in recent years had become official policy. Linking together and expanding on some of the most forceful language any of his predecessors had used at previous CCP congresses, including during earlier periods of elevated cross-Strait tensions, President Xi declared:⁷

*We have firm will, full confidence, and sufficient capability to defeat any form of Taiwan independence secession plot. We will never allow any person, any organization, or any political party to split any part of Chinese territory from China at any time or in any form.*⁸

Furthermore, President Xi did not directly mention either of his immediate predecessors' ideological contributions to China's cross-Strait policy, signaling that he is increasingly confident in reshaping cross-Strait relations along his own lines. In their policy remarks, then Presidents Jiang Zemin and Hu Jintao had included relatively conciliatory language on Taiwan's engagement with the international community and what Beijing would grant Taiwan in a future unification arrangement.*⁹ The new language used by President Xi suggests that while China may continue efforts to develop cross-Strait economic and social ties, its overall approach has become more intolerant of any opposition from Taipei on the terms of cross-Strait relations and eventual unification dictated by Beijing. Moreover, China's policy appears to reflect a shift from focusing on deterring Taiwan from seeking de jure independence, and a patient stance toward unification, to actively pushing toward unification.¹⁰

The formalization of a more uncompromising cross-Strait policy at the 19th Party Congress is even more concerning in light of the sense of urgency and militarized nature of the approach Beijing has taken toward Taipei since President Xi assumed office, and which has intensified since President Tsai's election in 2016. In 2013, for example, long before President Tsai was elected, President Xi publicly stated that "the longstanding political differences between the two sides of the Strait ... must not be passed down from generation to generation."¹¹ This statement went beyond what other Chinese leaders have said about the urgency of resolving cross-Strait political differences and suggests President Xi may feel a personal

*The omission may be due to a combination of reasons, including the reported rift between President Xi and former President Jiang. David G. Brown, "CCP Congress Report: Goodbye to Jiang's Eight Points?" *Global Taiwan Institute*, December 13, 2017; Richard C. Bush, "What Xi Jinping Said about Taiwan at the 19th Party Congress," *Brookings Institution*, October 19, 2017.

responsibility to make significant headway toward advancing unification between the two sides.

China has also increased the use of military intimidation against Taiwan under President Xi's administration. In 2013, the People's Liberation Army (PLA) conducted a major amphibious assault exercise in the then Nanjing Military Region across from Taiwan after having refrained from carrying out these types of provocative training events during much of the Hu Jintao era.¹² Bonnie S. Glaser, director of the Center for Strategic and International Studies' China Power Project, writes that "between 2006 and 2012, it is difficult to find exercises overtly and explicitly aimed at intimidating Taiwan."¹³ In 2015, still during the term of President Tsai's predecessor, Ma Ying-jeou of the Chinese Nationalist Party (Kuomintang), China broadcast footage of a military exercise where the PLA practiced storming a mock-up of Taiwan's Presidential Palace in Taipei.¹⁴ Since this time, PLA exercises and other training activities targeting Taiwan have expanded and intensified, suggesting Beijing may now be more willing to countenance the threat of military force against Taiwan to achieve its political objectives.

The Struggle for Taiwan's International Space

Beijing Steps up Efforts to Restrict Taiwan's Participation in the International Community

While Beijing has pursued a more uncompromising cross-Strait policy since President Xi assumed office, its efforts to compress Taiwan's international space by undermining Taipei's efforts to participate in the international community accelerated and intensified in 2018, as Beijing took significant new steps in the following areas.

Ending the cross-Strait "diplomatic truce": Beijing has long sought to cut off Taiwan's ability to independently access the community of nations as a peer to other states, seeking to force others to treat Taiwan as a sub-sovereign part of Beijing's China. Beijing has pursued the goal of reducing or removing Taiwan's space in the international community with varying degrees of aggressiveness. During the Ma Administration (2008–2016), China paused its efforts to poach Taiwan's diplomatic partners, as a reward for Ma's cross-Strait policy, which Beijing saw as more in line with its views. However, since President Tsai was elected, Beijing has ended its tacit "diplomatic truce" with Taipei, resuming its campaign of eliminating Taiwan's diplomatic partners. Beijing has returned to pursuing deals to entice the few remaining states who recognize the government on Taiwan as an independent sovereign state, the Republic of China (ROC)—Taiwan's official name. These deals require governments to drop recognition of Taipei as the ROC and recognize Beijing as the sole legal government of China, including a statement with some formulation of Beijing's "One China Principle" that implies Taiwan is under Beijing's sovereignty.¹⁵

Since President Tsai's election, Beijing has established relations with six countries that broke ties with Taipei.* In 2018 alone, the

*These countries are The Gambia, Sao Tome and Principe, Panama, the Dominican Republic, Burkina Faso, and El Salvador. The Gambia broke ties with Taiwan in 2013, and it appears Bei-

Dominican Republic, Burkina Faso, and El Salvador broke with Taiwan and established diplomatic relations with China.¹⁶ In an example of Beijing resuming efforts to entice countries to break ties with Taiwan, an unnamed Taiwan official said that Beijing offered the Dominican Republic financial assistance, low-interest loans, and investments worth at least \$3.1 billion in exchange for breaking ties with Taiwan and establishing ties with China.¹⁷

After the Dominican Republic, Burkina Faso, and El Salvador established diplomatic relations with China, there are 17 countries that still maintain diplomatic relations with Taiwan.* However, concerns are now growing that other countries will follow suit in severing their diplomatic ties. For example, in September 2018, Beijing and the Vatican reached a provisional agreement on the appointment of bishops—one of the longstanding areas of disagreement that the two sides have been seeking to address through talks for years—which could set the conditions for the Vatican to switch diplomatic recognition.¹⁸ A resolution of these issues puts Taiwan's relations with the Holy See at risk.

Although recognition by other states is widely viewed as a component of state sovereignty, the importance of the total number of countries that recognize the Republic of China (Taiwan) is an open question.¹⁹ Symbolically, these relationships confer legitimacy on Taiwan's position on the world stage in the face of marginalization by Beijing.²⁰ Practically, their advocacy for Taiwan's participation in international organizations helps Taiwan in its pursuit of greater international space.²¹ However, Taiwan almost certainly gains more from its unofficial relations† with countries that have extensive international influence than it gains from official diplomatic relationships.‡ Even without formal diplomatic relations, a country like the United States can promote expanded opportunities for Taiwan to participate in the international community and support Taiwan in other ways.²²

Continuing to block Taiwan's participation in international fora: For the second year in a row, Beijing prevented the Taiwan government from participating as an observer in the UN World Health Assembly; previously, Taipei received an invitation each year between 2009 and 2016.²³ Since April 2016, Taiwan officials and citizens have been prevented from participating in numerous international fora in which they participated in preceding years.²⁴

Although Beijing has increased its pressure on Taiwan's presence in certain international fora since President Tsai's election, Taiwan has long been unable to participate in many other inter-

jing did not entice or pressure The Gambia to do so. Richard C. Bush, "China's Gambia Gambit and What It Means for Taiwan," *Brookings Institution*, March 22, 2016; Angela Tsai and Scully Hsiao, "Gambian Aid Request Linked to Broken Ties with Taiwan: Minister," *Central News Agency (Taiwan)*, November 25, 2013.

*Taiwan has diplomatic relations with Belize, Guatemala, Haiti, the Holy See, Honduras, Kiribati, the Marshall Islands, Nauru, Nicaragua, Palau, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Solomon Islands, eSwatini (Swaziland), and Tuvalu. Taiwan's Ministry of Foreign Affairs, *Diplomatic Allies*. <https://www.mofa.gov.tw/en/AlliesIndex.aspx?n=DF6F8F246049F8D6&sms=A76B7230ADF29736>.

†Countries with unofficial relations do not have embassies led by officials with the title of ambassador on each other's territory, and have limitations on the interactions between their governments.

‡Examples of such countries include Australia, Canada, Germany, India, Japan, and the United States.

national meetings and organizations, such as the International Criminal Police Organization (INTERPOL) and most meetings of the UN Framework Convention on Climate Change.*²⁵ According to Taiwan's Ministry of Foreign Affairs, between 2009 and 2017, the World Health Organization only granted Taiwan access to 46 of the 154 technical meetings to which it applied to attend.²⁶ Notably, INTERPOL's most recent president was Meng Hongwei, China's vice minister of public security. He was elected at the general assembly in November 2016.²⁷ (For more information see Chapter 2, Section 1, "Year in Review: Security and Foreign Affairs.")

Pressuring foreign companies to change references to Taiwan and Taiwan companies to support Beijing: Since January 2018, Beijing has pressured numerous foreign companies, including several U.S. corporations, to change the way they categorized or depicted Taiwan on their customer service literature, websites, or products. Beginning January 11, the Shanghai branch of the Cyberspace Administration of China shut down Marriott's Chinese website for a week as punishment for listing Taiwan as well as Hong Kong, Macau, and Tibet as separate from China on a questionnaire for customers.²⁸ It also ordered companies Zara and Medtronic to apologize for their characterization of Taiwan on their websites after Zara included Taiwan in a list of countries and Medtronic listed Taiwan as "Republic of China (Taiwan)."²⁹

On January 12, China's Civil Aviation Administration announced it had ordered Delta Airlines to change its inclusion of Taiwan on a list of countries on the airline's website and issue a public apology. The agency also announced it would demand that all foreign airlines with flights to China inspect all information for customers, such as websites and apps, and to "strictly follow China's laws and regulations."³⁰ Later, the agency demanded that 44 foreign airlines change their designation of Taiwan to indicate that Taiwan is part of China by July 25; as of August, all but three had done so.³¹ Those airlines (American Airlines, Delta Airlines, and United Airlines), all U.S.-based, have changed the designation from "Taipei, Taiwan" to "Taipei," but have not added "China" after it as Beijing demanded.³²

In another case, President Tsai's August 2018 visit to a branch of Taiwan bakery chain 85C in Los Angeles, during which an employee asked her to sign a pillow, incurred a harsh reaction in China.

* In March 2016, then President Barack Obama signed a bill (S.2426) that mandated the Secretary of State report to Congress within 90 days on the U.S. government's strategy for supporting Taiwan's participation in INTERPOL as an observer. The U.S. Department of State submitted this report in June 2016. Despite the U.S. government's efforts, INTERPOL turned down Taiwan's request to attend its November 2016 general assembly meeting as an observer. Since Taiwan is not a member of INTERPOL, it does not have access to the organization's I-24/7 global police communication system. This system enables law enforcement agencies to share urgent information and access INTERPOL's criminal databases, which include information on suspected criminals and lost or stolen travel documents, among other things. J. Michael Cole, "Interpol Puts China Ahead of Public Safety as Taipei Readies to Host 2017 Universiade," *Taiwan Sentinel*, August 15, 2017; INTERPOL, "Data Exchange," <https://www.interpol.int/INTERPOL-expertise/Data-exchange/I-24-7>; *Central News Agency*, "Obama Inks Taiwan INTERPOL Bid Bill," *China Post*, March 20, 2016; Executive Communication EC5932, 114th Cong., 2nd Sess., June 28, 2016; *Central News Agency*, "Taiwan Barred from Interpol Assembly," November 6, 2016; Bonnie S. Glaser and Jacqueline Vitello, "Taiwan's Marginalized Role in International Security: Paying a Price," *Center for Strategic and International Studies*, January 2015, 3.

† Airlines that complied with Beijing's demand include Air Canada, Asiana Airlines, British Airways, Finnair, Lufthansa, and Philippine Airlines. Erika Kinetz, "Airlines Switching to 'Taiwan, China' despite White House's Rejection of 'Orwellian Nonsense'—but U.S. Carriers Hold out," *Associated Press*, May 22, 2018.

Although it is unclear whether the Chinese government had a role, the response included outrage and calls for a boycott by Chinese netizens, some Chinese e-commerce companies notifying partners that they should remove 85C from their sites, and an article in the *Global Times* denouncing the chain.³³

Pressuring unofficial diplomatic partners: Two more countries—Jordan and Papua New Guinea—downgraded their unofficial relations with Taiwan in 2018 due, according to Taiwan’s Ministry of Foreign Affairs, to pressure from Beijing. In February, Taiwan announced that the Papua New Guinean government ordered Taiwan’s representative office in Port Moresby to remove “Republic of China (on Taiwan)” from its name and to remove consular license plates from its cars.³⁴ Then, in April, the Ministry said the Jordanian government requested the Taiwan representative office in Amman change its name from the “Commercial Office of the Republic of China (Taiwan)” to the “Taipei Economic and Cultural Office.”³⁵ Since 2017, the governments of all six countries in which the name of Taiwan’s representative office includes “Taiwan,” “Republic of China”, or “ROC” have requested the office change these parts of the name to “Taipei.”*³⁶

Restricting Chinese tourism to Taiwan’s diplomatic partners: Beijing has used travel bans to punish Taiwan’s diplomatic allies and incentivize them to switch ties to China.³⁷ In November 2017, China’s National Tourism Administration banned Chinese tourist companies from offering group tours † to Palau and the Vatican, two of Taiwan’s diplomatic partners.³⁸ The ban came two days after Taiwan and Palau announced they would be increasing the number of direct flights between them.‡

Treating Taiwan as Chinese territory through unilateral activation of new flight routes: In January 2018, Beijing expanded use of the M503 commercial air route § near the median line of the Taiwan Strait to allow northbound traffic, and opened three extension routes near some of Taiwan’s outlying islands, without consulting with Taipei—treating Taiwan as a subordinate entity rather than a separately administered area.³⁹ Previously, in 2015, Beijing attempted to open the M503 route and the extension routes unilaterally, but later engaged in negotiations with Taipei and agreed to only allow southbound flights on M503.⁴⁰

*These countries are Bahrain, Ecuador, Jordan, Nigeria, Papua New Guinea, and the United Arab Emirates. Taiwan’s representative office in the United States is called the Taipei Economic and Cultural Representative Office in the United States. Ku Chuan and Kuan-lin Liu, “Taiwan Office in Jordan to Be Renamed under Pressure from China: MOFA,” *Focus Taiwan*, April 28, 2018.

†In 2017, around 44 percent of Chinese tourists abroad travelled as part of a tour group. Chinese tourists made 129 million outbound trips total in 2017. China National Tourism Administration, “2017 China Outbound Tourism Travel Report,” January 30, 2018, 2. <https://www.chinatravelnews.com/images/201802/fc66f776a9111201.pdf>.

‡For more information on Taiwan and the Pacific Islands region, see Ethan Meick, Michelle Ker, and Han May Chan, “China’s Engagement in the Pacific Islands: Implications for the United States,” *U.S.-China Economic and Security Review Commission*, June 14, 2018.

§The International Civil Aviation Organization defines an air traffic services route as “a specific route designed for the channeling the flow of traffic as necessary for the provision of air traffic services.” The organization states that “changes to an [air traffic services route network] should be made only after they have been coordinated with all parties concerned.” International Civil Aviation Organization, “Air Traffic Services Planning Manual,” 1984.

Hong Kong: Views from Taiwan

Some observers in Taiwan, as well as the Taiwan government, are concerned about the fate of freedom and democracy in Hong Kong.⁴¹ Broadly, the idea of adopting Hong Kong's "one country, two systems"* framework—Beijing's stated framework for cross-strait unification—as a model for Taiwan has long been unpopular among the Taiwan public. However, developments in Hong Kong have intensified the Taiwan public's opposition to Chinese rule and the "one country, two systems" framework.⁴² In 2017, around the 20th anniversary of Hong Kong's handover from the United Kingdom to China, Chen-Shen Yen, an international relations researcher at Taiwan's National Chengchi University, told CNBC, "The Hong Kong experience provided a glimpse of what might happen to Taiwan should the 'One Country, Two Systems' formula apply (to Taiwan). So far, it is not very optimistic."⁴³ The erosion of Hong Kong's autonomy in recent years casts further doubt on whether Beijing would abide by any agreement to protect political and civil liberties in Taiwan.⁴⁴ (See Chapter 3, Section 4, "China and Hong Kong," for more information on developments in Hong Kong.)

Taiwan's Efforts to Expand Unofficial Partnerships

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

Among the Tsai Administration's foreign policy priorities has been enhancing unofficial relations with like-minded countries. In addition to the United States, Taipei has undertaken significant efforts to strengthen ties with Japan. These efforts include establishing a dialogue on maritime cooperation and deepening cooperation between Taiwan and Japanese think tanks.⁴⁵ Another notable development was the visit to Taiwan in March 2017 by Jiro Akama, Japan's senior vice minister of internal affairs and communications, to promote Japan as a tourist destination. Vice Minister Akama was the highest level Japanese official to visit Taiwan since the termination of the two sides' official diplomatic ties in 1972.⁴⁶ According to Satoru Mori, professor at Hosei University, the two countries are also trying to integrate Taiwan's New Southbound Policy and Japan's Free and Open Indo-Pacific Policy.⁴⁷ Furthermore, Tokyo recently elevated the name of its representative office in Taiwan from the "Interchange Association, Japan" to the "Japan-Taiwan Exchange Association."⁴⁸

Taipei's efforts to enhance unofficial ties with Japan and other like-minded countries are growing in response to Beijing's coercive

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

measures. Following Burkina Faso's severing of official diplomatic ties with Taiwan, President Tsai said, "We will simply redouble our resolve and continue to engage with the world, and continue establishing more and more substantive, economic and security partnerships with like-minded countries to garner the international community's acknowledgement and support."⁴⁹ In June 2018, as an example of these growing efforts, Taiwan Minister of Foreign Affairs Joseph Wu called for a security dialogue between Japan and Taiwan.⁵⁰

Taiwan is also enhancing cooperation with India, including in the security realm. In September 2018, *Reuters* reported that senior Indian military officers regularly visit Taiwan, and Taipei has stationed an unofficial military attaché in its representative office in New Delhi. According to Reuters, an unnamed Indian source reported that India is interested in information on Chinese military deployments, saying, "We are dependent on Taiwan because they are watching the Chinese."⁵¹

U.S.-Taiwan Unofficial Ties

The Taiwan government has been appreciative of the steps taken by the U.S. government to strengthen U.S.-Taiwan ties, yet it also fears that the Trump Administration could use Taiwan as a bargaining chip in its relationship with Beijing.⁵² For its part, Beijing believes that the Trump Administration's actions in support of Taiwan are efforts to pressure Beijing to make concessions, in particular on issues in the U.S.-China trade relationship.⁵³

U.S. pushback on Beijing's actions: The U.S. Department of State and the American Institute in Taiwan (AIT)* expressed concern about Beijing's expansion of flight route M503 in the Taiwan Strait without consultation with Taipei; the increase in activities by the Chinese military around Taiwan; and China's establishment of diplomatic relations with the Dominican Republic, Burkina Faso, and El Salvador.⁵⁴ In remarks in May 2018, AIT Chairman James Moriarty said, "Let me underscore that Beijing's efforts to alter the status quo are unhelpful and do not contribute to regional stability.... The United States urges China to work to restore productive dialogue and to avoid further escalatory or destabilizing moves."⁵⁵ Furthermore, in response to China's Civil Aviation Administration's letter to foreign airlines regarding their categorization or depiction of Taiwan on their websites, the White House issued a press statement in which it decried Beijing's demands as "Orwellian nonsense."⁵⁶ Then, following El Salvador's break with Taiwan, the White House said, "The El Salvadoran government's receptiveness to China's apparent interference in the domestic politics of a Western Hemisphere country is of grave concern to the United States, and will result in a reevaluation of our relationship with El Salvador."⁵⁷ In September, the State Department called the U.S. chiefs of mission in the Dominican Republic, El Salvador, and Panama back to the United States for "consultations related to recent decisions to no longer recognize Taiwan," and to engage in discussion with other U.S. officials on

* Congress created AIT, a nonprofit, private corporation, through the Taiwan Relations Act of 1979 to conduct relations between the United States and Taiwan. American Institute in Taiwan, "Policy and History." <https://www.ait.org.tw/our-relationship/policy-history/>.

“ways in which the United States can support strong, independent, democratic institutions and economies throughout Central America and the Caribbean.”⁵⁸

High-level visits: In March 2018, President Trump signed the Taiwan Travel Act into law after it was unanimously passed by both chambers of Congress.⁵⁹ The act states that the U.S. government should allow visits to Taiwan by officials at all levels and visits to the United States by high-level Taiwan officials.⁶⁰ While the U.S. government has sent officials up to cabinet level to Taiwan, the general practice has been to limit routine visits to Taiwan to mid- or lower-level U.S. officials and senior U.S. officials who have typically held an economic, cultural, or technical focus. Visits to the Washington, DC area by senior Taiwan officials have been limited.⁶¹ Although the Taiwan Travel Act is nonbinding, its passage and signing by President Trump have strong symbolic significance.

Deputy Assistant Secretary of State in the Bureau of East Asian and Pacific Affairs (EAP) Alex N. Wong, who has been the Department’s lead on the Indo-Pacific strategy, visited Taiwan several days after the signing of the Taiwan Travel Act. In addition to meeting with Taiwan officials—as other EAP officials have done quietly—Mr. Wong’s visit was publicized, and he delivered a public address at an event hosted by the American Chamber of Commerce in Taipei. President Tsai also spoke at the event.⁶² The visit was significant in that past senior State Department officials who visited Taiwan were typically from bureaus with an economic, rather than a political or security, focus. The publicized nature of the event was also unusual.⁶³ In addition to announcing Mr. Wong’s visit, AIT published the text of his address at the American Chamber of Commerce event on its website.⁶⁴ Although Deputy Assistant Secretary Wong’s visit shortly followed the signing of the Taiwan Travel Act, it appears to have been planned well before the legislation was signed.⁶⁵

President Tsai’s U.S. transits reflect strengthening U.S.-Taiwan ties: In August 2018, on her way to and from Paraguay and Belize, President Tsai transited in Los Angeles and Houston. During those transits, she became the first sitting Taiwan president to visit a U.S. federal government agency (the National Aeronautics and Space Administration’s Lyndon B. Johnson Space Center) and a Taiwan representative office in the United States (the Taipei Economic and Cultural Office’s Culture Center in Los Angeles).⁶⁶ While in Los Angeles, she also delivered public remarks at the Ronald Reagan Presidential Library, the first time a Taiwan president has spoken publicly in the United States in 15 years.⁶⁷

Global Cooperation and Training Framework enters third year: The most recent event in the Global Cooperation and Training Framework was held in August 2018, when the U.S. and Taiwan governments held a workshop on transnational crime and forensic science.⁶⁸ The framework, which the two countries established in June 2015, allows the United States and Taiwan to jointly train experts from the Asia Pacific in areas such as public health, energy, the digital economy, the empowerment of women, and humanitarian assistance and disaster relief.⁶⁹ During a visit to Taiwan in April 2017, Chairman Moriarty said, “We consider [the Global Coopera-

tion and Training Framework] one of the signature programs in the U.S.-Taiwan relationship, built on our long history of strong cooperation.”⁷⁰

AIT dedicates new office complex: In June 2018, AIT dedicated a new office complex in Taipei. Assistant Secretary of State for Educational and Cultural Affairs Marie Royce attended the ceremony and, in her public remarks about the complex, said, “I also want to acknowledge that it represents much more than steel and glass and concrete. The new office complex is a symbol of the strength and vibrancy of the U.S.-Taiwan partnership in the 21st century.”⁷¹

Taiwan and the free and open Indo-Pacific strategy: At the Asia-Pacific Economic Cooperation summit in Vietnam in November 2017, President Trump announced his administration’s policy of promoting a “free and open Indo-Pacific.”*⁷² Since then, the Trump Administration has begun to elaborate on the concept.⁷³ In his remarks in Taiwan, Deputy Assistant Secretary Wong explained that Taiwan is strengthening the rules-based order—part of the Administration’s concept—by enhancing its legal and regulatory environment and by building relations with other countries in the region through the New Southbound Policy.⁷⁴ In a speech in July 2018, Assistant Secretary of Defense for Asian and Pacific Security Affairs Randall Schriver said, “We do believe Taiwan is a partner in promoting a free and open Indo-Pacific and can make valuable contributions.”⁷⁵ Taiwan officials, including President Tsai, have expressed their willingness to play a role in the strategy.⁷⁶

Economics and Trade

Since coming into office, President Tsai has sought to accelerate Taiwan’s economic growth while diversifying trade and economic ties away from an overreliance on China. To achieve these objectives, the Tsai Administration has prioritized efforts to spur innovation in key domestic industries such as green energy, smart machinery, and biotechnology; reform Taiwan’s labor, pension, and judicial systems; and support increased wages and new opportunities for younger workers.⁷⁷ Yet even as Taiwan’s economic growth has accelerated due to strong domestic consumption and increased exports, political opposition continues to hinder many of these reform objectives.

In 2017, Taiwan’s gross domestic product (GDP) increased 2.9 percent year-on-year, up from 1.4 percent growth in 2016 and 0.8 percent in 2015.⁷⁸ In the first and second quarters of 2018, Taiwan’s GDP expanded 3.1 percent and 3.3 percent year-on-year, respectively, with official government estimates forecasting 2.7 percent year-end growth.⁷⁹ Economic growth has been buoyed by domestic demand (increasing around 2.6 percent year-on-year in the first half of the year) and exports (increasing around 6.5 percent year-on-year in the first half of the year).⁸⁰ Consumption activity was primarily fueled by increased spending on transportation, recreation and culture activities, and financial services, while export growth was

*Previously, both the Australian and Japanese governments had re-framed the Asia Pacific region in their policies as the Indo-Pacific region. J. Michael Cole, “How Does Taiwan Fit into the Free and Open Indo-Pacific?” *Diplomat*, May 2018; Mark Landler, “Trump Heads to Asia with an Ambitious Agenda but Little to Offer,” *New York Times*, November 2, 2017.

largely due to increased foreign demand for electronic components and machinery.⁸¹

Taiwan's improved economic growth figures—as well as recent legislative achievements—have not led to increased employment, but have led to modest improvements in wages. In August 2018, Taiwan's unemployment rate averaged 3.87 percent, up from 3.76 percent at the beginning of the year.⁸² Unemployment remains particularly high among younger workers; as of August 2018, 12.8 percent of workers aged 20 to 24 years were unable to find jobs, up from 11.8 percent at the beginning of the year.⁸³ Meanwhile, wage growth has accelerated following a decision in September 2017 to raise Taiwan's monthly minimum wage 4.7 percent to \$730.⁸⁴ Between January and July 2018, regular employee earnings increased 2.6 percent compared to the same period in 2017.⁸⁵ In 2017, wages increased only 1.8 percent year-on-year.⁸⁶

Improved economic growth has not lessened opposition to many of President Tsai's proposed reforms. The Labor Standard Reform Act,* which came into effect in March 2018, did not fully satisfy either the business community or labor advocates.⁸⁷ Similarly, discussions over pension reform remain fraught, with a deeply entrenched constituency—namely from teachers, civil servants, and military veterans, who had generous pension provisions under the previous law—protesting against the policy.⁸⁸ However, a majority of Taiwan's public (64 percent, according to one poll conducted in June 2018) has indicated support for reforming the pension system, which remains one of the most generous in the world despite growing pressures from demographic aging.⁸⁹ Taiwan government data indicate that without reform such generous pensions may be unsustainable, with pensions for civil servants estimated to default by 2030, teachers by 2031, and other workers by 2048.⁹⁰ In June 2017, Taiwan legislators passed a bill reducing the stipends of civil servants, and in June 2018 passed a bill cutting military veterans' pensions.⁹¹ Both bills came into effect on July 1, 2018.† The unpopularity of President Tsai's economic reform proposals has contributed to a fall in her overall approval rating, which dropped to 33 percent in June 2018.⁹²

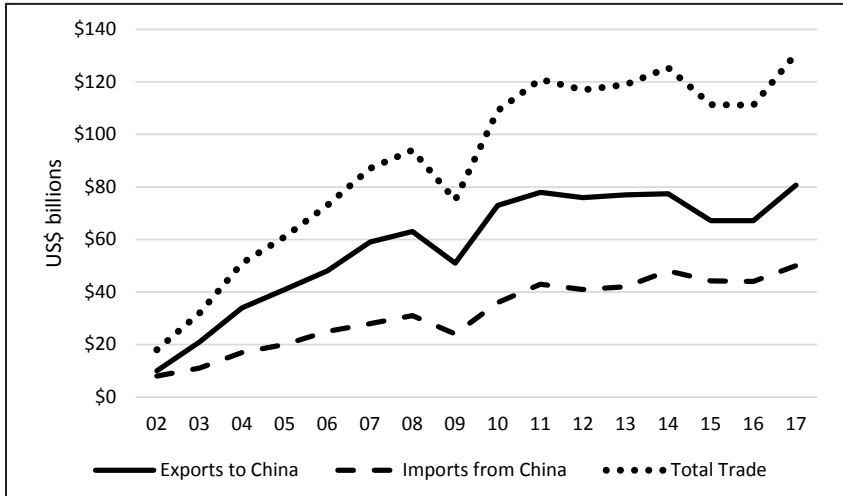
Cross-Strait Trade and Investment

Taiwan continues to rely on trade with China as a key driver of its economy: China is Taiwan's largest trading partner, export market, and source of imports.⁹³ As seen in Figure 1, cross-Strait goods trade totaled \$130.8 billion in 2017—a 17.6 percent increase compared to 2016 levels—accounting for 23.8 percent of Taiwan's total goods trade.⁹⁴ Through the first seven months of 2018, Taiwan exported \$49.2 billion worth of goods to China (up 14.7 percent from the same period in 2017) and imported \$30.8 billion (up 12.5 percent year-on-year).⁹⁵

*The Labor Standard Reform Act created a five-day work week (from a six-day work week) for most industries and allowed workers in Taiwan to exercise greater flexibility arranging work times, paid time off, and overtime. Taiwan's Ministry of Labor, *Labor Standards Act*. <https://laws.mol.gov.tw/Eng/index.aspx>.

† Under the new pension system, senior military veterans' monthly stipend will be reduced by more than 20 percent over the next decade, while the 18 percent annual interest on civil servants' savings will be gradually phased out. *South China Morning Post*, "Taiwan Passes Bill to Cut Veterans' Pensions That Sparked Violent Protests," June 21, 2018; *Reuters*, "Taiwan Cuts 18 Pct Interest in Civil Service Pension Reform Bill," June 27, 2018.

Figure 1: Taiwan's Trade with China, 2002–2017



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

Much like in previous years, Taiwan's top trade products with China were primarily circuit products and other electrical devices. In 2017, Taiwan's largest exports to China were electric circuits (\$24 billion), liquid crystal display (LCD) devices (\$6 billion), and television and radio parts (\$3.2 billion).⁹⁶ Taiwan's top imports from China consisted of electric circuits (\$9.5 billion), telephones (\$4.1 billion), and machine parts (\$2.4 billion).⁹⁷

China remains Taiwan's top destination for foreign direct investment (FDI), although investment flows have declined in recent years amid Taiwan's efforts to diversify economic ties (for more on Taiwan's efforts to diversify its economic ties through the New Southbound Policy, see "Taiwan's Economic Growth Initiatives," later in this section).⁹⁸ In 2017, Taiwan invested \$9.2 billion in China, down 15.7 percent from 2015 levels, but still comprising 44.4 percent of Taiwan's total outbound investments.⁹⁹ Electronic parts manufacturing made up the largest share (20.7 percent) of Taiwan's approved FDI in China in 2017, while nonmetal manufacturing (12.2 percent) and financial services and insurance (11.6 percent) accounted for the second- and third-largest shares, respectively.¹⁰⁰ From January to August 2018, Taiwan invested \$6 billion in China, a decline of 1 percent from the same period in 2017.¹⁰¹

Meanwhile, Chinese FDI in Taiwan increased from \$247.6 million in 2016 to \$265.7 million in 2017.¹⁰² Through the first eight months of 2018, Chinese FDI in Taiwan reached \$152.6 million, a decline of 9 percent compared to the same period in 2017.¹⁰³

Chinese Economic Coercion

Due to China's outsized influence on Taiwan's economy, Beijing's policies can have a significant impact on Taiwan's economic development. For instance, recent policy decisions by the Chinese government have contributed to reduced Chinese tourism to Taiwan and

led top experts and businesses to leave Taiwan for more lucrative opportunities in China.

Reducing tourism to Taiwan: In 2017, the Tourism Bureau in Taiwan's Ministry of Transportation and Communications reported that the number of visitors to Taiwan from China dropped 22 percent year-on-year after declining 16 percent year-on-year in 2016.¹⁰⁴ The decline is due in part to a 2016 change in Chinese travel laws, which requires leaders of Taiwan-bound tour groups to obtain a special license.¹⁰⁵ In 2017, China also reduced the number of Chinese students permitted to study in Taiwan by half, approving only 1,000 applications for the 2017–2018 academic year (down from 2,136 the previous year).¹⁰⁶ Although Taiwan still saw a record number of international visitors in 2017 (with more than 10.7 million tourists coming from around the world), the declining number of visitors from China has impacted profits in Taiwan's tourism industry.¹⁰⁷

In 2015, Chinese tourists in Taiwan spent an average of \$228 per day (the second-highest daily expenditure behind tourists from Japan).¹⁰⁸ After the new travel regulations were implemented, Chinese tourists' daily expenditures dropped to \$208 per day in 2016 and \$184 per day in 2017.¹⁰⁹ In particular, Chinese tourists' average daily spending on retail and shopping in Taiwan has declined, dropping from \$157 per day in 2015 to \$136 per day in 2016.¹¹⁰

Many local Taiwan businesses and shops only receive a fraction of the total money spent by Chinese tourists because most of the spending goes to the Chinese tour organizers.¹¹¹ Although this has lessened the economic impact of the decline in tourism from China, Taiwan shopkeepers and other tourism-related businesses still feel the effects of Beijing's new tour group regulations. In 2016, some 20,000 tourism sector workers staged a protest demanding Taiwan's government make efforts to boost tourism in response to reduced tourism from China.¹¹²

Attracting workers from Taiwan: In February 2018, the Chinese government unveiled a package of 31 "incentives" to attract workers and students from Taiwan, including tax breaks and subsidies for high-tech companies, research grants for academics, and promises to allow Taiwan companies to bid for government infrastructure projects.¹¹³ The academic community in Taiwan characterizes these efforts as an attempt to "dig out [Taiwan's] roots."¹¹⁴ Even before the 31 incentives plan, many workers from Taiwan were pursuing opportunities in China. In 2015, 58 percent (420,000 people) of all people from Taiwan working abroad were based in China.¹¹⁵ The exodus of talent creates another source of pressure Beijing can impose against Taipei as it threatens to hollow out Taiwan's economy.¹¹⁶ On a Commission trip to Taipei, Kristy Hsu, director of the Taiwan ASEAN Studies Center, indicated that the 31 incentives alone will have limited impact on Taiwan's economy. However, if China further increases incentives for Taiwan citizens and businesses to relocate to China, it could have a real impact on Taiwan's ability to retain talent.¹¹⁷ Beijing continues to encourage Taiwan citizens to work or study in China.* In August, the Chinese government removed

*These policies apply to citizens of Hong Kong and Macau as well. China's State Council, *Office of the State Council Notification of the Issuing of the "Law on the Hong Kong, Macau, Taiwan Citizens Residence Card Application and Issuance Law,"* August 19, 2018. Translation.

a policy requiring Taiwan citizens to hold a permit to work in China.¹¹⁸ Effective September 2018, Taiwan citizens who are working or studying in China can also apply for a residence card that conveys benefits related to employment, insurance, housing, and travel.¹¹⁹

Chinese Firms Could Sideline Taiwan in Global ICT Supply Chains

Taiwan's information and communication technology (ICT) firms are facing rising competition in global supply chains as a consequence of China's efforts to develop its own ICT industry. China aims to become a global leader in semiconductors by 2030 and uses government-backed funds such as the National Integrated Circuitry Investment Fund—which has raised \$41 billion to date—to support the development of its ICT industry.¹²⁰ Although Taiwan still holds an edge in precision manufacturing and cutting-edge ICT, Chinese investments in the industry could lead Taiwan firms' share of the market to decline.¹²¹ To date, however, these fears have not been realized; in 2017, Taiwan's industry revenue increased to \$81 billion, up 0.5 percent from 2016, and is expected to reach \$85.8 billion in 2018.¹²²

Although growing competition with Taiwan's ICT firms is a natural consequence—rather than intent—of China's technological development, Chinese firms are also resorting to coercive measures to gain technological know-how from Taiwan firms.¹²³ In a meeting with the Commission, John Deng, Minister without Portfolio in the Taiwan government and Taiwan's lead trade official, said “China still comes to Taiwan to steal our talent and intellectual property,” especially in the semiconductor industry.¹²⁴ Taiwan's Trade Secrets Act was amended in 2013 to address trade secret theft by China,* but Minister Deng indicates the law's increased penalties still have not deterred Chinese actors.¹²⁵

Taiwan's Economic Growth Initiatives

Taipei has prioritized economic initiatives aimed at strengthening key engines of its economy and diversifying its economic and trade partnerships beyond China. At home, Taiwan is pursuing its “5+2” Innovative Industries program to create new, profitable businesses in key economic sectors, and a Forward-looking Infrastructure Program to develop the infrastructure needed to ensure stable energy supplies and attract top-level talent.¹²⁶ Abroad, Taiwan prioritizes the New Southbound Policy, which is aimed at diversifying Taiwan's economic ties beyond China to countries in Asia and Oceania.¹²⁷

“5+2” Innovative Industries program: Taiwan is attempting to shift its industrial base away from manufacturing and toward high-value-added, innovative, and service-oriented businesses that will spur job creation.¹²⁸ Under the “5+2” Innovative Industries program,

*Taiwan's Trade Secrets Act was amended to increase fines and prison terms for violators involved in the misappropriation and delivery of trade secrets to overseas countries. Taiwan's Ministry of Economic Affairs, *Trade Secrets Act*, January 30, 2013. <https://www.tipo.gov.tw/ct.asp?xItem=253062&ctNode=7114&mp=2>.

Taiwan is seeking to develop five pillar industries (green energy, defense, the Internet of Things, biotechnology, and smart precision machinery) and two auxiliary sectors (high-value agriculture and the “circular economy”^{*}).¹²⁹ The initiative is backed by Taiwan’s Industrial Innovation and Transformation Fund, which will invest \$3.3 billion to develop new technologies and promote innovation in pillar industries.¹³⁰ According to Roy Lee, deputy executive director at the Taiwan World Trade Organization Center and Regional Trade Agreement Center, the initiative is also aimed at creating local ecosystems to encourage Taiwan companies to stay in Taiwan rather than moving facilities to China.¹³¹

To date, the “5+2” program has focused on investments in artificial intelligence (AI), with the government approving a plan in January 2018 to invest \$1.2 billion over the next four years in AI. Under the plan, funds will be dedicated toward fostering and recruiting top AI talent, creating an international AI innovation center, and promoting new regulations to facilitate AI testing and verification.¹³² As part of the program, Taiwan’s Ministry of Economic Affairs is also working with the Ministry of Finance to provide tax incentives to help small and medium firms incorporate digital production systems into their facilities.¹³³

Forward-looking Infrastructure Program: The program, which began in July 2017, is aimed at improving Taiwan’s infrastructure over the next 30 years.¹³⁴ It includes \$13.9 billion in funding over the first four years for the development of eight areas: railway projects, water environments, green energy infrastructure, digital infrastructure, regional development, child care facilities, agriculture, and human resources infrastructure.¹³⁵ The program seeks to enhance the efficiency of resource allocation, spur innovation, and create a more competitive business environment.¹³⁶

New Southbound Policy: Taiwan’s government is seeking to reduce Taiwan’s reliance on China by expanding economic, educational, and cultural ties with ASEAN countries, Australia, New Zealand, and seven South Asian countries.[†]¹³⁷ Under the New Southbound Policy, “Taiwan desks” will be opened in target countries and overseen by Taiwan’s Ministry of Economic Affairs to coordinate local resources and cluster Taiwan investors abroad.¹³⁸ The policy also creates special loans for exports under Taiwan’s Export-Import Bank, increases branches of Taiwan banks in target countries, and promotes technology collaboration and agricultural technology assistance abroad.¹³⁹ To further integrate Taiwan with target countries, the New Southbound Policy also prioritizes forming and updating bilateral investment agreements.¹⁴⁰ Ms. Hsu explained to the Commission that the policy prioritizes soft power diplomacy, with the Taiwan government allocating resources to programs that promote tourism, attract foreign students, and promote think tank exchanges.¹⁴¹

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

[†]The other countries are India, Pakistan, Bangladesh, Nepal, Sri Lanka, the Maldives, and Bhutan. Taiwan’s Bureau of Foreign Trade, “New Southbound Policy.” <https://www.newsouthboundpolicy.tw/English/PageDetail.aspx?id=654f4ea7-71c6-404b-b623-acda8cb611ff&pageType=SouthAsia>.

To date, the New Southbound Policy has led to mixed results fostering increased trade between Taiwan and target countries (see Table 1). A 2018 study by the National Bureau of Asian Research found that in 2016 (the first year of the policy's implementation), Taiwan's outbound investment to seven ASEAN countries (Cambodia, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) reached a record \$3.5 billion, versus \$9.1 billion invested in China. By comparison, Taiwan invested \$10.4 billion in China in 2015, while investments in the ASEAN countries totaled only \$2.6 billion.¹⁴² Target countries' tourism to Taiwan also increased; in 2017, the number of visitors to Taiwan from Southeast Asia was up 29.4 percent year-on-year (2.1 million visitors), and the number of visitors from Australia and New Zealand was up 9.9 percent year-on-year (105,000 visitors).¹⁴³

Taiwan's total trade with ASEAN countries* reached \$86.1 billion in 2017, lower than 2013 (\$88.2 billion) and 2014 (\$91.3 billion).¹⁴⁴ Through the first seven months of 2018, Taiwan's exports to ASEAN countries increased 6.1 percent compared to the same period in 2017.¹⁴⁵ Because increased investment is not creating a proportional increase in export orders for Taiwan businesses in ASEAN countries, Taipei may prioritize efforts to negotiate new economic cooperation agreements to boost trading volumes.¹⁴⁶

Table 1: Taiwan Share of Global Trade and Investment Ties with Select Partners, 2010–July 2018

	Total Trade		Investment	
	With China	With Select Partners	Outbound to China	Outbound to Select Partners
2010	21%	17%	84%	6%
2011	21%	18%	80%	7%
2012	21%	19%	61%	29%
2013	21%	19%	64%	24%
2014	22%	19%	58%	7%
2015	23%	18%	51%	16%
2016	23%	18%	44%	10%
2017	24%	19%	44%	17%
2018	24%	18%	44%	11%

Note: Select partners include Australia, India, Indonesia, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam.

Source: Taiwan's Bureau of Foreign Trade, *Trade Statistics*. <http://cus93.trade.gov.tw/FSC000F/FSC000F>; Taiwan's Ministry of Economic Affairs, Investment Commission, *Monthly Report (August 2018)*, September 2018.

*ASEAN includes the aforementioned seven countries, as well as Brunei, Burma (Myanmar), and Laos.

U.S.-Taiwan Economic and Trade Relations

In 2017, U.S.-Taiwan economic ties were defined primarily by the trading relationship, with overall goods trade increasing relative to 2016 levels on the strength of trade in electronic products. To foster increased engagement, Taiwan is seeking to expand ties with U.S. businesses, particularly in the technology sector. In June 2018, Taiwan sent the year's largest foreign delegation (comprising 120 representatives from 60 industries) to the U.S. government's annual SelectUSA Investment Summit promoting increased foreign investment in the United States.¹⁴⁷ Despite these positive developments, no progress has been made securing commitments on a few longstanding issues such as market access for U.S. pork and beef products.

According to U.S. Census data, bilateral goods trade between the United States and Taiwan totaled \$68.2 billion in 2017—an increase of 4.3 percent year-on-year—making Taiwan the United States' eleventh-largest trading partner.¹⁴⁸ In 2017, U.S. goods exports to Taiwan fell slightly to \$25.8 billion (down only 0.8 percent from 2016 levels), while U.S. imports from Taiwan increased 8.1 percent year-on-year to \$42.5 billion.¹⁴⁹ The leading U.S. exports to Taiwan were semiconductor and electronic components (\$3.8 billion), industrial machinery (\$3.6 billion), and aerospace products and parts (\$3 billion).¹⁵⁰ U.S. goods imports from Taiwan were led by semiconductor and electronic components (\$6.2 billion), telecommunications equipment (\$3.6 billion), and computer equipment (\$2.8 billion).¹⁵¹

The United States and Taiwan have deepened cooperation in high-tech industries in recent years, forging business and government connections in next-generation technologies. For example, in January 2018, Microsoft Corporation launched a \$33 million investment to create an AI research and development center in Taiwan. The center will collaborate with Taiwan's Ministry of Economic Affairs, Ministry of Science and Technology, and Ministry of Education to develop "intelligent input, audience intent recognition, and AI vertical industrial integration" technologies.¹⁵² Taiwan's National Development Council also established an Asian Silicon Valley Development Agency in September 2016 to promote the growth of tech startups and connect them with firms in Silicon Valley and around the world.¹⁵³

Taiwan and the United States continue to discuss bilateral economic issues primarily through the Trade and Investment Framework Agreement (TIFA) established in 1994.¹⁵⁴ However, progress on certain issues discussed in TIFA talks between the United States and Taiwan has been stalled for many years.¹⁵⁵ Outstanding issues in the U.S.-Taiwan economic relationship include intellectual property rights protection, trade barriers, and investment opportunities, as well as a decade-long dispute over U.S. pork and beef imports.¹⁵⁶ Intellectual property concerns center on online copyright infringement; a 2017 white paper by the American Chamber of Commerce in Taipei noted that pirated content is prevalent in Taiwan and highlighted the need for an improved legal framework to prosecute copyright infringers.¹⁵⁷

The disputes over beef and pork center on Taiwan's unwillingness to fully open its pork and beef market to U.S. producers due to U.S. farmers' use of ractopamine, a feed additive that produces leaner

meat products.¹⁵⁸ Taiwan, along with the European Union and China, has banned the use of ractopamine due to health and food safety concerns.¹⁵⁹ U.S. policymakers and trade negotiators view Taiwan's ban on ractopamine as a protectionist measure, and have criticized the policy as being "not based upon science."¹⁶⁰ In 2012, Taiwan loosened some restrictions on residual levels of ractopamine in some U.S. beef imports, but continues to enforce a ban on certain U.S. beef products and all U.S. pork products.¹⁶¹ A Taiwan government official told the Commission that U.S. pork products still do not meet Taiwan's health and food safety standards, indicating any breakthrough will require more dialogue between Taiwan and the United States.¹⁶²

Cross-Strait Military and Security Issues

The primary objective of China's military deployments and posture directed at Taiwan is to pressure Taipei into eventual unification with Beijing and, if that fails, to subjugate Taiwan through military action. Since Taiwan remains the PLA's "main strategic direction,"* one of the principal objectives of China's military modernization program is to build the necessary force and prepare operational plans for a forceful takeover of the island.

Increasing PLA Exercises to Intimidate Taipei

The scope and frequency of PLA training activities near Taiwan have expanded and intensified in recent years. In addition to gathering intelligence and enhancing the PLA's preparations for Taiwan-related military contingencies, these activities are also intended to coerce Taiwan into agreeing to Beijing's preferred terms for cross-strait relations and eventual unification.¹⁶³ A Taiwan government official noted to the Commission in May 2018 that PLA exercises near to or targeting Taiwan are intended to influence Taiwan voters to not vote for the DPP. This official added that Beijing also seeks to "deter U.S. determination to rescue Taiwan."¹⁶⁴ These activities are primarily comprised of the following:

- *PLA Air Force training flights:* As part of a trend of increasing long-distance over-water training on China's periphery, the PLA Air Force has been conducting training flights near Taiwan. At

*According to *The Science of Military Strategy*, an authoritative book published by the PLA's Academy of Military Science, strategic directions are determined by "the strategic objective ... to be accomplished, the degree and direction of threat to oneself, the strategic intentions of both sides, and the strategic situation and geographical conditions." China's 2015 defense white paper, which outlines China's national military strategy, calls for the PLA to prepare to respond to crises in multiple domains and geographic regions simultaneously, indicating there are multiple strategic directions that would be assigned to the PLA's theater commands. However, while theater commands are likely assigned primary and secondary strategic directions, Taiwan remains the primary strategic direction at the national level. U.S.-China Economic and Security Review Commission, *Hearing on Hotspots along China's Maritime Periphery*, written testimony of Mark R. Cozad, April 13, 2017; Luo Derong, "The Action Guideline for Armed Forces Building and Military Struggle Preparations - Several Points in the Understanding of the Military Strategic Guideline in the New Situation," *China Military Science*, January 1, 2017, 88-96. Translation; China's Ministry of National Defense, *Official English Transcript of PRC National Defense Ministry's News Conference*, February 25, 2016; *Xinhua*, "PLA Theater Command Party Committees: Fundamentally Follow President Xi's Instructions to Build a Joint Operations Command System," February 3, 2016. Translation; Wang Hongguang, "Wang Hongguang: Decisively Setting East China Sea as Our Primary Strategic Direction," *Sohu Junshi*, March 2, 2016. Translation; China's State Council Information Office, *China's Military Strategy*, May 2015; Shou Xiaosong, ed., *The Science of Military Strategy*, Military Science Press, 2013, 117, 119, 209, 221. Translation; Peng Guangqian and Yao Youzhi, eds., *The Science of Military Strategy*, Military Science Press, 2005, 168.

least twelve of these flights have occurred since November 2017 alone¹⁶⁵ (for a depiction of these flight routes, see map in Chapter 2, Section 1, “Year in Review: Security and Foreign Affairs”). These flights began with transits from China over the Bashi Channel (between Taiwan and the Philippines) and the Miyako Strait (to the northeast of Taiwan between the southwestern Japanese islands of Miyako and Okinawa) to the Western Pacific for the first time in 2015. A new flight path was established in November 2016 when PLA Air Force aircraft flew around Taiwan, first flying south of Taiwan over the Bashi Channel, then flying north, and returning to China over the Miyako Strait.¹⁶⁶ Since then, flights following this path or its reverse have become a regular occurrence.¹⁶⁷

- *Aircraft carrier transits of the Taiwan Strait:* In 2018, China’s only operational aircraft carrier sailed through the Taiwan Strait twice as part of its training activities.¹⁶⁸ Following its commissioning, the carrier transited the strait for the first time in November 2013 and again the next month.¹⁶⁹ After not transiting the strait for several years, it did so three times in 2017.¹⁷⁰ It is worth noting that passing through the Taiwan Strait is the most direct route for the carrier to reach the South China Sea for training, and the carrier has stayed on China’s side of the center line.¹⁷¹ Nonetheless, these transits carry significant symbolic meaning, particularly in the context of China’s actions on multiple fronts to pressure and intimidate Taiwan.
- *Exercises in the Taiwan Strait:* In April 2018, the PLA Navy held its first live-fire exercise in the Taiwan Strait since 2015.¹⁷² In July, the PLA Navy conducted an amphibious landing exercise near the Taiwan island of Kinmen as part of an international amphibious landing competition that saw participation from Iran, Russia, Sudan, and Venezuela.¹⁷³

A Shifting Cross-Strait Military Balance

As the Commission has noted in past reports, the cross-Strait military balance has shifted toward China and continues to shift even further in China’s direction.¹⁷⁴ The PLA possesses many quantitative and qualitative military advantages over the Taiwan military and is currently capable of conducting a range of military campaigns against Taiwan short of a full invasion of the island.

- *Missiles:* The PLA Rocket Force has approximately 1,200 short-range ballistic missiles and 200–500 ground-launched land-attack cruise missiles.*¹⁷⁵ A preponderance of China’s short-range ballistic missiles is deployed across from Taiwan.¹⁷⁶ The primary purpose of the majority of these missiles is to intimidate Taiwan into submitting to Beijing’s political objectives and, if that fails, to force submission through a military campaign

*Official U.S. and Taiwan estimates of China’s number of short-range ballistic missiles and land-attack cruise missiles vary. According to the Taiwan Ministry of National Defense’s August 2015 report on China’s military power for the Legislative Yuan, China has 1,700 ballistic and cruise missiles, and 1,500 of these missiles are deployed against Taiwan. U.S. Senate Armed Services Committee, *Hearing on Worldwide Threats*, written testimony of Vincent R. Stewart, February 26, 2015; Zhu Ming, “Ministry of National Defense: China Keeps 1,500 Missiles Deployed against Taiwan,” *Storm Media*, August 31, 2015. Translation. <http://www.storm.mg/article/63992>.

to destroy Taiwan's command and control infrastructure, radar sites, air defense, ports, and airfields.¹⁷⁷ Although it has not greatly expanded in size since the late 2000s, China's short-range ballistic missile arsenal has become more lethal with the introduction of new missile variants with improved accuracies and warheads.¹⁷⁸

- **Aircraft:** The PLA Air Force and Navy have more than 2,000 combat aircraft, of which approximately 600 are modern.*¹⁷⁹ Fewer than 330 of Taiwan's combat aircraft are modern.¹⁸⁰ As part of the PLA's efforts to further enhance the capabilities of its fleet of combat aircraft, the Su-35 fighter entered service with the PLA Air Force in 2018.¹⁸¹ The Su-35, with its advanced avionics and targeting and passive electronically scanned array radar systems, will improve China's counter-air and strike capabilities.¹⁸² China has received 14 Su-35s from Russia and will receive the remaining 10 that were ordered by the end of 2018.¹⁸³
- **Ships:** The PLA Navy has more than 300 surface combatants, submarines, and missile-armed patrol craft, in addition to China's highly capable coast guard and maritime militia.¹⁸⁴ Taiwan, on the other hand, has 92 naval combatants, comprising four submarines—two of which are only used for training—and 88 surface ships.†¹⁸⁵ As China's efforts to improve its navy continue, its new ships are increasingly modern‡ and feature advanced weaponry making them capable of conducting operations in more than one warfare area. (See Chapter 2, Section 2, "China's Military Reorganization and Modernization: Implications for the United States," for more information on developments in Chinese military modernization.)

Intensifying Political Warfare Efforts

In addition to its military modernization and intimidation, Beijing is carrying out extensive United Front work§ and other political

*"Modern" combat aircraft are defined as possessing advanced avionics and weapons systems. These aircraft include the J-10, J-11, JH-7, Su-27, Su-30, Su-35, and J-20. For more information on the Commission's definition of "modern" combat aircraft, see U.S.-China Economic and Security Review Commission, *2014 Annual Report to Congress*, November 2014, 309.

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

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

§One means by which the CCP pursues its interests is the use of "United Front" work, a strategy the U.S. Central Intelligence Agency assessed is designed for "controlling, mobilizing, and utilizing" non-CCP entities to serve CCP goals. The United Front Work Department, which resides under the Chinese Communist Party Central Committee, is tasked with coordinating and implementing United Front work, but other entities such as the PLA, the Ministry of Foreign Affairs, and the Chinese People's Political Consultative Conference are also active in implementing United Front work abroad. Gerry Groot, "The United Front in an Age of Shared Destiny," *China Story*, 2014; Central Intelligence Agency, "The United Front in Communist China," May 1957, ii; Alexander Bowe, "The United Front Work Department: Background and Implications for the United States," *U.S.-China Economic and Security Review Commission*, August 24, 2018.

warfare activities against Taiwan, including supporting opposition political parties and spreading disinformation. These activities are intended to build alliances between individuals and groups within Taiwan and the CCP, and undermine the Tsai Administration and Taiwan's democracy in general.¹⁸⁶

In August 2017, Peter Mattis, research fellow at the Victims of Communism Memorial Foundation, wrote that "Beijing's effort to shape or even destabilize [Taiwan] society itself through United Front work is intensifying. The aim, according to several [Taiwan] interlocutors, is to create a 'fake civil society' that can be used against Taiwan's democratic system."¹⁸⁷ He added that his "recent discussions in Taiwan indicate that covert Chinese activities have increased in scope, sophistication, and intensity. For the first time in many years, Taiwan's national security officials see change rather than continuity as a hallmark of Beijing's intelligence and subversive operations."¹⁸⁸ In his testimony to the Commission, Russell Hsiao, executive director of the Global Taiwan Institute, explained that CCP United Front work against Taiwan is focused on "10 constituencies that include grass-roots villages, youth, students, Chinese spouses, aboriginals, pro-China political parties and groups, religious organizations, distant relatives, fishermen's associations, and retired generals."¹⁸⁹

In July 2017, Taiwan's *Liberty Times* reported, based on Taiwan government information, that "Chinese influence" was involved in protests and the spread of disinformation against the Tsai Administration's pension reforms.¹⁹⁰ In addition, that year there were several instances of individuals with ties to organized crime and pro-unification organizations protesting and even engaging in violence against individuals whose views run counter to Beijing's.¹⁹¹ Furthermore, in 2017, J. Michael Cole, chief editor of the *Taiwan Sentinel* website, wrote that China "is now using bots, various social media (e.g., LINE, WeChat) and content farms (also known as content mills) to saturate Taiwan with pro-Beijing agitprop."¹⁹²

Beijing's Espionage against Taiwan

Beijing's aggressive intelligence activities against Taiwan pose a threat to Taiwan's security and to the security of U.S. military information and equipment to which Taiwan has access.¹⁹³ In June 2018, Taiwan prosecutors indicted the spokesperson of Taiwan's New Party and two executives of the party's youth wing on charges of attempting to obtain classified materials from active and retired Taiwan military personnel on behalf of the Chinese government.¹⁹⁴ William Stanton, former director of AIT and current director of Taiwan's National Tsinghua University's Center for Asia Policy, said in 2013 that cases of Chinese espionage against Taiwan "have been harmful not only because of the potential loss of unknown quantities of classified information, but also because their success and frequency serves to undermine U.S. confidence in security cooperation with Taiwan."¹⁹⁵ However, while recognizing Beijing's intelligence successes, David Major, former director of counterintelligence, intelligence, and security programs at the National Security Council, testified to the Com-

Beijing's Espionage against Taiwan—Continued

mission in 2016 that “if the [United States] begins to slow down or stop the transfer of needed technology and information with Taiwan for fear of espionage loss then the PRC wins and Taiwan is doomed.”¹⁹⁶

In the face of the Chinese espionage threat, the Taiwan government and military have implemented measures to impede Chinese intelligence activities. Mr. Mattis wrote in 2014 that “Taiwan has made several substantial efforts to improve security—including trip reporting and routine polygraphs for personnel with sensitive access as well as boosting its counterintelligence staff—and serious offenders can ... receive heavy prison sentences.”¹⁹⁷ The Taiwan government has recently begun requiring government personnel to receive government approval before transiting through an airport in China. Taiwan civil servants are already required to obtain approval before traveling to China.¹⁹⁸

Taiwan Takes Steps to Enhance Security

Faced with a growing threat from PLA modernization and Beijing's intensifying political warfare activities, Taipei has responded by taking a number of significant new steps to improve its ability to defend against a Chinese military attack and other threatening activities. Taiwan's recent efforts have included the following:

Developing asymmetric capabilities and a new defense concept: Taipei marked a fundamental departure from its previous defense strategies with the announcement of a new Overall Defense Concept, which operationalizes Taiwan's broader defense strategy, now described as “resolute defense, multi-layered deterrence.”* Unveiled in December 2017, the new concept seeks to emphasize the development of asymmetric capabilities and tactics to capitalize on Taiwan's defensive advantages, enhance resilience, and exploit the weaknesses of the PLA. According to Taiwan's Ministry of Defense, the characteristics of the equipment it is seeking to support its new approach are “mobility, stealth, fast speed, low cost, abundance, minimum damage, and high effectiveness.”¹⁹⁹ The new strategy focuses on three areas: (1) preservation of warfighting capability, (2) pursuing decisive victory in the littoral area, and (3) annihilating the enemy on the beach.²⁰⁰ Notably, the Taiwan military incorporated the concept into this year's Han Kuang exercise, Taiwan's most important annual military exercise. During the exercise, Taiwan integrated a number of new components, including Taiwan Coast Guard ships exercising together with the Taiwan Navy, embedding personnel from Taiwan technology companies in Taiwan Army units to operate unmanned aerial vehicles for surveillance and target acquisition, incorporating civilian construction personnel and equipment

*Taiwan's 2017 *National Defense Report* defines “resolute defense, multi-layered deterrence” as “bringing to bear multi-domain joint capabilities to defend the homeland and deter the enemy from starting a war.” Under this strategy, if the enemy attempted to invade, the Taiwan military would “conduct multi-layered interception and joint firepower strikes to erode the enemy's operational force, break up the attack, and block enemy landing forces.” Taiwan's Ministry of National Defense, *National Defense Report 2017*, December 2017, 66–67.

into runway repair, and using civilian telecommunication technology to maintain command and control in the face of attacks.²⁰¹ In July 2018, Taiwan's Ministry of National Defense announced plans to introduce month-long training exercises involving all the military services once per quarter, which would mark an increase in training.²⁰²

Increasing defense spending: In August 2018, Taiwan's Executive Yuan submitted a budget to the Taiwan legislature that included an increase of approximately 4.3 percent for the defense budget.²⁰³ To support implementation of the new defense concept, the 2019 budget includes a request to fund the acquisition of small fast-attack missile craft, which provide Taiwan with an important defensive advantage against a PLA naval blockade or amphibious assault.²⁰⁴ Nevertheless, China's large defense expenditures are a major challenge for Taiwan, and China's official defense budget has now ballooned to a size about 15 times Taiwan's.²⁰⁵ Even with robust spending, Taiwan cannot match China's defense budget, which places an even greater premium on Taiwan's development of asymmetric and effective defensive capabilities.*

Elevating Taiwan's defense industry: A key pillar of the Tsai Administration's defense policy has been enhancing the government's support for Taiwan's defense industry with a focus on aerospace, shipbuilding, and cybersecurity. In May 2018, the Taiwan Defense Industry Development Association co-hosted the Taiwan-United States Defense Business Forum with the U.S.-Taiwan Business Council in Taiwan to explore opportunities for collaboration between Taiwan and U.S. defense companies.²⁰⁶

Countering Beijing's interference and disinformation: In September 2018, Taiwan's National Security Bureau publicly announced it had established a Big Data and Public Opinion Task Force in 2015 in concert with Taiwan's Ministry of Justice to monitor the spread of disinformation on social media, especially false news stories from the PRC that aim to manipulate public opinion in Taiwan.²⁰⁷ Another measure Taipei has taken to counter PRC interference is to create webpages on government websites dedicated to dispelling rumors and countering false information.²⁰⁸ Taipei is also conducting investigations of ties between Beijing and groups in Taiwan. In September 2017, the Taiwan government announced it was launching an investigation into alleged manipulation of organized crime groups in Taiwan by Beijing.²⁰⁹

Taiwan Military Modernization

Taiwan has sought to enhance its military capabilities as part of its evolving defense strategy to defeat a PLA campaign targeting the island. Advanced antiship cruise missiles, air defense missiles, and fast attack and stealthy catamaran-style patrol ships are among the newest platforms and weapons systems Taiwan has produced. Some of the developments in Taiwan's procurement of domestic military equipment in 2018 include the following:

* China's announced defense budget grew by double digits almost every year between 2005 and 2015. In contrast, Taiwan's announced defense budget stagnated during this period. For more information on China and Taiwan's defense budgets see U.S.-China Economic and Security Review Commission, *2015 Annual Report to Congress*, November 2015, 508–509.

- *Missile corvette*: Taiwan is accelerating the production of the TUO CHIANG class of catamaran-style missile corvettes, the first of which was commissioned in March 2015.²¹⁰ Taiwan's Lung Teh Shipbuilding Co., Ltd., will build a total of 12 of these ships. Taiwan's Ministry of National Defense recently announced that 8 of the remaining 11 will be completed by 2025 rather than the original target window of 2030 to 2032.²¹¹ The corvette has a reduced radar cross section, longer endurance, and better sea-keeping ability than Taiwan's other patrol ships.²¹² The first corvette is equipped with antiship cruise missiles, two torpedo tubes, and a towed sonar array.²¹³ These features will enhance the lethality of Taiwan's anti-surface and antisubmarine forces in a potential cross-Strait conflict.²¹⁴
- *Submarines*: Taipei is moving forward with a plan to produce diesel-electric submarines, but progress is slow. Taiwan is seeking foreign assistance with the supply of certain components.^{215*} In April 2018, Taiwan's Presidential Office confirmed that the State Department granted a marketing license allowing U.S. companies to conduct commercial briefings for entities involved in Taiwan's submarine program.²¹⁶ Taiwan's CSBC Corporation, which will build the submarines, estimates the first boat will enter the water in 2024.²¹⁷ Of Taiwan's four submarines, two are operational ZWAARDVIS class submarines (which were built by Dutch company RDM) and two are decommissioned U.S. Navy GUPPY class submarines used only for training.²¹⁸
- *Advanced jet trainer*: Taiwan's Aerospace Industrial Development Corporation began assembly of a new advanced jet trainer for the Taiwan Air Force in June 2018, with the completion of a prototype scheduled for 2019.²¹⁹ The new trainers will replace Taiwan's aging AT-3 and F-5 E/F aircraft.²²⁰

Taiwan also seeks to enhance its military capabilities through the procurement of military platforms and weapons systems from overseas. Recent developments in Taiwan's military procurement from the United States include the following:

- *F-16 fighter upgrade*: † Taiwan's Aerospace Industrial Development Corporation, with U.S. assistance, is upgrading Taiwan's approximately 140 F-16 A/B fighter aircraft and is scheduled to complete work on the first four aircraft in 2018.²²¹ The most important part of the upgrade is the installation of active electronically scanned array scalable agile beam radar made by Northrop Grumman.²²² This radar, which is derived from the radar used by the U.S. F-22 and F-35 fighters, will enable Taiwan's F-16s to detect China's advanced combat aircraft at a greater range.²²³

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

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

- *Apache attack helicopters*: With the commissioning into service of the second of two squadrons in July 2018, all of Taiwan's 29 AH-64E Apache attack helicopters are now fully operational. Taiwan acquired 30 of these helicopters, which are made by Boeing, but one was destroyed in a crash during training.²²⁴ The AH-64Es can simultaneously track 128 targets and identify the 16 most dangerous, and are each equipped with 16 Hellfire missiles.²²⁵ They would support an effort to counter a PLA invasion force that was approaching or had already landed on Taiwan territory.
- *Anti-tank missiles*: In 2018, the U.S. and Taiwan governments agreed on the sale of 460 tube-launched, optically-tracked, wireless guided anti-tank missiles to Taiwan. With a range of 2.8 miles, these missiles would help the Taiwan Army defend against PLA hovercraft, amphibious landing vehicles, tanks, and mechanized infantry at a distance, broadening the use of these weapons from their standard deployment against tanks.²²⁶

U.S.-Taiwan Security Cooperation

U.S.-Taiwan security cooperation includes arms sales, training, advising, exchanges, and equipment maintenance. This partnership helps Taiwan enhance its ability to deter and, if necessary, defend against an attack from the Chinese military. Among other areas of training, the United States provides training to Taiwan military personnel with a broad range of military specialties, such as fighter pilots, special operations personnel, and rapid runway repair personnel.²²⁷ In addition, Taiwan military personnel undergo education and training at U.S. military institutions.²²⁸ Moreover, between 2008 and 2015, Taiwan was the 10th largest importer of U.S. military equipment.²²⁹ In September, the State Department approved a potential sale to Taiwan of spare parts for various military aircraft and other related program and logistics support elements estimated to cost \$330 million.²³⁰ The notification to Congress* of a single foreign military sales order appears to be a policy shift from the practice of “bundling” multiple notifications of potential arms sales to Taiwan to be considered and announced as a single “arms package” decision. The practice of bundling has been criticized as delaying needed sales and complicating Taiwan’s defense budget planning cycles.²³¹ Addressing individual sales decisions as they arise is more in line with how the United States treats its other foreign security cooperation partners.²³²

The John S. McCain National Defense Authorization Act for Fiscal Year 2019 includes several provisions related to U.S.-Taiwan security cooperation, including directing the Secretary of Defense to conduct an assessment of Taiwan’s military forces and providing related recommendations. The act also includes a sense of Congress

*The executive branch is required by law to notify Congress of potential arms sales through the foreign military sales process that meet or exceed the following values: \$14 million in “major defense equipment,” \$50 million in “defense articles and services,” and \$200 million in “design and construction services.” The threshold for notification of potential sales to Australia, Israel, Japan, NATO member countries, New Zealand, and South Korea is higher (\$25 million in major defense equipment, \$100 million in defense articles and services, and \$300 million in design and construction services). Paul K. Kerr, “Arms Sales: Congressional Review Process,” *Congressional Research Service*, July 25, 2017, 1.

on various aspects of security cooperation, such as arms sales, training and exercises, high-level exchanges, and a potential visit of a U.S. hospital ship to Taiwan.²³³ Taiwan's Premier William Lai said he would welcome a potential joint exercise between the U.S. and Taiwan militaries.²³⁴

Military-to-military contacts between the United States and Taiwan are robust, although in general, State Department practice has limited visitors to Taiwan to mid- or lower-level U.S. personnel, and U.S. military observer delegations (such as those attending the Han Kuang exercise) are led by a retired general or flag officer.²³⁵ The practice of limiting the highest rank of U.S. military personnel who can visit Taiwan to colonels and U.S. Navy captains (O6 level) prevents the most senior U.S. officers from gaining firsthand knowledge of the Taiwan military and the operational environment in a potential cross-Strait conflict.²³⁶ Furthermore, the U.S. government has not invited Taiwan to the major U.S.-led Rim of the Pacific exercise, Red Flag air-to-air combat training exercise, or the cybersecurity exercise Cyber Storm.

Implications for the United States

In the Taiwan Relations Act of 1979, Congress declared that “peace and stability in the [Western Pacific] area are in the political, security, and economic interests of the United States.”²³⁷ The Taiwan Relations Act also makes 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.”²³⁸ Further, the Act states that it is U.S. policy “to consider any effort to determine the future of Taiwan by other than peaceful means, including by boycotts or embargoes, a threat to the peace and security of the Western Pacific area and of grave concern to the United States.”²³⁹

Since that time, the United States has encouraged the development of a multi-party democracy in Taiwan and continued a policy of providing defensive arms and services to Taiwan. The credibility of U.S. foreign policy and security commitments is tied in part to U.S. support for Taiwan, especially as viewed by U.S. allies and partners throughout the Indo-Pacific. Furthermore, Taiwan’s continued existence as a friendly, democratic partner is of critical geostrategic importance to the United States, Japan, the Philippines, and other countries in the region. James R. Holmes, J.C. Wylie Chair of Maritime Strategy at the U.S. Naval War College, writes that if China were to control Taiwan it

*would extend the Chinese reach eastward into the Western Pacific; turn the southern flanks of Japan and South Korea, giving Beijing newfound geostrategic leverage; enable [PLA Navy] warships to command the northern rim of the South China Sea and also project power to the Luzon Strait and elsewhere in the northern reaches of that expanse.*²⁴⁰

PLA writings attest to the importance of Taiwan to China’s broader geostrategic ambitions.²⁴¹ The PLA’s calculations on the importance of Taiwan to China’s military posture was revealed in the

seminal 2001 edition of its renowned publication, *The Science of Military Strategy*, which states,

*If Taiwan should be alienated from the mainland, not only our natural maritime defense system would lose its depth, opening a sea gateway to outside forces, but also a large area of water territory would fall into the hands of others. [...] What's more, our line of foreign trade and transportation which is vital to China's opening up and economic development will be exposed to the surveillance and threats of separatists and enemy forces and China will forever be locked to the west side of the first chain of islands in the West Pacific.*²⁴²

The PLA, as well as China's highest-ranking civilian leaders, almost certainly continue to maintain this view.

In sum, the threat China's military modernization poses to Taiwan's continued existence as a vibrant democracy and important U.S. security and economic partner presents fundamental challenges not only to the success of democracy in the Indo-Pacific, but to the security of U.S. treaty allies throughout the region. The steady improvements in China's military capabilities enhance Beijing's ability to use the threat of military force to coerce Taipei into making political concessions. The shift in the military balance underscores the importance of U.S. arms sales to Taiwan, U.S.-Taiwan military exchanges, and other areas of security cooperation.

In the economic realm, Taiwan has experienced increased economic growth and gradual improvements in employment and wages while tackling difficult issues such as labor standards and pension reforms. However, Taiwan's economy remains overly reliant on China, making it susceptible to economic intimidation and pressure campaigns carried out by the Chinese government. Taiwan businesses operating in China also continue to be faced with the ever-present threat of retaliation by Beijing if they do not explicitly endorse the "1992 Consensus."

To address these vulnerabilities, Taipei has worked to diversify its trade and investment ties away from Beijing through the New Southbound Policy and other domestic economic initiatives. Moreover, the United States and Taiwan continue to cooperate on mutually beneficial economic projects—particularly in advanced technology industries like AI—through corporate partnerships and joint research centers. Taiwan is the United States' eleventh-largest trading partner, while the United States is Taiwan's second-largest trade partner, signaling the enduring importance of U.S.-Taiwan economic ties. Taiwan's government continues to recognize the importance of furthering Taiwan's economic relationship with the United States, as increased trade and investment offer benefits both for Taiwan's development and U.S. economic interests.

Working with Taiwan to solve international problems and supporting Taiwan's participation in the international community benefits the United States in many ways. Taiwan's robust civil society and technology sector and its vast expertise and experience in areas such as disaster response and relief make it a strong partner for the United States. Taiwan also has much to contribute in other

areas, such as aviation safety, combating the spread of infectious diseases, environmental protection, and law enforcement and fighting transnational crime.²⁴³ Furthermore, Taiwan's inability to access information from international organizations such as the World Health Organization, INTERPOL, and the International Civil Aviation Organization creates global health, security, and aviation safety risks.²⁴⁴

Taiwan has long contended with Beijing's efforts to influence its policies, and is the target of an intensifying political warfare campaign in an attempt by Beijing to undermine its democracy. The United States and the rest of the world have much to learn from Taiwan about CCP influence and interference in democracies. Finally, Taiwan, with its robust democracy and free-market economy, is a model for other countries and a natural partner for the United States in its free and open Indo-Pacific strategy. A vibrant Taiwan and a strong, multi-dimensional U.S.-Taiwan partnership are of intrinsic value to the United States.

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