

---

---

# Overview of U.S. Policy Toward Taiwan

By

**James A. Kelly**

**Assistant Secretary of State for East Asian and Pacific Affairs**

[The following are excerpts of the testimony at a hearing on Taiwan, House International Relations Committee, Washington, D.C., April 21, 2004.]

I welcome the opportunity to provide an overview of U.S. policy toward Taiwan, as well as the Administration's assessment of relations across the Taiwan Strait, the current situation in Taiwan, and the challenges that lie ahead.

This month we mark the 25th anniversary of the *Taiwan Relations Act* (TRA). The TRA, along with the three U.S. and China Joint Communiqués and our one China policy, form the foundation for the complex political and security interplay among China, Taiwan, and the United States.

Looking back over the past three decades, I think we can congratulate ourselves on crafting a policy that has been the key to maintaining peace and stability in the western Pacific while helping to ensure Taiwan's prosperity and security. Without denying the challenges and difficulties that remain, I can confidently report that because of the leadership of seven U.S. Presidents and active participation of the Congress, our relations with both China and Taiwan economic, political, cultural, and social are far closer and deeper than most would have ever predicted.

Equally important, our policy and the TRA have made vital contributions to easing tensions between Taiwan and the Peoples Republic of China (P.R.C.) and creating the environment in which cross-Strait people-to-people exchanges and cross-Strait trade are flourishing and creating, we hope, the necessary conditions for peaceful resolution of cross-Strait differences.

## **Core Principles**

It is useful to reiterate the core principles of our policy:

- The United States remains committed to our one China policy based on the three Joint Communiqués and the *Taiwan Relations Act*;
- The U.S. does not support independence for Taiwan or unilateral moves that would change the status quo as we define it;
- For Beijing, this means no use of force or threat to use force against Taiwan. For Taipei, it means exercising prudence in managing all aspects of cross-Strait relations. For both sides, it means no statements or actions that would unilaterally alter Taiwan's status;
- The U.S. will continue the sale of appropriate defensive military equipment to Taiwan in accordance with the *Taiwan Relations Act*, and;
- Viewing any use of force against Taiwan with grave concern, we will maintain the capacity of the United States to resist any resort to force or other forms of coercion against Taiwan.

Our foremost concern is maintaining peace and stability in order to advance U.S. interests, spare the region the dangers of war, safeguard Taiwan's democracy, and promote China's constructive integration into the global community as well as the spread of personal freedom in China. Because the possibility for the United States to become involved in a cross-Strait conflict is very real, the President knows that American lives are potentially at risk. Our one-China policy

---

---

reflects our abiding commitment to preserve peace in the Taiwan Strait so long as there are irreconcilable differences.

### **Status Quo Message Aimed at Both Sides**

The President's message on December 9, 2003 during P.R.C. Premier Wen Jiabao's visit reiterated the U.S. government's opposition to any unilateral moves by either China or Taiwan to change the status quo. This message was directed to both sides.

The President and the senior leadership of this administration consistently make clear to Chinese leaders that the United States will fulfill its obligations to help Taiwan defend itself, as mandated in the *Taiwan Relations Act*. At the same time we have very real concerns that our efforts at deterring Chinese coercion might fail if Beijing ever becomes convinced Taiwan is embarked on a course toward independence and permanent separation from China, and concludes that Taiwan must be stopped in these efforts.

### **Democracy in Taiwan**

The 2004 presidential election was a testament to Taiwan's vibrant democracy. More than 80 percent of eligible Taiwan voters turned out to participate in a free and fair selection of their next President. Although the margin of victory was razor-thin only one-fifth of one percent and the attempted assassination of President Chen and Vice President Lu marred the election campaign's final days, the people of Taiwan behaved well and with restraint. We are confident that both sides will use the established legal mechanisms to resolve any questions about the outcome of the election. This matter is Taiwan's internal affair. We applaud the success of democracy in Taiwan and the dedication of Taiwan's people to the rule of law. This position is consistent with the deeply held values of the American people. Taiwan is a most complex and, in some ways, inconsistent polity. Its economic participation in the mainland Chinese economy is at an unprecedented level, yet it is now undeniable that Taiwan identity has emerged as a political and social issue on the island that figures in election campaigns. However, reliable polling also consistently demonstrates that a clear majority of Taiwan residents prefer the continuation of the status quo to either independence or reunification. The U.S. strongly supports Taiwan's democracy, including the right of its people to elect their leaders and make the full range of decisions about their security, economy, foreign relations, and other issues. But we do not support Taiwan independence. A unilateral move toward independence will avail Taiwan of nothing it does not already enjoy in terms of democratic freedom, autonomy, prosperity, and security. Realistically, such moves carry the potential for a response from the P.R.C. a dangerous, objectionable, and foolish response that could destroy much of what Taiwan has built and crush its hopes for the future. It would damage China, too. We, in the United States, see these risks clearly and trust they are well understood by President Chen Shui-bian and others in Taiwan.

While strongly opposing the use of force by the P.R.C., we must also acknowledge with a sober mind what the P.R.C. leaders have repeatedly conveyed about China's capabilities and intentions. The P.R.C. refuses to renounce the use of force regarding Taiwan despite our consistent representations stating they should do so. P.R.C. leaders state in explicit terms that China considers Taiwan's future a vital national interest and that the P.R.C. would take military action in the event Taiwan declares independence. While we strongly disagree with the P.R.C.'s approach, and see military coercion as counter-productive to China's stated intent to seek a peaceful outcome, it would be irresponsible of us and of Taiwan's leaders to treat these statements as empty threats.

The P.R.C. military modernization and the increasing threat to Taiwan indicate to us that Beijing is preparing itself to react in just such a possibility. We encourage the people of Taiwan to regard this threat equally seriously. We look to President Chen to exercise the kind of

---

responsible, democratic, and restrained leadership that will be necessary to ensure a peaceful and prosperous future for Taiwan.

There are uncomfortable realities, yet they are facts with which we must grapple. As Taiwan proceeds with efforts to deepen democracy, we will speak clearly and bluntly if we feel as though those efforts carry the potential to adversely impact U.S. security interests or have the potential to undermine Taiwan's own security. There are limitations with respect to what the United States will support as Taiwan considers possible changes to its constitution. We are uncertain about the means being discussed for changing the constitution. We do not favor any if we are unclear in our expectations or obfuscate where those limitations are. The President's policy regarding our opposition to unilateral changes to the status quo will be reinforced in this dialogue with Taiwan about its political evolution.

Taiwan is a success story for democracy in Asia and around the world. We feel strongly that others can benefit from knowing more about Taiwan's achievements. We will explore with our friends in Taiwan how they may be able to promote their story to a global audience, and how we can help to make Taiwan's instructive example available to all countries that are attempting to institute democratic reforms. We can only do this, Taiwan can only do this if it avoids unilateral steps that risk destroying all that it has accomplished.

### **The United States and Cross-Strait Differences**

The United States is not a direct participant in the dispute between the P.R.C. and Taiwan, but we have a strong interest in doing all we can to create an environment that is conducive to a peaceful resolution. Resuming the dialogue between the two sides is an important first step. A large part of that effort consists of our promoting a strong bilateral relationship between the United States and the P.R.C., and a strong unofficial relationship between the United States and Taiwan. We desire and need good relations with both, and believe this positions us best to assist the two sides in getting to the negotiating table on mutually agreeable terms. Indeed, we believe both sides desire and need good relations with one another.

The process of cross-Straits dialogue and contact has moved fitfully over the last fifteen years. In the late 1980s, the prospects for cross-Strait reconciliation and dialogue began to take shape with the lifting of martial law in Taiwan and the opening up the mainland Chinese economy and society. The Nationalist government on Taiwan not only lifted the ban on visits to the Mainland for family reunions, but also allowed the distribution and publication of P.R.C. books and initiated discussion on future cross-Strait trade and investment links.

The 1990s ushered in a decade of incremental consensus-building. Both sides agreed in 1992 that there was one China, but left each side free to express their interpretation of the concept. This ambiguity and decision to reserve differences cleared the way in 1993 for the first high-level meeting in Singapore between heads of the two private intermediary organizations — Taiwan's Straits Exchange Foundation (SEF) and the P.R.C.'s Association for Relations Across the Taiwan Strait (ARATS).

Lower-level talks continued on a fairly regular basis until they were suspended by Beijing in 1995 after President Lee Teng-hui visited the U.S. The Lee visit prompted China to overreact and launch missile tests and military exercises along the Taiwan Strait. The United States responded quickly to the impending crisis, emphasizing our deep concern to Beijing in diplomatic channels and directing the movement of two aircraft carrier battle groups into the waters off Taiwan. Beijing's heavy-handed response was one factor that helped secure Lee's win in Taiwan's first presidential election by universal suffrage in 1996.

Unofficial exchanges resumed in 1997 through informal meetings between personnel of the two sides' unofficial representative organizations. Direct SEF-ARATS contacts resumed in April

---

---

1998, and the SEF Chairman Koo Chen-fu visited the Mainland in October 1998. Koo and ARATS chairman Wang Daohan agreed to further dialogue on political, economic, and other issues, and Wang agreed to make a return visit to Taiwan. His visit, however, was cancelled following statements made by President Lee to the Voice of Germany radio on July 9, 1999 that relations between the P.R.C. and Taiwan should be conducted as “state-to-state” or at least as “special state-to-state relations.” ARATS immediately rejected Lee’s statement and called it a serious violation of the 1992 consensus.

In March 2000, Democratic Progressive Party candidate Chen Shui-bian became the first opposition party candidate to win the presidency. His victory resulted in the first-ever transition of the presidential office from one political party to another, validating Taiwan’s democratic political system. During his May 20, 2000 inauguration, President Chen called for resuming the cross-Strait dialogue without any preconditions. President Chen stated that such talks should be conducted on the basis of the spirit of 1992 . He also pledged the following:

- Not to declare independence;
- Not to change Taiwan’s official designation as the Republic of China;
- Not to insert the state-to-state theory into Taiwan’s constitution, and;
- No plebiscite or referendum on sovereignty issues.

President Chen also agreed not to abolish the Guidelines for National Reunification and the National Unification Council. The P.R.C., however, has insisted that President Chen must recognize the one China principle before official talks can resume.

Despite the differences between Taiwan and the P.R.C., unofficial contact between the two sides has grown significantly. Taiwan continues to relax restrictions on unofficial contacts with the P.R.C., and cross-Strait interaction has mushroomed. In January 2001, Taiwan formally allowed the three mini-links (direct trade, travel, and postal links) from two small islands very close to the mainland to Fujian Province. The following year, President Chen defined the status quo as being one country on each side of the Taiwan Strait, once again sparking criticism from Beijing and his domestic opponents.

Our position continues to be embodied in the so-called “six assurances” offered to Taiwan by President Reagan. We will neither seek to mediate between the P.R.C. and Taiwan, nor will we exert pressure on Taiwan to come to the bargaining table. Of course, the United States is also committed to make available defensive arms and defensive services to Taiwan in order to help Taiwan meet its self-defense needs. We believe a secure and self-confident Taiwan is a Taiwan that is more capable of engaging in political interaction and dialogue with the P.R.C., and we expect Taiwan will not interpret our support as a blank check to resist such dialogue.

In the final analysis, the Taiwan issue is for people on both sides of the Strait to resolve. This is the only way a peaceful and durable solution can be found and it is a vital element in guaranteeing long-term peace and stability in East Asia. Taiwan faces many challenges in the years ahead, and recurring crises with Beijing can only interfere with the central tasks of promoting democracy, ensuring economic growth, advancing the popular welfare, and enabling Taiwan’s security. Beijing likewise faces daunting challenges in overcoming poverty and backwardness, establishing the rule of law, and beginning a process of political reform and opening up. China would gain nothing from a conflict. It would undermine a historic transformation through which China has become a respected member of the international community. War in the Strait would be a disaster for both sides and set them back decades, and undermine everything they and others in the region have worked so hard to achieve. We continue

---

---

to urge Beijing and Taipei to pursue dialogue as soon as possible through any available channels, without preconditions.

In the absence of a political dialogue, we encourage the two sides to increase bilateral interactions of every sort. Clearly, there would be economic benefits for both sides by proceeding with direct aviation and shipping links. The increasing people-to-people contacts may also ease tensions. It is also time that the two sides begin exploring confidence building measures that reduce the chance for military miscalculation and accidents, and improve the quality of communications in the event of a crisis. Any such mutual reassurance mechanisms should be truly mutual, and not a one-way pass for the other side.

### **U.S. Taiwan Security Relationship**

The United States is committed to make available defensive arms and defensive services to Taiwan in order to help Taiwan meet its self-defense needs. A secure Taiwan is more capable of engaging in political interaction and dialogue with the P.R.C.. The United States has provided Taiwan with a significant quantity of defensive weapons over the last twenty-five years, and during that challenging period has been Taiwan's most reliable and often only supplier of weapons.

The P.R.C. has explicitly committed itself publicly and in exchanges with the United States over the last 25 years to a fundamental policy "to strive for a peaceful resolution to the Taiwan question." If the P.R.C. meets its obligations, and its words are matched by a military posture that bolsters and supports peaceful approaches to Taiwan, it follows logically that Taiwan's defense requirements will change. However, the post-1999 P.R.C. program of military modernization, including deployment of a steadily growing number of short range ballistic missiles (SRBM) targeted on Taiwan, undermines confidence in China's commitment to deal with the cross-Strait situation peacefully and requires a measured response on our part, under the TRA, to provide appropriate defensive military equipment to Taiwan. China's missile deployments against Taiwan are increasing by 50-75 missiles per year. As Secretary Powell stated last month during a public speech, "China's military build-up opposite Taiwan is destabilizing. We urge a posture more conducive to the peaceful resolution of existing disputes."

Taiwan's implementation of the *National Defense Law* and the revised *Ministry of National Defense Organization Law*, which brought Taiwan's military command and administrative structures clearly under civilian control, was a signal achievement long sought by the United States. We continue to urge the full implementation of civilian control over the military and the development of civilian expertise on security and military affairs.

After years of steadily declining budgets, Taiwan's political leadership has stated that they are committed to spending more on defense. Over the past ten years, Taiwan's defense budget as a percentage of gross domestic product has dropped from 4.75 percent to 2.6 percent. Taiwan's fiscal year 2004 defense budget is NT \$260.00 billion (U.S.\$7.62 billion). This is up from NT \$251.5 billion in 2003. However it still does not allow purchase of big-ticket items approved by the U.S. for sale to Taiwan since 2001.

Recent major acquisitions that Taiwan has made include the purchase of four KIDD-class destroyers in 2003. These destroyers will fill gaps in the Taiwan Navy's fleet air defense and Anti-Submarine Warfare (ASW) capabilities. The destroyers are being refurbished now and will be delivered to Taiwan in 2005.

We also just notified Congress last month of a possible sale to Taiwan of two long-planned Ultra High Frequency long range Early Warning Radar systems. The estimated cost of these radars is U.S. \$1.776 billion. The radars will give Taiwan early warning and detection of ballistic

---

---

and cruise missiles, as well as aircraft. These systems will be a vital component of Taiwan's air and missile defense architecture.

Taiwan's Ministry of National Defense is engaged now in the process of developing a special budget request that will enable Taiwan to acquire priority capabilities in missile defense and Anti submarine warfare ( ASW ).

Taiwan's political and military leaders have formally recognized Taiwan's military needs to reform, moving away from a military dominated by ground forces to one that emphasizes jointness and is better suited to the task of defending against the PLA's increasingly modern air and sea forces. In support of Taiwan's efforts the United States is engaged in a range of interactions with Taiwan's defense and military leadership consistent with the framework of U.S. policy, focused on acquisition of priority capabilities in areas such as Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance (C4ISR), air/missile defense, anti-submarine warfare (ASW), and other planning and training exchanges. Our security assistance policy and arms sales to Taiwan are helping Taiwan build and maintain a self-defense capability that is flexible, joint, responsive to civilian control, and sufficient to meet the threat from Beijing.

It is important to note that our security relationship is not limited exclusively to ensuring the security of Taiwan. Taiwan is a strong partner in war on terror, which contributes in a very direct way to U.S. and global security. We hope to conclude the Container Security Initiative agreement with Taiwan soon. We also deeply appreciate the immediate and heartfelt response of the people and the government of Taiwan after the attacks of September 11, 2001 and the contributions of Taiwan to reconstruction of Afghanistan and Iraq.

### **Taiwan in International Organizations**

The United States continues to be a strong supporter of Taiwan's participation in international organizations, either as a member, when possible, or in an appropriate form when membership is not possible. We actively support observer status for Taiwan in the World Health Organization (WHO).

We want to find a way forward for Taiwan's participation in the World Health Assembly that will receive broad support among WHO member states. In order for this effort to succeed, the focus has to be on the importance of including Taiwan as part of global efforts to safeguard public health. In that regard, we encourage Taiwan's efforts as an active player and a responsible member of the international community on health issues. During the past three years, we have worked intensively with Taiwan representatives in Washington, Taiwan, and Geneva in order to advance the goal of participation by Taiwan in the WHO. We have held annual strategy meetings, most recently in early April 2004, to hear Taiwan's plans and to work together with Taiwan on how best to advance Taiwan's legitimate interest in contributing to the work of the WHO. Taiwan's problem obtaining observer status is certainly not due to a lack of U.S. commitment.

We hope the P.R.C. will adopt a more constructive view and will join in an effort that shows genuine compassion for the people of Taiwan. Although WHO observership explicitly does not require statehood and several WHO observers are not nations, the P.R.C. has actively lobbied to block even the placement of consideration of Taiwan's observership on the World Health Assembly agenda. This is a mistake that only alienates the people of Taiwan. The question of Taiwan's participation in the WHO deserves a full vetting by the international community, and Taiwan can certainly count on the United States to vote in favor of including the Taiwan observership issue on the World Health Assembly agenda should the issue come to a vote. We hope to move beyond that question, and look forward to supporting an appropriate resolution, and ultimately voting in favor of Taiwan's candidacy for observership.

---

---

## Taiwan: A Global Economic Player

In recent decades, Taiwan has successfully weathered an enormous economic transition. Fifty years ago, the island was primarily agricultural. By the 1970s, it had become a major exporter of labor-intensive goods such as shoes, textiles, and plastics. Today, Taiwan is a world leader in information technology products and its economy is increasingly oriented towards knowledge-based services. Taiwan's economic growth is an area which has brought the two sides of the Strait closer together and has made Taiwan a major economic player on the world stage.

During the past twenty years, per capita GNP in Taiwan has grown from about \$7,400 in 1980 to an estimated \$13,000 today. Entrepreneurial talent, coupled with forward-looking government programs, have enabled hi-tech industries to emerge, placing Taiwan companies in the top rung of semiconductor producers and information technology product manufacturers. The majority of the world's notebook computers, for example, are made by Taiwan firms an industry that did not even exist fifteen years ago. Taiwan is the world's third-largest holder of foreign currency reserves, America's eighth-largest trading partner, and the world's seventeenth-largest economy. The island has achieved its economic stature despite few natural resources and a relatively small domestic market. High levels of education and a dedicated work force have been among the major drivers of Taiwan's impressive economic development.

### Development of the Cross-Strait Economic Boom

Despite the outbreak of Severe Acute Respiratory Syndrome (SARS) and ongoing political tensions, China became Taiwan's top trading partner in 2003, even without the presence of direct cross-Strait transportation. Japan and the U.S. dropped to second and third place, respectively. Trade between Taiwan and China reached \$46 billion last year, up nearly 25 percent over 2002. Almost one-quarter of Taiwan's exports went to China, while P.R.C. imports made up 8.6 percent of Taiwan's total imports. Taiwan's trade surplus with the P.R.C. grew by 13.4 percent last year.

The P.R.C. is also the number one destination for investment by Taiwan business people. Taiwan's Ministry of Economic Affairs approved \$35 billion of Mainland investments between 1991 and 2003. Most private analysts believe the actual figure to be around \$70 billion when undeclared projects are included along with money flows from Taiwan investments channeled through third locations. In 2003, Taiwan approved investment of \$4.59 billion in the P.R.C. Estimates of the number of Taiwan citizens living full-time in the P.R.C. run from 500,000 to as many as one million.

These robust cross-Strait economic ties began less than two decades ago. From 1949 until 1987, Taiwan had banned trade, investment, transportation, and communications with the P.R.C.. Beginning in 1987, Taiwan residents were allowed to visit the P.R.C. in increasing numbers, and to invest so long as they went through a third location such as Hong Kong. As wage and land costs in Taiwan were soaring, labor-intensive Taiwan industries such as textiles, footwear, and plastics began departing the island for cheaper labor and land in the P.R.C. and Association of South East Asian Nations (ASEAN) countries. Much of Taiwan's investment in the P.R.C. reflects the normal cycle of business transition, from import substitution to export-led growth, from labor-intensive products to more capital- and technology-intensive goods, and from doing all operations in Taiwan to moving production off-shore to take advantage of an increasingly global economy. The advantages to Taiwan businesses of working in China were obvious, given the low cost labor, land, and other inputs that have also attracted other foreign investors. Linguistic and cultural affinities gave Taiwan businessmen immediate advantages compared with non-Chinese investors, while for its part, the P.R.C. welcomed its Taiwan compatriots to invest and trade in the mainland.

Taiwan's trade with and investment in the P.R.C. soared, although it is difficult to calculate exact figures because people, goods, and finance flow across the Strait indirectly, because both

---

---

sides keep different statistics, and because a proportion of Taiwan investment in the P.R.C. continues to go unreported. Whatever the exact figures may be, the trend has been clear. According to Taiwan statistics, two-way trade reached \$25.8 billion in 1999. Only \$4.5 billion of that was imports to Taiwan from the P.R.C., since Taiwan has restricted imports from the mainland. In the mid-1990s, Taiwan launched its no haste, be patient and go south investment policies aimed at slowing the flood of Taiwan investment in the P.R.C. and directing it elsewhere. Despite these policies, the rate of growth of Taiwan's investment in Southeast Asia slowed steadily, and there was an increase on average of 23 percent per year in realized investment in the P.R.C. in the mid-to-late 1990s. Approximately 40 percent of Taiwan's outward investment is now in the P.R.C.

### **The Three Links**

Taiwan and China have yet to establish the "Three Links" direct trade, transportation, and postal services across the Taiwan Strait although as the cross-Strait economic relationship grows, the economic incentives to establish direct links will grow. In 2001, the "mini links" were created to allow travel and trade between Taiwan's offshore islands of Kinmen and Matsu and China's Fujian Province. Activity via the "mini links" has grown rapidly, but it remains a small part of overall trade. In early 2003, Taiwan permitted its air carriers to ferry Chinese New Year passengers back and forth across the Strait by way of "indirect charter flights" that touched down briefly in Hong Kong or Macau. Taiwan and China did not repeat the charter flights during the 2004 Chinese New Year, in part because the two sides could not agree on the terms for meetings to discuss how P.R.C. carriers might also participate.

In addition to concern about over-dependence on a potential adversary, Taiwan worries that direct cross-Strait links could speed the hollowing out of Taiwan's economy and create problems of unemployment in Taiwan. While Taiwan's concerns about over dependence and hollowing out cannot be dismissed, these issues need to be seen in the broader context of global interdependence. Cross-Strait trade is not occurring in a vacuum, and both sides are connected to world trade. Even though approximately 25 percent of Taiwan's exports go to the P.R.C., most of those goods end up re-exported from China to developed country markets.

For example, if the P.R.C. were to adopt economic sanctions against Taiwan business due to a cross-Strait political crisis, much of the damage would fall on China itself, not just Taiwan. According to one 1997 study by a Taiwan's Chung-hua Institute for Economic Research, if Taiwan's exports to China were disrupted by one dollar, China's exports produced by Taiwan invested companies would decline by five dollars. The negative impact on regional and global supplies, particularly in IT products where Taiwan continues to be a world leader, would be devastating. These factors may have been one reason why in 1995-1996, when cross-Strait tensions erupted and the P.R.C. launched missile tests, China did not match its military threats with economic sanctions against Taiwan businesses. As a corollary, predictions that Taiwan businessmen invested in the mainland would pressure their government to make political concessions to China in 1995-1996 and 1999-2000 have also not proven correct, although some did urge their political leaders in Taipei to be cautious.

### **The Global IT Highway Runs Across the Strait**

The IT global supply chain offers important insight into the relationship between globalization and cross-Strait trade. The P.R.C. surpassed both Japan and Taiwan to become the world's second- largest information hardware producer in 2002, after the United States. Much of this was due to the steady migration of Taiwan industrial investment across the Strait. Taiwan is now second only to Japan as a source of total imports to the P.R.C., with a 12 percent share. Nearly three-quarters of those imports from Taiwan to the P.R.C. are production inputs for

---

---

assembly and processing that are then re-exported. While China now ranks as a major player in global IT production, according to numerous private estimates, more than 50 percent of Mainland China's information technology production is generated in facilities run by Taiwan companies. Thus, China's production in the IT sector depends on Taiwan, not the other way around. Taiwan's foreign direct investment could be said to be an important component of China's economic development and political stability.

### **Taiwan's Economic Future**

Economic relations with the P.R.C., which have been steadily liberalized in recent years, also will be a major factor in Taiwan's economic prospects. Diversification of foreign direct investment is always a prudent practice, as is a realistic attitude toward China's economic potential. With these principles in mind, Taiwan investment in the P.R.C. can be a win-win-win solution for Taiwan, the P.R.C. and the world economy as a whole. The island's role in world trade is even more critical for Taiwan's future overall competitiveness. Taiwan has emerged as a ranking international economy and an industrial powerhouse. As one of the Asian tigers, it has benefited from good policy, sound economic fundamentals, a good educational system, an outstanding workforce, and the suppleness of Taiwan's industrial structure, which is dominated by small- and medium-sized firms. Today, Taiwan's leaders are looking to new sectors such as biotechnology, optoelectronics, and nanotechnology as areas where Taiwan can maintain its world-class reputation and create new opportunities for growth. Taiwan's Challenge 2008 National Development Plan calls for an additional \$16 billion, over six years, beyond existing commitments to improve infrastructure, facilitate research and development, and create new jobs.

In order for the Challenge Plan to succeed, Taiwan will have to address both international and domestic market factors. It needs to continue with reform of the financial system, improve the investment climate, and continue to implement WTO accession commitments. Taiwan's record of intellectual property rights (IPR) piracy and protectionism for domestic producers and service providers in recent years has left much to be desired. In an increasingly knowledge-based economy, Taiwan will have to do more to protect intellectual property. Taiwan also needs to do more to enhance its attractiveness as a destination for more foreign direct investment. Such changes will position Taiwan to continue to play a major role in the international economy as well as to be an important economic partner of the United States.

### **Our Economic Partnership**

Today, Taiwan is the eighth-largest trade partner of the United States. Taiwan bought \$17.48 billion in U.S. goods in 2003, while the U.S. imported \$25.9 billion from Taiwan last year. It is our sixth-largest market for agricultural products, and ninth largest export market overall. We continue to encourage Taiwan to improve its protection for intellectual property, through strengthening both law and law enforcement, improve market access and transparency for rice imports, meet its multilateral and bilateral commitments on pharmaceuticals, and firmly establish an open market for telecommunications services. Taiwan has taken encouraging steps on IPR enforcement in the past year. While more remains to be done in all these areas, we hope Taiwan will continue and strengthen its efforts. This will in turn brighten prospects for stronger U.S.-Taiwan economic ties under our existing Trade and Investment Framework Agreement, and, if appropriate, future consideration of a possible free trade agreement.

### **Conclusion**

*The Taiwan Relations Act* has been a tremendous success, and we endeavor to make sure that success is sustained in the future. We have built a strong unofficial relationship with Taiwan that emanates from a foundation of shared values and mutual interests. Our interactions with Taiwan are to our mutual benefit in the economic sphere, in bilateral security interests, and global

---

security. Taiwan is a good friend to the United States, as we are to Taiwan. As such, Taiwan can count on sustained U.S. support as it addresses its many important challenges. This very much includes Taiwan's efforts to develop its democracy. And we expect Taiwan to respect our interests in stability embodied in the *Taiwan Relations Act*. On that basis of mutual acknowledgement of and respect for our interests, the road ahead is promising.