



U.S. Relations With China and Taiwan

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 Statement to the U.S.-China Economic and Security Review Commission
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Mr. Chairman, Commissioners, thank you for inviting me to testify on behalf of the Administration on an issue of substantial importance to our policy in the Asia-Pacific region. The overriding objective related to the subject of this hearing has been to advance U.S. national interests in our relations with Taiwan and with the People's Republic of China.

Six Months of Cross-Strait Activity

Although political dialogue between "unofficial" high-level government representatives of Taipei and Beijing has been frozen since 1999, there have been noteworthy cross-Strait developments over the past year.

Trade is lopsided in favor of Taiwan, which has a \$51 billion surplus with China. It is in part driven by Taiwan's direct investment in the mainland. China's imports of nearly \$65 billion worth of Taiwan goods accounted for 11.5 percent of all Chinese imports in 2004. The mainland is not doing too badly in its efforts to access Taiwan's market, with its exports increasing 170 percent since 2001, from \$5 billion to about \$13.6 billion. In addition, rapid Taiwan investment in China's service sector is helping provide support for Taiwan manufacturers in the P.R.C. While realized FDI investment levels fell a bit in 2004 (to \$3.1 billion), both sides seem confident that the overall levels will remain positive, especially as Taiwan increases value-added investments in the P.R.C.

Economic integration implies opportunities for more extensive human exchanges. Beijing and Taipei used what they called the "Macau model" – negotiations in Macau between private P.R.C. and Taiwan organizations with low-level government involvement – to agree to temporarily lift a ban on direct flights across the Taiwan Strait for the duration of the Lunar New Year in 2005. The Lunar New Year charter flights, which first occurred in 2003 but which were absent in 2004, facilitated the reunion of friends and families on both sides of the Strait. It set the tone for much of what was to follow. The volume of people crossing the Strait is impressive: according to P.R.C. statistics, nearly 3.7 million Taiwan citizens visited the mainland in 2004, and credible estimates indicate that as many as 900,000 Taiwan people out of a total of 23 million actually reside in the P.R.C.

Cross-Strait Political Contacts

As Commission members are aware, there have been significant developments in cross-Strait exchanges.

- Following a week of visits to his birthplace of Xian and the burial place of China's great nationalist leader Sun Yat-sen, opposition leader Lien Chan met with PRC leaders in Beijing on 29 April. This was truly an historic meeting, the first since the 1949 split between the leaders of the Communist and Nationalist parties.
- People's First Party Chairman James Soong followed with his own trip to Beijing two weeks after Lien. Soong asserted in a May 11 speech at Beijing's Qinghua University that independence was not an option for Taiwan's future, a comment that many of Taiwan President Chen Shui-bian's staunchest supporters criticized. Soong met P.R.C. President Hu Jintao and other P.R.C. leaders in Beijing on May 12 and passed the message that Chen Shui-bian was willing to engage in dialogue with Beijing using a flexible formulation about what constituted "one China."

We view these exchanges favorably and have urged Chinese on both sides of the Strait to realize the greater potential that exists for increasing contact and integration, in keeping with global trends. A vital piece is missing, however. Despite productive visits by opposition leaders, Beijing has not yet developed a sustained dialogue with the elected representatives of the Taiwan people.

The lack of such dialogue is detrimental. For example, in March, after more than five years of deliberation among government officials about some form of formal legislation regarding China's policy toward Taiwan, China's State Council submitted anti-secession legislation to the National People's Congress. The law, which was passed without opposition on March 14, reiterates China's view that "solving the Taiwan question and achieving national reunification is China's internal affair," without intervention by any outside forces. Secretary Rice called adoption of the law, which explicitly authorizes the use of "non-peaceful means," to be "unfortunate and unhelpful" and pointed out repeatedly that it ran counter to what was a generally positive trend in cross-Strait relations.

Taiwan's Domestic Defense Policy

I will not go in depth into domestic politics in Taiwan, but suffice it to say that deep fissures persist between the ruling coalition led by Democratic Progressive Party (DPP) President Chen Shui-bian and the opposition coalition, which holds a majority of seats in Taiwan's Legislative Yuan.

Against this backdrop, the United States is assisting Taipei, in keeping with our obligations under the Taiwan Relations Act, in a range of areas to acquire necessary skills and capabilities. We continue to support the purchase of defense systems approved by the President (PAC III air defense systems, P-3 anti-submarine warfare aircraft, and diesel submarines). To date, Taiwan's opposition-controlled legislature has failed to approve a Special Budget containing funding for these purchases. Meanwhile, the Chen administration in its regular budget proposals over the last six years has requested only marginal growth in defense spending, even as it has asked for double-digit increases for economic and social spending. There have been important positive developments during this period: Taiwan's armed services have improved their capability to operate jointly, and Taiwan has put civilians in charge of the military. But we are increasingly concerned that Taipei is failing to invest both in key advanced capabilities and also in the lower profile but still vital capabilities – command and control hardening, ordnance stockpiles – that are vital to survivability and thus to deterrence.

China's Military Modernization

We are currently witnessing a sustained process of Chinese military modernization, procurement of new weapons, evolution of operational doctrine and introduction of new capabilities. We are monitoring closely as this process unfolds, as was enunciated in the Department of Defense's annual report on military modernization ("The Military Power of the People's Republic of China") that was released in mid-July. The report focused on the basic choices China's leaders must make as China's power and influence grows and its military modernization continues. Through visits such as PACOM Commander Admiral Fallon's recent trip to China, we remain engaged with the Chinese military, communicating our desire for a transparent, reciprocal, and growing relationship as well as our concern that China needs to communicate to us and the rest of the world its intentions with regard to its significant investment in military modernization.

China in the Region

In my view, there are indications that China will move toward greater transparency and inclusiveness in its political engagements in the region. Movement in the same direction is no less critical with regard to China's military. The PRC on November 4, 2002 signed the Declaration on the Conduct of Parties in the South China Sea with ASEAN. The Declaration seeks to avoid the outbreak of hostility in the Pacific. On November 29, 2004, China offered to transform the ASEAN Treaty of Amity and Cooperation, which it had signed on October 8, 2003, into a Code of Conduct and proposed joint cooperation among military officers on the South China Sea. In addition, China has recently reached an agreement with Vietnam and the Philippines to conduct joint exploration in the disputed Spratly Islands. China's goal is to become more thoroughly embedded in the region's institutions and to use its growing power to influence the development of regional dialogue and interaction. This is a rational and positive development that should contribute over time to regional stability and greater transparency in regional military-to-military ties. We do not seek to exclude China, nor do we wish to be excluded, from the steady evolution of dialogue and integration that is happening throughout the Asia Pacific region.

The situation includes both positive developments and dissonant notes. We can see the logic of advancing transparency and building confidence between two nations' militaries. Indeed, these are objectives in U.S.-China relations. But contrast the effect of recently concluded Sino-Russian exercises with what we would hope to see as a consequence of any comparable occurrence with the United States. In our case, we would hope for an event that threatened no one and built regional confidence, added to regional stability, and underlined both countries' commitment to regional stability. By that measure, the recent exercise, with its amphibious operations, maritime blockades and cruise missile launches, comes up short.

Mr. Chairman, the United States has a vital interest in the peaceful resolution of differences across the Taiwan Strait. The President told Premier Wen Jiabao on December 9, 2003 that we do not support Taiwan independence and we oppose unilateral attempts by either China or Taiwan to alter the cross-Strait status quo. That set of commitments is anchored in the Taiwan Relations Act and our three Joint Communiques, which remain the bedrock of our policy.

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